



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

**Y Pwyllgor Archwilio
The Audit Committee**

**Dydd Iau, 23 Hydref 2008
Thursday, 23 October 2008**

Cynnwys
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Procedural Motion

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
Janice Gregory	Llafur Labour
Irene James	Llafur Labour
Bethan Jenkins	Plaid Cymru The Party of Wales
David Melding	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Darren Millar	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Gillian Body	Swyddfa Archwilio Cymru Wales Audit Office
Jeremy Colman	Archwilydd Cyffredinol Cymru Auditor General for Wales
Anthony Snow	Swyddfa Archwilio Cymru Wales Audit Office

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

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 2.09 p.m.
The meeting began at 2.09 p.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **David Melding:** Good afternoon. I welcome everyone to this meeting of the Audit Committee. We have had slight technical difficulties that have delayed our start a little.

[2] I will make the usual housekeeping announcements. These proceedings can be conducted in English and Welsh; when Welsh is spoken, a translation is available on channel 1 on the headset. Should anyone be hard of hearing, you can amplify the proceedings on channel 0. Please switch off all electronic equipment completely, which means not leaving it in silent or rest modes, because that can interfere with our electronic equipment. We do not anticipate a routine fire alarm, so if we should hear one, please take it seriously and follow the instructions of the ushers to leave the building safely. I will also announce that we have

received apologies from Lesley Griffiths and Huw Lewis. There are no substitutions.

2.10 p.m.

**Archwilydd Cyffredinol Cymru: Amcangyfrif a Phortffolio Gwerth am Arian
Auditor General for Wales: Estimate and Value for Money Portfolio**

[3] **David Melding:** Jeremy Colman, the Auditor General for Wales, is here to introduce the accounts for income and expenditure for the Wales Audit Office for the year ending 31 March 2010 and the work available for consideration by our committee through to July 2009 and beyond.

[4] Jeremy, will you please state who you are for the Record and then introduce the item, which will be followed by questions?

[5] **Mr Colman:** I am Jeremy Colman and I am the Auditor General for Wales. I will say two things by way of introduction—one about each of the papers. As regards the rather lengthily titled ‘Work available for consideration by the Audit Committee through to July 2009 and beyond’, instead of presenting you, as has been the practice in some years, with rather long lists of things that we are thinking of doing at some point in the future that would, therefore, come to the committee in two, three or more years’ time, I thought it would be more constructive to consult the committee about our future work on the basis of information on what is in the pipeline and what is coming to you over the next year or so. Many of those items reflect points that you or your predecessors have made to me. The purpose of this paper is primarily to consult you about the way that I carry out these duties, so it is good to know whether there are things that you think I should be looking at that are not on the list or whether there is something on the list that should not be. So, this is a kind of consultation.

[6] The ‘Estimate of the Income and Expenditure of the Wales Audit Office for the year ending 31 March 2010’ paper is definitely not a consultation, but there is a task for the committee to scrutinise the estimate and lay it or amend it if you wish after having consulted me. The only thing that I would say by way of introduction is that the basis of this estimate is broadly a continuation of activity at the same level as in the current year. It does not imply, therefore, any cuts or any expansion. In working out what the financial consequences of that should be, we have taken account of forecast efficiency savings, and the paper states what our record so far on efficiency savings has been. We also need to take account in the current climate of the need to be particularly economical and so the figure that I have gone for is pretty much the lowest that I consider consistent with continuing a stable level of activity. The efficiency savings described in this paper have been audited by the same process that we have applied when we have audited efficiency savings in other public bodies in Wales. Therefore, these are not claimed savings—these are audited savings. Not every figure quoted by every other public body has that status.

[7] **David Melding:** Thank you, Jeremy. Anthony, will you introduce yourself for the Record?

[8] **Mr Snow:** I am Anthony Snow and I am the chief operating officer of the Wales Audit Office.

[9] **David Melding:** Thank you very much. We will start with the budget and then scrutinise you on that, because, as you rightly say—[*Inaudible.*]—and then move on to look at the work programme, so that we can give you some of our thoughts on that.

[10] First, let us turn to the estimate for 2009-10. Lorraine, do you wish to start?

[11] **Lorraine Barrett:** Thank you—[*Inaudible.*]

[12] **David Melding:** I am sorry; I must suspend proceedings temporarily, because we have technical problems.

*Gohiriwyd y cyfarfod rhwng 2.14 p.m. a 2.25 p.m.
The meeting adjourned between 2.14 p.m. and 2.25 p.m.*

[13] **David Melding:** I apologise to everyone for the technical difficulties that we are having. We have moved to another committee room and we hope that we will be able to proceed without interruption. I am afraid that the fault occurred as Anthony was introducing himself for the record, so I ask him to do that again.

[14] **Mr Snow:** I am Anthony Snow, chief operating officer of the Wales Audit Office.

[15] **David Melding:** Thank you. I apologise to our witnesses, who are at least familiar with our work and proceedings and who have perhaps not been as unsettled as other witnesses might have been in having this experience. We will now move to the examination of the budget.

[16] **Lorraine Barrett:** I am looking at table 3 on page 13 of the estimate booklet. I am interested in some of the costs and I would like some clarification. Under the heading ‘expenditure, staff costs and related costs’, £15.7 million seems to be an awful lot of money. What are ‘related costs’? I do not know whether you can tell us today about the staff breakdown, namely how many staff there are and what types of grades they are—whether they are managerial grades and that type of thing? The other figure was ‘corporate services’, but what are corporate services as far as you are concerned?

[17] **Mr Colman:** The reason that the largest single item for expenditure in the estimate is staff and related costs is straightforward—our activity is professional services, which are provided primarily through staff that are directly employed by me but also, as you can see from the next line down, by appointed auditors from firms. So, you should always expect the bulk of our expense to relate to staff. As to numbers, we operate a flexible arrangement with staff, so we have staff on many varieties of flexible terms, such as part-time, term-time and, in some cases, we have flexible contracts with people who are effectively on-call and are happy to be called upon when they are needed. I mention that because it is not straightforward to say how many of them there are. The full-time equivalent is somewhere in the region of 280 staff, but the number of individuals is a higher figure and a floating figure. ‘Related costs’ are not simply salaries, and perhaps I should say directly that there is an assumption in the figure about increases in pay rates, but that that is not simply a so-much-per-head figure that will increase by such and such a percentage.

[18] **Lorraine Barrett:** You mentioned the fees payable to appointed auditors, and you mentioned consultants. Some of us have concerns that local authorities tend to use consultants a great deal. Is it more cost-effective to use consultants than to have your own staff on hand? What is the ratio of using consultants to your own staff?

[19] **Mr Colman:** The use that we make of consultants is primarily in delivering the work that we do. We have quite a small expenditure on consultants who advise us on matters. They are such people as experts in a particular subject and they are brought into the team for that reason.

2.30 p.m.

[20] We procure the firms that we use through the proper legal processes, and we

negotiated new contracts with them last year—or was it this year? The process took a long time, but we renegotiated those contracts quite recently. The competition was based on a combination of quality and price. It was evident to us from the bids that the firms were taking pricing issues very seriously, and we are happy with the prices that we pay, certainly in comparison with what we have paid previously, which were not themselves unreasonable prices, so we have done quite well there. Almost all the expenditure in that line is related to delivering our audit work, and we use the consultants and other audit staff from the contracted firms only when we are satisfied that doing so provides value for money. We do not have a target for using consultants to a certain extent, for example.

[21] **Lorraine Barrett:** I have a short question on equal pay, which is also a hot topic in local authorities currently. How does that affect your organisation?

[22] **Mr Colman:** It is a live issue in the right sense rather than the wrong sense. As I told the committee last year, we have launched a job-evaluation exercise, which is, as you will all know, a long and elaborate process. We needed to do it, because we were the result of a merger of two organisations that had different pay regimes. At all stages in this process, we have been acutely sensitive to the need to comply with all the legal obligations that fall on an employer with regard to pay, so the job-evaluation scheme was independently validated from that point of view. We now have points for almost all the roles in the organisation, and we are in negotiation with the two unions that represent the majority of our staff as to the pay and reward regime that will follow. Some months ago, those negotiations reached the point at which we presented our proposals to the unions, having taken extensive advice on our compliance with equalities legislation. The unions have only recently come back with counterproposals. In fact, it was last week. So, the negotiation has yet to come to reconcile the differences between those two proposals, where we can.

[23] There is no evidence at all of there being a major issue with our existing system, but it has to change because we have two systems. So, as we bring them into a single system, we need assurance that that will be compliant. We have done everything that we can think of to ensure that. I have no doubt that the negotiations with the unions will help to reassure them that everything possible has been done. I do not think that it is a big issue for us; I do not diminish the fact that it is a big issue for us to have the negotiation, but the underlying problem to which you allude is under control.

[24] **Darren Millar:** There was a significant increase in your budget proposal last year to the tune of about 14 per cent. How is your actual expenditure matching up with the proposed expenditure in the current financial year? Is it in line with expectations or not?

[25] **Mr Colman:** Expenditure is very much in line with expectations. The reason I asked for a particularly large increase last year was because I envisaged that the new constitutional arrangements would give rise to more work, and I felt that the increase would provide scope for us to do work on good practice, work at short notice and cross-cutting work that would otherwise be difficult to finance. All four of those things have occurred.

[26] In addition to providing reports for this committee, which now meets twice as frequently as it did previously, we have been asked to give evidence to other Assembly committees. Actually, there has been rather less of that than I had expected, but, on the other hand, we have had an unexpected demand on our staff for work in connection with the restructuring of the NHS. We are represented as observers in the programme management framework that has been set up, and that involves between 15 and 20 of my staff, which is a considerable commitment of time. The reason I think it appropriate to do that is because, when a major change is being made to an important part of the Welsh public service, I do not think it appropriate for the auditors to stand back with their arms crossed and say, 'You get on with it, and, in two years' time, we will come along and tell you whether it was okay'. So, we

are there observing. We obviously cannot steer in any way at all, but so far the role has been one of posing questions, such as 'Have you thought about this, or that?', and I believe that that has been helpful.

[27] You asked a straight question about the money, and the expenditure is where we expected it to be. Primarily, it is on staff costs, as I explained in my answer to the earlier question, so there have been no surprises there. As I said in my introductory remarks, I assume that we will continue at the same sort of level of activity and frame the budget on that basis.

[28] **Darren Millar:** You say that the changes brought about by the new constitutional arrangements have actually meant less work than you had anticipated, but that that work has been replaced with the work on the NHS—

[29] **Mr Colman:** I had not foreseen that this committee would double the number of meetings that it holds, and so that is a very big demand, and I had expected other committees to ask for more from us than they have done. The word 'demand' can sound a bit rude, but the demands from this committee far outweigh the volume of work that I expected from the others. So, the total work in support of the Assembly is more than I was expecting. The work on the NHS is an example of the need for the flexibility in our budgets to respond to sudden needs. We could not have planned that, but it was very important, in my view, to do our best while acting appropriately to support those major changes.

[30] **Darren Millar:** Before I move on to the premises costs, I want to ask you about staff costs. There is a lot of pay restraint in the public sector in Wales at the moment, and the tight financial settlements mean that that is very important to ensure. You seem to suggest that, within the proposals before us, there might be what some people would regard to be significant extra resources over and above the sorts of increases that other public sector staff might be getting. There is about 3.8 per cent, with additional bits for childcare and other costs. You also made reference to some efficiency savings on the pension side of things, of around £120,000, as stated in the report. Do you think it appropriate for that level of increase to be given, given the restraint being shown elsewhere in the public sector?

[31] **Mr Colman:** The figures here do not translate directly into a rate of pay increase.

[32] **Darren Millar:** So, what rate of pay increase are you anticipating?

2.40 p.m.

[33] **Mr Colman:** You will understand that the pay increase for next April will be the result of the negotiation with our unions. I would not want to say too much about what my bottom line might be in those negotiations. As regards our own staff, we are in the market for staff, to some extent, and they are predominantly professionally qualified, and predominantly accountants. What the market for accountants will look like next year is an interesting question. It is not obvious what it will be. For pay rises, we have assumed nothing out of the ordinary, and that has been our practice certainly since I have been in post. I know that sometimes people object to the term 'the going rate', but that is typically what we would hope to settle for. There are some other costs associated with pay, the related costs element, which are to do with the implementation of the job evaluation and the consequent pay restructuring. This budget is based on the assumption that they can be contained within a reasonable overall cost. So, I am not asking for anything exceptional. I would expect our pay to continue to move in line with public service pay generally while allowing some flexibility in individual cases as a result of the job evaluation. Are you happy with that answer?

[34] **Darren Millar:** Yes.

[35] **David Melding:** I think that Janice has a point on the staff pay.

[36] **Janice Gregory:** Jeremy, on the first point that Darren raised, you said that the Wales Audit Office is currently involved in the initial restructuring of the NHS. I assume that it was you who took that decision, which has added to your unforeseen workload.

[37] **Mr Colman:** I will explain what I meant to avoid any risk of misunderstanding. Last year, when I asked for this quite significant increase, as you have pointed out, I said that, without that step up, which you kindly agreed to, my flexibility in responding to unexpected events would be very limited. I mentioned the NHS work, which has not been a very heavy cost so far, but we did have to respond to that immediately, and having the financial flexibility in the figure that you agreed to last year enabled me to respond to that without undue financial problems. We cannot say what unexpected things will happen next year, but there will be some, and, therefore, I would like to continue the level of flexibility allowed in this year's figure into next year's figure. So, it is a complicated way of saying that next year is this year continued at the same level, including the element of flexibility so that I do not go into the year with all staff time absolutely committed to a firm work programme. I need to have some staff able to be reassigned in the event of something requiring it. The NHS work is not a huge cost, but it has involved a huge number of people having to readjust their work programmes.

[38] **Janice Gregory:** You have clarified that now, but you did, if I may say so, give the impression that it was a substantial cost.

[39] **Mr Colman:** I mentioned undue financial problems.

[40] **Janice Gregory:** I am glad that you have clarified that point. Could I just ask—

[41] **David Melding:** It is Darren's turn now.

[42] **Janice Gregory:** Sorry, Darren, but my question is on this particular point, and if we move away from it, we might lose something. It is more of a point of clarification. I assumed that there would be an increase in workload for the Wales Audit Office with the winding down of the trusts and the local health boards. I expected them to come to you to do the work on their final accounts. Is that within your remit, as part of this initial restructuring of the NHS? You said that your staff were asking, 'Have you thought about this, or that?' but it is not within your remit to influence, is it?

[43] **Mr Colman:** You are absolutely right, and this is an area in which I must proceed with great care. It was indeed my decision to involve my office in this work, but that was in response to an invitation from the Assembly Government to be represented on the programme board and project boards—and there is an elaborate structure of committees and work streams.

[44] Before doing that, I confirmed with my head of compliance, who is my conscience on this kind of work, that it would be correct to proceed, and discussed the basis on which I should do so. In each case, the bodies that I have mentioned were given a statement to note in the minutes that defined exactly what our role was. I was speaking informally when I described that role—it amounts to giving those responsible for executive decisions the benefit of our experience of what has gone wrong in the past on this kind of thing, and outlining the sort of activities that we would expect them to perform to prevent it going wrong in the future. When they have noted those points, and commenced some kind of activity, they are hugely tempted to come back to us ask whether they are proceeding in the right way; that is the point at which we say that we cannot tell them, because it is their job to account for that. It

is our job to point them in the right direction, and tell them the kind of issues they should consider—although we do not get involved in the conclusions that they reach.

[45] **Darren Millar:** On the accommodation and facilities costs, you had an office merger in Cardiff last year, and I wondered if the anticipated savings had been delivered as a result. You have significantly increased the budget provision for costs, and I believe that you suggested that that was largely around energy. Could you give us some more information on that? What proportion of the increase is down to energy, and are you getting the efficiencies that you hoped for this year?

[46] **Mr Colman:** First, I should say that, before deciding to move, and certainly before committing ourselves to the premises that we have moved to, my in-house team carried out an extremely thorough analysis of the business case. The work was reviewed, as it happens, by one of the most distinguished experts in public sector business cases in Britain, and the author of the Treasury's guidance on the subject. I am therefore confident that the business case was sound, and it showed that we could expect quantifiable savings together with a large number of unquantifiable benefits, some of which I mentioned in the paper. We moved into the new premises at Easter, and I am pleased to say that, in the week that terminal 5 at Heathrow failed to open effectively, we moved in on time and everything worked. That was very satisfactory, and my team deserves congratulations for that. Everything has gone exactly as we planned, although there are obviously matters of detail. The new offices are developing the soft benefits that we foresaw—very much so—and the quantifiable efficiency savings, mentioned in the paper, have been audited—so we are already benefiting from those savings. That has worked very well indeed.

[47] The business case assumed that we would have a period of paying rent on the old premises while we were in the new ones. It is possible that that period might be shortened by a new tenant coming in, but no tenant has yet signed a contract. On the cost side, that has been in line with our business case. There have been no surprises on that front. Anthony, do you want to say something about energy savings?

[48] **Mr Snow:** As part of the business case for the office move, we looked at the relative costs of maintaining two offices rather than one. There were energy costs associated with running two older buildings as well as the carbon footprint, and the level of consumption—they did not compare well with the new building. Although we have not had this confirmed in writing yet, we have had a Building Research Establishment Environmental Assessment method done, and the feedback from the assessors was favourable. We have also had favourable feedback on Green Dragon accreditation, although we have not had it confirmed in writing yet.

2.50 p.m.

[49] So, there is no doubt in my mind that, certainly in the larger of the two buildings that we occupied, it would have been very difficult, because of the age of that building—it was a 1960s tower block—to make it as environmentally friendly or as cost efficient from an energy perspective. The other building was much smaller, was better insulated and designed, but it was a very old building that had been upgraded. We do not have those issues in the new premises, so they are substantially more energy efficient, and that is not just about cost, it is about the carbon footprint, as I say. Energy costs, which impact on every organisation, are outside of our control, but I am extremely confident that we have minimised the impact of that by being in the new building.

[50] **Darren Millar:** So what proportion of this increase relates to energy costs? You suggest that most of the £80,000 increase is as a result of extra energy costs. Obviously, there are some lease issues to work out, as the auditor general has just mentioned, but what

proportion of it relates to energy? The sum of £80,000 seems awfully large, although I appreciate that you have other offices around the place.

[51] **Mr Snow:** You asked a question about our Cardiff office; we also have offices in Ewloe, Carmarthen and Swansea, as well as sub-offices in a great number of unitary authorities in Wales. They will not have had the same level of energy efficiency associated with the Cathedral Road offices. I am afraid that I do not have the specific details on how much of that relates to energy, but if you look across all of our estate in Wales, not just at the Cardiff office, you will see that a substantial proportion of it does.

[52] **Irene James:** You have said a lot about budgets, but are you on target to meet your budget for this year?

[53] **Mr Snow:** Absolutely.

[54] **Irene James:** Will you be within budget? Will there be a huge gap, or will you be spot-on?

[55] **Mr Colman:** There will be a prudent gap; that will be the outcome.

[56] **Irene James:** If I said, 'I'm going to spend my pay check this month but will leave a prudent gap', that could mean anything from £5 or 2 per cent up. Could you be a little more specific?

[57] **Mr Colman:** Unless something unforeseen occurs between now and the end of the year, I would expect our actual expenditure to be as close to the budget in this year as it was in the outturn last year—in other words, very close. I think that I said this last year in answer to a question from Darren Millar. If my forecasts about extra workload prove to be false and there is money left over at the end of the year, I would have to, and would gladly, return it, because I do not need it and I would not be able to do anything else with it. You will gather from what I said in answer to earlier questions that we are at the level of activity that was foreseen last year, although the composition of that is different from that which I expected, which is not surprising. So, that is why I say, this far through the year, that I am pretty confident that, unless something strange happens between now and the end of March, we will come in with the sort of figure that we had last year, which was not much.

[58] **Irene James:** May I ask another question, Chair?

[59] **David Melding:** This is an entirely new area, Irene, but as I am in an indulgent mood, I will allow it.

[60] **Irene James:** We have had problems and have had to move committee rooms. Last year, you needed a big rise. The word that you have used is 'prudent', and you said that you came in within budget then but, this year you need a much smaller increase. Why the difference?

[61] **Mr Colman:** There are two reasons for the difference. The first is that, last year, we had a step up to what I foresaw to be an increased level of activity, primarily because of constitutional arrangements, but also due to one or two other things. That has been our experience this year, but no further step up is required so far. Who knows what demand will be next year, for example, from other committees of the Assembly or other events. So, we have had a step up, and I am happy to stay at that level. There is a question about whether I have asked for enough to stay at that level of activity. Perhaps I should say—taking my lead from a question that Janice Gregory asked me last year—that I consulted our two trade unions this year on this paper, and their principal comment was that I was not asking for enough. I

took the view that one has to balance the obvious demand for my staff to be paid more money, if possible, with the points that Darren Millar raised about the current economic climate. So, the figure is pitched at what I think is a tight, but achievable, way of sustaining the same level of activity.

[62] I would like to raise one other point that is relevant. Janice Gregory asked about transitional arrangements and workload arising from the restructuring of the NHS. That is absolutely right. If, as certainly seems possible, organisational changes happen mid-year, that creates a large amount of extra work, because audited accounts are needed for the outgoing bodies as well as for the new bodies that come in. So, in effect, the same expenditure is audited twice in the same year. That is one way of putting it; from another point of view, it is audited three times. Most of that financial audit work is financed by fees charged to the clients. We have been explaining to them that, if the timing of the change is in-year, one of the consequences will be that audit fees will go up rather than down.

[63] **David Melding:** Bethan, I think that your subject area has been covered somewhat, but I am happy to go to you if there are any additional questions.

[64] **Bethan Jenkins:** No, the two areas that I was going to probe have been covered.

[65] **David Melding:** I will come to you first on evaluation. So, you may prepare yourself as you will have first refusal.

[66] **Eleanor Burnham:** First, I have a point for clarification. With regard to page 11, point 30 of your income and expenditure estimate document, which relates to value added tax, I am sure that some interested people would want me to ask about the VAT position. Could you also clarify what IFRS is in the next paragraph? It relates to new uncertainties affecting the Wales Audit Office.

[67] **Mr Colman:** I will answer the second of those points first, if I may, and I will ask Anthony to respond to the first. IFRS stands for the international financial reporting standards.

[68] **Eleanor Burnham:** I thought so, but I wanted to ask.

[69] **Mr Colman:** Their adoption by UK public bodies was mandated by the previous Chancellor of the Exchequer about 18 months ago. We have no choice but to comply, nor do public bodies. It is a much more demanding set of standards than we have been working to hitherto, and will place demands both on public bodies and on my staff to implement them. So, there will be a genuine increase in workload, although no-one is quite sure how much. However, it includes, for example, a review of every private finance initiative deal to examine how that should be accounted for. That is not a straightforward task, so there will be a cost resulting from that. However, there is much more besides.

[70] Anthony will reply on VAT.

3.00 p.m.

[71] **Mr Snow:** You will recall that the VAT issue has been in our estimates from day one, so it has been rather a longstanding matter. It was also a longstanding matter for several years prior to that. We have inherited it; it commenced with the Audit Commission's practice of charging VAT for some of its work and therefore recovering VAT in relation to supplies and services associated with that work. On one level, it has been going on for so long that you may wonder why we still bother to include it. The reason why we continue to highlight it is that if HM Revenue and Customs ever does make a ruling on this—and we have been waiting

almost nine years so far, so you can read into that what you wish—it would have a substantial cost impact to the tune of around £700,000, so we thought it prudent to refer to it. That is not to say that we expect a ruling this year any more than we did last year or the year before. However, we felt that it was appropriate to continue referring to it.

[72] **Eleanor Burnham:** Whom does that ruling depend upon? In your view, are you likely to get it?

[73] **Mr Snow:** The fact that it has been nine years probably answers your second question. It is one of those difficult areas on which I doubt people are keen to make a ruling, otherwise they would have made one before now.

[74] **Eleanor Burnham:** How does that compare to international finance reporting standards?

[75] **Mr Snow:** This is within the UK and is purely an HRMC matter. We can take some comfort from the fact that it has taken so long. However, as I say we felt that it was prudent to continue referring to it just in case something happened.

[76] **Eleanor Burnham:** The easier question is on best practice and value for money and so on. Can you be compared favourably to Audit Scotland and how have you applied to this your adapt and adopt principles, which you obviously apply to others?

[77] **David Melding:** You might want to answer in relation to audit bodies in general—Scotland is one, but obviously you are in contact with other audit bodies.

[78] **Mr Colman:** Yes, we are in contact with other audit bodies and we recently joined in a benchmarking exercise with all the UK bodies on what you might call back-office costs. We have not yet had any results from that, but we are participating in it.

[79] The reference to Scotland is a good one, because although the Scottish arrangements for audit are quite different from those in Wales, as, indeed, are the arrangements for many other things, we face similar situations. It is also true that my colleague, the Auditor General for Scotland, has adopted strikingly different approaches to many of the same issues. So, my conversations with him and his colleagues are always fruitful sources of information and raise thought-provoking matters. However, formally, benchmarking has only just started.

[80] **Mr Snow:** On the adapt and adopt question, when we set up the good practice exchange on sharing and learning, the remit for the people involved in that was to apply it internally as much as we do externally. So, for everything that is on there, we automatically look at what we, as an organisation, are doing about all of those topics.

[81] **David Melding:** Thank you. I will come back to you at the end, Darren, if I have time. Janice Gregory is next.

[82] **Janice Gregory:** Going back to NHS reconfiguration, logically there will be a fair amount of decrease in your income once the restructuring takes effect. The 22 local health boards and 15 trusts are all external sources of income for you. If they are reduced in number, would you expect a decrease in your income? We can leave that question for another time, if you would prefer.

[83] **Mr Colman:** No, I am happy to respond to it.

[84] **David Melding:** It does affect your revenue, rather than the budget that you seek from the Assembly, but it is an apposite question nevertheless.

[85] **Mr Colman:** Yes. On the face of it, a reduction in the number of NHS bodies from nearly 40 to less than 10 might be expected to reduce our income by 75 per cent, but, as you would imagine, we have looked into it rather more carefully than that, and leaving aside the issues of transition, which I have referred to, our estimate is that even after transition the amount of financial audit work will remain very substantial, not least because whatever the new bodies are, they will not immediately move to a completely integrated system of financial management. So, we think that it is highly likely that we will be auditing almost as many different systems of financial management as exist now. There is also the point that we do not just audit accounts; we do lots of other work besides that, on assurance and holding to account. In my opinion, the demand for assurance about the NHS will certainly not decrease in the short term as a result of the restructuring. So, it is not obvious that there will be a large reduction in our NHS work. There might be, but there are factors going in the other direction as well and we are very actively engaged in developing our strategy for the next period. One of the big questions for us is, 'What is the best kind of NHS work for us to be doing?' In some ways, it is a relief not to have to audit quite so many accounts because although the work of auditing the accounts of small bodies had to be done, some of it may not have been offering the highest value added, compared to other things that those staff could be doing in relation to the NHS.

[86] **Janice Gregory:** I do not think that anybody around this table thought that your work was going to decrease by 70 per cent. I am assuming that you are mindful of that and it is in work in progress.

[87] I will move on to IT. You have asked for an enhancement of your IT and you especially want sophisticated encryption for all your laptops. I am no IT expert—I will tell you that now—but the one thing that I do know is that, for all sorts of safety reasons, data have to be encrypted. The cost is £65,000. I do not think that there will be anyone who has not heard about the loss of data in one way or another, whether via a laptop, a CD-ROM or whatever. Are your data currently encrypted? Are you asking for an upgrade of the encryption, or do you not have any encryption at the moment? I would also like to know whether you have suffered any IT security problems up until now. Have you had any losses of data, equipment or anything else? Are you satisfied that £65,000 will give you the sophisticated encryption that you are looking for? I am interested in the data issue.

[88] **Mr Colman:** Anthony takes charge of this area, primarily, but I will answer some of those points and he will pick up the rest. If you go back a year, our systems of protection for data were in existence—we had password protection for all laptops, for example. However, the degree of encryption was not high; it was variable, but, on the whole, quite low. Everybody's attention has been drawn to this issue by events elsewhere. We have, in fact, had briefings from the firm that supported the major investigation into those events and are due to have a further briefing from the team that did the Poynter review. That, no doubt, will guide us.

3.10 p.m.

[89] The present state of affairs is that we are midway into a programme, so we are referring to part of a programme that is already being financed. Therefore, many of our laptops are now strongly encrypted, and, this week, we introduced the new encrypted data sticks, and are recalling all others. We have not had any major issues with data loss, but with heightened attention on the matter, we have uncovered very clear risks in the way that we were previously working. We have taken stringent steps to tighten up our processes, all of which depend upon people, so that top of the list is raising the awareness of everyone in the organisation that data are like bars of gold, and need to be protected accordingly. Someone told me that I had scared the staff to death on this issue; I do not want them to die, but I do

want them to be a bit scared, and that is the current frame of mind. The money that we are asking for here will complete a process that is underway.

[90] **David Melding:** Do you want to add anything, Anthony?

[91] **Mr Snow:** I just have a couple of points to add to that. The majority of the programme will have been concluded in this financial year, so we are at the tail end of the programme. The IT equipment probably contributes about 10 per cent towards improved security; the other 90 per cent, as Jeremy suggested, is down to the people, and their attitude. We have taken some pretty significant measures, because we do not want to be one of the organisations that has to explain a loss of data. Those measures include personal communications to every member of staff about their responsibilities, not just around laptops and data sticks, but also paper files and any media that could hold sensitive data. We are reminding all staff that we will regard it as a serious disciplinary matter if they do not take adequate care of the information that they have in their possession. Personally, I do not think that that is overkill—I do not think that it is taking too drastic a step, for two reasons. First, the nature of our organisation is such that we deal with sensitive information. Secondly, our staff are geographically dispersed, so they do not all work in one building, with the security that could be put in place in a single location. The vast majority of the time, most of our staff are out there somewhere in an audited or inspected body, or travelling between such bodies, so the inherent risks are pretty high.

[92] We have taken this very seriously indeed, and in addition to sending personal notes out to every member of staff, I have also commissioned what I call ‘hot’ internal audit reviews—no-notice reviews where our internal audit people check that staff are complying with these policies. We have told staff that we are doing this, so they can expect it to happen, but we have not told them when, or where, or who. Again, we would not normally do things such as that, but it is necessary to ensure that people take this seriously, and that no-one is under any illusions about the importance of it.

[93] **Janice Gregory:** Thank you for explaining the £65,000, because, frankly, I wondered what kind of quality you would get for that. Clearly, you have now taken responsibility, as a responsible employer, to ensure that any data that staff carry around are properly encrypted. That is good news. You have said that you issued staff with quite strict warnings, and that is fine.

[94] Jeremy, you have wonderful powers of recall, I must say. It is quite scary that you can remember what I said last year—I cannot remember what I said five minutes ago. You said that you have not had any major losses—does that mean that you have not had any data losses at all?

[95] **Mr Colman:** I could not give you that assurance. From time to time, we suffer losses of equipment and things go astray. Whenever we do that, we immediately assess what has been lost and what action, if any, we need to take to protect anything. What I said to you was intended to convey that there has been nothing of that kind that gives us any continuing concern.

[96] **David Melding:** Thank you. Irene?

[97] **Irene James:** I think that my questions have been covered, Chair.

[98] **Darren Millar:** In looking at your projected income for the next 12 months, I cannot help but feel that you have been quite conservative, not that I would criticise you for being conservative, of course. [*Laughter.*] However, I cannot help but feel that you have been quite conservative given the changes in the reporting that will have to take place as a result of the

previous Chancellor's announcement, to which we have already referred, and the additional fee-producing work that you might have to do as a result of NHS reorganisation within the next 12 months. Have you been very conservative, and is there scope to generate extra income?

[99] **Mr Colman:** The major point is that we do not have resources lying around substantially underused—resources waiting for work to come in that would earn income at no additional cost. So, for the most part, additional work, which brings additional income, is welcome, but it brings extra costs with it because we must take on more staff or take staff off other work. Therefore, the net effect of increased demand might not be a big financial difference, because there would be costs associated with it. Nevertheless, I am aware that we have capabilities that are in demand; people pay us for commissioned work and we ensure that they pay the full costs of doing it. Because we are not actively in the business of seeking additional commissioned work, our approach is rather opportunistic, and the past has shown that opportunities arise and that we have a good source of income from it. If anyone doubts whether we should be doing it at all, I would say that it is mind-expanding for the staff involved because they get to see something that they would not normally see—it is out of the normal run of business for them, and it is a development opportunity. There is also the fact that someone is paying the full cost of delivering it.

[100] I hope that we have been conservative in our estimates of income, but we have also been conservative in our estimates of costs, which means that they are probably a little higher. Were we to get £250,000 of extra income, it would not be £250,000 surplus at the end of the year because the costs would rise—by less than £250,000, but they would rise.

[101] **Darren Millar:** What margin do you usually make on income compared with cost in terms of the gross profit?

[102] **David Melding:** This will be the last question, because I am keen to move on to the evaluation of the future work programme.

[103] **Mr Colman:** For internal costing purposes, we cost the time of our front-line staff at an average rate. When it comes to a particular opportunity, we price it to cover ideally more than the average rate if we can, but it is a market-driven pricing policy. So, we do not have a standard mark-up on our costs.

[104] **David Melding:** Thank you. We will now move on to the evaluation of the future work programme. We had to spend most of our time on the budget, and we now need to be focused in our questions. In the next 10 or 15 minutes, I hope that we will give Jeremy some idea of where we think the weight lies and perhaps some ideas for future reports.

3.20 p.m.

[105] This is the area of work that, ultimately, he is responsible for, on which he kindly consults us. I know that he values our contribution, but that is the situation constitutionally. I do not think that you need to say anything as an introduction, Jeremy; we can dive straight in.

[106] **Janice Gregory:** I know you want to move on, but my question really is not about the forward work programme, as far as I am concerned. It is about the evaluation, so do you mind if I raise my point now?

[107] **David Melding:** Okay. I now anticipate that we will probably go into private session at around 3.45 p.m., and we could be in private session for up to half an hour to deal with our business. I realise that, because of our technical difficulties, it has been difficult, and given the importance of this work, I am happy to go back to that, but it will take at least 10 minutes to

resolve.

[108] **Janice Gregory:** I will be frank; last year, I posed a question of who audits the auditors. I am sure that you would be more comfortable if someone was evaluating your work, because you have, quite rightly, done some searching audits of public bodies. Therefore, I pose the question to you: who audits you? Who scrutinises the work that you do and is there a mechanism for that? You are smiling, so you obviously think that there is.

[109] **Mr Colman:** Yes, there is; it is very straightforward. The accounts of my organisation are audited by auditors appointed by the National Assembly. If the National Assembly so wished, and, in effect, if this committee so wished, you could invite, as part of that audit, the auditors or another firm to examine any part of my business. I would be very happy to co-operate with that. Last year, I said that, in addition to any kind of study of that kind that you might wish to commission, I would, in any event, commission a peer review of my organisation. Peer reviews are well established in the world of public audit, almost to the point of being fashionable. I have recently written letters of invitation to a number of senior people in the international world of public audit, inviting them to form a peer review team to begin work next spring. I will keep the committee informed as to how that progresses.

[110] **David Melding:** That was done with more dispatch than I anticipated.

[111] **Janice Gregory:** It is important for everyone to have a clear understanding of this. I think that I understood what you said about the peer review team. It is, therefore, for this committee to make a decision, I assume. Can this committee decide who does that particular—

[112] **David Melding:** I am sorry. On what would that decision be?

[113] **Janice Gregory:** On a review, or scrutiny, if you like, of the Wales Audit Office.

[114] **David Melding:** Last year, we discussed the possibility of an evaluation—that is how we termed it, is it not?

[115] **Mr Colman:** They are two separate things. The peer review would be commissioned by me. If you then wished for there to be some kind of value-for-money study—the equivalent of the studies that I do on departments in the Assembly Government, for example—that path is open to you as part of the audit that is commissioned by the National Assembly. I do not wish to encourage you to be reckless—if you do it that way, I pay for it. *[Laughter.]*

[116] **David Melding:** Order. I think that I will be bringing forward proposals in this area to the committee in the relatively near future. The committee is minded to commission an evaluation, so let us not rehearse that question, which has more or less been determined.

[117] **Eleanor Burnham:** Just as an aside, I hope that we get some auditors who have not been involved with the financial distress in some of the banks.

[118] **David Melding:** Amen to that. We will now look at the consideration of Audit Committee work and Jeremy's proposed studies to July 2009 and beyond.

[119] **Bethan Jenkins:** I do not have much to say, so I will be brief. Could you expand on how you come up with the various topics for auditing outside of what has been listed here? What are your general thoughts on that? I have just a few ideas, although I will probably open a can of worms by suggesting them. Should there be something on higher education funding in general? I know that you have collaboration, but considering the fact that we work

differently to Westminster with regard to student loans allocated and subsidised by the Government, perhaps there should be something along those lines to consider whether that represents value for money or how that affects students in Wales.

[120] On various committees, we are always talking about the fact that many Ministers want their agendas to be cross-cutting, but we often find that there is a lack of evidence of tracking that. Therefore, I would be interested to see something about equality-proofing or just cross-cutting Ministerial portfolios. It is not pressing, but I would be interested.

[121] I note that you are involved in the Healthcare Inspectorate Wales audit of child and adolescent mental health services—and there was also one on adult services—but generally, in the health service, there is a big issue with transitions. I would like to see something on that because it does not just happen in mental health; it happens across the board. Perhaps we could have something on how the new structures in the national health service can account for that.

[122] **David Melding:** Given that Bethan did not have much—[*Laughter.*]

[123] **Mr Colman:** I will deal with the points raised in reverse order. The three suggestions are excellent. I will think about them. There might be a question of when is the appropriate time to do them.

[124] On the process, I wish that I could pretend that it is a systematic process, but I think that it is inherently not systematic. My staff and I regard ourselves as pretty well informed about what is happening in Government. We have a strategy document due for renewal next year, which points us to particular areas where we think that there are persistent problems. We have bright ideas—or perhaps they are not so bright, and that is why suggestions from members of this committee are so welcome.

[125] On the question of joined-up decision-making in the Assembly Government, it seems that that has been a theme of several of the reports that have come up this year, one of which is on physical activity. You will see sustainable development on the list where—without revealing too much about what the report will say—there is definitely a theme. Although I have not seen the details, I understand that the Permanent Secretary has announced a restructuring of the Assembly Government civil service machine this week, specifically to enhance its ability to deliver cross-cutting work. It all amounts to a very clear reason for why we should look at that, but probably when the new structure has had a chance to settle down.

[126] **David Melding:** Is Chris Franks trying to catch my eye?

[127] **Chris Franks:** No, thank you. I am very content.

[128] **David Melding:** I therefore call on Eleanor Burnham.

[129] **Eleanor Burnham:** Beyond what Bethan mentioned, I would like to ask the auditor general to look at the actual efficacy of the student loans system, particularly with regard to outcomes for students as well as the higher education sector and even the economy. There is a great deal of anecdotal evidence that, in view of their huge debts, which are obviously not helpful in this credit crunch era, many students are actually saddled with a loan and a very badly paying job. Therefore, I would like to enhance Bethan's suggestion.

[130] Also, as chair of the first legislative competence Order committee on additional educational needs, which has now been renamed, I think that special educational or additional educational needs is a very important area that I would like to have scrutinised. I notice that nutrition in school food is on your list, albeit way down the list. I think that, in view of

obesity, general ill health, diabetes and the cost to our economy, I would like to ask you to bring that further up the list and to look not only at breakfasts, but at reinstating the nutritional standards that were removed in 1972. We should bring them back quickly.

3.30 p.m.

[131] My final point is on cancer services and particularly hospice provision. I am thinking about the service level agreements that they have with the NHS. One fine example is lymphoedema services, which are delivered free by hospices for non-cancer NHS patients who may suffer from a variety of forms of ill health. It might be possible to lever a bit more money into palliative care generally and hospices particularly.

[132] **David Melding:** Perhaps you could just listen to these suggestions, Jeremy, and then draw out any common theme or principle at the end.

[133] **Lorraine Barrett:** I have one specific question and a general question. Looking at the further work that might be developed for future consideration by the committee, in paragraph 5 on page 7, you mention working with the voluntary sector as a possible topic. I am interested in the grants paid to the voluntary sector—and I do not know whether this is appropriate, but you can take it away and think about it at some point. I know of lots of organisations that are doing wonderful work and they could always do with more money. However, that is not the issue. My concern, or interest, is the duplication of work in some areas of the voluntary sector. Grants of £100,000 or £200,000 are given here and another there, but I am sure that there could be some joined-up work. Is it within your remit to see the value for money of those grants, and their outcomes, and to look at whether organisations could be sharing resources to secure best value from the money that they have?

[134] Of the issues listed here, do you feel that some of the work that you are doing is duplicated? Do you keep an eye on what the Finance Committee is looking at and then avoid duplicating that work, or do you think that there is value in your also looking at particular issues? I know that the Finance Committee has looked at some of the suggestions that have just come up now in depth already, so would you take that into account? Would you think, ‘Hang on; that has been looked at in depth, and I am happy with what the Finance Committee has come up with, so I will not look at that just now, but keep my eye on it and come back to it in a year or two’? I am just concerned that some of the areas, and not any one in particular, have been done almost to death. Eleanor mentioned nutrition, which is fine, but there is so much going on in schools that I do not know how—*[Interruption.]* Sorry, that was just an example. I do not know how Jeremy would begin to untangle that, given that there is a legislative competence Order, a Measure and various committees covering it. He would probably have to decide when the time was right, because an awful lot seems to be going on in this building, and people are reviewing everything. For example, the Minister for Health and Social Services is reviewing this, that and the other, which is great, but then you come along and tear them all to bits.

[135] **Mr Colman:** Before we do anything, we aim to find out who else is working in a field, what they are interested in, how our work might add to theirs, and whether our work is needed. Sometimes, the answer is not only that our work is needed but it is needed, like now, to inform the work that someone else is doing. So, for example, when the Minister for health commissioned her review of the ambulance service at, I think, the beginning of this year, the chair of the ambulance trust told me that that was happening and I decided to advance the work that we were planning to do anyway so that it could inform the Minister’s review, rather than duplicate it. So, the short answer to your question is that we try to take account of all of these things. You have given a good reason why it is difficult to do that because, sometimes, there are things going on that we do not know about, but that is what we try to do.

[136] **Janice Gregory:** Does your work in keeping an eye on what we are doing as an Assembly extend to scrutiny committees as well?

[137] **Mr Colman:** Absolutely.

[138] **Janice Gregory:** So, you would not duplicate the work of the scrutiny committee. The scrutiny committee that I chair has undertaken a review of voluntary sector funding, which covers much of Lorraine's point. We did an extensive review and I would hate someone to say, 'The Wales Audit Office has done it as well, so they must be looking for work'. I just think that you need to avoid that kind of duplication.

[139] **Mr Colman:** On the voluntary sector, there is one set of issues that we are particularly interested in, because it has come up quite often. There is some evidence to suggest that grants have been made to voluntary bodies that have lacked the capacity to handle the money effectively. That is not a criticism of the voluntary bodies; it is a criticism of the people making the grants. What conditions do they impose, and how effective are they in monitoring what is going on? That is an area that interests us.

[140] **Janice Gregory:** That would interest all of us.

[141] **Darren Millar:** First, thank you for the report. It is good to see what is coming up. I know that you kindly circulated this to Members last year, which was also helpful. Would you consider including in the forward work programme something on local authority enforcement activity? There is lots of evidence of a wide variation in how local authorities go about taking enforcement action on issues for which they are responsible, such as planning, the environment, and parking. There might be some value in looking into that across Welsh local authorities, to see whether there is best practice that could be rolled out on the best practice website.

[142] I know that the Welsh Affairs Committee in the House of Commons has done some work on cross-border services. Is there any merit in our looking at it from a Welsh perspective, to see whether we can add value, rather than duplicate the work that might have been done at Westminster?

[143] I am also pleased to see that, between April and July next year, you plan to publish a study on the management of coastal erosion and tidal flooding risks. In addition, is there an opportunity to do something on inland waterway flooding, and surface water drainage?

[144] **Mr Colman:** We identified flooding as an issue before the floods of last year, but realised that we could not do a comprehensive, effective study within a reasonable time. We therefore split the subject up in exactly the way that you suggest. The choice was then where to start, and we chose coastal flooding, but we might just as well have chosen one of the inland topics. However, we will get around to it.

[145] **David Melding:** There is one listing in the forward work programme that particularly interests me, as chair of the all-party group on looked-after children. There has been a persistent problem with educational attainment, which is indicative of other, systematic problems with the provision of care. I note that you have listed that as the possible subject of a report for publication some time after 2009. I do hope that you go ahead and report on that.

[146] **Mr Colman:** The work on that has already begun, and I attended a meeting with representatives of a number of local authorities last week on that very subject.

[147] **David Melding:** Excellent. That concludes our session with Jeremy, Anthony and the Wales Audit Office.

3.39 p.m.

Cynnig Trefniadol
Procedural Motion

[148] **David Melding:** 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).

[149] I see that the committee is in agreement.

Derbyniwyd y cynnig.
Motion carried.

Daeth rhan gyhoeddus y cyfarfod i ben am 3.39 p.m.
The public part of the meeting ended at 3.39 p.m.