

AUDIT COMMITTEE

AC(2) 01-03(min)

MINUTES

Date: 12 June 2003

Time: 14.00 pm

Venue: Committee Rooms 3 & 4, National Assembly for Wales,
Cardiff Bay

Attendance

Members

Janet Davies (Chair)	South Wales West
Leighton Andrews	Rhondda
Mick Bates	Montgomeryshire
Christine Gwyther	Carmarthen West and South Pembrokeshire
Denise Idris-Jones	Conwy
Val Lloyd	Swansea East
Carl Sargeant	Alyn and Deeside
Jocelyn Davies	South Wales East
Alun Cairns	South Wales West

Apologies

Mark Isherwood	North Wales
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Witnesses

Ann Lloyd	Director - NHS Wales
Dr Christine Daws	Head of Division, NHS Finance
Officials	
Sir John Bourn	Auditor General for Wales
Gillian Body	National Audit Office
Ian Summers	National Audit Office
David Powell	Assembly Compliance Office
Claire Bennett	Committee Clerk
Lara Date	Deputy Committee Clerk

Item 1

Introductions, apologies, substitutions and declarations of interest.

1.1 The Chair welcomed everyone to the first meeting of the Audit Committee in the second Assembly. Apologies had been received from Mark Isherwood AM. Leighton Andrews declared an interest in relation to Item 5, the Cabinet response and Auditor General for Wales' (AGW) assessment of Osiris and contracts for information technology, as his wife was National Manager for Wales for BT.

Item 2 (14.05 - 15.05)

Introduction to the Audit Committee

2.1 The Committee received a series of presentations outlining the remit and work of the Audit Committee. The main points of the presentations were:

Auditor General for Wales:

2.2 The Auditor General for Wales, Sir John Bourn, explained his role, which was completely independent of the Assembly and in which he was supported by the 45 staff of the National Audit Office Wales (NAO). He was responsible for auditing 33 sets of accounts for legality, propriety and regularity, as well as a programme of Value for Money studies. The Committee of the first Assembly had asked

him to undertake work that would release funds from support activities such as procurement and estate management, which could be re-directed into 'front-line' activities.

Permanent Secretary:

2.3 The Permanent Secretary, Sir Jon Shortridge, explained that he was the Assembly's Principle Accounting Officer. This meant he had personal responsibility for the proper management of public funds spent by the Assembly in Wales - ensuring the regularity and propriety (in accordance with the 7 Nolan principles of public life) and value for money of their expenditure.

2.4 The funds allocated to the Assembly were more than £11 billion per year, up from £7 billion when the Assembly was established. At that same time the number of staff working for the Assembly had also substantially increased, in part as a result of the merger of 15 organisations with the Assembly. This meant managing a substantial amount of risk.

2.6 The Permanent Secretary outlined the mechanisms he had for managing that risk:

- The ultimate sanction, if he was not satisfied that public funds were to be spent according to the right principles and had been unable to persuade the Minister (or the corporate Assembly) to change their mind, was to seek a direction from the First Minister confirming the action. Such a Direction would be copied to the National Audit Office and the Audit Committee.
- The Permanent Secretary had powers to delegate responsibility to other sub-accounting officers, such as the Director of NHS Wales, the Clerk of the Assembly, and Chief Executives of Assembly Sponsored Public Bodies (ASPB)s, who then took on personal responsibility for the public funds in their care as set out in their appointment letters.
- A programme of internal audit was undertaken based on a risk assessment. The system was intended to be self-policing with management areas responding quickly to any weaknesses identified.
- The Auditor General for Wales and the National Audit Office (NAO) carried out the Assembly's external audits and the Permanent Secretary maintained a very open relationship with the NAO. For example, NAO staff sat as observers on the Corporate Governance Committee.
- The Corporate Governance Committee monitored issues raised by the audit process. It met quarterly and was chaired by a non-executive director.
- The Permanent Secretary held regular meetings with Chief Executives of ASPBs, starting on appointment, to ensure clarity about their role.
- Staff training also played a key role in ensuring staff understood their responsibilities in relation to public funds.
- The Permanent Secretary noted that, when things went wrong, he had to decide whether to take a harsh disciplinary approach or to help staff learn from mistakes. This was a difficult balance, but he took the view that except in cases of wilful disregard or gross negligence, it was better to deal with the problem through performance management and to try to prevent re-occurrence, and thereby eliminate the perception of a 'blame culture'.

2.7 The Permanent Secretary also observed that the way the Audit Committee approached its work sent out strong messages to staff, and that the Committee should consider the impact that it could have on individuals.

2.8 The Chair thanked the Permanent Secretary for his presentation, and noted that the Committee's aim in making its recommendations was not to apportion blame, but help secure better financial management in future.

Assembly Compliance Officer

2.9 The Assembly Compliance Officer, David Powell, explained that the Compliance Office advised on issues of regularity and propriety, and compliance with the statutory framework, for example:

- They provided advice to the Permanent Secretary and other Accounting Officers on financial compliance matters
- provided a range of financial consents
- maintained a database of delegated powers and provided advice on delegations
- co-ordinated training on financial accountability
- co-ordinated the preparations of witnesses for Audit Committee and the Government's response to Audit Committee reports.

National Audit Office:

2.10 Ian Summers, Director of Financial Audit at NAO, described the process of financial audit. As well as conducting the formal external audit of accounts according to industry standards, the National Audit Office provided other reports to help improve financial management of public bodies in Wales.

2.11 Gillian Body was a Director of the Value for Money programme of NAO. Value for Money studies aimed to test the economy, efficiency and effectiveness of expenditure in areas where the Auditor General was the external auditor or had access to the accounts. Approximately 8 reports a year were produced, as well as ad hoc reviews of specific themes, such as procurement. Forthcoming reports would include: hospital cleaning, compensation for bovine TB, renewal of private sector housing, ELWa innovation and development projects, NHS sickness absence, trunk road improvement programme and National Museums and Galleries Wales collection management.

2.12 The vast majority of report recommendations, around 99 per cent, were accepted by the Welsh Assembly Government. Potential annual savings of £95 million had been identified through the implementation of report recommendations and changes in management, with further scope for one-off savings of £30 million.

Public Audit (Wales) Bill

2.13 The draft Public Audit (Wales) Bill was currently going through the parliamentary process. The bill intended to consolidate public sector audit activities in Wales by bringing together the work of NAO and the Audit Commission under the Auditor General for Wales. The Bill sought to protect the constitutional position and democratic independence of local government. The Bill would not be considered specifically by the Audit Committee because it was a policy matter, but an Assembly ad hoc committee was to be set up to consider it, with involvement of members of the Audit, Health and Local Government Committees.

Item 3 - (15.05 – 15.25)

Draft forward work programme for Audit Committee and principles of operation

Papers: AC(2) 01-03(p1) - draft forward work programme

AC(2) 01-03(p2) - principles of operation

3.1 The committee considered its draft forward work programme for 2003/2004 and a set of principles to govern its operation.

3.2 It was noted that, in order to ensure that any lessons on delays to agricultural payments were learnt in time for the next round of payments in November 2003, the report on this subject ought to be published as early as possible. The Auditor General agreed to do this.

3.3 There was discussion about the calling of witnesses to give evidence in relation to the report on ELWa's innovation and development projects, which was due to be completed in September. The AGW explained that evidence would usually be taken from the current Accounting Officer of an ASPB, as they were ultimately responsible for both current and retrospective expenditure of public funds. Chief Executives had similar powers to those mentioned by the Permanent Secretary earlier in being able to ask for a direction on a matter if they believed that public funds were being spent inappropriately. It was noted that the previous Committee had called a former Accounting Officer, but there were reservations about how useful that had been. The Secretariat was asked to provide a note on the protocols for summoning and inviting witnesses.

3.4 The Chair had received representations from Community Pharmacy Wales and the British Pharmaceutical Industry Association concerning the findings of the AGW's report on the procurement of primary care medicines and a request to give evidence to the Committee. There were a number of options open to the Committee to take those representations into account in preparing its report. The Committee discussed these, and noted that there were time constraints to consider and that all reports were bound to have detractors. The AGW noted that the views of the pharmaceutical industry had been considered in preparing the original report. It was agreed that any correspondence received would be attached to the Committee's report as annexes and, where appropriate, reflected in the draft report.

3.5 The Committee considered the paper on principles of operation of the Audit Committee. It was noted that members had received a letter regarding the leak of the Committee's report on the accounts of National Council for Education and Training Wales. The Clerk explained that everyone who had access to the report before publication had, in writing, denied leaking it and that this information had been referred to the Standards Committee for its consideration regarding any further action. The protocol for handling of draft reports and restricted documents was that they should be kept locked away at all times. The Committee formally endorsed the principles of operation.

Action points:

- The AGW's report on the agricultural payments system would be brought forward so that its findings could inform the November 2003 payment round.
- The Clerk would produce a note clarifying the position with regard to calling of witnesses to the Audit Committee and the Public Accounts Committee.
- Correspondence from interested parties regarding the AGW's report on the Procurement of Primary Care Medicines would be attached to the Committee's report on the subject as annexes.

The Committee decided to break from 15.25 – 15.38

Item 4 – (15.38 – 16.33)

The Finances of NHS Wales 2003

Paper: AC(2) 01-03(p3)

4.1 The Committee took evidence from Ann Lloyd, Director - NHS Wales and Dr Christine Daws, Head of NHS Finance Division, in connection with the report by the National Audit Office on behalf of the Auditor General for Wales on 'The Finances of NHS Wales 2003'.

4.2 The Director of NHS Wales expected to be in a position to report on the latest estimates of staffing costs related to NHS restructuring, and retirement costs in the next month, and would provide this information to the Audit and Health and Social Services Committees.

4.3 A verbatim transcript of this item will be attached as Annex A to these minutes.

Action points:

- The Director of NHS Wales would provide an update on finding placements for staff whose posts had ceased to exist as a result of restructuring.
- The Director of NHS Wales would provide information on the latest estimates of staffing

transitional costs for NHS restructuring to the Audit Committee in July.

- The Director of NHS Wales would provide information on staff retirement costs for 2002-03 to the Audit Committee once it was available in July.

Item 5 - (16.33 – 16.52)

Cabinet responses to previous Committee reports

Papers:

- AC(2) 01-03(p4) - Cabinet response to Audit Committee report on OSIRIS
- AC(2) 01-03(p5) - Auditor General for Wales' assessment of the Cabinet response to Audit Committee report on OSIRIS

5.1 The Cabinet's acceptance of all the Committee's recommendations was welcomed, and it was hoped that this would bear fruit in relation to the implementation of the Assembly's new Merlin contract for information technology. The AGW would keep this under review and report any problems back to the Committee.

Action points:

- The AGW would keep the implementation of Merlin under review and report any problems to the Committee.
- AC(2) 01-03(p6) - Cabinet response to the Audit Committee General report on the financial audit work of the Auditor General for Wales
- AC(2) 01-03(p7) - Auditor General for Wales' assessment of the Cabinet response to the Audit Committee General report on the financial audit work of the Auditor General for Wales

5.2 The Cabinet had accepted all the recommendations and no further action was required.

- AC(2) 01-03(p8) - Cabinet response to the Audit Committee General report on The Accounts of the National Council for Education and Training for Wales for the period ending 31 March 2002
- AC(2) 01-03(p9) - Auditor General for Wales' assessment of the Cabinet response to the Audit Committee report on The Accounts of the National Council for Education and Training for Wales for the period ending 31 March 2002

5.3 Concern was expressed that the Government had not accepted all the report's recommendations in full and it was suggested that the Committee should raise this with the Cabinet. The AGW confirmed that the response included two recommendations 'agreed in part'. However, the Government had taken the actions appropriate to them agreeing with the recommendations in full. It was further noted that the response did agree the recommendations themselves, but not with the some of the observations which introduced them.

5.4 New members of the Committee expressed concern about passing judgement on this issue without the chance to read the previous Committee's report in full. The Chair noted that the previous Committee had unanimously endorsed the report. It was agreed that a draft letter expressing concern about the two recommendations agreed in part would be prepared for Members to discuss at the next meeting. The Secretariat would ensure that all Committee members had copies of the AGW's report and the Committee's report.

Action points:

- The Committee Secretariat would ensure that all members of the Committee received copies of the report of the AGW and the Committee's report for their further consideration.
- The Auditor General would provide the Committee Secretariat with a proposed draft letter to forward to members for their consideration, in order for a decision to be taken at the next meeting.
- AC(2) 01-03(p10) - Cabinet response to the Audit Committee's report The National Assembly's new building: an update report
- AC(2) 01-03(p11) - Auditor General for Wales' assessment of the Cabinet response to the Audit Committee's report The National Assembly's new building: an update report

5.4 There were no comments on the Cabinet response. The AGW would continue to monitor the situation with regard to the National Assembly's new building and report to the Committee further in the future.

Action points:

- The AGW would continue to monitor the situation with regard to the National Assembly's new building and report to the Committee further in the future.

The meeting closed at 16.52 pm.