



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Archwilio
The Audit Committee**

**Dydd Iau, 13 Rhagfyr 2007
Thursday, 13 December 2007**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau Cynulliad yn bresennol
Assembly Members in attendance

Lorraine Barrett	Llafur Labour
Eleanor Burnham	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Chris Franks	Plaid Cymru The Party of Wales
Lesley Griffiths	Llafur Labour
David Melding	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)

Eraill yn bresennol
Others in attendance

Jeremy Colman	Archwilydd Cyffredinol Cymru, Swyddfa Archwilio Cymru Auditor General for Wales, Wales Audit Office
Dr Christine Daws	Cyfarwyddwr Cyllid, Llywodraeth Cynulliad Cymru Finance Director, Welsh Assembly Government
Ian Gibson	Yr Uned Llywodraethu Corfforaethol, Llywodraeth Cynulliad Cymru Corporate Governance Unit, Welsh Assembly Government
Syr/Sir Jon Shortridge	Yr Ysgrifennydd Parhaol, Llywodraeth Cynulliad Cymru Permanent Secretary, Welsh Assembly Government
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Dr Kathryn Jenkins	Clerc Clerk

Dechreuodd y cyfarfod am 1.33 p.m.
The meeting began at 1.33 p.m.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introduction, Apologies, Substitutions and Declarations of Interest

[1] **David Melding:** Good afternoon. I welcome Members to this meeting of the Audit Committee. I am particularly pleased to welcome two visitors in the public gallery from Ethiopia: the Honourable Mesfin Mengistu MP, who is the chair of the Federal Parliament of Ethiopia's Public Accounts Committee, and his colleague, Mr Mekonnen Yimmer. I hope that you find our proceedings of interest to what you are studying in the United Kingdom as a whole.

[2] I will now just make the usual housekeeping announcements. This meeting will operate bilingually. If Welsh is spoken, a translation will be available on the headset on

channel 1. If you put the headset to channel 0, it will amplify our proceedings, which is helpful if you are hard of hearing. Please switch off all electronic equipment completely, as it can interfere with our recording system. We do not expect a routine fire drill, so, should the fire alarm sound, please follow the instructions of the ushers and leave the building accordingly.

[3] I have received apologies from Irene James, Darren Millar and Janice Gregory. I hope that a few of the other Members who are not here yet are intending to attend this afternoon. I ask those Members present whether they have any declarations of interest to make. I see that there are none.

1.34 p.m.

Cronfeydd Adnoddau Cyfunol Cynulliad Cenedlaethol Cymru 2006-07 The 2006-07 Consolidated Resource Accounts of the National Assembly for Wales

[4] **David Melding:** We now move to the ‘Auditor General for Wales’s Report on the 2006-07 Consolidated Resource Accounts of the National Assembly for Wales’. I welcome our witnesses this afternoon: Sir Jon Shortridge, the Permanent Secretary of the Welsh Assembly Government, and Dr Christine Daws, the finance director of the Welsh Assembly Government.

[5] The auditor general’s report shows that, in delivering the Assembly-sponsored public body merger process, the Assembly Government was largely successful in project-managing the legislative changes necessary and the changes to its governance and financial management arrangements. In doing so, the Assembly Government rightly prioritised the need for the continuity of all essential financial services and reporting. While the report recognises these important successes, it also highlights areas in which the Assembly Government’s arrangements might have been stronger and more effective. The report also recognises the Assembly Government’s ambitious corporate finance change programme that it has now embarked on. It is therefore important that we seek to find out the lessons learned by the Assembly Government so that this session and our subsequent report support the achievements of the current change programme’s objectives and, more widely, of those of any future mergers that may arise in the Welsh public sector.

[6] I welcome the witnesses and ask them to introduce themselves before they make their first response, just so that we have that clearly on record. I will ask the first question to Sir Jon. It is pleasing to see the auditor general’s conclusion that both the project management structure and the governance arrangements for the ASPB mergers were fit for purpose and worked well. What do you consider were the most important factors in achieving those successful outcomes?

[7] **Sir Jon Shortridge:** Thank you, Chair. I introduce myself as Jon Shortridge, the Permanent Secretary. I think that the main factors were the very systematic governance arrangements that we put in place, drawing on advice about managing successful programmes. This was a very large, complex set of programmes and we established a sort of tight/loose arrangement. I put in place a very small but highly qualified central team, which had the responsibility for overseeing all the programmes that were being led by colleagues from across the Assembly Government at the time, as well as the sponsored bodies themselves, in some cases. So, we empowered people to get on with the job, but I had a central team that could provide them with support and could also intervene if it felt that things were not going to plan. We were then able to link the governance arrangements associated with the mergers programme with the governance arrangements that I have anyway for

managing the Assembly Government. So, the portfolio manager of those programmes was a member of my management board and reported in to a change board that already existed to deal with change within the organisation, and the change board sub-committee to the management board reported to it. So, the governance arrangements at official level were very strong, but, given that this was a high-profile political commitment, Ministers put in their own oversight arrangements as well, so they were connected to what was going on.

[8] I could go on, but I will not take up too much time. The only other thing that I would want to mention at the outset, if I may, is that we were also very dependent on the goodwill of staff. I would really like to commend the staff within my organisation, but also, more importantly, those of the merging sponsored bodies. It was largely because of their personal commitment to the organisations that they worked for that we managed this as well as we did.

[9] **David Melding:** That was a very clear answer. I wonder whether this good practice has now been disseminated to other bodies that may be undergoing a change process in the near future, with NHS trusts being an obvious example.

[10] **Sir Jon Shortridge:** We have done some dissemination. Again, as a matter of good practice, very shortly after the successful mergers, if I can put it that way, we had quite a thorough lessons-learned report produced for us, and I have made that available to the NHS—although only quite recently, I should say. So, if they did not have access to it before, they do now. Quite recently, we also ran what is described as an ‘organisational raid’, to use the jargon. We invited people from elsewhere in the public sector in Wales to learn from, but then to interrogate, those of my senior colleagues who were involved in this exercise.

1.40 p.m.

[11] That raid was organised and sponsored by Public Service Management Wales, so, by definition, it is an opportunity for the wider public service in Wales to know what we did. We also had speakers at conferences, including a sort of Celtic forum conference involving Northern Ireland and Scotland, at which we shared our experience. So, we have captured what we have learned, and it is available for other people to learn from. Perhaps we could have done more to disseminate that learning more widely.

[12] **David Melding:** Perhaps you still have an opportunity to do that, especially if we do see a change in statutory bodies. It is quite clear that there has to be an obvious focus and ownership by senior staff.

[13] **Eleanor Burnham:** As a supplementary question, may I ask Sir Jon whether this document might be available to Assembly Members who do not come within the Government? It would be very interesting, and I would be highly intrigued to read it.

[14] **Sir Jon Shortridge:** Absolutely. I can certainly make a copy available to the Assembly Library or submit it to the committee, whichever you would prefer.

[15] **Eleanor Burnham:** That would be wonderful, thank you. In respect of your good governance, I notice that your departmental corporate governance committees are now chaired by non-executives, and that others are chaired by Assembly Government officials from other departments. Why is that so?

[16] **Sir Jon Shortridge:** Just as background, I have always had a corporate governance committee. I call it that to distinguish it from audit because it goes wider than audit; it is about good administration. For at least four years, one of my non-executive directors, Sir Adrian Webb, has chaired that committee. Some two years ago, at my behest, we introduced corporate governance committees in departments, and I have made the heads of the portfolio

departments sub-accounting officers. In three of those, I think, there is an external chair, including a former colleague from the Wales Audit Office, Ian Summers, who chairs one of them. The other three committees are probably chaired by other heads of department, so they are external to the department but not external to the organisation. I see this as an evolutionary process, and I am looking to increase the amount of non-executive representation on my own corporate governance committee and in the sub-accounting officers' committees. I am currently in the process of an open competition to appoint two new non-executive directors to my board. As part of the process to attract applicants, I have made clear that there will be other opportunities beyond these two positions. So, I am hoping that the process in which I am currently engaged will result in our attracting other people who would want to sit on or chair those committees.

[17] **Eleanor Burnham:** Linked to this, I have no idea, to be honest, who is who on your board and who does what. I do not think that I have ever had the opportunity to look, although perhaps I should have tried to. Is it in the public domain, so that we can look them up? In your plan to strengthen, would you expect and do you have a timeframe for expecting to have a non-executive director on each departmental committee?

[18] **Sir Jon Shortridge:** I am sure that the membership details of my board are available on the Welsh Assembly Government website. There is no secrecy about it. Again, I can let you have a note on that if you want it.

[19] **Eleanor Burnham:** Yes, please.

[20] **Sir Jon Shortridge:** Sorry, but what was the second question?

[21] **Eleanor Burnham:** You say that you are increasing the number of non-executive directors. Given my ignorance, unfortunately, I am not aware of how many governance committees you have. I was just wondering how many more you have to fill all of the positions and how long it will take.

[22] **Sir Jon Shortridge:** Chris will remind me if I am wrong, but I think, from memory, that there are currently six other accounting officers with their corporate governance committees. I see it largely as a matter for them to determine the membership of their board. However, if I were concerned that they did not have that appropriate representation, I would intervene. I will shortly have three non-executives on my main board, and I am looking to have one or two further non-executives on my corporate governance committee. As I say, I will be commending certain people who have expressed an interest through a proper process to my other heads of department for their committees.

[23] **David Melding:** May I just clarify this point? The Treasury guidance is that the majority of the members of these governance committees should be non-executive. Do you accept that, and are you working towards that? If so, when will it happen? I still cannot work out why the chairs are not already all non-executive if you accept that they should be.

[24] **Sir Jon Shortridge:** I looked at the Treasury guidance a couple of days ago, and I could not see it explicitly saying that there should be a majority. It is slightly ambiguous. I think that it is open to interpretation, and we are a bit different in that there is an Audit Committee, and I see the Audit Committee as representing the people of Wales in scrutinising the way in which I do my business and taking your assurance from that. Not everybody agrees with this, but, for me, it is very important that I should have a corporate governance committee that advises me and helps me to exercise my personal responsibilities for the £14 billion expenditure of the Assembly Government and for making sure that we have a high-quality administration. That is what the corporate governance committee is there for, as far as I am concerned. So, if I suddenly were to have a corporate governance committee that

consisted mainly of non-executives who may not understand my business, and if I were not a member of that committee, but just an observer or an attendee, it would not be doing what I wanted from it. I am therefore personally pretty comfortable with the arrangements that I have as regards the corporate governance committee. Mike Usher sits on it, and I would like to think that, probably, the main challenge to that committee comes from me, because that is what I am looking for—I am challenging my organisation to make sure that we are doing things properly and well. However, as I said, I think that it would be of value to have one or two more people on that committee who can help by providing an external perspective and by bringing knowledge and experience that I do not have to the deliberations. Just having token private-sector people there who do not understand our world would not necessarily be giving me the help that I think I need to exercise my responsibilities properly.

[25] **David Melding:** That is a very direct answer. We may want to return to the issue in another meeting.

[26] **Eleanor Burnham:** May I ask a supplementary question?

[27] **David Melding:** If it is to get further information.

[28] **Eleanor Burnham:** I am very interested in how you view this, and you have done extremely well in a very complex change of culture, management or whatever you want to call it. However, there must be some private-sector personnel of such a high calibre that they would add value to your organisation and perhaps cross-fertilise their different cultural nuances to best fit with the new, open, transparent Wales that you are leading and which we, hopefully, will continue to monitor and engage with for the benefit of the people of Wales.

[29] **Sir Jon Shortridge:** I agree with that. What I am saying is that I do not want it to be some sort of tokenistic person just because we must have that sort of balance. I want someone who can genuinely add value to my work and, through me, add value to your work.

[30] **David Melding:** This is an issue that we could take up in our report if we are so minded. I think that we have established what the evidence base is.

[31] **Lorraine Barrett:** Sir Jon, you inherited a very poor payment performance from Education and Learning Wales, which, in its final year, had paid only 70 per cent of bills within 30 days. I am looking at paragraph 2.14 of the auditor general's report. How was the education department able to address this problem so effectively, with its payment performance achieving the public sector target of 95 per cent within four months?

[32] **Sir Jon Shortridge:** There are probably two main reasons for that. In part, because I had wanted to improve our payments performance, which slipped in 2004-05, we introduced a new electronic payment system, and once people fully understood it, it just improved the efficiency of our payments process. Linked to that is the fact that I was, obviously, very concerned that the former ELWa was coming in with procedures that were making only about 70 per cent of payments within 30 days. I certainly made it clear to the head of that department, Steve Marshall, as the sub-accounting officer, that I expected the performance to improve, even though he probably did not need to be told that. Therefore, there were two things: management pressure, and the improved systems.

1.50 p.m.

[33] **Lorraine Barrett:** Why was ELWa's payments performance not improved until it was physically merged with your organisation? These were long-standing problems and they seemed to be finally addressed.

[34] **Sir Jon Shortridge:** I think that ELWa's systems were not very good, and that the former tourist board's systems were not particularly good, and for at least two, if not three, years when I was reporting to this committee on the auditor general's general report, this point was of concern to the committee, and I shared that concern at the time. Every year, I wrote to the accounting officers of those former sponsored bodies to make it clear to them that I expected improvement, and, believe it or not, ELWa did improve. I am working from memory, but I think that there was a time when its performance in percentage terms was in the 50s, but it had not improved enough and I was pleased that, within a matter of months, we turned that performance around.

[35] **Lorraine Barrett:** Have the Assembly Government's departments continued to meet that 95 per cent target during the current financial year?

[36] **Sir Jon Shortridge:** The figure that I have for October—and I cannot remember whether it is the position up to October or just for the month of October—is a 98.7 per cent strike rate, which has been consistent through the year. So, our performance is probably better at the moment than it has ever been.

[37] **Eleanor Burnham:** Exhibit 3 on page 13 of the auditor general's report shows that the performance on the timely allocation of receipts to departments continues to be a significant problem since the mergers took place in April 2006. Given the existence of a receipts work group within this project structure, as set out in exhibit 1 on page 6, why did the Assembly Government not plan more effectively to manage the known increase in operational income volumes post merger?

[38] **Sir Jon Shortridge:** The short answer, but Chris may want to amplify it, is that we had not envisaged or expected the number of payment journals, as they are called, to have risen as substantially as they did. I have some statistics to show this. In the critical months in 2007, they were four times higher than in 2006. So, exhibit 3 gives the value of the receipts, but, in terms of volume, there was a large number coming through, and far more than had been anticipated. Perhaps you are right that we should have anticipated it, but we did not. The reason why May and June were so critical was because people in the accounts department, who would normally have been dealing with these payments in the April, were looking at closing the account. So, they were diverted from their more routine work in relation to payments, which is why you have this backlog building up in May.

[39] **Eleanor Burnham:** So, in fact, there was not the capacity within your departments to cope with the increased volume, which, perhaps, you had not been aware of. Surely, the people who were winding up the accounts, given their previous experience, would have enlightened you to expect an increase? Is that why the poor performance has deteriorated further in the first quarter?

[40] **Sir Jon Shortridge:** I agree with you that it was a capacity issue. Whether or not we could or should have anticipated it, I am not sure, but, with hindsight, I would have liked to think that we would have anticipated it. The other thing, which links to capacity, is that this is all about managing risk and allocating people to what is the most important work. I am sure that the view was taken that letting these receipts slip a bit would have a less critical outcome than not doing the other work on closing the accounts, but Chris may want to expand on that.

[41] **Dr Daws:** Part of the problem—

[42] **David Melding:** Would you introduce yourself for the record?

[43] **Dr Daws:** I am Christine Daws, the director of finance.

[44] Part of the problem in implementing any change or making any change within the organisation is the number of staff who need to use the forms or processes. One of the biggest problems has been engaging with all the staff who would need to fill the forms that would demonstrate to us that income is coming in. What often happens is that a relatively small central team does not receive a completed form to identify where the receipt needs to be posted, and the team then has to chase and check. One of the key lessons, which I am sure that you will come on to in talking about the change programme, is the need to engage staff and get them to understand the importance of some of these things.

[45] **Eleanor Burnham:** Are you now quite happy that you have taken prompt action, and that the performance allocation and moneys coming in—

[46] **Dr Daws:** It is getting better, but, of course, there is turnover of staff and people doing different things. We are now a very large organisation with many diverse areas, which means that we have more people that we need to involve and train. It took some time in terms of getting them to understand the Assembly's processes.

[47] **Eleanor Burnham:** So, beyond that, what about officials pursuing debts in error, for example, where money is paid by a company but, worryingly, it is still showing on your debtor system as outstanding? How do you answer that, because that is quite a deficit in performance?

[48] **Dr Daws:** Yes. As part of the change programme, we are looking at many of the processes, and cleaning up the data on the debtors ledger is one of the key things that we are doing as part of introducing that programme, because we will be moving to a new finance system in April. Much activity is going on to improve basic systems, and the amount of information sitting on the debtors is not good; some of this work could and should have been done before we had the new system.

[49] **Eleanor Burnham:** You could possibly attribute some of these difficulties to former organisations that have now been subsumed into the enlarged Welsh Assembly Government.

[50] **Dr Daws:** Yes.

[51] **Eleanor Burnham:** That is quite worrying. There have been historical deficits in performance, but you are hopefully putting them right.

[52] **Dr Daws:** Yes. As you look into these things, systems appear to run well on the face of it but, as you turn over the stones, you find the things that you need to change.

[53] **Eleanor Burnham:** How long do you think that it will take you to clean out your system to ensure that everything is more robust?

[54] **Dr Daws:** The finance change programme will not happen overnight—we need to be clear about that. We also need to be aware that, as the new ledger does not come into force until next April, we still have to close this year's accounts on the existing systems. Where we can make changes that are non-system-dependent, we are trying to do that. However, it is a change programme, and not just a system programme; change takes a lot of time, because a lot of it is about culture and it must be embedded in an awful lot of people.

[55] **Eleanor Burnham:** Is it the Home Office that has not had its accounts closed for a number of years? You do not hope to be in the same situation, do you?

[56] **Dr Daws:** We need to be careful here, because the Welsh Assembly Government has never had its accounts qualified and we have hit the timetable.

[57] **David Melding:** We are wandering off the point here. However, I have a specific question: are many debts pursued in error, because that is very stressful for those who are pursued? Is there much evidence of that happening?

[58] **Dr Daws:** No, there is evidence that our internal systems are not very good in terms of the central finance team linking with the other departments and getting them to understand why the debtor is posted in that way and what activity has taken place. It is not a question of pursuing things in error—it is a question of information that is recorded and making sure that someone is following it up.

[59] **Lorraine Barrett:** I am looking at the £11.9 million provisional budget for the merger. The redundancy cost of the former Wales Development Agency staff exceeded £3 million. I think that it was stated that the cost could not be approximated because there was not enough time. Why was the WDA and not the other merged bodies in that situation, and why was the £3 million for the WDA redundancies not envisaged in that budget?

2.00 p.m.

[60] **Sir Jon Shortridge:** The £11.9 million quoted was a figure for expenditure allocated for the Assembly Government in 2005-06 and 2006-07, so that was the additional cost that we were controlling to, and it was made clear at the time that no allocation was being made within that sum for staff costs, severance costs and so on. This statement was made pretty early on and we just did not have the knowledge and intelligence about what we might want to do on staff.

[61] The WDA costs are referred to in the accounts as redundancy costs, so it is accurate here, but my understanding is that, in all of these cases, it was a voluntary severance, and the WDA officials and the board put the severance arrangements in place pretty much on their own initiative and they were funded from within the existing WDA budget.

[62] **David Melding:** I am still not clear how you could not anticipate them, because there was a different culture in the WDA, so you must have expected that some staff just would not want to transfer in.

[63] **Sir Jon Shortridge:** When I say that we could not anticipate, it was because we were talking about additional provision that was to be made and it was not thought necessary or appropriate explicitly to take a guess at what additional provision would need to be made within the Welsh Assembly Government for severances. In the case of the WDA, it came out of its own budget; it did not receive additional funding to enable it to happen. This was a decision taken by the board on advice.

[64] **David Melding:** It was still a cost of the merger, though, was it not?

[65] **Sir Jon Shortridge:** Yes, but, as I say, the £11.9 million referred to at the head of this table was quite clearly defined as additional money that would be made available within the Assembly Government to fund the costs of the mergers that could not be found out of existing budgets. So, I do not think that anyone—certainly not I—was trying to represent this as not being a merger cost; I am just linking it back to the £11.9 million commitment.

[66] **Eleanor Burnham:** I am still looking at exhibits 4 and 5. I understand that the Assembly Government's reported merger costs of £14.5 million are incomplete because no separate record was maintained of the costs incurred against existing departmental budgets. Given that the total cost of the measures was likely to be of considerable interest to Assembly Members of all parties, why did you not put in place more effective reporting arrangements

that could capture all the relevant costs?

[67] **Sir Jon Shortridge:** This was a huge exercise. It involved hundreds, if not thousands, of staff across all the relevant organisations. It has never been our practice to charge out staff time and it was certainly not my intention to try to put in place detailed management accounting arrangements to capture these costs. There is a proportionality issue in all of that. The way in which I had always sought to handle it was that £11.9 million had been made available for these particular mergers over two years and that money was held in a central budget, and departments were able to bid for access to those funds. There was then a scrutiny as to whether they needed all or part of what they had bid for. The scrutiny would involve asking whether they could fund this out of their existing budgets, bearing in mind what I said earlier about this being an addition, and, even if they could not fund it out of their existing budgets, whether it was a sufficient priority. So, the control on cost was a top-down budget limitation on the £11.9 million. Exhibit 5 comes out at more than £11.9 million because it covers the second wave of mergers too.

[68] **Eleanor Burnham:** So, in broad terms, do you at least know the value of the unrecorded merger costs charged to departmental budget allocations?

[69] **Sir Jon Shortridge:** The unrecorded costs would be largely staff costs. What we are dealing with here, for the most part, are people using some of their working day, working week, or working month, to help to deliver the mergers. I could consult a few people and come up with an estimate, but it would—

[70] **David Melding:** It is clearly the cost of the merger; they would have been doing something else if they were not merging.

[71] **Sir Jon Shortridge:** Absolutely. However, the commitment was clear that £11.9 million of additional funding would be made available in these two years, but that the remainder of the costs would come out of existing budgets, and there was an Assembly answer to that effect. Therefore, that is where I took my lead.

[72] **David Melding:** The next question is with you, Chris, if you are prepared—otherwise I will allow Eleanor to come in.

[73] **Chris Franks:** Is this question 7?

[74] **David Melding:** Yes.

[75] **Chris Franks:** Thank you. There was calculated to be £3.5 million-worth of savings by the end of the financial year. Are you satisfied that they are genuine savings? I am referring to paragraph 2.17.

[76] **Sir Jon Shortridge:** Yes, I am satisfied that we will get these savings. Just as I took a top-down approach to ensure that we did not go over budget in terms of the additional money that was made available, I have taken a top-down approach to ensure that the savings that are to come out of this process are just taken out of the budget—in real terms, not in cash terms, and you may want to question me about that—in advance as well. Therefore, at one level, these savings are self-delivering. However, what that means is that I cannot necessarily track all these savings back to the mergers—you may be disappointed about that. On the other hand, these savings were taken out last year, and will be taken out this year, next year, and the following year. We are talking about creating a single organisation, and it is difficult, having created a new Assembly Government, to put a label on people, or activities, and say that this is ASPBs mergers activity, because, culturally, we have to be one organisation.

[77] Therefore, I have taken a fairly robust, top-down approach to ensure that, overall, we will deliver the savings that we have committed to. I know that the auditor general will be doing some more detailed audit work, and I have other reports that are looking at the financial and non-financial benefits of the mergers. Therefore, we can identify many of the savings bottom-up as well. However, the most important thing for me is to demonstrate that we have taken out these savings, and that they have been made available for front-line services, and I am satisfied that I can do that.

[78] **Chris Franks:** I am not sure that I know what ‘top-down’ means.

[79] **Sir Jon Shortridge:** What I am saying is that we have a budget, which was a forward baseline, and I have reduced the baseline by the amount so that the savings become realised in that way, and are diverted elsewhere.

[80] **Chris Franks:** Could you mention some of the high points in the savings, where we have achieved significant savings to get to the £3.5 million?

[81] **Sir Jon Shortridge:** The £3.5 million was last year, was it not? In fact, we overachieved those savings last year pretty substantially, but not necessarily recurrently. From memory, the figure is about £11 million, which came out last year—Christine tells me that it was actually £13.6 million last year. I believe that there has been a report to a committee about that. However, as I say, these were savings that we were able to find for that year, but would not necessarily be able to have in future years. For this year, we hope to achieve £12 million, but, again, not all recurrently. A substantial amount of these savings comes from staff costs. Since the mergers—without any intervention in terms of severance payments—the net size of the Assembly Government has gone down by over 200. While, again, I cannot allocate all of that net saving to the mergers, that has to be the predominant reason for that. Therefore, that is a substantial saving.

2.10 p.m.

[82] There were savings on accommodation at Principality House. We have just emptied that, so that becomes available, and there have been IT savings and other such savings. If my memory serves me right, there are £600,000-worth of savings from ceasing to have boards running the WDA, ELWa and so on.

[83] **Chris Franks:** You say that you have achieved savings in terms of Principality House, but are those actual savings?

[84] **Sir Jon Shortridge:** They certainly will be, because we will not be paying the lease.

[85] **Chris Franks:** So, we have disposed of all the liabilities?

[86] **Sir Jon Shortridge:** We either have or are disposing of it; we certainly emptied it.

[87] **Chris Franks:** So, it is not a question of waiting to pass that on to another element of Government.

[88] **Sir Jon Shortridge:** No. We are rationalising our estate opportunistically as numbers of staff come down, but we also have to look at the break clauses in the contract as to when we determine these things.

[89] **David Melding:** I have a horribly cynical mind and I am still puzzled by the fact that you could not calculate some of the staff costs of the merger, but the staff savings can be calculated. I know that they will be ongoing and, over time, will generate very genuine

savings, but it still seems to me that we could reassure the public much better if we had had a better estimate of the costs.

[90] **Dr Daws:** Part of the reason why we have not flagged the figure here explicitly is because it is difficult to say that it is only a merger. Right at the beginning of the year, when the budgets were allocated, a top slice was taken off the admin budget specifically to allocate that money to the Finance Minister to use it on front-line services. So, we are pretty confident that we are operating within lower figures. We have put in place—paragraph 2.20 refers to it—an efficiencies project board that is working systematically to get each department to look at how it is organised.

[91] There have been two big organisational development projects in the main departments that have merged. My finance change programme will also deliver changes in that the Finance Department will have to completely reorganise. That has not happened yet. However, in terms of other departments, everyone is looking at how we do business differently now, which is generating savings, be that in not filling vacancies or whatever. Many other things are happening in the Assembly. For example, the sickness absence rate has reduced substantially, which means—

[92] **David Melding:** I am sure that this will be verified at some point, but my point is why could not an original estimate or the cost of merging have been made in a more robust fashion?

[93] **Dr Daws:** We absorb lots of extra work regularly. That is just the nature of the kind of business that we are in. Ministers ask us to do different things and we take on new initiatives. Most of the time, we absorb different things and the merger was a piece of work that was absorbed. It was clear that the only additional moneys that were allocated to this were £11.9 million, and when you have hundreds of people spending a small amount of time—

[94] **David Melding:** You could not have worked out an opportunity cost—that was just impossible.

[95] **Dr Daws:** We could have put in a system and, in some departments, we are now putting in systems where people are accounting for their day. As we start to operate in different ways, my internal audit team has started, for example, to calculate how much time we allocate to different activities and I think that the statistics department is also doing that because the nature of its business is almost to charge or apply its work to different departments. However, it is not the usual way that you would do business in that sense. I am not sure that you would suddenly pick out mergers or any other particular activity where you would start to charge time discretely. It is not at all unreasonable in our line of business not to do that.

[96] **David Melding:** The answers are clear; we may not be satisfied with them.

[97] **Eleanor Burnham:** This is political dynamite. You have obviously done your brief and you probably completed it as efficiently as possible. On the other hand, this is £3.5 million savings on an annual budget of £14 billion, when we were told that there were going to be the most sweeping savings. I am very interested in that. I shall leave it at that.

[98] **David Melding:** I do not really want to get into an assessment of the savings and their robustness at this stage. That will be examined again by the Audit Committee.

[99] **Sir Jon Shortridge:** I would not like it to be thought that we have somehow not addressed the issue. The commitment was that £10 million of recurrent savings would be

delivered by 2009, and I am saying unambiguously that I am ensuring that at least £10 million of the current savings will be delivered in 2009. I am also saying that, in 2006-07, we delivered £13.6 million, although it was not all recurrent, and I am expecting to deliver £12 million this year. We are working really hard to deliver these savings. It is not necessary or sensible for me to be dividing this organisation into two and looking at those savings that relate to the former sponsored bodies and those savings that relate to the rest. It would be divisive, and I am trying to build a single organisation. So, the most important thing is that I can assure you and the public that I see it as my job to deliver these savings; that is what I am doing.

[100] **David Melding:** I think that we will move on.

[101] **Lorraine Barrett:** I want to look at paragraph 2.26, regarding the former ASPBs experiencing a reduction in the usefulness of the management information available to them. How was the situation allowed to arise where many staff experienced a deterioration in the management information available to them, which has led to some departments opting to introduce their own local arrangements?

[102] **Sir Jon Shortridge:** This is a fair criticism. It is one of the things that we were unable to address fully. The WDA, an effective delivery organisation, had information systems to support that delivery function. The judgment was made that we could not replicate those systems across the whole of the Assembly Government at short notice; it would have been expensive, highly risky and, arguably, not nearly as necessary for the rest of the organisation. So, a short-term hit has been taken here and the report is right to draw attention to it. I have discussed it with Gareth Hall. It affects mainly his department, and he is satisfied that, when the new finance system is in, he will be able to have as good a set of financial and management information as he did before. In the short term, it is not as good and I am disappointed about that, but I do not think that we could have done much better than we did.

[103] **Lorraine Barrett:** Have these shortcomings affected the financial management of the Assembly Government?

[104] **Sir Jon Shortridge:** My main concern is about service to the customer. I think that it probably means that the economy and transport department has not had such good access to financial commitment figures as it had in the past, which feeds in to budget management. That is part of the problem. Chris might want to expand on that. I concede this point; it is one of my disappointments.

[105] **Lorraine Barrett:** How are you addressing the inconsistencies and inaccuracies that must arise when staff are using a range of different systems to hold business information?

[106] **Sir Jon Shortridge:** This is the bane of Chris's life. It is managed by individual members of staff and teams putting in place their own make-do-and-mend spreadsheets and financial systems. They have a record of what is going on in their area, but that record is not capable of being aggregated at departmental level and beyond. That is the consequence of that approach.

[107] **Dr Daws:** It took us some time, but we now have a feed into Business Objects, which was the system that the WDA already had. They had Cedar Financials. It took us some time, but it now gets a feed from our CODA system as it exists, so it has minimised some of the inaccuracies, as it were. However, the Permanent Secretary is right: one of the reasons for the finance change programme and the new system is that we want to remove all the spreadsheets that sit around the building as people use their own, individual systems.

2.20 p.m.

[108] **Lorraine Barrett:** Has that affected only internal business, or has it affected customers and other stakeholders?

[109] **Sir Jon Shortridge:** This report talks largely about internal business, but I think that, if Gareth Hall were here, he would say that his department has some difficulty joining up the information that it receives from customers. It does not have as good a system for managing customer relations as it would like. So, we need further developments to improve that; I do not want to overstate the issue, but I would not want to mislead the committee by suggesting that everything is fine.

[110] **Lorraine Barrett:** When do you think it will be fine?

[111] **Sir Jon Shortridge:** I really will have to give you a note on that, because it is Gareth Hall's business, and I do not know exactly what his plans are.

[112] **David Melding:** We would appreciate a note. Thank you.

[113] **Eleanor Burnham:** I understand that the Assembly Government was some 10 months late in preparing its restated opening balance sheet for 1 April 2006. I was just wondering if there was an underlying reason or rationale for that.

[114] **Sir Jon Shortridge:** As this report indicates, we had greater difficulties than we had anticipated in establishing the balance sheet for the new organisation. There is a complicated set of reasons for that, but the intention was that the balance sheet would be established by around October, by which time it was hoped that the transactions inherited from the sponsored bodies would have been largely completed and resolved, so that it would be possible to define the balance sheet much more clearly. That proved not to be the case for a number of reasons. First, the hope and intention was that financial staff from the former sponsored bodies would continue to look after their closing accounts, but, understandably, they were looking for new jobs, so we did not quite have the capacity that we would have liked. Secondly, we found that there was a lot of dead wood—that is my term; I am not an accountant—within these balances that were coming across, and they required a lot of management time to resolve. That had not been anticipated. Thirdly, in terms of establishing the new balance sheet, there were other transfers of function that had to be accommodated; I think that they are referred to in paragraph 3.5. We did not get all of the information that we needed from some of these other organisations until much later. So, it was a difficult and complicated accounting exercise, which is fairly reported here—some things could have been better anticipated, but circumstances made this more difficult than we could have imagined. Chris might like to give a more technical answer.

[115] **Eleanor Burnham:** While you are thinking about these things, what corrective actions did you take to manage these problems? Why were those actions apparently ineffective? Perhaps you do not agree that they were, but that is my follow-on question.

[116] **Dr Daws:** To say that the balance sheet was 10 months late is very stark, but not every element was 10 months late. As Sir Jon was saying, the merger of the main organisations was planned, and yes, they were late—they were probably six months late—and then there were another four or five bodies that had to be merged, and we had to work on their opening balances. So, we suddenly found that we had to deal with the Countryside Council for Wales, student loans, Health Professions Wales and the rail franchise. You could ask why those were not planned upfront, but to be honest, we wanted to do the big ones first. With hindsight, I would certainly say that it took an awful lot longer than we anticipated and, perhaps, more work should have been done on getting the organisations that were merging in to address and clean out some of the dead wood, as it were. There were a lot of bad debts that

had not been written off, which had been there for many years, and the accounts were not in as tidy a shape as the team would have expected when they came to put them in.

[117] **Eleanor Burnham:** In looking at paragraphs 2.23 to 2.25, do you believe that the problems with the opening balance sheets arose because of the decision not to overhaul the Assembly Government's financial coding structure prior to the merger?

[118] **Dr Daws:** No, that is not the only reason. It is a judgment call, is it not? Hindsight is a wonderful thing. In many ways, it made an awful lot more sense to change the charter of accounts when we had a new system, and to do it now. It was not my decision at that time, so it is very difficult for me to assess what would have been, but it is understandable why a decision was taken to leave it until we had a new system.

[119] **Sir Jon Shortridge:** The basic approach, as I understand it, was that it would have been resource intensive and quite risky to create an automated way of transferring the balances. I have been told that it may not have added anything in terms of speed and accuracy. So, the decision was made not to take the automated route, but to take the more manual route. That was coupled with the idea that the ASPBs should clear their own balances so that there would be much less that would need to be transferred into our opening balance. That was the strategy, which was quite a coherent strategy. There was more left on the ASPB balances than we had anticipated, because of some of the problems that we found in terms of the inheritance.

[120] **Lorraine Barrett:** I am looking at paragraphs 3.7 to 3.10 in the auditor general's report. Given the importance to the Assembly Government of the newly introduced month nine 'soft close', why did the department provide information that was generally of poor quality?

[121] **Sir Jon Shortridge:** On the 'soft close' itself, it was not something that we were required to do, it was something that we chose to do, but in consultation with the WAO. It is certainly good practice to be able to clear a lot of the ground at month nine in order to facilitate the faster closing of accounts. This was the first time that we had done it. My strategic assessment of it—because I do not get involved in the operational detail—is that we could and should have communicated better to the people who we were relying on to provide us with that information why it was so crucially important. They had not had to do it before and it was a new burden for them.

[122] In any case, our systems are not as good as they should be, so it was not easy to produce the data at the drop of a hat. For me, those are the two learning messages that I have taken from that. The systems point feeds in, yet again, why we need and why we are getting a new finance system. We have taken lots of lessons from that exercise. It was not a complete failure; it was disappointing in that it did not go better, but it has to be part of the reason why we completed these much more complex accounts a week earlier than in the year before. You should not regard it as a complete failure, but the report is right to criticise it. Chris may want to amplify what I have said.

[123] **Dr Daws:** We may pick up on some of these issues when we talk about the change programme, which I presume we will get to at the end. One thing that is quite clear is that, within each department that has a sub-accounting officer, there are not always skilled finance people who actually understand some of the information that we are requesting. One of the things that we have had to do, and one of the lessons that we learned as a consequence, is that we need to spend time with the teams that are providing the information. If you think about it, we have almost six or seven Government departments within the Welsh Assembly Government, all of which we are trying to collect information from. If they do not have someone sitting there whom I would call a head of finance, who understands when we ask,

‘What are your accruals and fixed assets, and can you give us that information?’, someone who understands their bit of the balance sheet, then it is really difficult.

[124] One big lesson for me from the change programme is ensuring that we get a nominated head of finance, and almost set up a devolved structure, so that we have people in the business who really understand when we talk to them about some of these things.

2.30 p.m.

[125] For month 12, as a consequence of the month 9 soft-close process not working well, we spent time and went into the business to talk to them about the sorts of information that we needed—what a contingent liability meant, what the provisions were, and what information we were looking for. That is what we have to do this year. We are running a smaller month 9 soft-close process this time, and are being more restrictive—quite apart from the fact that we have a lot on, because we have the finance change programme going on.

[126] Looking at the skills that we have across the business as well as the systems is a key element. In future, we would expect every month to be a close-down. So, it would not just be a big close down at month 12, or even at month 9; every month will look much more like it would in another business. However, the nature of what the Assembly has been doing over the past few years has changed very much, and so, moving forward, this has to be the right way forward.

[127] **Lorraine Barrett:** I am given to understand that many Whitehall departments have implemented soft closes successfully for several years. Is there any good practice there that you would import into your systems?

[128] **Dr Daws:** We have met with the Department for Business, Enterprise and Regulatory Reform, as that was one of the departments that looked more like us and which had achieved a successful soft close. However, with the new finance system, we will also be learning lessons from how it has used its new systems, and about things that have happened, so we have been in contact through reference site visits, and have also learned lessons on that.

[129] **Chris Franks:** Referring to paragraphs 3.11 to 3.14, you will be aware of the concern expressed regarding the monthly bank reconciliations, and the failure to keep them up to date for the 2006-07 financial year. Can you explain why we experienced such serious delays in completing the monitoring of the reconciliations in that financial year?

[130] **Sir Jon Shortridge:** The explanation that I have received is that a risk-based judgment was made by the people concerned as to whether they should devote more time and energy to processing these journal vouchers—the payments that we were talking about earlier—to address that backlog that was needed for the accounts, or to go with the bank reconciliations. The judgment was taken to defer work on the bank reconciliations. I was not consulted on that judgment, and nor was it one that I agreed with, when I found out about it. However, I respected that a conscious judgment was made by staff who were having to prioritise what was most important at the time.

[131] **Dr Daws:** Furthermore, the volume of journals was huge, as you will see if you look at the graph of the numbers. Most of them came in through what was the Department for Enterprise, Innovation and Networks, which is now the Department for the Economy and Transport, and which was the Welsh Development Agency prior to the merger, whose business was very different from ours. There were all sorts of issues around how things were coded, and we suddenly found ourselves flooded with numbers that you could not have anticipated in terms of the transactions. To address that, we have allowed the department access to the ledgers, so that it can feed into them and do some of this work itself, as a sort of

stop-gap measure, so that we do not experience the same problems at the next year end. As part of the change programme, we have also started to look at how these kinds of processes are operating, which are not system-dependent, and bank recs are now done in a more timely way than they were even before that particular blip.

[132] **Chris Franks:** So, if I understand your answer, you were not aware of this failure as it was ongoing, and, when you became aware of it, you were alarmed at the situation—and sorry if I am putting words in your mouth. I must say that I would be concerned, because we did not know what state we were in, financially. Is that a fair statement if you are not reconciling every month?

[133] **Sir Jon Shortridge:** I think that that is an overstatement.

[134] **Chris Franks:** Am I going too far?

[135] **Sir Jon Shortridge:** We have other controls in place to safeguard against fraud and to make sure that no cheques are paid that have not already been pre-authenticated with the bank. So, we have a reasonable idea of the position, and we have systems in place for cash draw-down so that we do not draw down more cash than we should. However, I was very annoyed when I found out about this, and I wanted the matter to be put right very quickly—but, again, in a proportionate way. If I had seen it as you have just expressed it, I would have taken different action. What I said was that I wanted all of these reconciliations to be in place by the autumn. I am pleased to be able to tell you that, for October and November, we were three days within the deadlines for reconciliation, which, given all of the other pressures on the staff concerned, seemed to be the appropriate reaction from me as accounting officer, to make sure that the risks associated with this were managed out of the system within a reasonable time.

[136] **Chris Franks:** Was the Treasury happy with the situation?

[137] **Sir Jon Shortridge:** I have no idea whether the Treasury was told about it or not. As far as I am concerned, this was a financial management issue for us.

[138] **David Melding:** You had to go to the Treasury to draw down more funds, did you not?

[139] **Sir Jon Shortridge:** We always draw down our funds every month, and the Treasury likes to incentivise us not to draw down more funds than we need because, if we do, the Treasury loses interest. We have a comparatively good record of not over-drawing down funds. I do not think that we were causing the Treasury any concern over this. We manage our cash remarkably well in the circumstances, given that we do not yet have the modern finance system that we need.

[140] **David Melding:** I think that we have established the evidence.

[141] **Eleanor Burnham:** It is very surprising. There was a two-year run-in into this measure. What do you think are the key lessons that you have learned from the problems that you encountered in the preparation of the 2006-07 resource account; and are you currently on course to meet the challenges and timescales of the 2007-08 accounts? Furthermore, do you believe that you now have the most appropriately qualified and experienced financial staff in place?

[142] **Sir Jon Shortridge:** There are lessons for me and operational lessons for the accountants to learn. I think that Chris may want to share some of the operational lessons with you. I think that the main lesson for me was that we have now grown to the point at which we

have passed the tipping point in terms of the incremental changes and improvements to the old and more conventional systems that we had to prepare our accounts, which is why we have to have this new finance system. Therefore, the big message for me—not that I really needed it, but it confirmed matters for me—was that we have to overhaul our systems totally. As a result of that, we are putting this new finance system in place as quickly as we can. There are risks associated with trying to get it sufficiently in place for April 2008, but that is what we are doing. As a result of that, sadly, next year will be what I describe as a transitional year. We will continue to have difficulties in the preparation of our accounts next year, but that is my main message.

[143] Before Chris comes in, I want to put this into context. This is not all doom and gloom. I think that what we managed to do in difficult circumstances and with the assistance of the Wales Audit Office was, in a way, fairly remarkable. The accounts that we have produced this time as a result of the mergers are 40 per cent longer, which is mainly because of additional disclosures, commentary, details about pensions, accounting policies, and assets and liabilities.

2.40 a.m.

[144] There is a lot more that we had to bring to account and report on. For example, £870 million of additional expenditure was brought to account as a result of the mergers. In previous years, that would have just been a few lines of grant in aid in the accounts, but now, we have to unpack all of that. So, we produced much larger and more complex accounts against the background of difficulties that we have been talking about one week faster than we did in the previous year with smaller accounts, and we completed our accounts, I think, a month before the Scottish Executive, as it then was, and substantially before the last of the Northern Ireland Executive accounts were settled. It is important that we get this into balance for my staff's sake, because they worked hard and achieved a lot in difficult circumstances. Chris can now give you any operational lessons that she thinks needed to be learned.

[145] **Dr Daws:** I am wary of saying that the 2007-08 accounts will go perfectly smoothly, because, as Sir Jon said, we are still using the existing system and I speak as a cautious finance director. Accountants are cautious by nature, anyway. Putting in the new systems will introduce an extra risk to the timetable, because I have only so many skilled staff, and that was one of the questions that you asked. We have a number of very good staff, but we do not have unlimited numbers. I am managing that risk. We have a risk register that highlights what the risks are, and we have a strict management process in place to look at that, but the unexpected happens.

[146] On what we were talking about earlier—I have found my graph now—we went from having 3,000 journals in one month to having 9,000 journals the next. No-one would have expected that; that was to do with how people had coded things and then needing to recode them. We could never have anticipated that. However, we have now given them a feed, and we are trying to get the Department for the Economy and Transport to do its own work on that. On how we handled the accounts in the end, with the month 9 soft close and month 12, although there were some delays, there is no doubt that we have learned lessons. We have learned lessons about being more realistic with our project plan. Fortunately, we have no more opening balance sheets to sort out, but, as I said, there are different challenges. There are challenges every year, not least of which is a lot of staff being diverted to the new systems.

[147] **Eleanor Burnham:** I am still not totally sure and clear in my mind—and I ask this because I am not an accountant—as to why more realistic assessment and planning, project management or whatever could not have kicked in prior to the merger if you have such a high level of expertise. In political terms, this is absolute dynamite. For about three years, with

enormous amounts of adversarial comments about the whole political—

[148] **Dr Daws:** I do not quite understand what you are criticising, because, in terms of my outcomes, we achieved closure of the accounts, which were unqualified, a week earlier than the previous year, with masses and masses of extra work.

[149] **David Melding:** To go back to the balance question again, we realise that, inevitably, we are concentrating on the things that did not go perfectly. We are mature people, and we realise that that gives us a slightly distorted picture, and we will rebalance it when we consider the evidence. However, going from 3,000 to 9,000 journals, or whatever they are called, the layman would have expected you to anticipate something like that, because you would be dealing with a change of system. Is that not one of the risks that perhaps could have been better anticipated?

[150] **Dr Daws:** I am not trying to pass the buck, but it is difficult for me to know, because I was not in post at the time when that planning went on. However, effectively, a lot of this was to do with understanding the nature of some of the journals, which relates to the fact that the code structure had not been sorted—and you could argue that some of that should have been done—but perhaps some of that and what was going to happen at year end did not become apparent until ASPB staff were working in the Assembly, coding things and then having to readjust the codes at year end. I am not sure that we are being fair in saying that that could have been anticipated, and that is what that particular workload was.

[151] **Sir Jon Shortridge:** From my perspective, when I learnt about it, I was surprised by the scale of it, so I think that, in one sense, I am agreeing with you. In terms of lessons learnt, it will be important for us to do what we can to anticipate the peak of work facing us over the next four months, so that we have taken that learning and applied it back into the system. I would be prepared, without knowing the detail, to concede that it is disappointing that we had not got better on top of this, but it does have to be seen in the context of the huge scale of what we had to do at the time.

[152] **Chris Franks:** I am going to refer to part 4, and specifically to paragraphs 4.1 to 4.7. What do you see as being the main deficiencies in the Government's financial management system that led you to endorse the business case for the new corporate finance change programme?

[153] **Sir Jon Shortridge:** I may just pass you straight over to Chris, but, by way of context, as I think I implied earlier, I was becoming increasingly dissatisfied with the systems which, despite our incrementally improving them, needed to be transformed. As a part of that, some staff changes were in train anyway, but I decided that I wanted to have a fully financially qualified finance director, and that led to Chris's appointment in September 2006. So, I was very clear that we had become a much bigger and more dynamic organisation, and one that is much less internally focused and much more externally focused, and that we did not have systems that were fit for that purpose. That was the background.

[154] In this afternoon's discussion, I think that you have picked on areas where our existing arrangements were tested to near destruction, and that, sort of, confirmed the view that we could not carry on like this. It is for that reason that I have been giving the strongest possible support to Chris in developing her approach and ideas on the new system that we should put in place—we have appointed the suppliers and we are getting on with it.

[155] That is the strategic background, but Chris may want to give you more of an accountant's-eye view of the issue.

[156] **Dr Daws:** We have talked a lot about the systems. There is no doubt that one of the

weaknesses is the system. At the moment, it is not integrated, and it does not provide us with an accrual accounting basis on which to receive management information on a monthly basis. We do not really have the one version of the truth that you alluded to in some parts of the business, because people are creating their own spreadsheets. Something quite compelling, as well as having better and more timely decision making, would be to have one version of the truth within the organisation. However, the business case is compelling in the sense that there is a pay-back period of about three or four years, and we could do the business of finance much more cost-effectively with a new system and with much better processes and procedures. It is not just about the IT, however, as it is also about a cultural change and getting people to look at doing finance in a different way. So, one of the things that we will be looking to do, as I say, is to have monthly reporting and a month-end close-down, almost, in each department. We now need to try to work through what is a huge change programme, to be honest, with the staff, for them to understand what is needed and how we handle that.

[157] **Chris Franks:** I think that you have answered the question that I was about to ask, but I will ask it anyway, just in case you want to amplify anything. Why did you not change the systems earlier?

2.50 p.m.

[158] **Sir Jon Shortridge:** This is all about not doubling up on risk. If we had not had the mergers intervening, I might well have moved more quickly. However, once the mergers came, we took the view that you needed, with all of this change, to maximise the stability that you could have. So, a conscious decision was to move all of the sponsored bodies onto our slightly out-of-date CODA system, because that was what we were familiar with as an organisation and that is what most of our financial accounts would be drawing upon. That was the way to minimise the risk, given all of the other risks that still we had to manage through the mergers process. I think that the report, somewhere—perhaps it is overstating it to say that it commends it—acknowledges that that was an appropriate thing to be doing. So, that was why we said, ‘Do not double up on the risk, but now that we are through it, move as quickly as you can to get to the new system’. I am hopeful that we will have completed phase 1 of the system in time for April 2008, so that we will be in a better position than we were in April 2007. However, I repeat that I think that the 2007-08 accounts will be a transition to the new arrangements, and I think that when you come to scrutinise the 2008-09 accounts, we will be in a much better position than we were in last year.

[159] **David Melding:** To be direct, many departments in Whitehall did this work in 1999-2000, and they are now delivering their accounts before the summer recess. You have compared our performance with that of the other devolved executives, and the comparisons there are better, but would it not have been better if we had shifted much earlier before the mergers were on the horizon?

[160] **Sir Jon Shortridge:** Perhaps, with the benefit of hindsight. I would much prefer to be sitting before you today talking about the mergers having taken place on the sort of ERP system that we are introducing. However, we have to continue to get it into context that, even with all of the difficulties, we have not done that badly. I think that faster closing is important, but I think that the world for whom you produce faster and better accounts has not actually caught up yet with the opportunities that they present. The Treasury does not, as far as I am aware, publish the whole of the Government’s accounts or the consolidated accounts, and it is setting the deadlines for it. So, with all of these other risks that I am managing, I am measuring what is the reputational consequence of my not going any faster, when I also have to deliver other things. So, I would much prefer it, with the benefit of hindsight, that we had moved more quickly, but I would not like it to be a conclusion of this committee that it has been seriously damaging that we have not yet done so.

[161] **Lorraine Barrett:** At the end of the auditor general's report, he sets out several vital actions that the Assembly Government should be taking. How are you addressing the action points in paragraph 4.7?

[162] **Sir Jon Shortridge:** Risk management is our business, and Chris will have her risk register for the finance change programme. I have strong governance arrangements around all the change programmes that are in place, analogous to the governance arrangements that I had for the mergers. Senior management and stakeholder support is very important, and I would like to think that there is strong senior management support. I have shared my support for this project with you during the course of this afternoon. Chris is well aware of the need to work closely with the departments, because, as she has said, this is a change programme and, therefore, it is a training and development programme as well. Putting in the finance system is actually the easy bit. So, instilling an appreciation of the importance of robust financial management is part of the training and development process that needs to go along in parallel with the introduction of the system.

[163] The last point goes wider than the finance change programme. That is what I am trying to do throughout the organisation, in that we must improve, develop and understand how everyone in the organisation has a responsibility week after week to provide a better service to Ministers and the citizens of Wales, who effectively pay our salaries. So, in general terms, I am fully supportive of this, and it is pretty much a statement of what I am trying to do in any case. Chris is closer to it in terms of what she is doing as the senior responsible owner for this programme, and she may want to add something.

[164] **Dr Daws:** I would just say that there are some big risks with this. The timetable is a big risk for us; we have broken the programme down to three phases, and we are trying to limit what we must have in place for 1 April 2008, so we are limiting it to the ledger, accounts payable and accounts receivable and the monthly reporting package. Phase 2 will extend into e-procurement and integrated planning and budgeting, which will be of huge benefit to the organisation. Phase 3 will include tidying up, and there will then be a question of how we will roll out the further powerful tool that we have purchased, which is SAP, and then put in HR and CRM systems and genuinely use the business tools that you can to become a very integrated department in that sense. However, the April timetable for phase 1 is very tight—it is probably tighter than most people would want. We literally signed up with the partners on 6 November, they arrived on 12 November, the blueprint design will be by Monday, and the ledger will be in on 1 April. So, you should not be in any doubt that we are throwing a massive amount of resource internally at this, as all the skills that we have and our best people are working on it.

[165] It is a big change programme, and cultural change and change in the organisation is the other big risk. What we have is a separate stream of work that is specifically looking at change management. I have been able to employ someone who worked as the lead on one of the other big projects in the Welsh Assembly Government, which was the public sector broadband aggregation project. So, this is someone who has lots of experience to help me to lead what is a separate stream of work looking at change, and that will hopefully overcome some of the risks in that area. One of the other risks is the number of people who have the skills and the resources to help us. It is a big programme and the most difficult thing has been finding the right people with the right skills, and that has, in part, contributed to the timetable issues.

[166] The fourth issue is IT and ensuring that we have contingency plans wherever we can in terms of the security of the systems on which this will sit. I know that the Audit Committee has looked at the IT systems within the Assembly Government in the past, and one of the things of which I am confident is that we have enough contingency plans around that, and, by coincidence, we received an assurance this morning from a senior supplier from Siemens and

from within the Assembly Government that we are on a robust platform for this. So, we have a very active risk register and it is being done under a full PRINCE project structure, but it must be actively managed. This is one of my biggest priorities for what I believe will be 18 months, to get the three phases of the finance system in.

[167] **Lorraine Barrett:** Since the approval of the outline business case in July, have you or your officials identified any barriers or weaknesses in the case's main assumptions and key principles?

[168] **Dr Daws:** One of the biggest issues that we now face is the benefits realisation, because, as I identified, some savings should come from this. We have those in the business case at a summary level. What I now need is almost a contract with each of my fellow directors, because not all the benefits come from central finance. I will need to restructure my team, but we need to invest in the finance skills within the local departments and also look to rationalise the way in which some of the departments are organised. So, that is one of the things that will change as we work through this. Some departments have already been restructured as part of their own organisational development projects since we baselined the finance system. So, that work has to be done. As Sir Jon was saying, there is quite a lot of change within the organisation. The biggest risk is whether the organisation has the capacity to maintain all the changes that need to happen.

3.00 p.m.

[169] **Eleanor Burnham:** Are you of the view that this will benefit Wales?

[170] **Sir Jon Shortridge:** It will certainly do so indirectly. It should ensure that we spend less money on maintaining our finance systems and producing our accounts, which means that more money can be made available to front-line services. The financial management information available to us will mean that we will have a better understanding of commitments, and, therefore, we will be better able to manage budgets and make decisions on when we can commit further expenditure. It should mean that we can improve even more on our wider budgetary management so that we can push even nearer to spending all of our budget but not more than we have. So, there will be real benefits from having an Assembly Government that has financial management systems that are significantly better than the ones that we currently have.

[171] **Dr Daws:** The only reason why I have been able to recruit my top two people is because they are doing their jobs because they want to make a big difference for Wales.

[172] **David Melding:** Transparent accounts will improve scrutiny, which means that we may have even more candid sessions with you or your successors in future years. I wish to thank you both. It was an exacting session, but we got the evidence that we needed. I can assure you that we will now put that in context. We are fully aware of the pace of real-life events, if I can put it that way. A transcript will be sent to you so that you can correct any inaccuracies. I think that you have agreed to provide three notes, and the secretariat will be in touch with regard to those. We look forward to that further information. Thank you very much.

3.02 p.m.

Cofnodion y Cyfarfod Blaenorol Minutes of the Previous Meeting

[173] **David Melding:** Are we content to agree the minutes of the previous meeting, held on 22 November? I see that we are.

[174] Before I seek a motion to take us into a private session, I wish to note that we will have a new clerking team in the new year. I know that you will wish to join me in paying tribute to Kathryn Jenkins, who has been ably assisted by Dan Collier. In our first proper session, I do not think that we could have been better served. Certainly, Kath's experience has been a great asset to me and the whole committee. We wish you well and thank you for your service.

[175] **Chris Franks:** As a new boy, I also wish to thank the secretariat. I have been guided when I have needed guidance. Thank you very much.

[176] **Eleanor Burnham:** I have returned to the Audit Committee, having not been a member for some time. Thank you.

3.03 p.m.

Cynnig Trefniadol Procedural Motion

[177] **David Melding:** I invite a Member to propose a motion for us to go into private session.

[178] **Eleanor Burnham:** I propose that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

[179] **David Melding:** I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion carried.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 3.03 p.m.
The public part of the meeting ended at 3.03 p.m.*