

Welsh Assembly Government Response To The Audit Committee Report 01-03 “General Report on the Financial Audit Work of the Auditor General for Wales 2002”.

The Welsh Assembly Government is grateful for the report. We welcome the findings and offer the following response to the nine recommendations in the Report.

Recommendation i.

We consider that external audit reports to management are a vital and integral part of the audit process that must be given full respect and acted upon. It is clear that the Permanent Secretary takes his responsibilities seriously in this regard and we commend the procedures that he and the Finance Group have put in place for monitoring the implementation of the recommendations made by the National Audit Office. We are concerned that, in a small number of cases, management has not actioned key recommendations and we urge that such cases be pursued with vigour including the taking of disciplinary action in serious cases;

Agreed. All Accounting Officers have been reminded of the importance of taking follow-up action on recommendations that they have accepted. This response and the Committee’s report will be copied to all Assembly; ASPB; and other relevant Accounting Officers as a further reminder. The Permanent Secretary will raise this and the other issues covered in the report and the Assembly Government’s response at a meeting he has with ASPB Chief Executives (who also fulfil the Accounting Officer role) scheduled for 3 April.

Recommendation ii.

In respect of grant schemes, the Assembly Government and sponsored public bodies have a duty to ensure that applications and claims are properly documented and that sufficient monitoring is undertaken in order to minimise the risk of irregular expenditure going undetected. Failings in this regard are not acceptable and could have potentially serious consequences. For example, in the case of projects supported by European Structural Funds, there is a risk of claw-back and vital money being lost to Wales;

Recommendation iii.

We therefore urge the Assembly Government to act promptly on any failings brought to light, to review the operation of major schemes on a regular basis and to provide a systematic training programme for all staff engaged on grant appraisal and monitoring activities;

ii and iii. Accepted. All major grant schemes are reviewed regularly both for their value for money and to ensure that the control framework for them is still appropriate. Within the Assembly, formal training is available to all staff engaged on grant appraisal and monitoring activities. Assembly Government officials will be working with Assembly sponsored public bodies to see

whether further training needs to be provided. The issue is to be placed on the Agenda for the Permanent Secretary's meeting with ASPBs on 3 April.

Recommendation iv.

We expect all public sector bodies in Wales to pay particular attention to their cash management procedures, which we view as fundamental to their sound financial management. In particular, all bank accounts should be reconciled in a timely manner and care should be taken to avoid overdrafts, misplaced cheques and the unauthorised use of direct debits;

All public sector bodies in Wales will continue to pay attention to cash management procedures. The Assembly has put procedures in place for the draw down of funds, and will do all it can to encourage bodies which it sponsors to draw them down only on the basis of operational need. The Assembly is subject to a reward and penalty cash management scheme operated by the Treasury. The circulation of the Committee Report and this response will reinforce the need to pay attention to cash management. This issue will also be on the agenda for the 3 April meeting.

Recommendation v.

On expenditure financed by the European Structural Funds

We note with concern that the National Audit Office Wales had to qualify eight out of 24 audit certificates issued in respect of claims for European grant funding made by Assembly Sponsored Public Bodies. It is clear that many of the errors identified by the auditors arose because of a lack of awareness or understanding amongst some project managers of the detailed rules governing the European grant schemes. This is unacceptable. Whilst we recognise that WEFO is working to improve the quality of advice and guidance provided to project managers, we urge it to work more closely with the relevant sponsored bodies to ensure that such errors are minimised in future;

Agreed. WEFO will work closely with sponsored bodies to minimize errors and thus enable payments to be made as quickly as possible. WEFO has recently revised its guidance on grant claiming and audit procedures reflecting the new arrangements brought about through the introduction of the new payments database. The new guidance includes contact points to help with completing the forms. Later this year WEFO intends to hold workshops for sponsors on claiming arrangements.

Recommendation vi.

In respect of the moratorium on annual audit certificates for ESF projects, we note that this has been imposed in response to genuine difficulties experienced by private sector auditors in both Wales and England. We consider that the requirement for annual audit certificates

provides a valuable 'early warning', both for project managers and for WEFO, of emerging problems on each project. We therefore look to the Assembly Government to act with all speed in concluding the review of guidance to the auditing profession on the levels of assurance required to validate ESF grant claims, and to reinstate this important independent check at the earliest opportunity;

The ESF audit review is now complete. The new arrangements for ESF audit certification were introduced on 1 January 2003.

Recommendation vii.

We note the assurances we have received that European funds clawed back from one project can be recycled by WEFO into other projects, rather than surrendered to Europe. Whilst clawback of grant should always be viewed very much as a last resort, we consider that WEFO should not hesitate to take such action where appropriate. This would send a strong message to other grant recipients that mismanagement will not be tolerated. It would also help to ensure that Wales is able to maximise the benefits that can be obtained from European funding;

Agreed. Grant will always be clawed back when the circumstances warrant it. Any grant clawed back from projects in the current programmes can be recycled for the benefit of the programme up to 2009.

Debt management procedures exist to ensure that all outstanding invoices raised are chased.

Recommendation viii.

On the National Assembly's accounting and budgeting arrangements

We are very pleased to note the progress made with resource accounting and preparation for the introduction of "whole of government" accounts, which we understand compares favourably with the position elsewhere in the United Kingdom. In this context we note that the future need to consolidate the financial results of many more public bodies in Wales is likely to result in considerable pressures being placed on the Finance Group in order to meet the statutory deadlines. We trust that the Permanent Secretary and the Principal Finance Officer will continue to ensure that this important operation is properly resourced by suitably qualified and experienced staff. We also urge the Finance Group to work with the bodies concerned to ensure that they are fully aware of their responsibilities and the time scales for submission of financial information;

Agreed. The Permanent Secretary regularly reviews the staffing of the Finance Group to ensure that there are the necessary qualified and experienced staff to prepare the Assembly's accounts, including Whole of Government Accounts. The Finance Group continues to work with bodies involved in the preparation of the Whole of Government Accounts in relation to the requirements for the preparation, auditing and submission of their elements.

Recommendation ix.

We also note the recent introduction of resource-based budgeting and the new financial and management accounting system and look forward to the benefits that should accrue over time in terms of the management of the Assembly's finances. We trust that the teething troubles with the new accounting system – particularly the delays in making payments - have been or soon will be resolved, and that the further planned improvements can be rolled-out as quickly as possible.

Accepted. The teething problems with the new accounting system were resolved within two months of its introduction, and further planned improvements continue to be rolled-out.