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WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Financial audit of central government and NHS bodies in Wales: 2006



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I have prepared this report for presentation to the National Assembly under the Government of Wales Act 1998. The Wales Audit Office team that assisted me in preparing this report consisted of Clare Edge, Geraint Morgan, Mike Usher and David Wood.

The Auditor General is totally independent of the National Assembly and Government. He examines and certifies the accounts of the Assembly and its sponsored and related public bodies, including NHS bodies in Wales. He also has the statutory power to report to the Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also appoints auditors to local government bodies in Wales, conducts and promotes value for money studies in the local government sector and inspects for compliance with best value requirements under the Wales Programme for Improvement. However, in order to protect the constitutional position of local government, he does not report to the Assembly specifically on such local government work.

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Report presented by the Auditor General for Wales to
the National Assembly on 29 June



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Summary

- 1 I am pleased to present this, my second report on the financial audit of Welsh public sector bodies since becoming Auditor General for Wales on 1 April 2005. The report summarises the results of my financial audit work relating to the 2004/2005 accounts of the National Assembly for Wales and its related public bodies and, for the first time this year, also the accounts of local NHS bodies in Wales, reflecting my new role as the statutory external auditor of these bodies. The report also covers other work undertaken in the period to 31 March 2006, including the audit of European-funded projects.
- 2 My financial audit work enables me to provide independent assurance that the annual financial statements are properly prepared and that income and expenditure has been applied for the purposes intended by the relevant United Kingdom statutes.
- 3 Overall, it is my view that standards of financial management and probity in the central government and NHS sectors in Wales remain high. All accounts audited during 2005/2006 received unqualified opinions. Positive work by the Welsh Assembly Government and other bodies in relation to the Treasury's 'Faster Closing' project is continuing to improve the timeliness of publication of public sector accounts. There has also been further good progress by audited bodies in embedding risk management within their day-to-day business operations to support effective governance and the proper conduct of public business; an area where the NHS has led the way in recent years among public-sector organisations. However, in my recent report on the state of NHS finances in
- Wales, I noted that some NHS bodies were forecasting that they might no longer be able to meet their statutory financial duties.¹ This, taken together with continuing deficiencies in important areas such as the quality of financial forecasting does point to the need for further sustained improvement efforts across the NHS in Wales.
- 4 The report additionally highlights the steps taken by Assembly Sponsored Public Bodies in implementing systems necessary to manage the requirements of the Freedom of Information Act, and the continuing benefits being realised from the initiatives in public sector procurement in Wales that the Welsh Assembly Government has led.
- 5 In April 2006, the Welsh Assembly Government implemented a significant part of its programme of structural reform across the Welsh central government sector. This involved the abolition of a number of sponsored bodies and the absorption of their functions within the Welsh Assembly Government itself. The report sets out some of the main actions taken by the Assembly Government to enhance its governance and financial management arrangements to cope with these enlarged responsibilities.
- 6 The structural reforms now being put in place will, however, place an even greater premium on the availability of sound financial management information to support the Assembly's strategic and business objectives. The report describes some of the work in progress to strengthen financial reporting processes through improved use of computerised accounting systems, but

¹ *Is the NHS in Wales managing within its available financial resources?*, published by the Wales Audit Office 12 April 2006.



also stresses that all bodies need to keep their existing procedures under review in this area. It also highlights the financial management of European funded projects as an area where improvements are beginning to show, but where some problems still remain.

- 7 The Government of Wales Bill currently before Parliament will, if enacted, result in an amended constitution and structure for the National Assembly for Wales. This would also mean changes to the administration of the public finances in Wales, in particular through the establishment of a Welsh Consolidated Fund. The Wales Audit Office is uniquely placed to work with Assembly officials as they establish the new systems and structures that will arise from the Bill's proposals as these are brought into law.

- 8 I look forward to providing continued support to public bodies across Wales in securing improvements in the delivery of public services, and independent assurance on public spending to both the National Assembly and the people of Wales.

Jeremy Colman

29 June 2006

Auditor General for Wales

Part 1: The Auditor General has responsibility for audit across the Welsh public sector and he has given unqualified audit opinions on all accounts

- 1.1** This report summarises the results of my examination and certification of the 2004/2005 accounts. The report also summarises the results of other financial audit work undertaken by staff of the Wales Audit Office on my behalf during the 2005/2006 financial year.
- 1.2** Under the legislation that created the Wales Audit Office on 1 April 2005, I became from that date the statutory external auditor for all NHS trusts and local health boards in Wales. As such, this year for the first time the results of all NHS bodies have been included within this report. A full listing of the bodies included is shown at [Appendix 1](#).
- 1.3** This report does not deal in detail with the performance audit work of the Wales Audit Office, which supports my production of published national reports. During 2004/2005 I published six such reports, which are listed at [Appendix 2](#) and which are available on the internet at www.wao.gov.uk. These reports are considered separately by the Audit Committee of the National Assembly for Wales, and records of the Committee's meetings are available on the Assembly's website at www.wales.gov.uk.
- 1.4** I am required by statute to examine and certify the annual accounts of the National Assembly for Wales, its sponsored public bodies and certain other public bodies, including local NHS organisations within Wales, and to report my audit findings and opinions to the Assembly. I am also responsible for appointing the auditors to all local government bodies, including probation boards, the four police authorities and the three national park authorities in Wales.
- 1.5** In common with private sector auditors, I conduct my financial audits in accordance with auditing standards issued, or adopted, by the Auditing Practices Board. From 2005/2006, the framework within which auditors and inspectors in Wales will approach their work has also been defined by my Code of Audit and Inspection Practice. This has been developed as a comprehensive, principles-based document and is available at www.wao.gov.uk.
- 1.6** I design my audit examinations to satisfy myself that, in all material respects, money provided to and by the National Assembly for Wales has been used only for the purposes intended – **regularity**. I also have regard for the **propriety** with which public funds have been handled and the manner in which public business has been conducted.
- 1.7** Auditors give constructive feedback to the staff of audited bodies at all stages of the audit. However, significant financial control issues are raised formally at the end of the audit in the form of a management letter addressed to those charged with governance within the audited body. Financial control in this context means the array of management and procedural controls which promote proper accounting and stewardship of public money, and which prevent or detect breaches of regularity or propriety. The auditors working on my behalf aim to provide practical recommendations to assist the management of audited bodies in improving their performance without creating unnecessary bureaucracy.



1.8 At the request of the Assembly Government's Principal Accounting Officer, I also undertake additional reviews at Assembly Sponsored Public Bodies. These reviews provide the senior management of those bodies and Welsh Assembly Government officials with assurance over and above that obtained from the standard external audit of the annual accounts. In many cases, this work adds value by recommending improvements to systems, controls and operating procedures.

How my work is conducted

1.9 For the 2004/2005 year of account, I audited 65 accounts in the central government and NHS sectors. I was supported in this work by staff of the Wales Audit Office and also by private-sector audit contractors. The various sets of annual accounts were prepared by the Assembly itself, its sponsored and other bodies, and by local NHS bodies, and together contained expenditure of some £11.9 billion financed by the Welsh block budget. **Figure 1** illustrates the variety and numbers of accounts audited during 2004/2005.

How I report the conclusions of my audit work

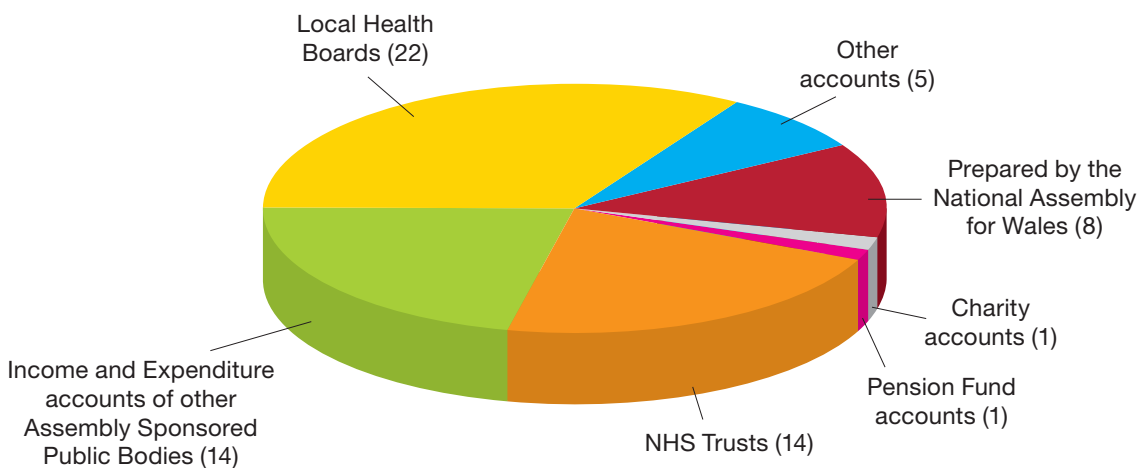
1.10 I report the results of my financial audit work through:

- audit certificates on the financial statements;
- published reports on accounts; and
- unpublished reports to the management of audited bodies.

Results of the 2004/2005 audit examinations

1.11 I gave unqualified audit opinions on all 65 of the accounts that I certified in respect of the 2004/2005 financial year. I also published two substantive reports during the year arising from my examination of accounts. These related to the Welsh Language Board – contracts for the refurbishment of new office accommodation,² and the National Council for Education and Training in Wales (ELWa) – work based learning expenditure.³

Figure 1: The 65 accounts audited by the Auditor General for Wales, 2004/2005



Source: Wales Audit Office analysis

² Welsh Language Board Accounts 2004-05 – laid on 23 August 2005.

³ National Council for Education and Training for Wales Accounts 2004-05 – laid on 21 March 2006.

Part 2: Although accounts are being prepared more promptly, controls over grant expenditure, asset management and payment standards need to be improved

- 2.1** Standards of financial control across audited bodies throughout Wales remain excellent, and continue to improve. For example, I judged it necessary to make a third fewer observations in management letters regarding standards of internal control, compared to the previous year, and I am similarly pleased to note that the improvements in procurement systems that I identified in last year's report have continued.
- 2.2** In seeking to assist management within my audited bodies in continuing to improve their financial management arrangements, my staff raised a wide range of recommendations through management letters and additional assurance reports in relation to the 2004/2005 financial statements.
- 2.3** Figure 2 summarises the main findings from my audit work this year.
- 2.4** The area of preparation and presentation of accounts for audit by central government bodies was raised as an issue in last year's report. I am pleased to report that the number of audit recommendations in this area has reduced this year, but I look to the NHS sector to ensure that it too addresses over the coming year the various improvement points that have been identified. Continuing improvements in this area will also be essential, in order that all audited bodies are able successfully to meet the requirements of the Treasury's "faster closing" initiative, which is intended to ensure earlier publication of the annual accounts of all public bodies (I comment further on this topic in Part 3).

Case study 1: The prompt preparation of annual accounts represents an area of continuing improvement following previous audit recommendations

Most audited bodies were successful in meeting their agreed accounts preparation timetables in 2004/2005. This represented a considerable achievement across the Assembly and its sponsored and related bodies. For example, all the individual accounts of the 36 NHS bodies were signed-off by the agreed deadline of 31 July 2005, and the published NHS summarised accounts were finalised two months earlier than previous years.

Also of particular note, the Welsh Assembly Government was able to submit its Whole of Government Accounts information to the Treasury by 25 November 2005, in line with its statutory requirements. The Assembly's performance represented a significant improvement on prior years, and resulted in the Treasury awarding the Assembly its 'most improved organisation' award in this area.

An important factor in this result was the establishment of a Resource Accounts Project Board in January 2005, comprising members of the accounts production teams within the Assembly Government (including NHS Finance) and outside representatives, including the Wales Audit Office and HM Treasury. The Board met monthly in 2005 and oversaw the successful accounts preparation for 2004/2005.



Figure 2: Improvements still need to be made in a number of key areas, including grants expenditure and management of assets

Descriptions of areas and examples of improvement areas identified

Systems of Internal Financial Control: sound control systems are essential to manage actual expenditure in relation to that planned or approved.

- The monitoring and control of grants expenditure needs to be more robust in some bodies to ensure that expenditure meets the purposes intended.
- All key systems should be covered by formal written financial procedures.
- Accounting balances should be reviewed and reconciled to ensure accuracy of data.

Safeguarding Public Money and Assets: adequate physical and accounting controls are required over assets held, and the regularity and propriety of expenditure ensured.

- Regular reviews of debtors should be undertaken to ensure that appropriate action is being taken in relation to amounts owed.
- Fixed assets (such as land and buildings, motor vehicles, and plant and machinery) need to be reviewed annually for impairment, and changes in values and useful lives.

Preparation and Presentation of Accounts for Audit: agreed accounts preparation timetables must be adhered to; technical requirements correctly applied; and good quality supporting documentation submitted to provide a clear audit trail.

- Accurate and complete documentation should be provided in support of accounts submitted for audit.
- Accounts preparation controls need to be strengthened to ensure compliance with Treasury requirements and relevant accounting standards, and that all figures appearing on the balance sheet have been derived accurately.

Source: Wales Audit Office analysis of recommendations to audited bodies, 2004/200

2.5 It is important that audit bodies build on the overall improvements identified this year, and seek to implement all recommendations within the agreed timescales.

2.6 My report *Is the NHS in Wales Managing Within its Available Financial Resources?*⁴ published on 12 April 2006, set out my findings on the overall quality of financial management within the NHS in Wales. Whilst I was satisfied that the NHS bodies in Wales met their statutory financial duties during 2004/2005, I expressed some concern that a number of NHS bodies were forecasting that they

would not do so in 2005/2006 and that the situation would become even more difficult in 2006/2007. I also observed that it was questionable whether there have been effective links between the strategic direction of the NHS in Wales, the implementation of local plans to better direct resources in the medium-term to match service requirements and the annual Service and Financial Framework arrangements. My report was considered subsequently by the Assembly's Audit Committee at its meeting on 4 May 2006, and the results of its findings will be published later this year.

⁴ *Is the NHS in Wales Managing Within its Available Financial Resources?* – April 2006.

Payment performance

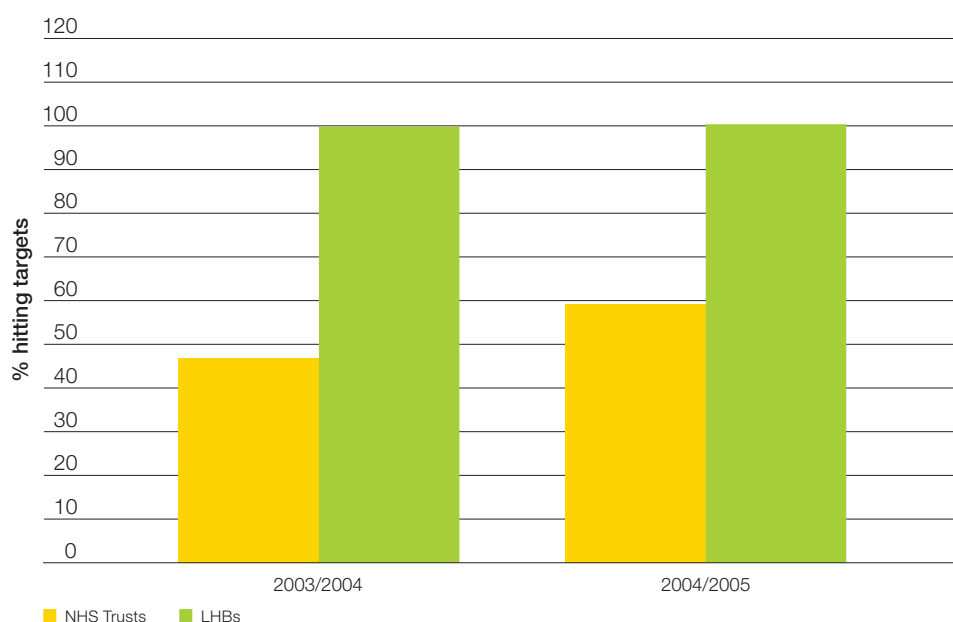
2.7 The Late Payment of Commercial Debts (Interest) Act 1998 requires all central government and NHS bodies to disclose in their annual accounts the percentage of all creditor payments made within a specified 30-day period. The Act also enables suppliers to claim statutory interest from the public sector if valid invoices are paid late.

2.8 An analysis of the payment performance of the 36 NHS bodies over the last two years is shown at **Figure 3**. This indicates that all 22 local health boards are achieving the required target of 95 per cent of all payments being made within the 30 day period. This consistently high standard of performance is welcome, and perhaps also reflects the fact that these bodies process the majority of their payments through a common system managed by the NHS Wales Business Services Centre, an organisation set up to assist with and collate the financial systems of the local health boards.

2.9 In contrast, however, I found that just under half of the 14 NHS trusts in Wales failed to achieve the payment performance target, albeit in many cases only narrowly. Whilst the majority of NHS trusts were able to process and pay over 90 per cent of invoices within 30 days, I nonetheless encourage the trusts to review their procedures in order that all reach the required target next year.

2.10 **Figure 4** provides an analysis of the payment performance of the 22 bodies within the central government sector in Wales over the last four years. I am disappointed to note that there has been a decline in the number of organisations achieving the 95 per cent target this year, with just under half of bodies meeting the performance standard, compared with two-thirds who did so in 2003/2004.

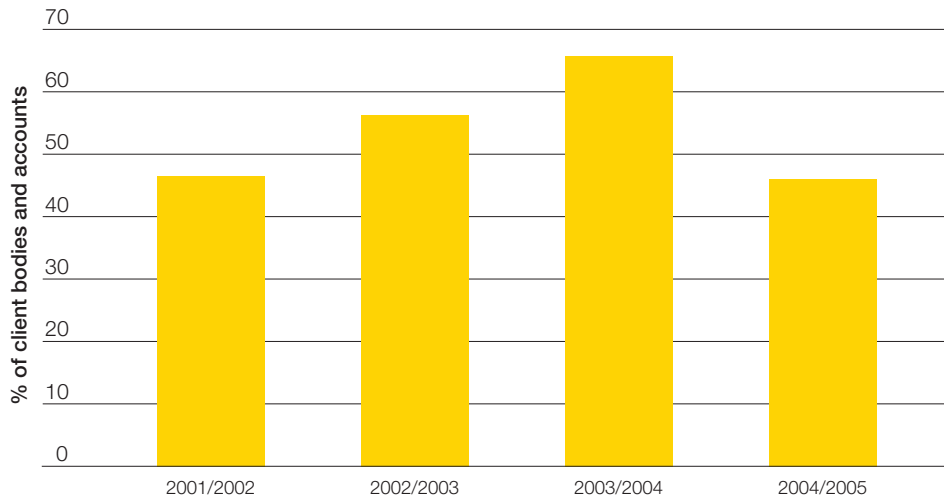
Figure 3: The payment performance of NHS trusts has improved but is still below the required standard overall



Source: Wales Audit Office analysis of published accounts



Figure 4: Payment performance across the Welsh central government sector declined in 2004/2005, following three years of improving results



Source: Wales Audit Office analysis of published accounts

2.11 I identified five bodies that failed to achieve the 95 per cent target this year, having successfully met it in previous years. There were a variety of reasons for these failures. One body, for instance, had installed a new finance system during the year, which resulted in delays for some payments.

2.12 I am concerned at the fall in the number of bodies achieving the required performance standard and continue to look to the senior management of individual bodies to address the underlying causes, and to implement any necessary changes in systems to improve payment performance.

2.13 The Welsh Assembly Government itself narrowly failed to achieve the 95 per cent target in 2004/2005, making 94.5 per cent of all of its payments within 30 days. I am aware that the Assembly Government is keeping its own payment performance, and also that of its sponsored bodies, under active review. However, in light of its newly-enlarged functions it is important that the Assembly's payment systems are adequate to cope with the significantly increased volume of transactions for which it is now responsible.

Part 3: Structural reforms have included new accountability arrangements within the Welsh Assembly Government, and arrangements for financial and risk management are broadly improving

Implementation of the National Assembly's new structural reforms is bringing significant change to the business environments within which I carry out my audits

- 3.1** During 2004/2005, the Welsh Assembly Government announced its plans for structural reform within the National Assembly and its sponsored public bodies. These reforms were intended, in part, to secure improvements in the overall structure and control environment of the public sector in Wales.
- 3.2** As a result of these structural changes, from 1 April 2006 four Assembly Sponsored Public Bodies – the Welsh Development Agency, the Wales Tourist Board, the National Council for Education and Training for Wales, and the Qualifications, Curriculum and Assessment Authority for Wales, were merged into the Welsh Assembly Government. The functions of a fifth sponsored body, Health Professions Wales, were subsumed into the National Leadership and Innovation Agency for Healthcare (NLIAH) and Healthcare Inspectorate Wales (HIW) from 1 April 2006. In addition, the Assembly Government is likely to take over most of the functions of the Welsh Language Board on 1 April 2007.
- 3.3** These bodies were responsible for a total annual expenditure of around £900 million, representing almost two-thirds of the total spending by all Assembly Sponsored Public Bodies in 2004/2005.
- 3.4** Welsh Assembly Government officials recognised that there were considerable risks to be managed in performing a merger of this size.

They implemented a set of projects to manage the transformation, including the creation of a series of working groups to address the requisite changes to central functions such as finance, information services and human resources. The overall project process was overseen by a Change Director, who reported directly to the Permanent Secretary.

- 3.5** My staff played an active role in assisting the affected bodies during the transition phase of the merger process. For example, they provided advice on risk management issues, attended project meetings and participated in working groups looking at a number of specialised areas, including how best to merge the different accounting systems operated by the relevant bodies.
- 3.6** There remains a risk that the merger of the former sponsored bodies could potentially reduce the degree of financial scrutiny that my audit staff will be able to apply to some expenditure areas, as these may cease to be financially material in the context of the National Assembly as a whole. In order to mitigate this risk, my audit work for 2005/2006 will be supplemented by additional risk-based reviews or 'investigative audits' within selected expenditure areas or systems of control.
- 3.7** I also intend to publish a composite report on the results of my audit examinations of the closing accounts of the five former sponsored bodies, to confirm that their assets and liabilities are complete and fairly stated at the date of their transfer to the Welsh Assembly Government.



New accountability arrangements within the Welsh Assembly Government have been implemented to help secure the required improvements from the structural reforms

3.8 Each body that I audit has an ‘Accounting Officer’ (for central government bodies) or ‘Accountable Officer’ (for local NHS bodies) – this is usually the Permanent Secretary or Chief Executive. This key role includes responsibility for financial management and control within the organisation, as set out in the *Statement of Accounting Officer’s Responsibilities* which is published alongside each set of annual accounts.

3.9 The Welsh Assembly Government has recognised that its absorption of a number of sponsored bodies will result in the loss of the corporate governance ‘oversight’ role played by the Boards (or equivalents) of those organisations, and of the related scrutiny functions such as those provided by each body’s Audit Committee. It will also place significant extra pressures on the Assembly’s own management and operational structures.

3.10 In part as a consequence of the merger of the sponsored bodies into the Welsh Assembly Government, the Permanent Secretary (in his role as the Assembly’s Principal Accounting Officer) has chosen to delegate some of his functions to five new Sub-Accounting Officers. These are the Heads of Department responsible for budgets within the following administrative areas of the Welsh Assembly Government:

- Social Justice and Regeneration;
- Education, Lifelong Learning and Skills;
- Enterprise, Innovation and Networks;
- Environment, Planning and Countryside; and
- Local Government and Culture.

In addition, the Director of Health and Social Care retains her existing role as the Accounting Officer for NHS Wales.

3.11 Whilst the Principal Accounting Officer retains his overall responsibility for the regularity and propriety of the Assembly’s finances as a whole, the Sub-Accounting Officers have taken on delegated responsibility for the finances of their individual departments. As with the Principal Accounting Officer, they may also be called to give evidence to the Audit Committee of the National Assembly for Wales.

3.12 Each Sub-Accounting Officer now has a departmental Corporate Governance Committee and a discrete business unit to assist them in the exercise of their accounting officer responsibilities. As with the Permanent Secretary’s own Corporate Governance Committee, and in line with best practice, the Assembly’s Internal Audit Service and the Wales Audit Office attend each of these committees. There is also an independent member on each committee. This is either a senior Assembly official employed within a different department, or a member independent of the Assembly itself.

3.13 Each Sub-Accounting Officer has been issued with comprehensive guidance on the principles of good corporate governance, the role of departmental corporate governance committees, and their relationship with the main Assembly Government Corporate Governance Committee.

All bodies continue to make good progress in developing their risk and financial management systems, but there are ongoing challenges in this area

3.14 HM Treasury guidelines state that bodies are required to maintain good corporate governance practices. Good corporate governance requires organisations to develop coherent systems for the

identification and assessment of key corporate and strategic risks, and to embed robust risk management procedures within their day-to-day operations. In previous reports, my predecessor and I have noted the ways in which our staff have worked with audited bodies to ensure that the requirements of Treasury guidelines in respect of corporate governance are met.

- 3.15** As part of my audit work this year, I have again reviewed the risk management arrangements in place within my audited bodies. I am encouraged to note that bodies continue to make good progress in this area, including ensuring that risk registers are updated on a regular basis and reviewed by their audit committees. I also note that risk management is becoming embedded within the day to day running of organisations through, for example, the use of operational plans, business plans, and the widespread creation of risk registers for specific projects.
- 3.16** My auditors found that at the time of our audit only one body was unable to state full compliance with the Treasury's requirements for corporate governance arrangements. That body had been established during 2004/2005, and it is therefore understandable that systems had not yet been fully developed; I am satisfied that good progress is now being made in this regard.

Improving the use of financial information

- 3.17** All Welsh public sector bodies are intending to meet the Treasury's 'faster closing' target for their 2005/2006 accounts. These will require the Accountable Officers of NHS bodies to sign their accounts by 30 June and for Accounting Officers in the central government sector to sign by 31 July. The successful achievement of faster closing depends on the quality of the accounts preparation process and the efficiency with which the annual audit can be undertaken.

- 3.18** Resource accounting is the application of accruals accounting for reporting on the expenditure of central government bodies and a framework for analysing that expenditure against business objectives, relating this to outputs wherever possible. It means, for example, that it is when a transaction occurs that determines, as far as is possible, when it is brought to account rather than the period in which the related cash is received or paid. Financial statements prepared on an accruals basis therefore provide a more accurate record of resources expended.

- 3.19** The preparation of regular and accurate management accounts on an accruals (or resource) basis significantly assists the timeliness and quality of the annual accounts production process. It also facilitates an efficient audit approach, as much of the audit can be completed before the financial year-end, based on interim balance sheets prepared during the year and early testing of management controls and transactions.

- 3.20** I noted in my 2005 report that, other than when producing their annual accounts, fewer than half of Assembly Sponsored Public Bodies prepared management information routinely on a resource basis. Only limited progress has been made in this regard since last year; one additional sponsored body has recently started to produce resource-based management accounts on a monthly basis.

- 3.21** The Welsh Assembly Government intends to implement resource-based systems by March 2007. As part of this process, it is currently piloting 'Procure to Pay' (a new procurement/purchase ordering system) and 'E-grants' (a new system for tracking grants payable). These systems are due to be implemented across the Assembly by December 2006 and, amongst other benefits, are intended to enable the efficient and timely production of actual month-end creditor figures.



Case study 2: the NHS sector demonstrates good progress in implementing robust risk management arrangements

All NHS bodies are required to undertake an annual self-assessment against a common set of Welsh Risk Management (WRM) standards, which assess each body's achievements against specified targets on a percentage basis. The results of this exercise, together with follow-up action plans, are submitted to the Welsh Assembly Government.

One of the WRM standards NHS bodies are expected to meet is in respect of Governance, and bodies are assessed against the following targets:

- board sub-committees set up for overseeing Corporate Governance;
- the use and review of risk registers; and
- the extent to which risk management is embedded into the day to day running of the organisation.

NHS bodies are expected to achieve a target of 75 per cent against each of the WRM standards. An analysis of NHS bodies' performance against the Governance target for 2004/2005 shows that only one body out of 36 failed to achieve this target. In general, NHS bodies were making good use of risk registers both for individual projects and at a corporate level for their organisations as a whole.

3.22 While I have noted a slight improvement in the use of resource-based information during the year, I continue to look to the senior management of all audited bodies to consider the benefits further use of such accounting information would bring, and

to develop systems within their organisations to allow regular production of this type of financial data. My staff will of course continue to provide advice to those bodies who wish to extend or implement their use of accruals-based information.

Part 4: Value Wales is continuing to help improve public sector procurement

Value Wales (Procurement)

Value Wales (Procurement) continues to have a beneficial financial impact on the costs of public sector procurement. It has reported actual savings of £18 million across the whole of the Welsh public sector for 2005, and identified further savings of £63.7 million as being deliverable in 2006, against a target of £40 million.

4.1 During the year, the staff of the Welsh Procurement Initiative merged with the Welsh Local Government Procurement Support Unit, to become the procurement arm of Value Wales, now known as Value Wales (Procurement). Its work continues to show that scope remains for the Welsh public sector to obtain further significant efficiencies in its spending on procurement.

4.2 Identified savings continue to arise mainly from the collaborative purchasing of goods and services including, for example, telecommunications (£3.2 million to date), information technology (£4.5 million to date), and stationery (£1.1 million to date).

4.3 Figure 5 provides examples of the Initiative's work during 2005:

All-Wales collaborative procurement contracts

4.4 Collaborative contract arrangements enable public organisations to act in consortium to maximise the potential to achieve value for money in their purchasing. Such contracts now include:

- **Welsh Purchasing Card** – this programme was instigated in June 2002, to enable cost savings to be made by bodies for low value

purchases. It has since continued to develop steadily: 47 organisations were participating in the scheme at the end of December 2005, achieving savings of nearly £4 million over the course of the year.

- **Vehicle Hire** – this agreement involves five suppliers: two serving North Wales, two serving South Wales and an all-Wales back-up supplier. Value Wales estimates that annual savings in the region of 30 to 50 per cent of existing contract values can be achieved by bodies which make use of this contract, and during the year approximately £140,000 of savings were achieved in this way. Forty five organisations were utilising the agreement as at December 2005.

- **Information Technology** – this agreement was one of the first to be awarded via an e-auction; following its implementation in February 2005, total expenditure of some £10 million across 83 organisations has generated net savings of over £3 million.

Participation in Value Wales activities

4.5 Participation by public bodies in Value Wales activities continues to increase. As well as the use of collaborative procurement arrangements, this involvement varies from attending specialist training courses or seminars, to registering as a procurer on the Value Wales web site, and to making use of best practice guidelines.



Figure 5: The Initiative has made further good progress in key areas during 2005

The Welsh Procurement Initiative in 2005 has:

- Increased the number of all-Wales collaborative framework contracts from 7 to 9; commenced an additional seven new all-Wales collaborative tendering projects; and supported six regional collaborative projects.
- Continued to develop and increase the number of users of the 'Buy4Wales' national procurement website, and the E-auctions it facilitates. For example, 62 public sector organisations have advertised £1.2 billion of contract opportunities at the end of the year compared with 41 organisations using the tool in the previous year.
- Increased the number of professionally qualified procurement staff across the Welsh public sector, to over 124.
- Continued to complete Procurement Fitness Checks for public sector organisations. A total of 29 checks have now been completed across the Public Sector in Wales.
- Developed further the Value Wales training programme. To date this has delivered 84 procurement training courses – or 1,341 delegate days – and 96 per cent of public sector organisations in Wales have participated in the programme.

Source: Welsh Assembly Government

4.6 An important part of the continuing work of Value Wales are **Procurement Fitness Checks**, which are designed to help organisations recognise their procurement strengths as well as identify areas for improvement. These checks have now been

completed for 29 public bodies across Wales, including nine Assembly Sponsored Public Bodies. Checks at the remaining Assembly Sponsored Public Bodies were expected to be completed by May 2006.

Part 5: The European Commission has closed almost all of the 1994-1999 programmes and there are signs that financial management of EU-funded projects is improving

European Structural Funds

5.1 The aim of the European Structural Funds is to reduce social and economic inequalities by providing grant aid funding for projects which have been approved under targeted programmes agreed between the European Commission (the Commission) and Member States. Funding from the Structural Funds is provided for defined periods, known as the 'programming periods'. The current programming period began on 1 January 2000 and will run to 31 December 2006. The previous programme (referred to as the 'old' programming period) covered the period 1 January 1994 to 31 December 1999.

5.2 In my corresponding report last year, I reported on progress made in respect of the closure of the 1994-1999 European Programmes. As the European Commission's nominated independent audit body for Wales, the Assembly's Head of Internal Audit had produced closure reports in respect of the 18 programmes that operated in Wales, qualifying all but one of his accompanying audit opinions. He was able to quantify specific problems with incurred expenditure totalling £476,110 and recommended that the Commission should accept the closure of the programmes, after deducting this amount. The amount involved represented less than 0.2 per cent of the EU funds received for the 1994-1999 programming period.

Figure 6: The recovery of funding by the European Commission has now been finalised for all but one of the 18 former programmes

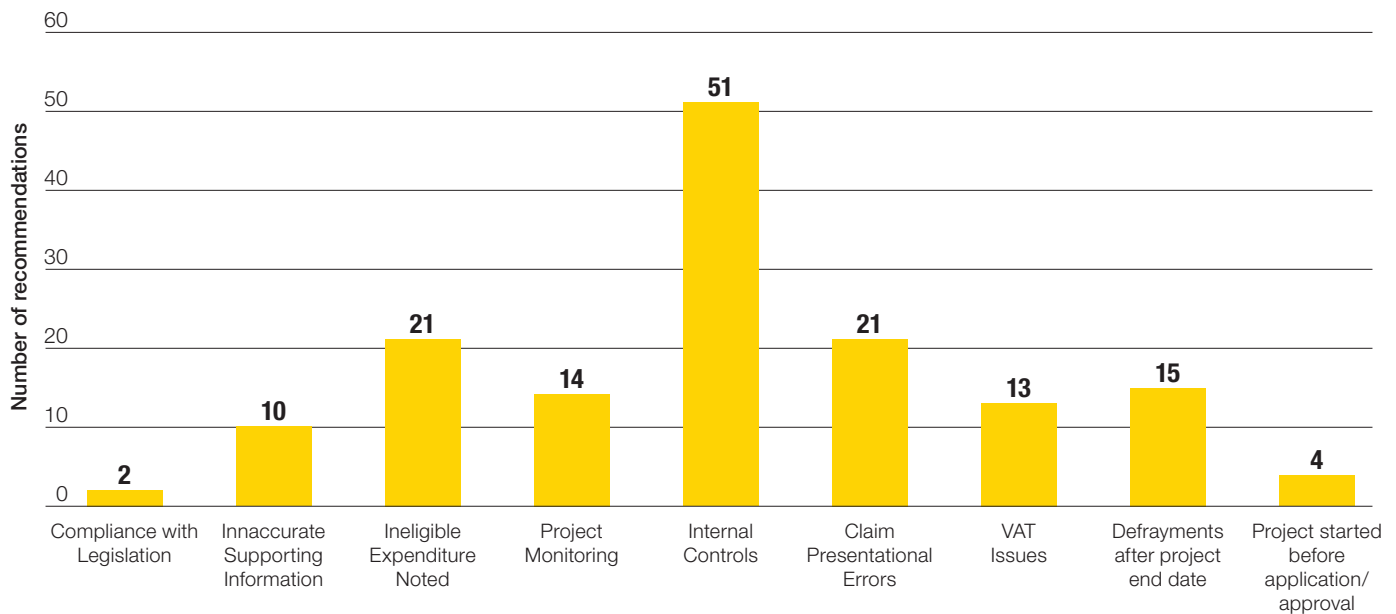
1994-1999 Programme	Structural Funding to Wales £	Closure Position	Aggregate Financial Adjustment To Date £
Lead responsibility held by the National Assembly for Wales (and predecessor bodies): 10 programmes including ISW 1997-1999, Interreg II, Rechar, Resider II, SME and Urban (funded by European Regional Development Fund), Rural Wales II (funded by EAGGF and ERDF).	£226,159,475	9 of the 10 programmes closed	£354,440
Projects supported as part of UK-wide initiatives: Eight programmes including Konver II, Retex II (in conjunction with the Department for Trade and Industry) and EAGGF and Pesca (in conjunction with the Department for Environment, Food and Rural Affairs).	£45,067,059	All of the eight programmes closed	£121,670*
Totals	£271,226,534		£476,110

* This cost was borne by the Department for Environment, Food and Rural Affairs (DEFRA)

Source: National Assembly for Wales



Figure 7: Financial management of EU projects is showing some signs of improvement, although the quality of internal controls remains an issue



Source: Wales Audit Office analysis of EU project audit reports

At the time of last year's report, the Commission had accepted the Head of Internal Audit's recommendation in respect of nine of the programmes.

- 5.3** The Commission has since agreed to the closure of a further eight programmes, making 17 in total. It has yet, however, to complete its deliberations on the Industrial South Wales Programme, where it is considering the results of its own audit as part of its Europe-wide closure exercise. The financial adjustments for the 17 closed programmes were made during the 2005/2006 financial year, and the adjustment for the final programme is now expected during 2006/2007. A summary of the programme closures and financial adjustments is shown at Figure 6.
- 5.4** I will continue to monitor developments regarding final closure of the 1994-1999 Programmes and will include a further update in my next year's report.

- 5.5** During the year to 31 December 2005, my staff audited European grant claims submitted by 10 audited bodies. While, as in previous years, my staff raised audit observations on all of the claims certified, these were typically fairly minor in nature and did not affect the overall regularity of expenditure incurred under the grants. An average of four audit observations were made on each grant audit certificate in 2005; a fall of some 20 per cent against the previous year.
- 5.6** Figure 7 presents an analysis of the audit observations made regarding European Grant claims.
- 5.7** I am pleased to acknowledge the progress that has been made in improving systems of control over European grants. It is, of course, important that this trend is maintained. However, whilst the number of recommendations made on internal controls in place within individual projects represented, on average, less than one per grant claim certified, I nevertheless remain concerned at

the number of observations still being made by auditors in this area. This concern is also in respect of straightforward errors such as claiming for amounts actually defrayed after the project end-date. Both WEFO and the individual public bodies concerned should, therefore, consider whether further training needs to be provided to EU project managers.

5.8 In its report, *The General Report of the Auditor General for Wales 2005*,⁵ the National Assembly for Wales' Audit Committee recommended that

the Welsh Assembly Government 'impress upon senior management of all grant receipts the importance of ensuring compliance with all the requirements of European Funding Requirements'. The Assembly Government has since written to all the relevant bodies and it is vital that the management of those bodies now make the requisite improvements to their systems of control.

⁵ Committee Report (2), 08-05 presented to the National Assembly for Wales on 7 December 2005.



Part 6: Central Government bodies are making good progress in relation to the requirements of the Freedom of Information Act

- 6.1** The Freedom of Information Act 2000 came into force fully on 1 January 2005. The Act gives the right to individuals and organisations to request any information held by public bodies. In 2005 I reviewed the procedures and systems Assembly Sponsored Public Bodies had put in place to ensure compliance with the Act. I did this as part of my additional assurance examinations.
- 6.2** In order to comply with the Freedom of Information Act, I would expect any public body to meet the following requirements:
- to have communicated the requirements and implications of the Act to all staff;
 - to have provided development training to all staff, particularly to those staff with direct Freedom of Information responsibilities; and
 - to have developed Freedom of Information policies, schemes, systems and procedures.
- 6.3** I reviewed the extent to which Assembly Sponsored Public Bodies had achieved each of these requirements. I also examined:
- the volume and nature of all Freedom of Information requests received by bodies between January and December 2005; and
 - the actions taken in dealing with all such requests received, for example in replying to requests within the 20 working day timescale prescribed under the Act, and in applying any permitted exemptions to the release of information.
- 6.4** I found that, in total, some 300 Freedom of Information Act requests had been received by Assembly Sponsored Public Bodies during 2005. In only 10 instances had the audited body deemed the information requested to be “exempt”, and as a consequence opted to withhold disclosure. Of the cases where exemptions had been claimed under the provisions of the Act, only one had subsequently been referred to the Information Commissioner for review; the Commissioner’s decision on this case is awaited.
- 6.5** The results of my work showed that all of the bodies examined had made good progress in meeting the requirements of the Freedom of Information Act, and in developing appropriate policies and effective systems. For example, systems and procedures were found to be in place at all organisations to process and monitor information requests, and training had been given to the relevant staff. I was satisfied, therefore, that in general Assembly Sponsored Public Bodies had taken appropriate steps to comply with the requirements of the Act.
- 6.6** I was, however, able to make some recommendations to management arising from my review, which fell into three main areas:
- consideration should be given to putting in place systems to monitor and record the cost of dealing with Freedom of Information requests;
 - consultations with third parties concerning the handling of individual Freedom of Information requests should be better recorded; and

■ procedures should be implemented to ensure that all required information is recorded in the log books used to monitor and track requests.

6.7 It will also be important for the management of all public bodies in Wales to ensure that the systems they have established for managing Freedom of Information Act requirements become firmly embedded in the day-to-day operations of their organisations.



Part 7: The reforms proposed in the Government of Wales Bill, and the proposals for the Whole of Government Accounts, will cause significant changes to the way the Assembly manages and accounts for the Welsh public finances

Government of Wales Bill

7.1 The Government of Wales Bill was published on 8 December 2005 and is currently being considered by the Houses of Parliament. Should the Bill be enacted, then the structure, status and powers of the National Assembly for Wales will change significantly.

There would be formal separation of the legislative and executive arms of the Assembly

7.2 The Welsh Assembly Government would be established as an entity separate from, but accountable to, the National Assembly for Wales. The First Minister would be appointed by Her Majesty the Queen, and would appoint other ministers to the government with her approval. Most of the statutory functions currently exercised in the name of the Assembly would become the responsibility of Ministers.

7.3 A Welsh Consolidated Fund would be established, which would receive payments from the Secretary of State for Wales out of moneys voted by Parliament. Payments out of the Fund would meet the costs of Welsh Assembly Government programmes, and would be authorised by the Annual and Supplementary Budget Motions adopted by the Assembly. No payment out of the Fund would be made unless approved by the Auditor General for Wales, who would need to be satisfied that it was in line with a Budget Resolution.

The legislative powers of the National Assembly for Wales would be enhanced

7.4 The Assembly's legislative powers would be enhanced in three different ways:

- By conferring wider powers on the National Assembly for Wales to make subordinate legislation. The first example of a "framework" provision of this kind is contained in the NHS Redress Bill, which was introduced in the House of Lords on 12 October 2005;
- By providing an Order in Council mechanism which would allow Parliament to confer enhanced legislative powers on the National Assembly for Wales in relation to specified subject matter. Orders in Council would enable the Assembly to pass its own legislation within the scope of the powers delegated by Parliament; and
- Following a referendum, by authorising the National Assembly for Wales to make law on all the matters within its devolved fields of competence, without further recourse to Parliament. A referendum could only be triggered with the approval of both Houses of Parliament and of two-thirds of all Assembly members.

7.5 The proposed reforms would result in significant changes to the way the Assembly manages and accounts for the public finances in Wales. I intend that my staff will play an active role in assisting the Assembly during the necessary transitional phase in implementing the new systems and structures required by the Bill, should it become law.

Whole of Government Accounts

7.6 HM Treasury is continuing to develop the 'Whole of Government Accounts' project. This has the aim of producing a set of commercial-style consolidated accounts for the whole of the public sector in the United Kingdom. Whole of Government Accounts will include the financial results of government departments, central funds, the devolved administrations, and non-departmental public bodies (in Wales, Assembly Sponsored Public Bodies); and, additionally the financial results of trading funds, public corporations, local authorities and NHS trusts.

7.7 Figure 8 summarises the Treasury's latest proposals for the preparation of Whole of Government Accounts. The Whole of Government Account was introduced on a dry-run basis for the 2004/2005 financial year, building on previous work on the sub-consolidation of central government bodies, and will not be prepared on a fully published basis until 2007/2008.

7.8 I have issued guidance to assist auditors in meeting their statutory obligations in relation to the Whole of Government Accounts project and my staff continue to liaise closely both with the Welsh Assembly Government and also the National Audit Office, which has overall responsibility for examining the UK accounts.

7.9 In Wales, the Welsh Assembly Government is also preparing a Whole of Government of Wales Account within a development timescale running parallel to that for the United Kingdom Whole of Government Accounts. In February 2006, it prepared a 'dry-run' 2004/2005 Whole of Government of Wales Account, which included the financial results of the Assembly and its executive agencies, the sponsored public bodies, local health boards, Estyn and the Welsh Forestry accounts. The Account will require a commencement order from HM Treasury before being formally published. The number of public bodies included within the Account will increase in line with the Treasury's timetable for Whole of Government Accounts to encompass the Welsh local authorities and NHS trusts in Wales.

7.10 The Finance Department of the Welsh Assembly Government is co-ordinating the Whole of Government Accounts preparation process in Wales. This includes preparation of a sub-consolidation of the Assembly's own financial results together with those of the other involved bodies in Wales, such as Assembly Sponsored Public Bodies and NHS bodies for onward transmission to the Treasury.

Figure 8: The timetable has been set for the first published Whole of Government Accounts

Financial Year	Status
2005/2006	Dry-run and unpublished
2006/2007	Closing Balance Sheet only to be published
2007/2008	Full accounts to be published

Source: HM Treasury



Appendix 1: Accounts covered by this report

This Report covers the results of the examination of all of the 2004/2005 accounts prepared by the National Assembly for Wales and the other public bodies that I audit. A complete listing is given below:

Accounts prepared by the National Assembly for Wales

- Assembly Core Resource account
- Assembly Consolidated Resource account
- Cadw: Welsh Historic Monuments
- Health Commission Wales (Specialist Services)
- Welsh non-Domestic Rating
- Summarised Account of local health boards in Wales
- Summarised Account of NHS trusts in Wales
- Assembly Members' Pension Scheme Account

Accounts prepared by other bodies, categorised by subject area

Agriculture and Rural Development

- Countryside Council for Wales
- Forestry Commission Wales

Economic Development

- Wales Tourist Board
- Welsh Development Agency

Health and Social Services

- Care Council for Wales
- Health Professions Wales

NHS trusts

- Bro Morgannwg
- Cardiff and Vale
- Carmarthenshire
- Ceredigion & Mid Wales
- Conwy & Denbighshire
- Gwent Healthcare
- North East Wales
- North Glamorgan
- North West Wales
- Pembrokeshire and Derwen
- Pontypridd & Rhondda
- Swansea
- Velindre
- Welsh Ambulance Services

Local health boards

- Anglesey
- Blaenau Gwent
- Bridgend
- Caerphilly
- Cardiff
- Carmarthenshire
- Ceredigion
- Conwy
- Denbighshire
- Flintshire
- Gwynedd
- Merthyr Tydfil
- Monmouthshire
- Neath Port Talbot
- Newport
- Pembrokeshire
- Powys
- Rhondda Cynon Taff
- Swansea
- Torfaen
- Vale of Glamorgan
- Wrexham

Local Government and Environment

- Local Government Boundary Commission for Wales

Education and Lifelong Learning, Sport, Culture and Heritage

- Arts Council of Wales
- National Council for Education and Training for Wales
- Higher Education Funding Council for Wales
- National Library of Wales
- National Library of Wales – Staff Superannuation Scheme Account
- National Museums and Galleries of Wales
- Qualifications, Curriculum and Assessment Authority for Wales
- Sports Council for Wales
- Sports Council for Wales Trust Account
- Welsh Language Board
- Estyn
- General Teaching Council for Wales

Other

- Public Services Ombudsman for Wales
- Children's Commissioner for Wales



Welsh accounts audited by the Comptroller and Auditor General and laid before the National Assembly for Wales

The Comptroller and Auditor General was responsible for the audit of the following Welsh accounts for 2004/2005:

Sports Council and Arts Council Lottery Distribution Accounts

The Sports Council for Wales and the Arts Council of Wales are Lottery distributors. Each prepares a separate annual statement of account for the discharge of their Lottery functions. These activities are not devolved responsibilities and are instead performed under delegated authority from the Department of Culture, Media and Sport.

The European Agriculture Guidance and Guarantee Fund

This European fund pays subsidies to Welsh farmers, which are routed through the National Assembly for Wales and the Countryside Council for Wales. This is not a devolved function, and an annual account is prepared by each body in the form prescribed by the European Commission.

Appendix 2: List of Value for Money reports published in 2004/2005

- Collections management at the National Museums and Galleries of Wales
- European Union Structural Funding: progress on securing the benefits for Wales
- Environment Agency Wales: regulation of waste management
- Procurement in the higher education sector in Wales
- NHS waiting times in Wales
- Energy and water management in the higher education sector in Wales