

Public Accounts Committee

Meeting Venue:
Committee Room 3 – Senedd

Meeting date:
3 December 2012

Meeting time:
14:00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Agenda

1. Introductions, apologies and substitutions (14:00 – 14:05)

2. Grants Management in Wales: Evidence on the Wales Audit Office report 'The Welsh Government's relationship with the All Wales Ethnic Minority Association' (14:05 – 17:00) (Pages 1 – 93)

Welsh Government (14:05 – 15:30)

PAC(4) 28–12 – Paper 1

Derek Jones, Permanent Secretary, Welsh Government

Damien O'Brien, Chief Executive, WEFO

Huw Brodie, Director of Strategic Planning & Equality

David Richards, Director of Governance

Arwel Thomas, Deputy Director Corporate Governance and Assurance

Big Lottery Fund (15:30 – 16:15)

PAC(4) 28–12 – Paper 2

John Rose, Director Wales, Big Lottery Fund

Dr Rita Austin (16:15 – 17:00)

Dr Rita Austin, Former Chair of AWEMA

3. Papers to note (Pages 94 – 102)

PAC(4) 28–12 – Paper 3 – Advice from the Auditor General for Wales on the Welsh Government's response to the Committee's interim report on Grants Management in Wales

PAC(4) 28-12 – Paper 4 – Correspondence from the Chair of the Children and Young People Committee on Committee training

Minutes of the previous meeting.

4. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Item 5.

5. Grants Management in Wales: Consideration of evidence on the Wales Audit Office report 'The Welsh Government's relationship with the All Wales Ethnic Minority Association' (17:00 – 17:30)

Public Accounts Committee PAC(4) 28-12 - Paper 1

Written evidence for the Public Accounts Committee on the Wales Audit Office's Report on the Welsh Government's relationship with the All Wales Ethnic Minority Association (AWEMA)

1. Introduction

- 1.1 The Wales Audit Office (WAO) published its report on the Welsh Government's Relationship with AWEMA on 18 October 2012. The Welsh Government cooperated fully with the WAO throughout the course of its value for money study and has welcomed the report, accepting all of the recommendations. As Derek Jones, the Permanent Secretary and Principal Accounting Officer, said on 18 October, the Welsh Government is already implementing the recommendations detailed in the WAO's report as part of the Grants Management Project and other governance activities.

2. General

- 2.1 The Welsh Government is committed to working with its partners to provide value for money for public funds and delivery of the Welsh Government's objectives.
- 2.2 In order to ensure this, we are adopting a proportionate and risk based approach to due diligence which focuses on assessing the health of the corporate governance in the partner organisation, by identifying whether the organisation has appropriate systems in place; confirming whether the systems are working; assessing the organisation's capacity and capability to deliver desired outcomes; and, crucially, ensuring the organisation's Board is holding the Chief Executive or Chief Accounting Officer to account. It is not the role of the Welsh Government, however, to carry out an organisation's corporate governance checks for it - if that was the case, we would effectively be taking over each organisation, rather than treating it as an arm's length body.
- 2.3 We recognise that this cannot give us, or the Public Accounts Committee, absolute assurance about all of our delivery partners; however, we are seeking to further strengthen our due diligence policies and processes as part of the Grants Management Project, taking on board the issues identified in the WAO's report on the Welsh Government's relationship with AWEMA.
- 2.4 We are also looking for ways to provide a more joined up and coordinated approach to assist our delivery partners, and the third sector in particular, in achieving high standards of governance. In order to facilitate this, the Welsh Government has joined a working group with the Big Lottery Fund, the Wales Council for Voluntary Action

(WCVA), and the Charity Commission, with the aim of providing a unified programme of support and guidance for this vital arm of delivery. It is proposed to develop a protocol to share information about funded organisations.

3. Recommendations

3.1 Below is a summary of the Welsh Government's responses to the recommendations contained in the WAO's report.

1. Taking into account the issues raised by this report and in the context of its own ongoing Grants Management Project, the work of the Grants Centre of Excellence and its response to the Public Accounts Committee's recent interim report on grants management, we recommend that the Welsh Government should:

a) Establish and communicate to grants managers and grant recipients clear protocols for due diligence work to be built into its processes for awarding grant funding and monitoring delivery, proportionate to the scale of funding and the type of recipient body.

Work is underway within the Grants Management Project to embed minimum standards of due diligence that will take place as part of the processes for awarding grant funding. This will be supported by a central repository of information available across the Welsh Government, providing an assessment on legal status; financial viability; the need for payment in advance; and, standards of governance. This information will be supplemented by grant specific due diligence with a focus on the ability of the recipient to deliver outcomes in relation to the grant award being considered. The approach taken will adopt a risk based assessment, taking account of the scale of the funding provided and the type of recipient body.

b) Give further consideration to the development of a customer relationship management system as the basis for ensuring shared knowledge across the Welsh Government of its various funding relationships with external organisations.

By mid 2013, reports covering grant schemes, payments and commitments across Welsh Government grants will be made available based on the current grants payment system. This system will be supported with a more comprehensive ICT solution which will include a customer relationship management module aimed at sharing information across the Welsh Government and providing an analysis of all grant funding with a particular focus on grant recipients and delivery of outcomes.

c) Ensure that grants managers are required, when considering bids from potential grant recipients and in their general management of that funding, to understand the Welsh Government's overall financial relationship with those organisations.

Information on the overall financial relationship which the Welsh Government has with grant recipients will be available through enhancements to the current grants payment system. It is intended that grants managers, as part of their due diligence work, will be required to confirm that they have taken account of the Welsh Government's overall financial relationship with proposed funding recipients. This will need to be a manual exercise in the short term until the new ICT solution is in place and fully populated.

d) Establish clear protocols for the handover of responsibilities between senior officials and between Ministers, ensuring that those succession arrangements articulate relevant departmental and wider Welsh Government funding relationships with external organisations and, in particular, the history of any particular concerns about those organisations.

We appreciate the importance of formalising handovers, and the flow of communication, at Ministerial and senior official level. We are now reviewing our procedures to strengthen them and ensure that they cover funding relationships with external partners and capture any historical concerns.

e) Ensure that grants managers understand that all substantive contact with grant recipients about their funding should be formally recorded on file.

The guidance and training developed by the Grants Management Project makes it clear that all substantive contact with grant recipients about their funding must be formally recorded on file. In the short term, this information will be stored by the individual grant schemes. However, once the Customer Relationship Management based system is in place, this information will be available to all of the teams providing grant funding to external partners.

2. Having already identified changes in some of its processes in response to the situation with AWEMA, we recommend that WEFO should also:

a) Ensure that all project officers are fully aware of the purpose and importance of their monitoring and of their responsibilities in supporting projects and verifying that projects are proceeding satisfactorily and delivering intended outcomes. We consider that such improvement could be achieved through mandated and periodic refresher training.

WEFO has an established training programme for staff engaged in the delivery and management of the programmes. A training event was held in September 2012 for all staff in WEFO's Programme Management and Finance Divisions with exercises to highlight WEFO's mutual dependency and relationship with other Welsh Government departments. While there are additional technical issues in respect of EU funded programmes, these are core programme and project management skills and WEFO will ensure its programme management staff undertake the training being rolled out by the Grants Management Project.

b) Ensure that all current projects have been monitored regularly and documented, in accordance with WEFO's requirements.

WEFO's guidance for project management requires projects to be reviewed on a regular basis, which, depending on the performance of the project, can be quarterly, six-monthly or by written procedure. WEFO is reviewing the application of these procedures across the ERDF and ESF programmes to ensure this guidance is being met and that, where reviews are undertaken through written procedure when the project is performing well, this is documented consistently and kept under review.

c) Review all special conditions which are recorded as 'open', and once their actual status has been confirmed, ensure that project officers take any necessary follow-up action promptly.

This has already been undertaken across the ERDF and ESF Programmes. Many special conditions will be open throughout the life of the project, rather than being prerequisites to a later stage of the project. Open special conditions are being reported to senior management to ensure that action is being taken on conditions that ought by now to have been signed off.

3. Welsh Government officials have recognised that, in responding to the situation with AWEMA's insolvency they have been, to an extent, operating in uncharted territory. We recommend that the Welsh Government should undertake a lessons learned exercise and develop internal guidance to support any future response to a similar situation.

The Welsh Government is carefully considering the issues raised by AWEMA and will capture the lessons learned for the future. Furthermore, the Grants Management Project will develop guidance to indicate to officials what actions should be undertaken when financial concerns are raised about a partner organisation. This approach will place the Welsh Government in a stronger position to protect public funding and recover grant monies in any future similar case of insolvency.

4. WEFO has now established successor arrangements for each of the three AWEMA led EU Convergence Programme projects. We recommend that, for the remaining duration of these projects, WEFO conducts quarterly monitoring meetings with the lead project sponsors, and that it maintains regular contact with the other project partners to help identify and resolve promptly any issues of concern and to generally support the delivery of these projects.

Both WEFO and the partners in the successor projects have been committed to ensuring that services to beneficiaries under these projects are maintained. We have used the establishment of the new projects to develop a new model for managing these projects where our quarterly review meetings for all three projects are held at one meeting with all sponsors present (the most recent was on 13 November 2012). The approach has gone a long way to help build

transparency, trust and capacity in each body, and we plan to use this approach for all projects delivered through collaborative partnerships, at least on an annual basis.

1. About the Big Lottery Fund and our evidence

- 1.1 The Big Lottery Fund (BIG) is responsible for distributing 40% of the money raised for good causes through the National Lottery and supports projects in the fields of health, education, environment and the community. We currently distribute between £40-£50 million each year in Wales. Our programmes reflect Welsh strategic priorities and have been developed in consultation with stakeholders in the third and public sectors. Currently, over 90% of the investments made by BIG in Wales are awarded to the third sector. In recognition of the need for cross-sector funding to address the challenges faced by communities, we also support projects led by the public and private sectors.
- 1.2 The National Lottery Act 2006 confers powers that enable BIG to deliver funding from third party sources. This provides an opportunity to co-ordinate our funding with that of others, including government, applying our extensive experience to benefit new areas of activity. We expand on this in our evidence.
- 1.3 BIG adopts an outcomes approach to funding. This means that our main interest is in the social changes brought about by the projects we fund, rather than the means by which these are achieved.
- 1.4 Although the WAO's report, *Grant Management in Wales* focuses primarily on the administration of grants distributed by the Welsh Government, we have considered the recommendations both in the context of our own grant funding programmes and the wider role we can play in supporting grant administration across Wales.
- 1.5 We have framed our evidence so that it considers the Auditor General's recommendations, and those from the Public Accounts Committee's Interim Report into Grant management, where we have a contribution to make, either directly or indirectly.

2. Wales Audit office Recommendations

- 2.1 ***Look to simplify their grants portfolio more rapidly, by combining schemes where this is appropriate, in order to realise efficiencies in administration cost and in the hidden costs to the public purse borne by unsuccessful applicants.***
- 2.2 The National Lottery Act (2006) gave us the power to handle non-lottery as well as Lottery funding. Our experience, infrastructure and expertise position us to be able to deliver wider community funding over and above that generated from the Lottery Pound. We distribute funding on behalf of other agencies through our distinctive non-lottery arm, 'BIG Fund'. In Wales, we are already distributing funds on behalf of the Welsh and UK Governments:

- money from dormant bank and building society Accounts through the *Sustainable Steps* and *Getting Ahead* programmes; and
 - the Coastal Communities Fund, money to support the economic development of coastal communities by promoting sustainable economic growth with money generated through the Crown Estate's marine assets.
- 2.3 In Wales we have used our non-Lottery powers to pioneer the delivery of joint schemes, combining lottery and non-lottery funding to maximise strategic impact and add value to our Lottery portfolio:
- The Community Asset Transfer Programme is jointly funded with the Welsh Government and is supporting the transfer of viable public buildings to community ownership using a social enterprise model.
 - Our Life Skills Project broke new ground by combining European Social Fund money with Lottery funding to deliver interventions designed to support hard to reach groups back into work or training.
- 2.4 In relation to all of these we have brought our grant making and grant management expertise to bear by developing, delivering and managing these programmes on behalf of our partners. We continue to welcome approaches to deliver funding on behalf of others where they add value to our work, or where we can maximise strategic impact through joint funding initiatives. We would particularly welcome the opportunity to engage in further work with the Welsh Government.
- 2.5 In relation to unsuccessful applicants and the administrative costs associated with them, we have found a two stage application process to be helpful. An 'outline' first stage followed by a more rigorous second stage allows us to identify weak or ineligible applications early on. This both reduces the assessment burden on us and is more customer friendly as the amount of time spent by the applicant on an unsuccessful application is reduced.
- 2.5 *Develop systems to ensure that the approach taken to grant funding and the operation of grant schemes is as consistent as possible across internal departments and, where possible, with other funders.***
- 2.6 We do not have the Welsh Government problem of multiple departments, but we do have to ensure consistency across a range of programmes and schemes; across the UK we spend some £800m. We are going further in this direction through our new I.T. based business re-engineering project. Consequently we are introducing a number of

new developments over the next few months, all designed to make the experience of applying for, and managing, funding clearer, simpler and more efficient. Our new online funding management system will aim to improve the customer's experience by making us more efficient in processing and managing grants. It will include streamlining the funding process, allowing customers to track progress and allow us to provide better support to customers.

- 2.7 The system is currently in development and should be in place by spring 2013. We expect our customers to be experiencing some of the benefits of the new system soon after it comes into operation and these will build over time.
- 2.8 The UK Parliament's Public Accounts Committee recommended that 'grant-makers should work together to explore how to increase the use of online applications in their processes'¹. As a starting point, the development work being carried out by the Big Lottery Fund to introduce online applications should be shared with others.'
- 2.9 In the spirit of this recommendation, we will be happy to share the lessons from implementing our new system with the Welsh Government to support the work of its Grants Management Programme, with which we are already engaging to share our good practice and experience.
- 2.10 *Work with other funders to learn from experience, develop complementary schemes and co-ordinate bidding timetables.***
- 2.11 Through the non-Lottery and joint-funded programmes referred to previously we already have a track record of developing complementary schemes with other funders, primarily the Welsh Government and Wales European Funding Office (WEFO). We have also previously worked with the Heritage Lottery Fund to deliver joint funding through our small grants scheme, *Awards for All*. Our appetite for developing complementary funding programmes that meet mutual strategic objectives and priorities is strong and we are open to approaches from other funders.
- 2.12 The recent investigation into the All Wales Ethnic Minority Association (AWEMA) revealed significant failings in that organisation's governance structure. Our discussions with other funders and the WAO suggested that weak governance was an issue of wider concern. We have convened a 'Good Governance' group with the intention of working with colleagues to identify governance good practice and to support its implementation more widely across the third sector. This group includes representatives from the Charity Commission, Museum

¹ <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/641/64104.htm>

of Wales, Heritage Lottery Fund, Welsh Government, The Arts Council of Wales, Community Voluntary Councils and the Wales Audit Office.

2.13 *Work singly and together to improve the clarity and accessibility of grant-related information to bidders and encourage appropriate community involvement.*

2.14 At an individual level, we make information on all the grants that we award and the programmes that we run publically available through our web site². We augment this with the work of our Communications Team, which combines press work with outreach work to ensure that we do all we can to reach those who are interested in our funding. We have a regular presence at local and national funding fairs, often working in conjunction with our colleagues at Arts Council for Wales, Heritage Lottery fund and Sports Wales through the Lottery Forum. We also liaise closely with WCVA, county voluntary councils and others to reach as many people as possible. It is an essential part of our work that helps us to be open, transparent and accountable. Our blend of grant schemes, large, small and strategic, helps us to address the needs of a wide range of community and national groups. It helps us to be as accessible to as many communities as possible.

2.15 Working in conjunction with other funders through the Wales Funders' Forum, for which we provide the secretariat, we keep abreast of developments in other organisations to enable us to have a fuller picture of funding across Wales and to signpost our customers to other opportunities where it is relevant to them.

2.16 *Ensure that risks relating to bidders' viability, capacity and capability are considered at the bidding stage, mitigated by additional support where this would be cost effective and monitored carefully during project delivery*

2.17 We take a balanced risk based approach to grant application assessment and our requirements are proportionate to the amount of money being requested. Our risk based approach means that we expect organisations applying for large grants to provide more detail than smaller organisations applying for modest funds.

2.18 For larger strategic grants we require a detailed plan that generally covers the following:

- Project need
- Delivery Partners
- Intended outcomes
- Project delivery method
- How the project will be managed

² <http://www.biglotteryfund.org.uk/wales>

- Sustainability plans
 - Clear and transparent project budget
 - Staff and volunteer positions
- 2.19 On occasion, we also require a business plan. In such cases, we often award development funding to allow the applicant to further develop their proposals before a final funding decision is taken. Whilst some of those who receive development funding do not subsequently go on to receive full grants, this is balanced by the strong, credible and deliverable proposals that we do ultimately fund.
- 2.20 We provide additional support to both applicants and grant holders where there is a proven case for doing so. Our demand led programme, People and Places, offers support to applicants to help them compile their applications. We have put in place a self-evaluation support service in response to a general deficit in monitoring and evaluation skills that we identified.
- 2.21 *Ensure that project outcomes and standards of project and financial management are clearly defined and agreed in writing with recipients before releasing funding.***
- 2.22 As a matter of course we require those organisations that we fund to sign up to a legally binding agreement that contains our standard terms and conditions of grant. Should there be any issues that were identified during the assessment or decision making process that we wish the project to address we add additional terms and conditions as appropriate.
- 2.23 *Consider the relative merits of approaches other than grant funding, such as procurement, loans and investments, before committing to a new or continued grant scheme as the most appropriate mechanism for achieving the stated objectives.***
- 2.24 Grant Funding remains at the heart of our approach, and we recognise that the third sector in Wales, and indeed parts of statutory services, are predominantly reliant on grant funding. However, we recognise the need for organisations to diversify their income streams and to that end we have been exploring options other than grant funding for distributing both Lottery and non-Lottery funds.
- 2.25 Our Life Skills Project, jointly funded with ESF funds through WEFO, awarded funding through contracts as opposed to grants. Although clearly delivering against its objective of supporting hard to reach groups into training or employment, the contract approach is not without its challenges. Many third sector organisations lack the infrastructure or expertise to successfully bid for and deliver contracts. The smaller ones often lack the capital to provide sufficient cash flow where payments are either made retrospectively

or are exclusively connected to the end outcome. Of those that do apply for and secure contracts, they often need support to do so. We recommend that in considering other funding arrangements, the Welsh Government and other funders consider the capacity and associated support needs of the organisations for which the funding is intended.

- 2.26 Our Strategic Framework Refresh, *Fresh Thinking*, commits us to supporting the development of social investment³. The growth of the social investment market is a good example of where we can look to develop our funding beyond traditional grant-making approaches. For some VCS organisations and social enterprises, social investment may be a complementary or alternative source of funding that helps them achieve their mission. The Welsh Government (WG) has also signalled its interest, having made a £1m contribution to the Community Investment Fund II, WCVA's £6m loan fund launched in October 2011⁴.
- 2.27 It is challenging for us to roll out Social Investment in Wales given the very different policy context compared to that in England. We feel that social investment is not suitable for the vast majority of the organisations which currently apply to us for funds, but we are continuing to monitor the appetite for, and understanding of, social investment across the third sector in Wales.
- 2.28 Our thinking on Social investment in Wales is still emerging. We held a 'round table event' of funders and interest groups earlier this year and our collective view was that:
- the current level of demand for social investment in Wales was very low, and there were adequate funds to meet the demand from investible proposals;
 - it was the shortage of investible proposals, and not a lack of funds, that was the constraint on the growth of the market in Wales; and
 - a key constraint on investibility was the lack of opportunities to access secure income streams from the delivery of public services. Different policy with respect to the reform of public service delivery was likely to mean a slower growth in demand for social investment in Wales compared to England.
- 2.29 ***Take robust action when grants have been overpaid or misused, by suspending funding where necessary, recovering appropriate sums and, where funding is continued, strengthening requirements on recipients and monitoring arrangements before releasing further funding.***

³ http://www.biglotteryfund.org.uk/fresh_thinking-4-april.pdf

⁴ <http://www.sustainablefundingcymru.org.uk/fundingportal/funding-sources/loan-finance/loan-finance-providers>

- 2.30 We take all allegations of malpractice very seriously and always ensure a thorough investigation is carried out so that funding is spent appropriately. Once alerted to possible malpractice or misappropriation of funds we put the grant into ‘dispute’ pending the outcome of an investigation into allegations that have been made or evidence that has been presented to us.
- 2.31 Our robust grant assessment process means that it is very rare that we need to withdraw funding from an organisation, but where we need to do so we act swiftly and decisively. In December 2011 we were alerted to evidence of maladministration at AWEMA. We suspended grant payments immediately as the seriousness of the allegations raised questions about whether AWEMA was fit to hold a grant from us and immediately launched a joint investigation with the Welsh Government. When the investigation revealed significant breaches of contract we formally withdrew the grant that they had secured through our AdvantAGE programme in 2011.
3. Public Accounts Committee - Interim Report Recommendations
- 3.1 **We recommend that the Welsh Government should adopt a target of no more than 5% of its overall grant funding going towards administration costs**
- 3.2 Whilst we are on course to achieve our own 5% administration cost target, it is not without its challenges. For example, the costs associated with grants involving capital development are significant. Our Capital Support Unit (CSU) must provide specialist advice throughout the organisation to assist with the development and delivery of significant capital projects. This is essential to minimise the risk of projects involving capital works from failing and is a key control that helps us ensure that they are delivered effectively. The CSU undertakes technical reviews of individual capital projects at key stages throughout their lifecycle with the aim of achieving value for money and delivering quality building projects.
- 3.3 For the purposes of our 5% administration cap, certain “value added” functions such as our outreach, and evaluation work, are not included. It is often these additional measures that ensure we effectively reach and support the organisations and outcomes we want to fund, all of which are essential aspects of the service that we provide to our customers. *We would therefore suggest that this recommendation by the Committee includes a definition of what falls within administration costs. It should make clear where appropriate additional value added activities are permitted to maximise the effective delivery of desired outcomes.*

- 3.4 **We recommend that the Welsh Government establishes a single-point of contact for advice on funding applications (including, but not limited to, grants)**
- 3.5 We offer a dedicated bilingual helpline to our applicants that offers guidance, help and support on our funding programmes and application processes. Once an application has been submitted, the applicant has an ongoing relationship with the funding officer allocated to assess their application.
- 3.6 **We recommend that, taking into account the need for proportionality and proper procurement processes, the Welsh Government should include in its terms and conditions for grants and other forms of funding, a requirement that recipient organisations participate in the National Fraud Initiative.**
- 3.7 Our new funding management system has anti-fraud processes built into it and is designed to detect and disrupt any attempt to obtain funding from us for fraudulent purposes. This process begins from the point at which we receive data from applicants and it continues throughout the duration of any grant they may receive from us. The approach consists of two elements: ‘verification’ and ‘alerts’.
- 3.8 At verification we confirm that the organisation exists and that the bank details provided belong to the organisation. We will also verify the identity of the people seeking to play key roles on the project by checking names, dates of birth and home addresses against external authentication services. We will also check that they have a genuine link to the organisation they claim to represent.
- 3.9 Alerts can occur at any point during the lifetime of a grant and their purpose is to:
- identify multiple uses of the same or similar data;
 - contribute to the identification and investigation of potential multiple application fraud attempts; and
 - identify information that would impact on our willingness to assess or release funding.
- 3.10 Our new system is designed to recognise and capture all of these.

Notes prepared by Rita Austin (former Chair AWEMA) for her witness session before the Public Accounts Committee on 3 December 2012 (prepared following discussion with the Committee Clerk regarding the areas which the Committee may wish to explore)

Opening Remarks

- Former chair of AWEMA 2002/2007: December 2011 – March 2012. Served on many public bodies – mostly in education and health but also criminal justice. Have chaired audit and risk management committees, quality assurance and performance committees in my time. Been involved in race equality work most of my adult life in paid service as a senior manager for public and third sector organisations and as an unpaid volunteer in black voluntary organisations, often as chair.
- My promotion of race equality in all my work capacities over many years has not endeared me to senior officials and politicians. Speaking truth to power is never easy and never more challenging than in race equality work addressing persons exercising power in powerful institutions when they fail to, or refuse to acknowledge personal and institutional racism. While I can recognise and call both when I see them I have learned to make the call only when I am assured that I can subsequently have a grown-up conversation with persons who do not revel in their own ignorance. My position is wholly pragmatic, not one I am particularly proud of, but one that I have learned promises more opportunity for more progress than using ‘racist’ or ‘racism’ ever does, precisely because these words too easily close conversation down and allow proper understanding of the cultural stereotyping which leads to disadvantage and detriment (which is what racism essentially is) to be side-stepped and substituted by self-righteous and defensive attitudes.
- So, contrary to the PAC Chair’s comment as recorded in the transcript of your 22 October meeting, I have not charged racism against anyone at any time in this whole sorry saga – the BBC made that direct attribution to me, using quotation marks, in their online comment. And, when I was able to prove the contrary, the offending online comment was withdrawn by the BBC but with neither correction nor apology. I regret that I did not also ask for the attribution in BBC presenters’ blogs also to be corrected, and the BBC, adopting the narrow focus in dealing with complaints that this WAO report criticises the WG for adopting, failed to withdraw and correct anything other than the specific online report I had criticised.
- Given that a whole section of the WAO report is devoted to considering whether inappropriate political influence was used in any WG dealings with AWEMA I should make it clear that my membership of the Labour Party which was of long standing and included elected office – ceased in 1992. Which is not to say that I have not

dropped the odd leaflet or stuffed the odd envelope on its behalf in the past 20 years – nothing to win me any favours; nor does the fact that I served in elected office alongside four who have since become AMs, give any reason to suppose that AWEMA was ever favourably treated. Quite the contrary – I wouldn't describe relationships between myself and my onetime county councillor colleagues now AMs as cordial. They were not at the time and since then have been more or less non-existent. Even in the times I was AWEMA chair contact and conversation was limited to a few AWEMA sponsored events and perhaps three or four times subsequently when I have lobbied these four AMs on race equality issues to do with mental health and maternity service – always unsuccessfully

- And I should state in my opening remarks that my only motivation for becoming re-engaged with AWEMA just about a year ago was because of my commitment to advancing race equality generally in Wales, in this instance to defend the only bme development organisation in Wales from the chaos of an internal board room coup which threatened its stability and capacity to do good work with WEFO Convergence project beneficiaries (mostly from the minority ethnic communities) and with bme communities more generally.

Opening Statement

- I wish to draw attention to two aspects of the WAO report where a full and comprehensive assessment of the relationship between the WG and AWEMA does not materialise.
- First – the conclusion that there had been no inappropriate political influence in WG's decisions about funding AWEMA. While this is certainly the case when presented on the narrow construction that politicians had always followed officials' advice in its AWEMA funding decisions, it ignores how officials, precisely because they do not work in an ivory tower but in the real world, are open to all its cultural influences, and so cannot avoid but be influenced by the politics - in all its forms - going on around them. Of course they are influenced by what is in the media when reaching their decisions and making their recommendations up the officials' line and onwards to politicians. To suggest otherwise is foolish. Hence the importance of observing long standing conventions in public life for senior officials and politicians to avoid, or at least carefully temper public comment which may unduly influence or be seen to influence governmental decision-making.
- But this is precisely what did not happen during the conduct of the IAS review which concluded with the recommendation to WG and WEFO that they decide whether to continue funding to AWEMA. Faced by the clear declaration of the then most senior

official of WG -the Permanent Secretary - in her evidence to the most senior of committees charged with scrutinising the use of public money - the PAC - that AWEMA should historically have been graded a 'high risk' organisation (when, as the transcript of your last meeting states she had no substantiating evidence), it is scarcely credible that the Head of Internal Audit responsible for the IAS review who reports directly to her (a line of report he was keen to emphasize to me on his first phone contact) would consider AWEMA as anything else.

- Nor is it remotely likely that funding departments' directors would take a contrary view particularly when, shortly after that PAC, at a plenary session, the chair of the PAC rhetorically asks WG politicians to agree that this is the end of AWEMA. These prejudicial comments followed twenty days of constant, strident, partial and ill informed interventions by AMs of all opposition parties (including their leaderships) against AWEMA which fed and legitimated an unremitting negative media.
- And all this at a time when radio silence should have been observed by all politicians in order to avoid inappropriate political influence during the conduct of the review. Such media performance may contribute to the gaiety of the nation when directed by politicians in game playing against each other but it is full of menace and threat to a small organisation caught in the crossfire which is itself following officials' advice not to comment during the course of the review.
- But the main point I make here is that the WAO report does not itself explicitly consider and conclude on this episode of funding decision-making to weigh the appropriateness or otherwise of senior management influence on audit conclusions and political influence on WG funding decisions – a case study in this respect would have illuminated the dynamic and assisted a conclusion. It should have been done.
- The second aspect of the WAO report to which I want to draw attention is the very weak analysis and commentary devoted to WG and WEFO actions following the AWEMA chief officer's disclosure to a senior WEFO official - a head of branch - on 29 November 2011 that financial and other allegations had been made against him (the chief officer). I had insisted that this disclosure be made as a condition of my accepting nomination to chair AWEMA once again, shocked really that the trustees had not already brought these matters to funders' attention, the most serious of which had been disclosed to them as early as their July AGM.
- While I can understand the practical reason why the matter is not given more scrutiny and analysis in the WAO report – a matter of time pressure because the WEFO official concerned agreed, only a week or so before publication of the WAO report, a fuller extent of the conversation which had taken place on 29 November than he had admitted to five months earlier when, at my insistence, he was asked

the question again given his earlier recollection that no conversation between the chief officer and himself had even taken place.

- But even his improved later recall that he had been told by the chief officer about financial allegations against him, did not include all the matters conveyed, including and especially a request made to the official by the AWEMA chief officer that the official's opposite number in the WG Equalities Unit also be told. Perhaps if a further two weeks had elapsed before the publication of the WAO report, the WEFO official's recall would have improved sufficiently to remember other salient aspects of what had taken place, when and where.
- I was, and remain quite clear in my own mind, that the AWEMA chief officer's conversation with the senior WEFO official did take place. When, the next day I asked him what had taken place I was given detail - on the margins of another meeting as the WAO report states, but a private conversation in an adjoining room which the chief officer had requested to be out of earshot of others given the sensitivities of what he wished to say. The conversation took around 15 minutes and covered the main aspects of the allegations – some financial some concerning his management practice – and all made by a junior member of staff against him.
- The WEFO official was put in the picture about the planned EGM and the proposal to nominate me as chair, and my condition that these allegations be disclosed to funders, and he was asked to keep the WG official informed. The WEFO official was told that he, the chief officer, had, as instructed by his Board, made a full response to the allegations made against him, but because his response had not been considered at the November Board would be put to the December Board when it was hoped I would be in the Chair. Thence it could be sent to the funders (which is what subsequently happened).
- I had no reason not to accept the chief officer's word that all this had taken place as he relayed it to me – the chief officer has never lied to me nor ever sought to hide from me those few occasions in the past when he had not carried out the full extent of what I had asked in a timely manner – as he had not at this time by not informing the head of equalities unit himself but relying on the WEFO official to do so.
- What is important to note here is that what was disclosed on 29 November, some 20 days before the WG and WEFO decision was taken to suspend AWEMA funding and to commission the IAS review, what was disclosed comprised the full extent of what the WG and WEFO were informed about on 19 December by the AWEMA Finance Director albeit using more intemperate and colourful language.
- Put differently, WEFO knew no more on 19 December by email from the FD (followed half an hour later by the chief officer's email to WG and WEFO which made

passing reference to his earlier disclosure to WEFO) than it knew on 29 November following the chief officer's 15 minute conversation face-to-face with the WEFO official: the difference was that no follow-up action was taken on the earlier occasion.

- When the WEFO official confirmed in conversation with the chief officer that the financial allegations did not directly involve WEFO funds, and was informed further in response to his direct question that no allegations of theft or fraud had been made, the official should nevertheless have escalated the matter upwards inside WEFO and outwards to the WG funders. It is a very serious matter that financial allegations of whatever nature, substantiated or not, are made against the chief officer of an enterprise responsible for the safeguarding of significant public funds.
- At the very least the WEFO official should have insisted that the chief officer confirm the content of their conversation to him in writing. Certainly he should have kept a file note of it himself. Both would have been prudent actions. None were done. The WAO report should at least have commented as much. (My only regret looking back is that I had not advised the chief officer to keep a file note of the 29 November meeting himself).
- Acting within this silo mentality has not been without consequence both to AWEMA and to the WG and WEFO. Had the WG and WEFO intervened on 29 November in the same way as they did on 19 December when they knew no more, it is indeed likely (as the WAO Report says) that over £500k of public money would not have been released by WEFO. But this would not have made matters worse for AWEMA or for its partners as the report goes on to say. What was owed to the 4 partners, a bit over half, could have been directly reimbursed to them by WEFO - the claims to August 2011 had been verified, and trades people were few in number and low in value because our regular bills were always paid within the 30 day requirement.
- On the contrary – an IAS review instituted a month to six weeks earlier than it was would have established earlier the considerable deficiencies in statutory and management accounting. And this earlier intervention could have provided opportunity for remedy – for the Finance Director to finalise the 2011 statutory accounts in time to comply with the statutory date for submissions to Companies House and Charity Commission, and to establish proper management accounts. In other words, breaches of contract with the funders, which precipitated the termination of funding to AWEMA, could have been avoided.
- But most importantly of all, the then serving trustees would have been in place to take responsibility for and to account for their actions in permitting such deficiencies of financial control and governance to obtain - in particular the Vice Chair (North) who was acting in the Chair, and the Treasurer who was meeting with the FD at least

every fortnight. Nor would it have been necessary to go forward with the EGM which brought me in as chair.

- Nor, once an IAS review was in place would there have been any need to carry through the Paul Dunn investigation which led to that most shoddy, inaccurate and biased report which put centre stage and foremost relatively minor but important financial irregularities in managing expenses yet remained silent about the far more important matters of poor financial control and management in respect of the statutory and management accounts. Not escalating the chief officer's disclosures of 29 November has had serious reputational consequences for all associated with AWEMA and done them and it much hurt and harm, all of which could possibly have been avoided with earlier WG and WEFO intervention, and this includes termination of funding which led to its demise.
- And as to whistle blowers – the FD's communications on 18/19 December 2011 was never the action of a whistle blower. How could it have been when the same matters had been communicated to funders by the AWEMA chief officer 20 days earlier? Consequently, and quite properly the WAO report makes no reference to whistleblowers – a self designated label accorded by the FD and the Vice Chair North to themselves – because there are none. So it is a matter of huge regret that the transcript of PAC proceedings of 22 October includes a report of a WAO official using 'whistleblower' to refer to the FD, echoing the use of that term by a committee member in his question to him. I hope both now regret using the term – it is not and has never been a fact: only a self serving fiction existing in the mind of those who have done AWEMA much harm.
- My purpose in setting out the events of 29 November and the consequences of WG/WEFO failure to act at that time at some length is to demonstrate that these matters fell centrally within the terms of reference of the WAO investigation and hence should have been given a fuller analysis. Clearly the WAO pulled its punches in this regard and its report remains deficient to this extent.

Nature and Purpose of AWEMA in my first period as chair Jan 2002-Jan 2007

- to assist the National Assembly in its understanding of, and responsiveness to, race equality issues, primarily by shadowing the work of its subject committees and responding to policy consultations from a race equality perspective. One of four equalities organisations funded by the first Assembly to give shape to its adoption of equality as a founding principle (together with sustainability). Apart from one consultation on the HSCWB strategy in 2002, no further effort to bring four bodies together for shared perspectives, and no encouragement to work together

- One serious (perhaps unintended?) consequence of setting up outside organisations 'to do equality' was that WG abrogated responsibility itself to embed these important founding principles within its policy response at source. An early example of outsourcing which meant that officials themselves learned little of race equality and were wholly unskilled in commissioning and managing the work of far more knowledgeable but external equality organisations, who for their part had little knowledge and experience of how the government system worked.
- many difficulties – personal jealousies, competition for scarce funding resources, resentment at NA for relying on a single channel – all of which translated into constant criticism by a few prominent bme community members to the media or to ministers and officials and to AMs who would then raise these matters at plenary sessions. All this within a context of the constant search by AWEMA for more projects funding and longer term core funding.
- Our difficulties are common to many bme third sector organisation but with some important differences: as a multi-purpose, multi-functional, umbrella organisation with an all Wales aspiration, AWEMA faced governance challenges which are not faced by most bme associations which tend to be much less ambitious in scope, impact and range. While the ambition was praiseworthy the execution was very challenging not least because of the dysfunctionality in the WG Equality Unit.
- Board meetings were often difficult to handle and it often felt as though AWEMA had few friends, though several bme groups and organisations welcomed the chief officer's efforts to attract funds in which they also shared. AWEMA successes in securing funding were not universally acceptable and criticisms and complaints were never far away: the more successful we were in securing new projects' funding, especially WEFO funding, the more criticism we attracted from a few loud voices.
- We did not keep our governance issues a secret – Equalities Unit personnel, mostly junior and on occasion quite senior, always attended our Board meetings up to the time we became a charity, but declined our invitation to do so once charitable status was gained.
- my role as chair – to take the lead on governance – regularity of board meetings, responsibility for agenda, conduct of meetings, holding chief officer to account. Gave close supervision to chief officer particularly on matters of internal management. Encouraged his work in chasing new funding opportunities. Was aware of officials concerns leading to a review in 2002/3. Following review ensured that basic financial systems began to be put in place (including expenses claims, purchasing procedures). Two major recommendations – put our governance on a more secure footing; recruit a finance officer. Both done – first by becoming a charity in 2005 and by securing funds to recruit a Finance Officer in that same year.
- Nature and Purpose of AWEMA as enshrined in our Memorandum of Association when we became a charity were: To promote equality and diversity for the benefit of the public ...

- a) by developing capacity and skills of members of ethnic minority communities in such a way that they are better able to identify and help meet their needs and participate more fully in society
- b) advancing education in equality and diversity whether by teaching and producing material, and
- c) raising awareness of all aspects of discrimination in society on the basis of race or ethnic minority status by publications, public advocacy and other means of communication
- given paucity of staff, and no senior ones apart from chief officer, in addition to my duties as chair I took a keen operational interest in AWEMA work (see footnote WAO pp68) – doing research, writing reports, attending face-to face meetings with officials in several departments. In particular I personally supervised and wrote the Carers report and closely assisted officials on the Assembly's response to the RRA Act contained in the second race equality scheme. Some other projects agreed with the Equalities Unit involved a lot of work, which came to nothing – public appointments in 2005/2006. Pleased the WAO report says that I was not paid for my work as Chair – only for operational work I did, when, and only when there were funds available. Nothing of note left AWEMA to the Assembly or other public institution other than I wrote it or closely supervised its completion
- encountered considerable problems with the Equalities Unit – very poor leadership, decapitated twice in my time, constant staff turnover, very poor policy advice. Never had a clear idea of what it wanted AWEMA to do in return for its funding. Constant confusion between the expected outcomes of core and project funding – never resolved. No understanding of the dynamics of race equality work, no passion for it (one or two officials who had knowledge, understanding and passion were squeezed out), no sustained commitment not from senior officials (bar one) none from Ministers, let alone AMs.
- General attitude towards us of why don't you go away? Conscious of huge internal problems around putting the race equality scheme together. First draft so dreadful we took up an assertive stance and published our own newsletter including headlines of what should be included in an acceptable scheme. Arrangements for, and conduct of IMANI report complete shambles – AWEMA was not interviewed. Raised objections to the draft report – I cannot recall seeing any final one. Do recall that for the whole of the next year while it was decided what to do with AWEMA we received funding only 3 months at a time – hardly conducive to stability and organisational development.
- Complaints made in 2007 fell beyond my chairmanship but because they referred to matters during my watch, and as a member of Council I kept a watching brief on their progress and signed at least one letter to Equalities Unit officials. My clear recall is that we given a clean bill of health, and funding, which had been suspended,

was re-instated in a few weeks. I personally do not recall hearing about Charity Commission approaches to AWEMA on this matter

- the fall out from the IMANI review and report made the submission process for the EQUAL project very difficult. True to say that meeting WEFO requirements gave a spur to the development of internal policies which contributed to good governance. But it proved very time consuming to get the Equalities Unit and WEFO to talk to each other let alone work together
- we were encouraged to approach other departments for funding possibilities – and this was a mixed bag. Some – like education talked a lot and we responded to many consultations but never heard back; others like health said it did it all its equalities work in-house, but you would be hard pressed to see any evidence of it on the ground in health delivery; housing was more positive – AWEMA based work spun off into its own organisation, and social services produced the Carers funding but no follow-up as had been promised. But no one department knew of what the other did. And each time we approached a department it was like beginning from scratch.
- Board met regularly – if not quarterly because of lack of business then six monthly. Difficulty of getting and retaining members. Board always received written chief officer report (sometimes tabled) presenting work in previous period and future planned work. Accounts began to be properly kept and gradual improvements in timeliness of statutory accounts – most times delayed because of WG funding delays. But draft annual accounts ready for AGM except for one year
- Read in transcript of October PAC that AMs believe that there were plenty of opportunities to shut AWEMA down – on which occasion and on what evidence? If there were these several occasions, no one told us. We would be meticulous in responding to any issues raised with us about governance, financial control or service issues and inform the Unit when matters had been attended to – that they were not further followed further by WG or WEFO officials (as the WAO report seems to suggest), cannot be laid at our door.
- It is a function of the way that the WAO report is presented that negative issues about AWEMA are grouped together (with several written in detailed case study format) and our positive outcomes reported elsewhere (or not at all) and there are no detailed case studies evaluating our positive service outcomes. But the day-to-day reality was that negative aspects of AWEMA governance went hand in hand with positive service achievements including many 'softer' community development activities, much appreciated, but under the radar and not counted anywhere. This must have made identification of opportunities to shut us down, as the PAC members now contend, very difficult.
- But unfortunately the dysfunctionalities in the Equalities Unit and meant that there was no locus, no opportunity, no knowledge and, very possibly, no will to provide an overall balanced view, including comparison with the work and outcomes of the

other three initially funded equalities bodies (which is what we were told the IMANI review would provide and did not).

Second Period as Chair

- very little contact between January 2007 and November 2011. Remained a member of AWEMA Council; attended perhaps one AGM in Cardiff after I stepped down and none since the move to Swansea in 2009. Approached by chief officer every year prior to the AGM to ascertain my position re: nomination for Council membership; kept up to date by him re: developments at AWEMA particularly progress with WEFO. Took part in some fund raising activities. Was aware that after EQUAL finished (2008) AWEMA reduced to four or five staff members while preparations made for submitting bids for the Convergence projects. Aware of at least two office moves in Swansea, the last being into the 4th floor of the YMCA building and proposals longer term for a community centre
- Returned to AWEMA business in early November 2011 when asked by Treasurer to hear a staff appeal (she did not turn up). Informed then by Vice Chair South of his growing concerns about events at AWEMA – conduct of FD, low staff morale including increasing staff sickness absence, chaotic Board meetings and general breakdown of working relationships and support given to the chief officer, lack of audited accounts.
- Heard from the Vice Chair South about the allegations (including financial allegations) against the chief officer and the part played by the FD in orchestrating these allegations. Heard too that chief officer asked to prepare a detailed response to these allegations for November Board meeting. Heard later from chief officer and asked by him to read and review his response before he submitted it to the Board a week before the Board meeting. Conveyed to him my disapproval of his conduct in regard to expenses and cautioned that he would likely face disciplinary action because of it. Also cautioned that his failure to declare interest appropriately.
- Informed by some Board members that the November Board meeting failed to look at chief officer's response and instituted investigation into yet more management practice grievances tabled by FD following his efforts to collect same from some past and present staff members. Under AWEMA Grievance procedure, in common with many others and in accord with ACAS guidelines, grievance procedures should always be internally investigated. But an external investigator was used. Commissioning, conduct and outcomes of Paul Dunn report seriously deficient.

- After the failure of the November Board to take appropriate action I was lobbied hard by some Council and Board members, speaking also for staff who had approached them, to return as Chair (vacant since October with an absent chair for some months previously) to provide leadership and focus. Agreed to accept nomination on certain conditions including that funders be told about allegations – very concerned that they had not been. Confirmed by chief officer that this had been done. EGM held on 16 December, elected by all 12 members present of Council (out of 18), bar one.

IAS review scope and implementation

- Phoned by Head of Internal Audit early in January and told that funding departments had asked for review. Said I was going in next day to give an additional document in to the Equalities Unit. Was told that I would meet the review team; expecting meet and greet, but confronted by the Spanish Inquisition. Meeting on 6 January in excess of 2 hours to which I called a halt; notes taken by them – not me; put under pressure to suspend chief officer – explained that Board had already taken disciplinary action re: his retention of an excessive float for future expenses having cleared his credit card (which included an amount for his AWEMA expenses) using charity money and some other matters
- Explained that I had taken disciplinary action (shortcutting through procedures), so no need to suspend. Returned on 9 January with written reasons as to why it would be impractical for suspension – I was quite confident that I could control his action as both chief officer and trustee under my supervision; most of all needed chief officer intelligence in situ to find documents, answer queries etc.; did not think that any member of staff had all this knowledge and interim manager would not have either. I certainly could not remain as Chair of a charity without a chief officer in post.
- Given draft copy of scope of review; discussed and agreed same with board at planning meeting on 10 January. Prepared many documents as requested. Team in our offices on four occasions – 2 day site visit 17/18 January and then two further half days – one in which they met with our external auditor accountant and temporary finance manager and assistant appointed by me.
- Cooperated fully during site visit and subsequently presenting evidence critical of AWEMA governance and financial control that searches I had instigated and the chief officer had unearthed (that is not turned up by the IAS team) re: financial control (expenditure on gym membership etc) and financial management (further detail on absence of financial accounting). Responded rapidly when queries raised by IAS review team. Probably spoke or emailed IAS team members every other day in

the 5 week period, and submitted around 6 papers on various governance and control matters.

- We were fully aware of the likely critical nature of the report having contributed so much of the criticism of governance and financial control ourselves. So feeble excuse on the part of Head of Internal Audit not to seek our agreement to the report. Our record of swift response on other matters raised by the review team should have confirmed that we would have responded in good time, and had we not, our late response, or non- response could have been noted in the final report. Similarly if we had not agreed with the conclusions reached this could also have been noted in the final report, where it would have quite properly stood to our detriment.
- But at least we should have been asked to check on factual accuracy. Within a half-hour of reading the report I had challenged the senior manager of the IAS team as to the accuracy of the opening paragraph (which stated the date of initial disclosure of allegations as 19 December) only to be told that I had to take the matter up with the funding departments. Yet I am clear in my own mind that when I met the team on 6 January I told them that disclosure to funders of the financial and other allegations about the chief officer had been a condition of my accepting nomination and that a WEFO official, who I named had been informed on a day I specified accordingly by the chief officer.
- Prior to the meeting this afternoon I have asked for the IA senior manager's written record of the 6 January meeting to be checked on this point and I have been told it states that I as Chair of AWEMA told the AWEMA CEO that he would have to inform WEFO of the problems within AWEMA. But what the IAS report does not state is whether my assertion was checked – did she check with the AWEMA chief officer that he had made the disclosure? did she check with WEFO official that the AWEMA CEO had done this? did the WEFO official confirm or deny?
- Recognition by the IAS tem of the earlier disclosure speaks to the new climate of good governance I had resolved to re-introduce and failure to do so results in issues of balance in the IAS report primarily because it does not distinguish between the trustees who resigned and those who remained: para 3.17 states the Head of Internal Audit's view that this was deliberate because of some 'continuing failures of corporate governance'.
- While these failures were many and continuous since last I was chair in 2007, and well documented in the report, there were NO failures of corporate governance from the time I became chair on 16 December and the IAS report of 9 February 2012 contains absolutely no reference to any failures in corporate management on my second watch as chair. So I cannot accept that 'continuing corporate failures in the

governance of AWEMA' is substantiated as a reason for not distinguishing between the trustees who resigned and who remained to do their duty by AWEMA.

- When, in preparation for this meeting I asked the Head of Internal Audit to substantiate these continuing failures since I became chair, he mentioned only the continued presence of the chief officer as trustee. This is wholly disingenuous for the reasons I have already explained. His continued presence as a chief officer was necessary for the continued functioning of AWEMA, but his presence as trustee in terms of quorum arrangement was not – and this latter was wholly under my control. Certainly this was no reason for not distinguishing between the trustees and board members who, in the event and excluding the chief officer, comprised a majority who had not been present at the July AGM from which point the most recent and most problematic of the failures in governance and financial management became apparent.
- But the fact of not distinguishing between the trustees on the grounds of 'continuing failures of corporate governance' has an important consequence: it formed the context for not considering what action AWEMA could of itself take to remedy the faults found in governance and financial control. Given all the improvements to financial control and governance such as: appointing temporary staff and making good the deficiencies in the accounting function; contracting with a HR consultancy to provide personnel services to progress outstanding issues; discovering and alerting the IAS team to wrongful expenditure (gym membership etc all in the year that the 4/5 remaining staff had taken voluntary salary reductions); reviewing expenditure by requesting and receiving a voluntary salary reduction on the part of 2 of the 3 Directors (not agreed by the FD), all of which had been instituted by the Board under my leadership in a very short time, I would have thought that sufficient had been done to show that we were determined to improve governance and financial control and had moved swiftly to do so.
- It was my reasonable expectation at the time, and remains so today, that either the IAS report itself should have presented an explicit analysis and evaluation of AWEMA's capacity to remedy deficiencies and to return governance and control to a more secure footing and thereby return AWEMA to a position of contract compliance, or, for the IAS report to have specifically recommended that the funding departments carry out such an explicit analysis and evaluation resulting in a time bound improvement Action Plan for AWEMA to meet.
- Given the lack of negative reports about AWEMA's governance and financial control known to WG and WEFO when both received the IAS report, I contend that neither funder had the evidence to justify an immediate withdrawal of funding on the basis of a long history of deficiency in these areas communicated in terms to AWEMA and remaining un-remedied by AWEMA, and therefore that their decision to withdraw

funding without notice and without the opportunity for AWEMA to be tested in its response to a challenging and rigorous improvement action plan, was neither proportionate nor reasonable. That the funders had not used this well used improvement action plan methodology to assess improvement during earlier AWEMA reviews provides no acceptable reason not to observe this good practice on this relatively far more serious occasion.

- Instead all the IAS report recommended the funding departments to do was to consider the nuclear option (paras 53 & 54 of the IAS Report). So the termination of funding was imposed as punishment for a past breach of contract without any explicit consideration of how and whether those breaches could be remedied going forward – as they could. It is simply asserted by the funders that they could not. This is not transparent decision-making.
- And It is difficult to escape the conclusion that the decisions of auditors and funders was not influenced by the noisy and partial politics of the occasion as evidenced in the inappropriate management and politician influence on the auditing and funding decisions of senior officials (see Opening Statement). What is also much to be regretted is that the WAO pays such scant attention to these important lapses in WG good governance, giving the appearance that it has itself been overtaken by the group think.
- The result of the IAS report's failure to distinguish between the trustees who walked away and those who remained to put matters right, was that when we met on 10 January in planning mode to consider the report and ways forward (but not to make decisions because we were not quorate), all present took the report to be a vote of no confidence and wished to resign. Of course we could not because we were down to quorum and our Memorandum forbids any further resignations when this point is reached. But we are all volunteers and could have walked away.
- That we did not is a tribute to all of us who continued in difficult circumstances made no easier by immediate terminations of funding, to try and progress an orderly closure. For my part I estimate that I have spent in excess of 150 days attending to AWEMA business in the last year, all of it unpaid, and it continues, mostly in response to the WG and its agencies. Cost that at the public sector consultant rate and a value can be arrived at which has been saved by the WG which otherwise would have had to step in. Had I not stepped up to take control and the remaining trustees not stayed with me to clear up the mess, the cost to the public purse would have been much greater.
- Who is to blame for the weakness of governance? In equal shares – the trustees and board members corporately for not providing any effective leadership or scrutiny, in particular those who held office among the trustees; the chief officer for not

providing any effective supervision of the finance and governance function as discharged by the finance director in his company secretary and FD roles.

- But the first instance culpability must lie with the FD who was responsible for the weakness in financial control. For close on a year he did not do the job for which he was qualified and well paid and had performed satisfactorily in the past - that is keeping statutory accounts in the approved timely manner. His failure in the first instance was compounded by the chief officer for not providing sufficient and focussed supervision during this period and also by the trustees, in particular the Treasurer for exercising nil scrutiny.
- It is clear looking at past minutes that chairs subsequent to me simply did not take their chair duties seriously enough in providing both support and scrutiny of the chief officer – the ‘critical friend’ role. Equally, the chief officer, especially in later years, left financial matters wholly up to the FD. Once qualified (and AWEMA invested something in the region of £10k in assisting the FD to become qualified), his work was not closely supervised by the chief officer though he met regularly with the chief officer to progress operational matters and with the Treasurer for guidance and support. Most years this light touch was enough but evidently not during 2011.
- Certainly the Treasurer like all other trustees (including the chief officer) seem to have taken at face value whatever the FD told them about the state of AWEMA finances without being presented with written properly analysed financial accounts. I have seen several emails where the FD is promising statements and accounts but they have not materialised. The FD’s defence of this state of affairs is that all was in the form of spread sheets – electronic memoranda, nothing more – and certainly not capable of producing the sort of scrutiny that should have been given to ascertain the continued solvency of AWEMA. Certainly without monthly management accounts neither the FD nor anyone else had the first clue as to what the true state of AWEMA’s finances were given that advance payments due to partners had not been made nor WG core funds accessed.
- Sometime in 2011 the FD had unilaterally jettisoned the use of the SAGE as the primary, and sole, accounting system (a WEFO requirement) without the knowledge of the chief officer. Apparently, it has since emerged he had agreed this with the Treasurer. So, we have the situation where the FD, who is also Company Secretary and the Treasurer between them agree a change in accounting method without informing the chief officer (the FD’s line manager) which, on their own admission put AWEMA in a position of non-compliance with its own Memorandum of Association. This is because the use of spread sheets as the primary system would delay updating SAGE now relegated to a secondary system, by three months, leaving no time for audited accounts to be ready for a July AGM as required by our Memorandum. But the 2010/11 accounts were still not ready for the September Board meeting, and not

even for the December Board when I became chair. A pity the FD didn't blow the whistle on his own misconduct ...

- Who else is to blame for weakness in governance? The funders for not picking up through regular monitoring and performance appraisal such matters as the employment of family members, salary levels and deficient arrangements for validating salary progression all of which the IAS report takes issue with. Of course trustees should also have picked up on these. But the dual role of the chief officer was included in the proposed Memorandum and Articles when I first saw the draft in the solicitors' office back in 2004, and I did not know any different to challenge it.

Delivery of WEFO projects

- FD was responsible for preparing and inputting all WEFO claim work – no one else. He was trained by WEFO officials in the accounting systems both for the EQUAL project and the Convergence projects. Only he had the code to access the system (an id was also available for the chief officer but never used because he had not been access trained). He primarily liaised with co-sponsors on financial transactions; he was responsible for payments not being made in advance to project partners and for promoting a Memorandum of Understanding which forbade it, without checking with WEFO that this was consonant with their own expectations. But although the MoU was not signed up to, the practice of not passing on advance monies was instituted
- After I took over in December it materialised that the FD had done no work on processing claims beyond August 2011 - not for any of the project partners or even for AWEMA. For AWEMA claims the situation was even worse – he had not processed salary claims for any of the senior staff, for the rent or for volunteer time (an important component for match funding) since the financial year began in April. We simply did not have the time to attend to all this when first I took over as chair, attending to it only after the IAS report became available.
- But the main catch-up work was done after AWEMA closed its offices at the end of February. It would not have been practical to train any of the temporary finance staff or myself in this specialised inputting so it was arranged for WEFO staff to assist. And all the outstanding claim work was done by this WEFO person assisted by ex AWEMA staff as volunteers and myself. Of course we could not answer detailed questions with no chief officer or FD available. This is probably what lies behind the WEFO team's final calculations the outcome of which is now being disputed between WEFO and AWEMA liquidators

- But two other points should be made re: WEFO relationship with AWEMA which either do not appear in the WAO report, or are not made as substantively as they might.
- First –the initial due diligence work was simply not challenging enough. It should have been abundantly clear at the outset simply on the basis of proposed budgets that once all three projects were up and running , AWEMA costs, in particular salary costs, could not be sustained by match funding from all sources, especially when set against a punitive intervention rate of 45p across the projects (meaning that for every £1 claimed only 45p is paid out by WEFO: this is a hefty top slice, far in excess of the 10% AWEMA was proposing to charge its partners, but never did).
- Put differently, AWEMA’s model was a flawed business model from the start. While it is understandable that AWEMA management may wish to gild the lily somewhat in its bid, it is completely unacceptable that the AWEMA plans are not scrutinised sufficiently first by AWEMA board and trustees (particularly the Treasurer who has extensive experience of WEFO in his day job) and certainly quite reprehensible that the flawed business model is not challenged by its Financial Appraisal team through the WEFO due diligence exercise.
- The second point is picked up in the WAO report – the quality of performance monitoring and appraisal exercised by WEFO. In my experience WEFO audits were very much of a tick box variety focussing on whether evidence was available to verify that a particular project activity had taken place, or whether certain expenditures were eligible. Certainly more strategic audits, evaluating how projects are performing against approved budgets, appear not to have been carried out. It is extraordinary that the WEFO audit teams during the early part of the 2011/12 financial year did not know that the statutory accounts were not prepared. Nor even in conducting their early December 2012 audit appeared aware of the disclosures made by the chief officer to the head of WEFO branch on 29 November in order to test the chief officer’s assertion that WEFO funds were not affected.

Advocacy for Elders

- As far as I could gather, two separate lots of funding had been received from BIG – both small sums £5k or less. One grant was fully expended, reported on, accounted for and signed off. For the other – advocacy for elders – consultation events were held, training in London attended and a recruitment exercise commenced. All these attracted costs and I wrote in the

closing days of March 2012 to BIG reporting on same together with a balancing figure estimating what we owed BIG and asking that further conversation take place with our liquidators.

Understanding of necessary expenditure in WG letter

- My understanding was - salary costs, rent, telephony, photocopy, trustees travel expenses to board meetings. I was offered no advice by WG. Checked out my understanding with insolvency practitioners who I approached a few days late, and acted thence forward on their advice.

Lessons to be Learned

- Guarding against “inappropriate political influence in funding decisions”: where can it be laid down that it is wholly inappropriate for WG senior officials to make public statements about funded organisations when there is an on-going audit investigation? Similarly where can it be laid down that it is wholly inappropriate for any politician of the WG – irrespective of whether they or not they are members of the government –to make any public comments about funded organisations when there is an on-going audit investigation? Are there codes of conduct which apply to these conducts, and can they be checked to see if they are robust enough to cover these points? And can the code include guidance on how aggrieved parties can seek redress?
- More challenging due diligence at project submission to scrutinise and test sustainability of bid in the light of intervention rates (where they apply in determining income) and proposed expenditure. [I understand an intervention rate of 70 % is now in place in successor arrangements; glad someone has listened. Certainly will make a difference to the amount of balancing match funding which needs to be raised.
- And If it is thought fit to apply much more generous intervention rate to the Convergence projects now located in the successor organisations, why can the improved intervention rate not be applied retrospectively to these same projects when they were based at AWEMA – it is the same financial year? Applying an average intervention rate across the three ESF projects of 70% instead of 45% would make an appreciable difference to AWEMA’s closing position with WEFO, perhaps even putting AWEMA clear of any liability.

- Improved performance monitoring and appraisal – to include such items as sighting the AGM minutes (in draft) within 2 months of AGM date, Of course sighting the statutory accounts. Sighting chief officers annual report (or report to trustees); sighting trustees training portfolio. Invitation to funders to observe AGM in the same way as external auditors
- Consolidating knowledge management of funded organisations within WG. Named officials to be responsible for maintaining a ‘what’s known’ portfolio for each funded organisation under their administrative scope with grants management officials notified of same and put under obligation to contribute knowledge to it whenever there is contact with said organisation. Officials who consider new proposals for funding from said organisation required to consult said organisation’s knowledge portfolio when assessing bids or any significant proposed other contact which requires a briefing - such as ministerial visit
- Develop a strategic focus for the work of the Equalities Unit. What is noteworthy about the WG relationship with AWEMA, given the policy intentions at its founding, is not only that it demonstrates failures in grants management, but also that that it represents a significant failure of WG policy on matters of race equality. Nothing manifests this more clearly than the items for action listed in the 2012 Strategic Equality Plan published this January where in connection with race equality there are items listed which were included on my advice in the WG second race equality scheme in 2006 (scoped for achievement by 2009). These same items appear again in the 2012 Strategic Equality Plan with absolutely no indication that any progress has been made in these matters in the intervening 5 years.
- For example, there is no base data, let alone trend data, on differential ethnic rates of educational achievement, mental health treatment outcomes, accessibility of community based maternity services, informed consent for health procedures, access to disability provision at all age levels, youth and adult employment ... to pick just a few. By way of comparison, the police services in Wales can provide their service data to demonstrate race equality; so can all English departments in the major service areas – and have done so for a good few years. For those who say there are no ethnic minorities in Wales, there is a challenge of small numbers, as you would expect in a small country. But on 2001 census all 22 Local Authority areas had at least 1% (with the major conurbations up to 7% - the all UK figure), and I confidently expect the 2011 census to show that all LAs will have at least 2% with four or five between 5% and 8%

- So that we may avoid yet another standstill position when the 2012 iteration of the Strategic Equality Plan comes to be reviewed, may I suggest that the Equalities Unit take as its policy objective to lead on and oversee progress by delivery agencies on these central race equality matters. Certainly this would provide a more promising way to advance race equality than the establishment of yet another talking shop on equality which we seem to have been doing for years and years and never getting beyond the awareness raising first base. But perhaps to give the newly appointed Wales Equality Forum some better bite and focus it could receive and consider periodic progress reports prepared by the Equalities Unit on the Strategic Equality Plan 2012. And perhaps the WAO could consider doing an evaluation of how the founding principle of equality has been manifest in all WG activity since the inception of the Welsh Government.
- Next, two points should ever there be occasion again when the immediate termination of funding seems like a good idea. First – that the WG develop a strategy that puts an orderly closure at its centre. Funded organisations as entities in their own right have statutory obligations towards creditors and employees and service obligations towards beneficiaries. I specifically asked for financial support from our WG core grant funders to assist us meet these obligations so that we could progress an orderly closure which respected the statutory entitlements to each group. I was told that no assurance could be given that this would not even be considered.
- Instead external lawyers were engaged to assist the WG with our major creditor (who proceeded on a cut throat basis against the interests of other creditors) and we were forced into proceeding at inadvisable levels of risk with regard to our employees. Once AWEMA's destiny was known staff worked continuously to make a soft landing for almost 1,000 Convergence project beneficiaries as their normal AWEMA service came to an end, personally contacting all 1,000 to let them know of our demise and signposting them to other service agencies on a bespoke basis. We also provided a further face-to-face follow up to the several hundred whom we saw pretty regularly ... and all this in the 10 days or so while AWEMA staff worked their redundancy notice.
- So it is particularly galling to note that these efforts are not recognised in para 3.41, not least because the only communication of thanks I have ever received for our efforts to safeguard life outcomes for our project beneficiaries, was from the Head of WEFO. Only this part of our closure was leastways orderly because it included the security of personal information in respect of project beneficiaries. This required considerable and close work by

myself assisted by volunteer ex-AWEMA staff, because the requirements of data protection are significant and legally bound. So whatever was picked up by the successor partner organisations must have happened through our interventions in the closing days: we were simply not permitted under Data Protection legislation to pass files on to our partners – or even project participants' contact detail. It is not surprising that something as remote as a helpline remained unused given the capacity and profile of our beneficiaries.

- The second point is the use of external lawyers. Not for the first time can the observation be made that lawyers' intervention makes matters worse and not better. Certainly in terms of the WG relationship with AWEMA it was surprising, to say the least, to be at the receiving end of legalese demanding that I act outside of due process – not once, but twice (3.29, 3.30).
- It was even worse when external lawyers acting for WG insisted that our temporary finance staff engaged wholly in remedying deficiencies in our financial records could not be paid (having agreed earlier that they could) and astonishingly neither could our liquidators be paid. Had our liquidators withdrawn under these conditions AWEMA would have been bereft of proper advice for no other liquidator would have taken us on without any hope of being paid. Fortunately our liquidators stood by AWEMA being quite clear that I had always acted under advice.
- And, in regard to the use of external lawyers – can it be right that the same lawyer is engaged to represent the WG in its dual role as debtor and creditor – doesn't this constitute the most obvious conflict of interest when the interests of creditors and debtors are diametrically opposed?
- Lastly, there is an issue regarding the number of institutional players – police, Charity Commission, WG/WEFO, WAO – and timescale. It is completely oppressive to have this matter drag on for a year and counting. Can there not be a better liaison, a better understanding as to how to progress matters?
- Clearly had there been any further matter of criminal concern, all players - our external auditors, the liquidators, WAO, WG, Charity Commission - would by now have brought it to the police's attention. None has been – no alleged corruption, theft, fraud nor misappropriation - contrary to all the hares run in the Paul Dunn report, and by the media and politicians since. Nor, regrettably, has there been an evaluation of AWEMA's funded work save the informative listing contained in the WAO report which goes some way to redress the criticism but not far enough.

- So for all the public money invested in all the enquiries into AWEMA for over a year which has revealed only £6k or so of £7.5m public monies misused in 12 years (sums disclosed by AWEMA itself after I became chair,) no other evidence of public money gone walkabout or misappropriated or wasted on incomplete or unsatisfactory projects (save the very last one for £5k which was not completed before our demise) there continues to be public comments of opposition politicians which insist on the misuse and waste of public money in the face of audited evidence to the contrary.
- What is left is an organisation, the only one of its kind in Wales gone to the wall, a hard working charity withdrawn from its needy beneficiaries, its work by implication trashed, individuals associated with it demonised and vilified on the basis of nil evidence, and race equality simply not progressed as a policy objective by the WG. Clearly there were governance issues to be addressed within AWEMA over the years – but equally clearly so too in Welsh Government and WEFO with far superior resources to do same.
- That “the operation was a success, pity the patient died” could be concluded of the WG relationship with AWEMA - but only if lessons are learned. But given the resistance of WG over the 12 years of its existence to disperse the silo way of working and the poor administrative mindset and practice that goes with it, compounded by a not fit-for-purpose policy response by officials to progress race equality over the same 12 years of AWEMA’s existence, and, most importantly, the continued resistance of politicians to accept substantiated evidence put before them because it gets in the way of their partisan political game play, I am not holding my breath.

Rita Austin.

(drafted for PAC 3 December 2012 at some length because its members are unlikely to hear this evidence from anyone else)



Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Y Pwyllgor Cyfrifon Cyhoeddus
The Public Accounts Committee

Dydd Llun, 3 Rhagfyr 2012
Monday, 3 December 2012

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Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

The proceedings are recorded in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. This is a draft version of the record. The final version will be published within five working days.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Jocelyn Davies	Plaid Cymru The Party of Wales
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Lindsay Whittle	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Dr Rita Austin	Cyn Gadeirydd Cymdeithas Lleiafrifoedd Ethnig Cymru Gyfan Former Chair of the All Wales Ethnic Minority Association
Anthony Barrett	Dirprwy Archwilydd Cyffredinol Cymru, Swyddfa Archwilio Cymru Deputy Auditor General for Wales, Wales Audit Office
Huw Brodie	Cyfarwyddwr Cynllunio Strategol a Chydraddoldeb, Llywodraeth Cymru Director of Strategic Planning & Equality, Welsh Government
Derek Jones	Yr Ysgrifennydd Parhaol, Llywodraeth Cymru Permanent Secretary, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
Damien O'Brien	Prif Weithredwr, Swyddfa Cyllid Ewropeaidd Cymru Chief Executive, Welsh European Funding Office
David Richards	Cyfarwyddwr Llywodraethu, Llywodraeth Cymru Director of Governance, Welsh Government
John Rose	Cyfarwyddwr Cymru, y Gronfa Loteri Fawr Director Wales, Big Lottery Fund
Arwel Thomas	Dirprwy Gyfarwyddwr Llywodraethu Corfforaethol a Sicrwydd, Llywodraeth Cymru Deputy Director Corporate Governance and Assurance, Welsh Government

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch Gynghorydd Cyfreithiol Senior Legal Adviser

Tom Jackson

Clerc
Clerk

*Dechreuodd y cyfarfod am 2.01 p.m.
The meeting began at 2.01 p.m.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Darren Millar:** Good afternoon, everybody, and welcome to today's meeting of the Public Accounts Committee. I just want to remind everybody that they should switch off their mobile phones and BlackBerrys, because these can interfere with the broadcasting and amplification equipment. Headsets are available for people to use either for amplification or for translation purposes—I just want remind everybody that the National Assembly for Wales is a bilingual institution and that people should feel free to contribute to today's meeting in English or Welsh, as they see fit. As usual, in the event of an emergency, we should not panic, but follow the instructions of the ushers, who will take us to a safe place.

[2] We have received two apologies for today's meeting. Julie Morgan has sent her apologies and Jocelyn Davies has sent her apologies for the start of the meeting. We have a substitute for Jocelyn in Lindsay Whittle. Welcome to the committee again, Lindsay.

[3] **Lindsay Whittle:** Thank you, Chair.

2.02 p.m.

Rheoli Grantiau yng Nghymru: Tystiolaeth ar Adroddiad Swyddfa Archwilio Cymru 'Cyddberthynas Llywodraeth Cymru â Chymdeithas Lleiafrifoedd Ethnig Cymru Gyfan'

Grants Management in Wales: Evidence on the Wales Audit Office Report 'The Welsh Government's relationship with the All Wales Ethnic Minority Association'

[4] **Darren Millar:** Let us go straight into item 2 on the agenda. We have a number of witnesses to come before the committee. First of all, we are going to take evidence from the Welsh Government—I will ask you to introduce yourselves individually in a few moments. Later on, we will take evidence as a committee from the Big Lottery Fund, and after that from the chair of the board of the All Wales Ethnic Minority Association, Rita Austin.

[5] Before we go into the individual introductions, I welcome Derek Jones, the new Permanent Secretary, to the committee. This is the first time that you have appeared formally before us, Derek. You are most welcome, and we look forward to working with you in a constructive way during your tenure as the Permanent Secretary of the Welsh Government. Welcome particularly to you.

[6] I ask everybody else to introduce themselves individually for the record, and then we will commence with our questioning. You are welcome to make some opening remarks later, if that is okay, Derek.

[7] **Mr Thomas:** Good afternoon. I am Arwel Thomas, the head of corporate governance and assurance for the Welsh Government.

[8] **Mr Richards:** I am David Richards, the director of governance.

- [9] **Mr Jones:** As you just said, Chair, I am Derek Jones, the Permanent Secretary.
- [10] **Mr O'Brien:** I am Damien O'Brien, chief executive of the Welsh European Funding Office.
- [11] **Mr Brodie:** I am Huw Brodie, director of strategic planning and equality.
- [12] **Darren Millar:** Welcome to you all. The reason you are here is so that we can have a look at this report, which has been published by the Wales Audit Office. We have a lot of questions. We have obviously seen the paper prepared by you; we very much appreciate that. We have had sight of it and the opportunity to look at it. Before we go into that, however, do you want to make a few brief opening remarks, Derek? We will then start the questions.
- [13] **Mr Jones:** Thank you, Chair, for the welcome. There are some things that I want to say, but I understand that you have a lot of questions, so I will keep it brief.
- [14] The first thing to say is that I know all too well that I cannot expect to enjoy visits to this committee. However, for me, the process that we are engaged in—accountability for public funds, regularity, propriety and value for money—is absolutely part of the backbone of good government. So, I just want the committee to feel confident that I recognise my responsibilities as the principal accounting officer. You will not find me trying to dodge attendances at this committee—difficult or not.
- [15] On the specific matter that we are addressing today—the Welsh Government's relationship with the All Wales Ethnic Minority Association—I have read the Auditor General for Wales's report. It is admirably clear; it makes you wince to read it as an accounting officer, but it is very clear and thorough. I do not think that there is anything material that I can add to that report. The Government has accepted all of its recommendations.
- [16] As a new Permanent Secretary, inevitably, I am looking forward a lot and, for me, the big issues that have been in my mind—and I have been thinking about this more or less since the first day I arrived—are about grants management in general. I know that there is a good deal of good work being done by my teams on that and I know that the Wales Audit Office is helping to develop that with us. However, in the seven or so weeks that I have been in the job, I have not yet fully satisfied myself about that programme of work, so I will want to test it in terms of its scope, pace and impact. As I have said, a few weeks in, I have not yet got to that point, but I will. I attended a good grants management workshop during my first week and we are developing this with the Wales Audit Office—we are actually having some resources seconded in, which will be of great benefit to us. I will stop there.
- [17] **Darren Millar:** Okay, thank you. As you have already said, you have seen the report. We know that, in there, there are a number of case studies, all of which were opportunities for the Welsh Government to be able to step in to address some of the fundamental problems with governance at AWEMA and take some significant action. There appear to have been eight occasions where those opportunities were not really seized, perhaps, in the way that they could have been. It was not until the ninth opportunity to step in, just before Christmas in 2011, that the Welsh Government really did take the action that, perhaps, could have been taken much sooner in respect of dealing with the problems within the organisation and, indeed, within the equalities department. Can you tell us what it was about the ninth occasion that triggered such a very different response to the previous eight?
- [18] **Mr Jones:** Yes, and I would like to say something about the previous eight as well, Chair. I think the fact that the finance director of the organisation was stepping forward and saying that things were seriously not right in his own organisation was probably the key

factor. I will not go into detail, but what the finance director was able to say was reported immediately to senior staff in the Welsh Government who took what the audit office has described as appropriate and robust action. That was the defining moment.

[19] Previously, I am inclined to say that the organisation was given the benefit of the doubt. I think that there was reluctance in terms of due diligence and the monitoring of what was expected from AWEMA. We also know from the report that the Welsh Government organisation was not sufficiently joined up. So, it would have been more successful operating collectively, if I can put it that way, rather than in individual pockets. There was also a feeling that, because of the priority attached to working on equalities generally and on race equality in particular, there was a desire to see the work done and, perhaps, a willingness to give the benefit of the doubt to the organisation when, in fact, as we now know, it would have been more prudent to intervene.

[20] **Darren Millar:** You seem to be suggesting, Mr Jones, that the thing that triggered a different response was the fact that the finance director was effectively blowing the whistle about problems within the organisation, but, of course, previously we had had members of the board of trustees and former employees blowing the whistle, and we had concerned Assembly Members raising issues on behalf of their constituents. Why were those concerns not taken as seriously as this final episode, where we had the finance director coming forward?

[21] **Mr Jones:** Huw is catching my eye and wants to help me here. I should apologise—I have come slightly gang-handed this morning, Chair.

[22] **Darren Millar:** That is all right.

[23] **Mr Jones:** Take it a sign of the importance of the issue rather than the help that I am going to need; we shall see.

[24] For the reasons that I have already given, perhaps it would have been better if more intensive inquiries had been made on those earlier occasions; they were not. That was partly because of a reluctance to pursue the governance of an organisation. I think that that is one of the major lessons that we have learnt, that public money needs to be followed to the governance of an organisation where necessary—not to run an organisation or to live in its pocket, but, where necessary, to follow the money to the governance. On previous occasions, there had been some reluctance to do that, and that was overcome on this occasion.

[25] **Darren Millar:** Huw, it would usually be appropriate to give the benefit of the doubt once, but why was the benefit of the doubt given on eight occasions before swift action was taken?

[26] **Mr Brodie:** As Derek was starting to say, as you can see from the report, on many previous occasions the focus was on the performance management of the business plan or the contract with AWEMA, rather than on matters of its corporate governance. There are a whole number of occasions listed in the report where that was the case. In many ways, that reflected where we were as an organisation at the time: there was not the same clarity of understanding about where lines could be drawn about what matters were appropriate to the internal governance of an organisation and what was the legitimate interest of the Welsh Government. That is referred to in paragraph 2.152 of the WAO's report.

[27] After the issues in Communities First with Plas Madoc and so on, there has been a developing understanding in the office that has gradually changed the assumptions. Therefore, when the allegations were made in December 2011—which, as you quite rightly say, were not in themselves fantastically different in nature or level from the allegations made in the summer of 2007—the approach that we took was quite different, because we regarded the

corporate governance of the organisation as quite a legitimate area for us to be interested in.

[28] The other key factor was that we rapidly had the teamwork. Again, one of the key findings of the report is the lack of teamwork between different parts of the office. Well, Damien, Arwel and I were working together within 24 hours or even less. Equally, one of the other things highlighted in the report is the lack of corporate memory. However, of course, I had previously been in equality and I had a memory of the allegations that were made in 2006, not in relation to equalities funding at that stage, but in relation to WEFO funding. That was another factor in my mind that made me feel that the allegations needed to be given proper treatment.

[29] **Darren Millar:** You are suggesting that there was some learning from the report on Plas Madoc, and some of the other reports that have been alluded to from time to time, that made you approach things in a different way in terms of the concerns raised about governance.

[30] **Mr Brodie:** Yes.

[31] **Darren Millar:** Okay. Mr Jones and Mr Richards have both been involved in different ways within the Welsh Government over the course of the past decade or so. It is quite clear that, in the very early years of AWEMA, there was an emphasis on wanting to establish this organisation as the individual single organisation that was collectively responsible for the interface between black and ethnic minority groups and the Welsh Government. That was a clear policy decision. Do you think that that was wise, given what has happened? Is that something that is being considered across the board in terms of some of the other relationships with all-Wales organisations rather than regional organisations that we have?

2.15 p.m.

[32] **Mr Jones:** I will have a go first, Chair, as this is so important. I touched on it earlier. There was a genuine and strong political leadership in Welsh Government, and not just in Government, but across the parties in the Assembly, for Wales to do well in the field of race equality, as a pressing agenda. At the same time, there was not a strong hinterland outside Government of organisations with which the Government could work in order to do things in the communities and to promote these areas. So, capacity building is the first obvious step to try to build and support an organisation to develop the capacity to work in this area. That was going on a very genuine motivation to do this. However, with hindsight, my conclusion is that there were too many eggs in one basket.

[33] **Mr Richards:** You get clear value for money advantages if you have effectively one representative stakeholder group acting as a channel for this. So, there are lots of good reasons for going for it. In many areas, it works very well; you can make better informed strategic choices, which are informed by the people on the ground, who know about it and who can advise you where to go, and you can manage conflicting priorities. So, it is a good policy aim. It was difficult in this case to bring together the parts and get a kind of cohesive umbrella organisation that we could use. I think we found it more difficult in this area than in some of the other areas of equality that we were dealing with. However, it was a laudable aim and worth trying to achieve.

[34] **Mr Brodie:** What we have now is a race forum, which brings together a wide range of organisations to help advise the Minister on issues in that sector. That reflects the complexity of the issues in that sector. That forum has not suggested to us that we ought to re-establish a single body. We have moved, as your question implied, to a different space.

[35] **Darren Millar:** Having the eggs all in one basket, as it were, is still something that you consider appropriate for other parts of the Welsh Government, is it?

[36] **Mr Jones:** I am not aware of a precise parallel, although—

[37] **Darren Millar:** You have disability groups under single umbrella organisations, have you not?

[38] **Mr Brodie:** It is rather different in terms of how our funding works. We are at the moment consulting about the future of our grants programme on equality. One of the key questions we are asking there is how far should we actually be linking that funding to the objectives set in this strategic equality plan; what should be the balance between core funding and project funding. The question you ask would be very live in that.

[39] **Mike Hedges:** I have two points. First, I agree with you about following the money, but is it not harder to follow the money when you give it to one organisation that then passes it on to other organisations? Secondly, Mr Richards talked about value for money by giving it to an organisation such as AWEMA and then letting it pass it on. I would argue that it is far better value for money to use local authorities or councils for voluntary action. I am interested to know why you think you get value for money by giving it to a body like AWEMA to pass on, rather than giving it to well-respected organisations like local authorities and councils for voluntary action, which are very good at passing money on and do so continually?

[40] **Mr Jones:** Which means that it is not necessarily simply the passing on that is the problem; it is down to the specific nature of the organisations involved. There is an issue where one body is funded in order to provide funding to others, but it is, as you suggest, quite a common model and can work perfectly well, provided that the accountabilities and monitoring of progress and delivery are there. You are asking me quite a tough question, which is why choose the AWEMA-type route rather than local authorities. The answer would be the transparent ownership of an organisation by the community that it is intended to serve.

[41] **Mike Hedges:** To come back on that, do you really believe that AWEMA exhibited that transparency of ownership by the communities that it was meant to serve?

[42] **Mr Jones:** No.

[43] **Darren Millar:** Jenny Rathbone has the next questions.

[44] **Jenny Rathbone:** In my view, it was a fundamentally flawed concept, because being of a certain ethnic minority does not mean to say that you agree with people of the same ethnic minority, never mind people of a different ethnic minority. Therefore, the whole concept was fundamentally flawed. I wanted to come back to what Huw Brodie said in the discussion about a reluctance to get involved in the governance arrangements in voluntary sector bodies. I can understand that possible restraint, but, nevertheless, having identified a weakness in the governance of a voluntary body, why was more attention not paid to whether it was delivering on the goods that it was supposed to be delivering on, in terms of specific funding?

[45] **Mr Brodie:** As I said before, the report highlights that the focus in the past was more typically on the performance management of the actual contract, rather than on the corporate governance issues, although several checks were done on corporate governance at different stages. For instance, the report states that,

[46] ‘Between April 2005 and March 2010, the equalities unit addressed various issues to

satisfy itself about AWEMA's work programme...but it did not rigorously follow up concerns about AWEMA's governance arrangements.'

[47] Attempts were made, particularly in 2005, to get a new style of contract in place, which was linked to objectives, with quarterly milestones that could be monitored. Several paragraphs in the report—including paragraphs 2.47, 2.49, 2.50, and 2.54—notes that attempts were made to try to manage those issues. However, as the report highlights, those issues were not pursued effectively, and that was for a variety of reasons. Paragraph 2.152 of the report summarises the WAO's own conclusions about that, and it is hard for me to add to those. However, I will happily take any particular questions that you might want to ask.

[48] **Darren Millar:** Did you want to come back on that, Jenny?

[49] **Jenny Rathbone:** I appreciate that you may have been trying to raise AWEMA's game, but it does not explain why you were then constantly allowing it to roll over underspends. That seems to be a crazy way of getting it to deliver on specific funding for specific projects.

[50] **Mr Brodie:** I would have to entirely accept the criticism that the report directs to that. What is brought out in the report is that, by the time that that issue was focused on, the conclusion was that the office would have been in a weak position to hold AWEMA to account on that, because of some inadequacy in record keeping during the early years in which it was set up, and that the underspend related to. Therefore, I must agree with you that there were real shortcomings in that process, which the report quite accurately highlights.

[51] **Darren Millar:** We will touch on some of the other shortcomings in a few moments. Mike Hedges has the next questions, then Aled Roberts.

[52] **Mike Hedges:** Mr Richards, if possible, could you provide a report on why you believe this method of funding provides value for money?

[53] **Darren Millar:** This goes back to the earlier point, Mr Richards, in terms of having these umbrella organisations that make grants to other bodies. I am sure that Mr Jones would be happy to provide that report, on behalf of the Welsh Government.

[54] **Mr Jones:** Yes. I wish to say something about those points as well. You have heard me say that I do not believe that there is necessarily a problem with having a lead organisation in an area. However, the Welsh Government clearly got itself into a position here where there was not just a lead organisation, but a dominant one, as it were, and, as I said, too much was done through it for safety. To add one thing to that, partly for balance, although it is relevant to this question of whether the model of having a lead body that then funds other bodies is a good one or not—and my colleagues will tell me if I have got this wrong—I believe that, in AWEMA's case, most of the deliverables that were to be achieved through its funding method, for example, from the European structural funds, were successfully delivered. So, there were great problems with the governance, but the delivery model—

[55] **Darren Millar:** We will explore that later. The report does not say that everything that was promised was actually delivered.

[56] **Mr Jones:** No, not everything.

[57] **Darren Millar:** We will look at that in a little more detail, but we would appreciate a note about some good examples. We know that there are good examples of umbrella organisations. This is not one of them, but it would be good to know what is good about the good ones and what is bad about the bad ones, although we have a good example here. Derek,

would you like to come back again?

[58] **Mr Jones:** Yes, very briefly. I think I might have mentioned earlier that there is a line when it comes to governance issues where a funder should expect an organisation to manage its own governance and not simply intervene on every potential matter of governance on the basis of being a grant aider. So, I guess that what I am saying is that there are judgment calls to be made. In years gone by there was too great a reluctance to pursue public money and to pursue governance issues. Hopefully, in future, we will get that balance right.

[59] **Darren Millar:** As I say, once bitten, twice shy, but eight times bitten is a bit bizarre really.

[60] **Aled Roberts:** Rwyf am droi at ddiwedd 2002 a dechrau 2003. Rwy'n credu mai chi oedd prif swyddog cyllid y Llywodraeth ar y pryd, Mr Richards. Beth ydych chi'n ei gofio am yr adolygiad a wnaed gan yr adran cyllid, a beth yn union oedd yr honiadau?

Aled Roberts: I would like to go back to the end of 2002 and the beginning of 2003. I think that you were the chief finance officer of the Government of the time, Mr Richards. What do you remember about the review undertaken by the finance department, and what exactly were the allegations?

[61] **Mr Richards:** I am sorry, Chair, but I am not getting the translation.

[62] **Darren Millar:** Use channel 1.

[63] **Aled Roberts:** A ydych chi'n clywed yn awr?

Aled Roberts: Can you hear the translation now?

[64] **Mr Richard:** Yes, thank you.

[65] **Aled Roberts:** Rwyf am droi at y cyfnod rhwng diwedd 2002 a dechrau 2003. Rwy'n credu mai chi oedd prif swyddog cyllid y Llywodraeth ar y pryd, a gwnaed adolygiad gan yr adran bryd hynny ynglŷn ag amryw o honiadau a wnaed. Beth ydych yn ei gofio am natur yr honiadau a'r hyn ddigwyddodd o ran yr adolygiad gan yr adran ar y pryd?

Aled Roberts: I just want to go back to the period between the end of 2002 and the beginning of 2003. I think that you were the chief finance officer of the Government at the time, and a review was conducted by the finance department at that time relating to many allegations that had been made. What do you recall of the nature of those allegations and what actually happened in terms of the review by the department at that time?

[66] **Mr Richards:** My recollection is, pretty much, what is in the Wales Audit Office's work at the time. I recall discussing with the then Permanent Secretary Sir Jon Shortridge that we had concerns about this, and commissioning the internal audit service, which worked with me at the time, to carry out its work. I remember assuring myself that the service would come forward with conclusions and those conclusions were taken seriously. So, at that stage, I did not feel it necessary to get more involved because I was confident that work had been done. The other thing I remember at the time, to set the context, is that we were concerned about AWEMA, but we were very concerned about what was going on in the equalities unit at the time as well, and, actually, a lot of our focus was on managing that. In terms of my concerns and those of the then Permanent Secretary's, they were aimed at helping the equalities unit to perform stronger as well.

[67] **Aled Roberts:** Os nad oeddech chi'n fodlon â pherfformiad yr uned, a chawsoch

Aled Roberts: If you were not content with the performance of the unit, and you had an

gyfle i drafod hynny gyda Syr Jon Shortridge, sut oedd hi'n bosibl i wahanol adrannau gynnig grantiau i fudiad, heb wybod bod adolygiad yn digwydd yn y Llywodraeth?

opportunity to discuss that with Sir Jon Shortridge, how exactly was it possible that different departments were offering grants to organisations without knowing that there was a review taking place within Government?

[68] **Mr Richards:** The only answer I can give to that is that that should not have happened. We were not as good then at sharing information across grants as we are now, and we will be better at sharing information in the future across grants, across the board, as we are now. However, having a part of the organisation that needed the information but was not aware of it is a situation that should not have happened. The only thing I can offer in mitigation is that, at the time, as now, there is a lot of grants activity and information going around, and that is not an area that is always picked up.

2.30 p.m.

[69] **Darren Millar:** Even though you had a Government-wide responsibility, you did not think that it was appropriate to pick up with these other parts of the beast, as it were, that there was a problem within this organisation, which you knew, because of the finance investigation, with interacting with all sorts of different parts of the Government?

[70] **Mr Richards:** From where I was at the time—this is my memory and recollection, Chair; believe me, it is not what it was—this was an important case, but it was one of a number of important cases. I did not come in in the mornings and think that trying to get to grips with AWEMA was my main purpose of the day, because there were lots of other important things going on that needed my attention as well. As finance director, it was not my role to get involved in individual cases; it was my role to make sure that the staff were motivated in their jobs and that the systems were there. You will, no doubt, say to me then that it was my job to make sure that organisations were joined up and talking to each other. Yes, certainly, it was and we were not perfect at doing it at that time.

[71] **Aled Roberts:** Rwyf am symud ymlaen at adolygiad 2005 gan Imani Consultancy Services Cyf. Yn eich tyb chi, a oedd yr holl feirniadaeth ynglŷn â chynllun cydraddoldeb hiliol y Llywodraeth ar y pryd, gan gynnwys beirniadaeth gan AWEMA, yn effeithio ar ymateb y Llywodraeth i'r gwahanol gŵynion hyn?

Aled Roberts: I want to move on to the 2005 review by Imani Consultancy Services Ltd. In your view, did all the criticism about the Government's race equality scheme at the time, including criticism by AWEMA, affect the Government's response to these various complaints?

[72] **Mr Richards:** I have no particular recollection of involvement at that time, I am sorry—nothing above what is already in the Wales Audit Office report. I was interviewed about it by the Wales Audit Office as one of its witnesses and it certainly has recorded that, but I have no recollection above what is in the WAO report.

[73] **Aled Roberts:** A oedd unrhyw arall sy'n bresennol y prynhawn yma yn ymwneud â'r cynllun cydraddoldeb hiliol? A oedd unrhyw bwysau ar wahanol adrannau i beidio ag ymateb mewn ffordd benodol ar y pryd?

Aled Roberts: Was anyone else here this afternoon involved with the race equality scheme? Was there any pressure on different departments not to respond in a specific way at the time?

[74] **Mr Brodie:** I took overall responsibility for equality along with my existing responsibilities at the end of July 2005, which was about six months after the Imani report had gone to Ministers. All I can say from my own recollection at that point is that the concern that you refer to, about the need to develop a race equality scheme and the need to do so credibly,

was one of the most pressing issues that we had to respond to, because, as you rightly say, it had been so difficult. However, there was no link to the Imani report at all, in my recollection. I am just recognising that that was a pressure.

[75] **Mr Jones:** I cannot be sure of the timings; I think that it was in 2005 that I was appointed as the management board's equalities champion. That was largely an internal role, but because of the difficulties that were being experienced at some point in time—I am not sure of the year—with the race equality plan, I was asked to intervene and to try to help to make sure that the Welsh Government produced a credible plan. That much I do recall. I do not recall the report that Aled Roberts referred to or any particular AWEMA aspect of that work.

[76] **Aled Roberts:** A ydych yn credu bod yr holl feirniadaeth o ran perfformiad yr uned, yn ogystal â'r feirniadaeth o'r cynllun gwreiddiol, wedi amharu ar y ffordd y gwnaeth y Llywodraeth ymateb i'r holl gŵynion hyn? A oedd nerfusrwydd o ran gweision sifil a'r Llywodraeth o achos hynny?

Aled Roberts: Do you think that all the criticism of the performance of the unit, as well as the criticism of the original scheme, affected the way in which the Government responded to all these complaints? Was there any nervousness among civil servants and the Government as a result?

[77] **Mr Brodie:** May I check exactly what you are asking there? Are you asking whether that atmosphere of criticism affected the way in which the Imani report was drafted or the way in which the advice that went to Ministers in January 2005 on that report was presented?

[78] **Aled Roberts:** No; I am asking about the robustness of the response to the various complaints that were being received. Perhaps there was some nervousness—because of the subject matter and the criticism regarding the plan—about tackling it head-on as much as one might expect, looking at the file in front of us.

[79] **Darren Millar:** You are nodding, David. Was that the feeling at the time? The WAO report seems to suggest that, because this criticism was being levelled by AWEMA about the race equality plan, there may have been some reluctance to get involved in making some of the tough decisions that needed to be made at that time to stop the funding for that organisation. Is it fair to say that?

[80] **Mr Richards:** No. I was not nodding because I agreed with what was being said but because I had finally got my slow brain around exactly what the question was. If the question is whether I was aware of any inappropriate reluctance or interference to hold back that report, the answer is 'no'. I was not, and I would have expected to have picked that up at the time given the role I was in.

[81] **Mr Brodie:** I think that what the report itself refers to is the submission from January 2005 that noted that terminating funding for AWEMA would represent 'a reputational risk'; I think that that was the phrase used. However, having now read that submission in preparation for this committee, I and colleagues in the office read that as a reflection of the reputational risk to the Welsh Government if funding for AWEMA was withdrawn, because of the race equality plan. To the extent that that was recognised in the submission, you are right to say that that was definitely part of the policy context in which that advice was given.

[82] **Gwyn R. Price:** This is probably a question for Huw. Following the various changes in its personnel in 2011, was the equalities unit clear about what it expected in return for its funding to AWEMA and the relationship with work being delivered by AWEMA through the three convergence programme projects?

[83] **Mr Brodie:** I think that the history of the funding goes something like this: from 2005 to 2008-09, what was in place with AWEMA were programmes of work that AWEMA submitted that were approved and which set out the quarterly milestones that it would be expected to meet. What the report correctly explains is that, in the summer of 2009, a decision was taken, after repeated requests from AWEMA, that the core funding that the equalities unit was providing would be allowed to be used as match funding for Welsh European Funding Office projects. The equalities unit funding programme runs and is reviewed every three years. At that point, there was a new three-year programme period starting. So, the nature of the contract with AWEMA for 2010-13 was very significantly different, as you imply. The basis of that was that the core funding would be allowed to be used as match funding and that what the equalities unit would be monitoring against on a quarterly basis was the numerical progress on the WEFO projects. That monitoring was taking place every quarter.

[84] There are two key points here. First, there are questions about whether it was, in fact, wise for us to have allowed the core funding to be used in that way. It made it harder for us to monitor what we were getting on our side for the money. Also, as the report highlights—and we have to put our hands up to this—although, by that stage, the equalities unit's own internal systems were greatly improved from what they had been previously, and in November 2010 the internal audit report had given a substantial assurance classification to the equalities unit's own financial systems, the comparing of notes between the equalities unit and WEFO was not happening during that last year. We have to put our hands up to that and, again, that is one of the key themes of the report, and indeed of other grants reports. We have to move out of that silo approach to grants management. We can tell you a lot about what we are trying to do to achieve that.

[85] **Gwyn R. Price:** Had it not been for the Welsh Government's decision to suspend and then terminate funding to AWEMA, would the equalities unit have been satisfied with the monitoring form submitted by AWEMA in late 2011?

[86] **Mr Brodie:** We did explain and, in fact, it is referred to in the report, that, when AWEMA's monitoring and progress reports came in for quarter two and after quarter three—they did come in late—my staff did have questions that they wanted to ask. They were still considering those questions when the allegations came in and we suspended the funding. That is why, on the equalities unit side, the last payment made to AWEMA was in respect of the first quarter, ending in June 2011. Let us assume that the allegations had not come in, and if you are asking whether we would have continued to fund, it is difficult to be sure. If we had raised the questions that we had on those progress reports with AWEMA, it is difficult to say whether AWEMA would have been able to satisfy us. It is quite possible that it would have done. To be honest, I think that the answer is that, if the allegations had not come in, our funding to AWEMA would almost certainly have continued for a significant period. The qualification that I apply there is that it was a contractual condition that AWEMA, because it was getting more than £100,000 a year, needed to give us copies of its audited accounts. In fact, it had given us its audited accounts for 2009-10, but, as we now know, it did not complete and submit to Companies House its audited accounts for 2010-11, which were due at the end of December 2011. I am trying to say that, in due course, we would have caught up with the fact that it should have submitted its audited accounts for 2010-11. It would not have been able to do so because, as we know, its financial systems had fallen apart. So, at some point, I think that we would have terminated funding on those grounds. I cannot give the committee any false reassurance that we would not have continued to fund it for a significant period. I do not want to pretend that the position is better than that.

[87] **Gwyn R. Price:** This suggests to me that you definitely would have carried on funding AWEMA, because its history shows that, at that moment in time, you would not have suspended the funding.

[88] **Mr Brodie:** We would have carried on for quite a while. Once we caught up with the fact that its audited accounts should have come into Companies House at the end of December and, subsequently, to us, we should have recognised that there was a major problem, and the trail would have started. I cannot say how long that period would have been.

[89] **Darren Millar:** Although, to be fair, there was quite a long delay in you determining the outcomes of the delivery reports and the submissions that you received. You said that only the first quarter of the year had been looked at.

[90] **Mr Brodie:** No, that is a misperception.

[91] **Darren Millar:** Okay; tell me a bit more.

2.45 p.m.

[92] **Mr Brodie:** The issue was that AWEMA had submitted its first quarter progress report on time, but it did not submit its progress reports for quarters two and three until—it is in the report, but, from memory, it was early or mid November.

[93] **Darren Millar:** Did that not raise alarm bells with you? Was AWEMA not legally and contractually obliged to deliver these returns to you? It makes me wonder whether, if AWEMA was supposed to deliver returns and you were not asking for them, you would really ever have asked for its audited accounts.

[94] **Mr Brodie:** The point that the report makes, very fairly, is that our funding was set up in such a way that, if AWEMA did not submit a progress report, it did not get paid. That is why it had not received any funding from us from, in fact, the start of 2010-11, in respect of the first quarter. Staff were in touch with AWEMA, asking where its progress reports were. What they did not always do on every occasion, I am afraid to say, is record those conversations on file. Therefore, when colleagues in the WAO came to produce their report, not all of those conversations could be evidenced. So, the staff did not take this lightly, but we cannot evidence every occasion on which they raised this with AWEMA.

[95] **Lindsay Whittle:** Gentlemen, forgive me for not wearing a tie. I had not expected to be in this committee until about 20 minutes before it began. I would normally wear a tie, I promise. Communications and coordination between WEFO and the equalities unit were, on your own admission, pretty grim. Was there a reason for that?

[96] **Mr O'Brien:** The communications that took place were essentially around match funding. Clearly, that is inadequate. There should have been closer communications. WEFO tends to communicate with the lead policy department. So, when we fund transport projects, we work very closely with officials who are involved in transport. It is the same with energy and skills. As this was about employment and skills, most of our contact was with the Department for Education and Skills. The only contact that we had with the equalities unit was around match funding. That is inadequate.

[97] **Lindsay Whittle:** So, not enough dialogue took place. What about the concerns that were raised by Dr Dai Lloyd, the former Assembly Member, in 2010? What happened there?

[98] **Mr Brodie:** That is a question for me. It is difficult to explain why those issues were not followed up. It is fair to say that they were issues around performance rather than corporate governance. From looking at the evidence, what seems to have happened is that the officials who went along to the meeting were relatively junior. There is no evidence that the head of the unit was aware of the issue. That seems to be relevant to the issue of why it was not followed up.

[99] **Lindsay Whittle:** Can you understand the frustration of an Assembly Member in raising these points with officials—regardless of their seniority—when, on your own admission, nothing is then done? That is what you are telling us happened, is it not?

[100] **Mr Brodie:** Regarding the issues raised in that case, absolutely. They were not pursued.

[101] **Lindsay Whittle:** It seems as though there are some departmental responsibility issues going on here. With the greatest of respect, looking at all of your wonderful titles, I can see there are enough directors here to shake a stick at. That is fine, and I am sure that you are all very deserving. However, how easy is it to identify whose responsibility this is? It has to be easy, surely.

[102] **Mr Jones:** I was not involved in the specifics here, but I have a view, as someone with some experience in Government. In response to Lindsay Whittle's question, it is perfectly possible to identify who is responsible. It is perfectly possible for different parts of the organisation to communicate well with each other and collaborate. As to why they did not, it is something that we have to fix, and it is about a cultural understanding of the importance, when it comes to grants management, of different parts of the organisation realising that they have the same client. I do not think that that awareness was strong in the organisation in the past. It will be, once we have completed our improvements to the grants management system as a whole.

[103] **Lindsay Whittle:** We have heard that the internal audit service report identified challenges, but, again, no-one took responsibility for those, did they?

[104] **Darren Millar:** This is the WEFO internal audit report.

[105] **Lindsay Whittle:** Yes, the WEFO report. Did anybody take responsibility for those? We have heard concerns about salaries and bonus payments simply going up with no accountability. Did no-one think to question that people were rewarding themselves large salaries and large bonuses? It is a job that most people would love, really, is it not?

[106] **Mr O'Brien:** These issues were being picked up by our payments team when it scrutinised quarterly claims from AWEMA and they were being challenged. Our initial inspection of AWEMA, which focused on only one of its three projects, was quite narrowly based and we have taken steps to broaden the scope of those inspections in a way that would have picked up some of the broader organisational and governance issues. We were carrying out inspections in WEFO in accordance with EC regulations, which were quite narrowly defined in terms of the audit trail and the eligibility of expenditure. So, some of these other issues were not being picked up on that radar. Clearly, there are lessons for us to learn from that and we have revised our control framework to take account of those.

[107] **Darren Millar:** I will bring you in in a second, Mr Brodie. I think that Aled has a supplementary on this issue. I will come back to you, Lindsay.

[108] **Aled Roberts:** I will get a bit parochial, if I may. We are told that the main thinking behind AWEMA assuming responsibility for all-Wales coverage was that you would get value-for-money. I want to ask about the reports that have been coming in that, by August 2011, not one participant in north Wales had been involved in two of the schemes, even though the money was still going out through the door. That is difficult to understand. The WAO report makes it clear that, both within the equalities unit and within WEFO, there were officials who were clearly aware of the connection between those WEFO-funded projects, yet nothing was done, even though no service was being delivered in north Wales.

[109] **Mr O'Brien:** There were clearly issues between AWEMA and North Wales Race Equality Network and AWEMA withdrew its funding to NWREN in March 2011, partly because of concerns about performance. I understand that NWREN held workshops to try to get people involved in the projects in which it was a partner, but it did not have a great deal of success, so AWEMA withdrew the funding for NWREN from its claims to WEFO. So, we were not actually paying for anything in north Wales at that stage.

[110] **Aled Roberts:** You were not paying for anything, but there was no service being provided in north Wales either.

[111] **Mr O'Brien:** There was no service being provided. That was not satisfactory and it is something that should have been raised in the monitoring.

[112] **Aled Roberts:** Was it raised?

[113] **Mr O'Brien:** The report suggests—and I have no reason to dispute this—that the monitoring was less than it could have been. One of the projects had been operating for quite some time—it was the one that was underperforming—in north Wales. The regular monitoring that was supposed to take place was not taking place.

[114] **Aled Roberts:** Did anyone from WEFO or the equalities unit go up to north Wales to establish what was happening on the ground?

[115] **Mr O'Brien:** Yes, a visit was undertaken and a subsequent inspection was carried out at the beginning of December 2011. That was progressing when payments were suspended. The broader investigation got underway through the Welsh Government's internal audit services and, subsequently, WEFO carried out a full inspection of AWEMA. One of the lessons that we have to learn is that the monitoring in this case was not as robust as it needed to be. I am satisfied that this is an exception, because I have reviewed the evidence of other monitoring. I have also written to all staff in the organisation to underline the importance of regular monitoring of projects, but, in this case, it was not undertaken as it should have been.

[116] **Darren Millar:** Okay. Mr Brodie, you wanted to come in here and then I will come back to Lindsay.

[117] **Mr Brodie:** I just wanted to come back on the point that Lindsay Whittle raised about the salaries being paid in organisations. Derek referred earlier to the need to strike a balance in relation to how we deal with corporate governance in voluntary bodies. I would say that it is our job to check on the health of the corporate governance in those organisations; it is not our job to do the corporate governance checks for them. So, that is very relevant in terms of the salaries or promotions or whatever that is going on inside organisations. If you think about it, it is very difficult, given the number of organisations that the Welsh Government funds, for us to be aware of and to be checking the appropriateness of every promotional salary increase in those organisations, and, even if we were to do so, that would take us into a wholly inappropriate relationship with them. However, the due diligence exercise that we have done on the equalities side this last year has dealt with that, through discussion with internal audit, by focusing on whether organisations have an effective board that is asking the right questions of the chief executive and also whether they have live conflicts of interest registers and family interests actually being declared. That is how we are currently trying to approach that issue on a general basis.

[118] **Mr Jones:** I agree with everything that Huw has said. However, when it comes to salaries, if it looks as though something peculiar might be happening with salaries, then that is not a bad clue that you might need to look at the governance more generally. Apart from

anything else, if we are providing core funding, it is going to put our costs up.

[119] **Lindsay Whittle:** I appreciate that you cannot be involved in all of the different bodies and their setting of salaries, but, with respect, in 2007, the then acting chair and acting vice-chair of AWEMA raised these concerns. So, those concerns were coming from within the organisation itself, and that is what I find quite puzzling.

[120] **Mr Brodie:** I would agree totally with that, because, in this instance, there were occasions when that information was available. I agree totally with what Derek said—if that information is available, then it is a sign that something very strange is going on in terms of the corporate governance and the safety of the organisation. What I was trying to explain is how, on a general basis, we deal with the due diligence that we apply across all organisations and the general basis on which we are now trying to tackle that issue in a proportionate way.

[121] **Darren Millar:** Yes, but we are just trying to establish, Mr Brodie, why you did not pick up on this at the time. Given that you were aware that these big increases were being given, and that people were challenging the legality of those increases and the appointments process for Mr Malik's daughter, who was working for the organisation at the time, why on earth did that not make you hit the panic button and say, 'Knowing the other things that we have already had drawn to our attention over the years, this is something that we ought to be concerned about'?

[122] **Mr Brodie:** On that point, when those allegations came in, I was not responsible for equalities, so—

[123] **Darren Millar:** What about the department?

[124] **Mr Brodie:** I have to take you back to the answer that I was giving previously, which is that the interpretation was that the department's interest was particularly around performance management of the contract, rather than around matters that were deemed—the report actually states this—to be internal to AWEMA. That was not a judgment that was being taken at that stage only by the equalities unit. I agree entirely, with hindsight, that that was inappropriate and wrong, but that was not a judgment that was being made only by the equalities unit. If you read the report, you see that, in 2006, when issues were raised in relation to WEFO's funding, a request was made at that stage to the internal audit service to get involved and it was reluctant to do so, because—

[125] **Darren Millar:** Two wrongs do not make a right, do they? Just because somebody else gets it wrong, that does not give you permission to get it wrong.

[126] **Mr Brodie:** You misunderstand what I am saying, Chair. What I am saying is just to illustrate what I was saying earlier on, which is that, at that stage, there was not the same clarity of understanding across the organisation about what is the proper line to draw between our business and the organisation's business. I was just giving more examples.

3.00 p.m.

[127] **Jenny Rathbone:** I thought that you took over control of the equalities unit in July 2005.

[128] **Mr Brodie:** Yes, and then relinquished it at the start of April 2007.

[129] **Jenny Rathbone:** So, when the really serious issues around compliance and overpayments arose, that was on somebody else's watch.

[130] **Mr Brodie:** Yes.

[131] **Lindsay Whittle:** Chair, I will not ask the question that I was going to ask, because my colleague, Aled Roberts, has adequately covered that, but I have a brief question. Were Ministers ever briefed about the issues at AWEMA?

[132] **Mr Brodie:** Over the years, quite a few submissions went up to Ministers. Overall, it depends on how you interpret it. If you include submissions, other briefing notes and so on, it runs to over 40.

[133] **Lindsay Whittle:** Were those briefings expressing concern?

[134] **Mr Brodie:** The report is the best summary of the history, and it sets out meticulously the submissions that were made. If you think about it, given the length of time for which AWEMA was funded, it was at a rate of four or so a year, which is perhaps not exceptional.

[135] **Mike Hedges:** On this and on River Lodge, Assembly Members were identifying a problem, whether it was Karen Sinclair on River Lodge or Dai Lloyd in this case. Is there a protocol for dealing with Assembly Members' concerns and, if not, would it not be useful for Mr Jones to bring in such a protocol? Whatever you may think of us collectively or individually, we tend to talk to an awful lot of people in the areas that we represent, and if there are concerns, they are likely to come to us.

[136] **Mr Jones:** I might need some help on this, but there are protocols for Assembly Member correspondence and, of course, for Assembly questions. Whether there is a general overarching protocol at the moment, I do not know, but possibly David will.

[137] **Mr Richards:** I do not think that we have a formal protocol, but I certainly think that we would be open to considering whether we should have one. In a sense, it is because it is self-evident that—and I appreciate that this will sound ironic in the context of the cases that we just heard about—if an Assembly Member raises an issue with a Minister or with the office, it is serious. So, you expect people across the office to treat that with the seriousness that it deserves. We can certainly look at whether we should have a protocol or more guidance.

[138] **Mr Jones:** I am happy to consider it in the light of this case. May I say something else on Ministers, Chair? To add to what Huw said, the problems here were with the civil service teams. If they had thought differently about what the problems were and advised Ministers about them, the Ministers would have instructed appropriate behaviour. The problem was that they did not, and that advice did not therefore go up.

[139] **Darren Millar:** To go back to this business of ministerial briefings, we took evidence for a different inquiry a couple of weeks ago from a former Minister who made it absolutely clear that the contents of previous ministerial briefings were not shared with new Ministers once they had been appointed. That seemed a bizarre situation to me, but that is what we were told by Andrew Davies. So, Ministers are prevented from seeing the briefings provided to former Ministers responsible for their portfolio. Why on earth is that deemed acceptable?

[140] **Mr Jones:** It is a very long-standing convention—

[141] **Darren Millar:** Even with concerning matters like this?

[142] **Mr Jones:** It has been in place for as long as I can remember. It is the papers of a previous administration that are not shown to a subsequent administration, which does not

rule out advice being given to a current administration about what the issues were and what the policy was in previous years. It is simply the specific advice and comments that Ministers might have made on it that are not shared with the subsequent administrations. Successive Governments have felt that that was right and in everyone's interests.

[143] **Jenny Rathbone:** The protocol that holds in Whitehall is where there has been a change of administration, say from Labour to Conservative, or the other way around. What we are talking about here is Ministers within the same alliance Government moving portfolios. Why was it not possible for them to see some of the problems that the previous Minister was grappling with?

[144] **Mr Jones:** What I was just explaining and, up to a point, I guess, defending was the standard protocol concerning changes from one administration to another. I had not realised that that was not the question.

[145] **Mr Richards:** The protocol is that Ministers from a different party do not have access to papers from the previous Minister.

[146] **Jenny Rathbone:** Even when they are in alliance with each other.

[147] **Mr Richards:** Yes.

[148] **Jenny Rathbone:** That is bizarre.

[149] **Darren Millar:** However, here we have people from the same political party.

[150] **Mr Richards:** When we have people from the same political party, the protocol is that Ministers can have access to papers that were seen previously by a Minister from the same party. The issue is not that Ministers were not allowed to see previous papers on AWEMA; it is that, when there was a handover and new Ministers were being briefed, officials made a judgment call on what to say to a new Minister: 'These are the things that you really ought to watch out for, these are the things that will be on your desk tomorrow, and these are the long-standing issues that you will want to address'. That is the flavour of it, so I think that it is a failure of the comprehensiveness of our briefing for new Ministers rather than a question of the system or the protocols getting in the way. I will just pause to see whether Arwel wants to kick me under the table.

[151] **Mr Thomas:** I think that that is correct. I think that the position is as you have described it.

[152] **Darren Millar:** So, if you are from the same party, previous briefings are available.

[153] **Aled Roberts:** Is that a civil service protocol or is that a political convention that has been drawn up since devolution? Mike and I have experience in local government, and even where there are different political complexions there, there does not seem to be the same convention. If that is the case, regardless of whether it is a political protocol or a civil service convention, when there were new appointments, was the AWEMA situation included in the handover briefs?

[154] **Mr Richards:** The answer to the first one is that it is a long-standing political convention. It has been long-standing in Whitehall, so this was a convention in public life and in Government long before devolution. It has simply been carried over into the devolved sphere. On the briefing for Ministers on AWEMA, I think that the answer is 'not sufficiently'. One of the very helpful recommendations of this report is that we review the way in which we brief Ministers and make sure that we really do sweep up all the relevant things that they need

to know. In response to that recommendation, we have that review in place at the moment.

[155] **Mike Hedges:** I want to go back to something that Andrew Davies told us. He was adamant that, when he took over from a member of the same party, information that was provided to the previous Minister was not made available to him. Is that true? Is it the case that people of the same party who take over a ministerial role are not provided with information, or was Andrew Davies not fully informed when he made that statement?

[156] **Mr Jones:** I am surprised that Mr Davies said that if it was cast in general information terms.

[157] **Mohammad Asghar:** I am listening to all the Assembly Members and civil servants here, and I can assure you that 99.9% of ethnic minority organisations are doing a wonderful job, especially in this scenario. The reality on the ground is different from the public perception. In your opening remarks, Derek, you said that the Government was doing a perfectly okay job, and was perfectly right. You said that you would not blame anyone or point the finger for political failures. So, basically, in this whole scenario, there is something in the civil service—which you are representing, gentlemen—that has gone wrong, and it has been happening for a long time. Things are on the radar already. The organisation started with £0.5 million in the initial stage and then wants nearly £10 million or more, or £7 million plus. That sort of money is not a small amount at all. I heard Huw talking about the contractual conditions and the £100,000 limit, and that sort of thing, but you should be more prudent, and should scrutinise that sort of organisation more, rather than sweeping it under the carpet. We have to blame somebody for the mega magnitude of the mismanagement of this organisation.

[158] **Darren Millar:** Oscar, are you going to ask a question? We are pressed for time.

[159] **Mohammad Asghar:** Yes. Where does the buck stop? Who is the one? Is it you, Derek?

[160] **Mr Jones:** Yes. I am the principal accounting officer for the Welsh Government so, yes, the buck does stop with me.

[161] Can I go back to the beginning of that question? You said that a lot of good organisations working in the race equality field are doing excellent work, and I agree with that. There is an element of tragedy to this case, in that, through the best of policy intentions, and quite strong political leadership for Wales to do well in the field of race equality, we have ended up in this situation. However, it is down to administrative failings, primarily administrative failings in the organisation that we are talking about, in AWEMA, and it is important to keep that in mind. In addition, although a large sum of money—£7 million and more—was funded over a number of years, the majority of the outputs from that funding were delivered and were sound. So, the buck, in stopping with me, should be understood in that context.

[162] **Mr O'Brien:** Can I add just a little bit to that? It is very important to keep this in perspective. I know that a lot of public money has been put at risk and that mistakes were made, but we are just about to receive the annual audit report on European projects, and that will, for a second year running, show that there is an error rate of less than 1%. That reflects a lot of hard work by organisations across Wales in trying to make sure that they meet the compliance requirements of the European Commission. So, a lot of work is going in to make sure that public money is dealt with properly and safely in a wide range of organisations. We have had nothing but support from the BME organisations that have taken over as the successors to AWEMA. We meet them regularly, and they have been fantastic in taking up the challenge of continuing to deliver services to young people and the others affected—the innocent parties in all this.

[163] **Darren Millar:** We will come to them in a few moments.

[164] **Jenny Rathbone:** It is important to note all that, I am sure. That is absolutely correct.

[165] I want to go back to the previous point, however, of why it is that Ministers from a different party in the same alliance cannot see the briefings to a previous Minister if they happen to be from a different party. I am particularly struggling with this, as the previous administration was called the One Wales Government. It may have comprised different parties, but they were supposed to be operating according to the 'One Wales' plan. Were there to be a future coalition administration, which is not impossible, given the voting make-up, why would a Minister from another party not be able to see the briefings and concerns of the previous Minister?

[166] **Darren Millar:** Can we just finish this thing about the ministerial briefings off now? So, within the same administration, even if it was a coalition administration, where you have two political parties, one Minister comes along who has different previous political colours from the previous Minister, even though they were in the same administration: do they get the briefings?

[167] **Mr Richards:** No, they do not. If we have a new Government and a Minister is from a different party to the previous Minister, no, they do not get them.

[168] **Darren Millar:** So, for the duration of what was termed the One Wales Government, in all the ministerial changes, regardless of political party, would they have the same briefings? This is the point that is being asked.

[169] **Mr Richards:** Within Government?

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

[171] **Mr Richards:** I thought that we were talking about a change of Government.

[172] **Mr Jones:** That is the point that I wanted to respond to on the 'One Wales' thing. While Ministers are serving, they share information.

[173] **Darren Millar:** That is fine. Jenny, do you want to go on and ask about some of the other WEFO bits?

[174] **Jenny Rathbone:** Okay. This is for Damien O'Brien and Arwel Thomas, really. What does this whole episode tell us about the general quality and rigour of WEFO's routine project inspection and verification work and its financial controls at that time? What further work needs to be done to ensure that systemic weaknesses in your project inspection verification have been rectified? I appreciate that you say that the annual report is about to give you a clean bill of health: 0.1% is obviously satisfactory. However, clearly, whatever was going on before, the controls were not working.

3.15 p.m.

[175] **Mr O'Brien:** To offer you some reassurance, I would say that I think that it is getting better. It was not all that it could have been, I accept, and issues were identified when the European Commission audited the work of our PIV team back in 2009. However, a lot of work has gone into strengthening those controls over more recent times. We are going through a process of professionalisation whereby all of the staff in the PIV team will, in future, either be qualified accountants or qualified auditors. We have strengthened the team

and strengthened the management of the team. We have also reviewed procedures, particularly procedures for communicating the findings of inspections more effectively within the organisation so that we all learn from the work that is going on. We now report regularly to the programme monitoring committee; we present a compliance report every six months and we collectively discuss the lessons to be learned from the work of the PIV team and other audit activity. So, things are getting better.

[176] I note the observation in the WAO report that there were issues that were not picked up in earlier audits that were subsequently picked up and a full inspection was carried out earlier this year. Clearly, the scale of that inspection was such that it was checking 100% of expenditure. So, it was more likely, I suppose, to pick up more issues as a result of that activity. However, I think that we are making progress. It will be another year or so before we have a fully qualified team, but that will offer a much greater degree of assurance.

[177] **Darren Millar:** Arwel, I see that you want to come in, but please be brief.

[178] **Mr Thomas:** Just to add to what Damien said, I think the core of this is down to far more effective due diligence work alongside the inspection work that Damien's team does. We are putting a lot of effort and resource into making our due diligence work a lot more effective than it has been in the past.

[179] **Jenny Rathbone:** I am still struggling to understand why it all takes so long to get rigorous systems put in place. The balloon went up on AWEMA a year ago and yet your initial submission to the committee is full of, 'We will in the future' and 'We will have this customer relationship manager ICT system'. Why is it not possible, within 12 months, to really tie these things down?

[180] **Mr Jones:** I have had the same thought and have asked for some updates for the committee, which I think Arwel can give, on the timing of some of those steps that were described as being in-hand in the submission.

[181] **Darren Millar:** A clear timetable for delivery would be very helpful so that we can monitor progress against that.

[182] **Mr Jones:** Rather than Arwel going through it now, do you want a separate note?

[183] **Darren Millar:** If you have a schedule of it, that would be more helpful than going through it now, because I am conscious of the time and we are keen to get on to some very important questions that we still want to ask during this session. So, if you could send us a schedule for the implementation of those recommendations, that would be helpful.

[184] **Aled Roberts:** Hoffwn droi at y cyfnod rhwng 29 Tachwedd ac, rwy'n credu, 19 Rhagfyr. Bu datgeliad gan brif weithredwr AWEMA i un o swyddogion WEFO ar 29 Tachwedd, ond nid oedd cyswllt gydag unrhyw swyddog arall yn y Llywodraeth. Mae'n anodd credu na wnaed galwad ffôn o ystyried yr holl gefndir i'r achos hwn. Fodd bynnag, pa fath o ganllawiau sydd wedi'u rhyddhau yn awr i swyddogion a fyddai'n rhoi rhyw fath o hyder i'r pwyllgor nad yw'n bosibl i sefyllfa o'r fath ddigwydd eto?

Aled Roberts: I would like to turn to the period between 29 November and, I think, 19 December. There was a disclosure from the chief executive of AWEMA to a WEFO official on 29 November, but there was no contact with any other Government official. It is hard to believe that no phone call was made considering the background to this case. However, what kind of guidance has now been released to officials that would give the committee some sort of confidence that it is not possible for such a situation to happen again?

[185] **Mr Jones:** Is this the conversation between the chief executive of AWEMA and the head of the European social fund section?

[186] **Aled Roberts:** Yes.

[187] **Mr Jones:** I am aware of this, and I will pass this over to Damien in a moment. I have tested it out and I feel satisfied of two things: first, that the nature of the conversation was really quite glancing and I do not think necessarily that I or anyone else would have felt it necessary to take action differently from that taken by the head of the ESF unit, although, crikey, I wish he had. The second thing I can assure you about is that the process that we will be taking forward for improving grants management generally will include training for everybody involved to improve their sensitivity to what might appear at the time to be light-touch or almost casual information, but which, in the context of a grant-giving relationship, could be crucial. If you would not mind, Chair, Damien can elaborate.

[188] **Mr O'Brien:** I will give a flavour of the context for that conversation, because it was a five-minute conversation over a coffee in the break of a meeting with representatives from 29 employment projects. The meeting had been called to discuss the UK Government's work programme and, as you will appreciate, there were quite a number of people who were quite worried about the implications of that programme for the employment projects that they were running in Wales through the European social fund. The head of the ESF unit was being collared by quite a few people for conversations. He had a brief conversation with the CEO of AWEMA. Most of it, as I understand it, was around HR-related issues, but there was a reference to some finance issues.

[189] The head of the ESF unit sought assurances that these issues did not impact on the European social fund or the safety of the European funding. He was given those assurances. He then advised the CEO to contact the equalities unit. I think, in hindsight, that what he should have done was to contact the equalities unit himself rather than rely on AWEMA's CEO to do that. So, that is one lesson to be learned. However, I have written to all of the staff in WEFO now to make sure that everybody is aware of the procedures for escalating issues and, where they have concerns, the importance of bringing them to the attention of their line managers. We have reviewed our procedures for making sure that risks associated with those issues are properly dealt with through the management structures.

[190] **Darren Millar:** In terms of communicating with staff, you have said a couple of times this afternoon, Damien, that you have written to everybody and told them what to do, but what happens if you get a new member of staff whom you have not written to or if someone's responsibilities change? How do you make sure that they have that message reinforced on a regular basis?

[191] **Mr O'Brien:** We have an induction training programme for all staff joining the organisation, irrespective of grade. We also have an ongoing training programme on project appraisal and management. It would be picked up in that.

[192] **Darren Millar:** So, it is a regular feature in that.

[193] **Mr O'Brien:** Yes, that is right.

[194] **Aled Roberts:** The implication in the WAO report is that, in fact, there was a wrong call. It is almost as if it was treated as a matter of internal governance again, rather than alarm bells being rung. Given the importance you have said is attached to training, and to develop Jenny's earlier point, mention was made that, from now on, you 'will be' training. What has happened since last December to ensure that these grant managers are up to speed with ensuring that proper records are kept in the first instance and that, where they do have

concerns, they are passed up the chain?

[195] **Mr Jones:** We have not been standing still. Arwel might like to give you details, but I think that some 400 grant schemes have been identified and reviewed: the majority adjusted as necessary, but now felt to be okay in terms of processes and procedures. Perhaps there is a small number that are still to be worked on. The officers responsible for those grant schemes are now logged centrally and they and their teams will be undergoing training, which is starting this month.

[196] **Mr Thomas:** To give you a quick run through in terms of the bullet points, all grants have been reviewed. We have issued reports to each department on them with recommendations for things that needed to be strengthened or introduced. We have followed up each of those recommendations, and very few of the actions that we recommended are outstanding. We have developed a whole raft of new guidance on grants management. We have introduced standard offer letters and templates for terms and conditions, and a grants centre of excellence has been established. We are currently working on improving due diligence. There is a suite of training—we have a new computer-based training module, two lots have been developed and we are starting to introduce that training. We have also introduced and are currently building up a central repository of due diligence information and intelligence, which will be available across the Government so that everyone will be able to access them. So, we have been really busy.

[197] **Mr Jones:** There is also a system of spot checks being run by the grants centre of excellence, which is running at a rate of about 10 a month. I would repeat to Aled Roberts what I said right at the beginning, namely that this is a big job. However, in looking ahead, this is mainly what it seems to me that I can and should be doing as a result of the AWEMA case. It is a big job. In the weeks that I have been here, I have not yet satisfied myself by testing all of this work programme out that I am satisfied with its scope, pace and likely impact, but I will be doing that. However, I know that a lot of good work has been put in place.

[198] **Aled Roberts:** Os yw'r holl waith hwn wedi cael ei gwblhau, a oes unrhyw bryderon am sefydliadau eraill sy'n derbyn grantiau ar hyn o bryd gan y Llywodraeth drwy Gronfa'r Loteri Fawr neu'r comisiwn elusennau?

Aled Roberts: If all this work has been completed, are there any concerns about other bodies currently in receipt of grants from the Government through the Big Lottery Fund or the charity commission?

[199] **Mr Thomas:** Ar hyn o bryd, mae llawer o waith yn cael ei wneud ar *due diligence*, felly, nes ein bod yn gorffen y gwaith hwnnw, rydym yn canolbwyntio ar y trydydd sector o ran edrych ar ei gryfderau neu'r pethau gwan sydd yn ei systemau. Rydym yn canolbwyntio ar hynny ar hyn o bryd, felly mae'r gwaith hwnnw yn mynd yn ei flaen, ond nid yw wedi'i gwblhau.

Mr Thomas: A lot of work is currently being undertaken on due diligence, so, until we have completed that work, we are focusing on the third sector in terms of looking at the strengths and weaknesses in its systems. We are concentrating on that at the moment, so that work is ongoing, but it has not been completed.

[200] **Aled Roberts:** Pryd fydd y gwaith yn cael ei gwblhau?

Aled Roberts: When will the work be completed?

[201] **Mr Thomas:** Rydym yn gobeithio cwblhau'r gwaith o ran *due diligence* erbyn diwedd mis Mawrth, felly byddwn yn mynd i fewn i'r flwyddyn newydd gyda llawer mwy

Mr Thomas: We hope to complete the work on due diligence by the end of March, so we will be going into the new year with far more information about the institutions to which

o wybodaeth ynglŷn â'r sefydliadau yr ydym we give grants.
yn rhoi grantiau iddynt.

[202] **Darren Millar:** As a supplementary to that, do the model terms and conditions that are now being issued with grants include a requirement to share information between all of the organisations that might be funding an individual organisation to deliver a grant?

[203] **Mr Thomas:** Do you mean externally, between organisations?

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

[205] **Mr Thomas:** I am not sure that they do. There is a requirement to share information internally, and we are currently working with a number of organisations, including the Big Lottery Fund, the Wales Council for Voluntary Action, the Welsh Local Government Association and National Council for Voluntary Organisations in relation to sharing information between the funding bodies.

[206] **Darren Millar:** It is incredibly important, obviously, if you are funding a particular project, that, if the whistle is blown in one place, it is blown elsewhere. I am very conscious of the time, so I ask Jenny to be brief with your questions and for the panel to be brief with its answers.

[207] **Jenny Rathbone:** When you published the internal audit report in February of this year, what options were on the table for the Welsh Government aside from termination of funding? You will be aware that Dr Austin was not very happy with that. Were any other options considered?

[208] **Mr Thomas:** In terms of the process of taking the report through, in the days prior to 9 February when the report was published, neither Huw nor Damien had seen the report, so there were no preconceptions about the action to be taken before the report was published. All options were open in terms of what might be decided in terms of any future funding. My report does not determine whether or not there should be future funding; it just comments on how suitable or fit the organisation was at that time to receive public money. The decision on whether or not funding should continue was over to Huw and Damien.

3.30 p.m.

[209] **Mr Brodie:** To come in on that point, the judgment that we made was that the findings that Arwel had produced gave us no option; we deemed that the situation was effectively irremediable and that the shortcomings were such that we had no option.

[210] **Jenny Rathbone:** Why was the draft report not shown to AWEMA for factual accuracy? Even if it was not going to like it, surely it had a right to comment on factual errors.

[211] **Mr Thomas:** Indeed. In fact, our normal process is to share draft reports. During this time, in terms of the urgency of getting the advice in to the policy people, we were under a great deal of scrutiny: we attended a PAC meeting on 31 January, just about a week before, and there was also a lot of media attention—two *Dragon's Eye* programmes were run at that same time. I challenged my staff who had undertaken the audit to give me evidence for every statement that was in there and I took a conscious decision that to have shared it with the chief executive of AWEMA at that time ran the risk of delaying the process of finalisation. It was an unusual step and when I look back at the consequences of that, there has been only one challenge in terms of the factual accuracy of the report, which was raised by Dr Austin. It related to paragraph 1 of the report, where we had reported that it was the finance director who had reported the allegations; Dr Austin said that she had done so, so I accept that as

being one of the facts that were wrong. However, I did not think that that was material in terms of the content of the report.

[212] **Jenny Rathbone:** Finally, what prospect is there of you recovering the debt that the Welsh Government thinks is owed by AWEMA?

[213] **Mr Thomas:** I will hand that over to Damien in terms of the liquidation process.

[214] **Mr O'Brien:** I should have said at the beginning, Chair, that there is a liquidation process. So, going back to the point about following public money, we must follow it through the liquidation process. Perhaps, when it is complete, I could send a report to the committee.

[215] **Darren Millar:** We would appreciate a note on what has been recovered. We are also keen to know whether any European moneys might be recovered by Brussels, Damien. Perhaps you could shed light on that. Have you had any requests?

[216] **Mr O'Brien:** We have withdrawn our claims to the European Commission on funding that has been deemed ineligible. We do not owe anything to the European Commission as such, but what we have lost is the opportunity.

[217] **Jenny Rathbone:** So, there is no additional amount over and above the sum of money you think is owed by AWEMA? There is no money that will go back to the European Commission.

[218] **Mr O'Brien:** There is no evidence to suggest that this is systemic. We are not expecting any adjustment.

[219] **Mohammad Asghar:** One of my questions has already been answered. The second one is: what are the main lessons that you believe the Welsh Government should take forward from the liquidation process and from its efforts generally to secure the largest possible amount of public funding back from AWEMA?

[220] **Mr Richards:** For me, one of the big reminders that have come out of this case is that when things go into the liquidation process, a lot of it is out of your hands; it is the responsibility of the liquidator. There is legislation in the Insolvency Act 1986 that governs how it is processed, so there is little that you can do.

[221] One of the things that I think we did right straight away was to ensure that we had the right professional legal advice. It is a very specialist area and our legal services team itself said that this was not advice that it could offer in-house. Through that team we have commissioned some specialist insolvency advice to represent us. That individual has advised us and has been negotiating with the liquidators. That has been an important thing to get right, as well as acting early. We set up a task and finish group as soon as this was an issue, to pursue a liquidation claim, to oversee the work with the Wales Audit Office and to ensure that we got in and recovered all the European records, because, as Damien said, in terms of satisfying the European Commission that this money was being spent properly, we needed to get the records, and Damien and his team were in there quickly and doing that. So, it was about early action and good professional advice, but in the end, this is just a process that will run to its own time.

[222] **Mohammad Asghar:** Why was some of the Welsh Government's initial communication about the debt that it believed it was owed inaccurate and misleading?

[223] **Mr Richards:** I would take issue with the phrase 'inaccurate and misleading'. In terms of early action, part of our advice—and I think that it is very sound advice—was to

register our claim as a creditor early on. It was important to get in first with our amount, and we did that and registered that. That meant that, subsequent to that, there has been a degree of discussion and negotiation with the liquidator about some views from the other side. We discovered more evidence as we went into the European records, and we reassured ourselves that we could demonstrate that at least some of the money had been applied properly. So, we simply refined our claim as we went along.

[224] **Mr Brodie:** Just to add—[*Inaudible.*]*—*coming into that process as we were going through.

[225] **Darren Millar:** As you would expect. However, just to be clear, in terms of the advice that you had, you followed the legal advice that you were given regarding the potential for recovering more money than may have been the case if you had argued that they were holding this money on trust rather than *et cetera et cetera*. You had the advice, the advice was very clear, and it was unlikely that you would recover it on that basis. Therefore, you had to adopt the unsecured creditor route.

[226] **Mr Richards:** Yes.

[227] **Mike Hedges:** Why was WEFO not aware that AWEMA had not in fact been sharing out its advance payments with partners, and that, instead, payments to partners were significantly in arrears?

[228] **Mr O'Brien:** We were under the impression that funding was being passed on to joint sponsors. That has now become a more explicit requirement in our grant agreements, but given that more than 65% of the business was being taken forward through joint sponsors, we had anticipated that AWEMA would be passing on that advance to the Valleys Regional Equality Council and other organisations that were involved in delivery. It materialised that it was not passing it on, or at least not in its entirety, and clearly that is a lesson that we have learned. We have just tightened up procedures on that, so that there is now an explicit requirement in the grant agreement to pass this on.

[229] **Mike Hedges:** Following Mr Jones's comment 'Let's follow the money', are you able to follow the money? That brings me back to the statement that I used earlier: there are serious dangers in using one organisation as an intermediary to pass grants on. This is just one example of it.

[230] **Mr O'Brien:** This is a well-established model, particularly in European funding. For instance, European territorial co-operation projects have always been based on the idea of a lead organisation. So, we have organisations in Ireland that are lead sponsors for a partnership that includes organisations in Wales. They are responsible for auditing those organisations. So, it is not a new model. Our inspectors visit the joint sponsors as well as the lead sponsors, and we provide support to lead sponsors in trying to get their control systems in place. So, it is not as if we walk away from them and say, 'We are only interested in the lead sponsor'. We still have an interest in the joint sponsor.

[231] **Mike Hedges:** Thank you for that answer. I will rephrase the question. AWEMA's main role in life was to receive money and then pass it on. When you talk about lead sponsors, surely that is an entirely different situation where you have an organisation that is doing a large part of the work and working with others to do it. Do you see a difference between those two, or do you think that they are the same?

[232] **Mr O'Brien:** I see a difference. With AWEMA, just over 30% of the business was run by it, or 30% of the participants were being supported directly through AWEMA's organisation. So, one of the things that we have introduced since learning the lessons of this is

that, when we carry out reviews with lead sponsors, once a year we also bring together the joint sponsors to promote transparency regarding the way in which these projects are operating. We have contact with the joint sponsors as well as the lead sponsors and, in the case of AWEMA, it was doing some of the delivery itself.

[233] **Mike Hedges:** If you knew all that, why did you not know that the joint sponsors were not receiving the money?

[234] **Mr O'Brien:** They were not raising issues with us about it.

[235] **Mike Hedges:** But you just said that you were talking to them regularly.

[236] **Mr O'Brien:** Well, no, what I am saying is that our inspection process includes visits to joint sponsors. We visited NWREN, the North Wales Race Equality Network, but we had not visited VALREC, the Valleys Race Equality Council; SOVA, Supporting Others through Volunteer Action; or the YMCA.

[237] **Darren Millar:** However, NWREN did raise concerns with you regarding the non-payment to it, did it not?

[238] **Mr O'Brien:** Yes, it did.

[239] **Mr Jones:** This is an issue. I am not sure whether Mike Hedges thinks that this would never be a good model to use. It is an established model to have a lead sponsor. It can be efficient if the alternative is WEFO or the Welsh Government dealing individually with every sponsored organisation. It can be efficient and provide a slightly more strategic approach. However, doing it at the second stage like that introduces a new level of risk, and that is one of the things that we learned here. I think that this is quite common practice, not only in the voluntary sector, but in other areas. We have learnt something, which is that that level of passing things on represents a level of risk that we really need to attend to, rather than just assuming that it is giving us the benefits, particularly in the case of advance payments.

[240] **Aled Roberts:** Was there an assessment of risk as far as this model was concerned? Obviously, concerns were raised in 2006 about the distribution of advance payments to project partners in another AWEMA-led project, Curiad Calon Cymru. So, has there been any assessment of whether this model is fit for purpose, which is the issue that Mike has raised?

[241] **Mr O'Brien:** Well, we use a variety of models—

[242] **Aled Roberts:** No, I am asking about this model, given the failings of this model in this particular case and previously.

[243] **Mr O'Brien:** We have not carried out a specific risk assessment of the model. As I said, we are carrying out checks on joint sponsors because we need to follow the money, but we have not carried out a formal risk assessment.

[244] **Darren Millar:** Okay. I have one final question, which is for you, Huw. I know that the equalities unit is working on the next phase of grants that will be available from next year. I assume that you are in the middle of your due diligence work at the moment or preparing for that work. Have you identified any other potential problems with organisations that we are already funding within the department?

[245] **Mr Brodie:** Chair, we have nearly finished our due diligence work on the organisations currently receiving funding. There have been no instances of fraud identified. We went through it and identified a small number of organisations that we thought it was

appropriate for internal audit to have a look at, and strengthening of systems has been going on where appropriate in a small number of organisations. That process has gone very well and is now in its final stages. As we come into the new grants programme, we will need to undertake due diligence work in relation to whatever organisations we are then going to be contracting with, taking account of the due diligence results we have had from the current organisations.

[246] **Darren Millar:** Just to be clear, with the small number of organisations with which you have identified some issues and referred to internal audit, what sort of total amount is the Welsh Government spending or asking them to spend on its behalf through the grants it awards?

[247] **Mr Brodie:** I would need to come back to you with the figure for that. Just to clarify the process, the due diligence work was done in conjunction with internal audit. It is not as though we have passed those organisations on to internal audit. We are working very much hand in glove with internal audit to ensure that the organisations that have promised to strengthen certain systems are doing so. However, we can certainly include in the note that the Permanent Secretary offered an answer to the precise amount. I would not want to pull a figure out of my head at the moment.

[248] **Darren Millar:** That would be very useful. It would also be useful to know which other organisations and/or parts of the Welsh Government are also funding those organisations with which issues have been identified, if that is okay. Did you want to come in on this, Derek? You looked as though you were going to say something.

3.45 p.m.

[249] **Mr Jones:** I was just wondering whether I would get one last opportunity to say something.

[250] **Darren Millar:** Yes. I am going to do that now. I just wanted to check whether there were any other questions from Members. I see that there are not. Over to you then, Derek. We will then close this part of the meeting.

[251] **Mr Jones:** Thank you, Chair. It is clear that my organisation's grants management needs to improve. We have introduced a grants management programme, which will do that, as well as a centre of excellence, which will be an important piece of machinery. I need to test that programme of work, as I said earlier, but I also want to note that improvement needs to be across the spectrum of risks. We have concentrated today on the risks of getting poor value for money, or losing public money to no good effect, and new procedures and processes will be introduced. The risk at the other end of the spectrum is that we do not add so much process to procedure that we lose a sense of the proportionality of the risk and become an organisation that provides a bad service to small, voluntary organisations, to entrepreneurs, and to organisations that are doing good work and that need us to be reasonably agile and efficient in how we administer—and also that we do not accumulate cost in the organisation, unnecessarily, given that this is a large programme of work. That is my responsibility as accounting officer.

[252] **Darren Millar:** Okay. I take this opportunity to thank you, Derek, David, Arwel, Damien and Huw, for your attendance today. What we have heard will contribute to the second and final part of our work on grants management in Wales. Lessons will no doubt be learned from this painful experience that we have all been through. It is important, at this particular time, to do what we can to protect the interests of taxpayers, and to get value for money on their behalf. So, thank you for your attendance today.

[253] We will move on without further ado. We are slightly behind schedule, so I hope that we will be able to make up some time during the rest of the afternoon. I now welcome John Rose to the table, director of the Big Lottery Fund in Wales. Welcome, John. We really appreciate your attendance here today.

[254] You will be aware that the committee is doing some work on grants management in Wales. As part of that work, we have been looking at the Wales Audit Office report into the Welsh Government's relationship with the All Wales Ethnic Minority Association, which is better known as AWEMA. We also know that the Big Lottery Fund has a relationship with that organisation, but we also know, from the report that the Wales Audit Office has given us, that it appears that the Big Lottery Fund gets it better than others as far as the management of the funds that it administers are concerned. You appear to be far less out of pocket than the Welsh taxpayer is on this occasion. I do not know whether you want to make any opening remarks, or whether you are content for us to go straight into questions. We are grateful for the paper that you have prepared, which has been circulated to Members.

[255] **Mr Rose:** If I may, I will introduce myself by way of giving some context to our work. The Big Lottery Fund is the largest of the distributors that gives out money on behalf of the National Lottery. We distribute about 40% of the money that goes out to good causes. In Wales, that accounts for probably between £45 million and £50 million a year, on average. Our business is very much about making grants anywhere in the region of about £500 up to £1 million, so there is quite a big spectrum there.

[256] I describe our approach to grant making as twofold. About 50% of our money goes through programmes that I would refer to as demand led. They are really quite broad, and allow the applicant to prescribe which outcomes they want to achieve. As they are very broad, we get a lot of variety in that way. We give out about £23 million a year through those programmes. In addition, we also, through quite extensive policy analysis and consultation, identify specific themes that are needed in Wales, and which meet Wales's needs and we put money into those focused programmes. So, that is our approach overall.

[257] In addition to lottery money, we also distribute money on behalf of Government, or indeed in partnership with Government. So, we have one scheme with the Welsh European Funding Office, we distribute money with the Welsh Government through our community asset transfer programme, and we also have responsibility for distributing the proceeds from the dormant account scheme, which has been set up by the UK Government.

[258] However, we are more than a cash machine. While we are principally the grant maker, we also look to support those to whom we give grants, where we believe that they need it. By way of example, we are aware that many of our applicants struggle to identify in evidence the impact that they are having, so we put in a support contract to support those larger award-holders, to help them to learn how to use things like the results-based accountability model. Through the analysis of our own data, we also identify geographical communities and communities of interest that may be struggling to access our funds, and, in those instances, we frequently put in outreach support. So, we try to get the lottery pound to quite a diverse number of communities across the length and breadth of Wales. So, we are very much more than a cash machine in that way.

[259] **Darren Millar:** Can you tell us a little bit, Mr Rose, about how the Big Lottery Fund assesses the viability of an organisation before it makes an award? What due diligence checks does the Big Lottery Fund do when someone asks, 'Can you give us some money?'

[260] **Mr Rose:** It is twofold. We look at the outcomes that the applicant is proposing, to see how good they are and what they are trying to achieve. We also then look at how capable they are of delivering those outcomes. In relation to that, we would go through a number of

initial checks. If they have declared that they are a company limited by guarantee, we would ensure that the numbers that they give us match those on the Companies House website. Likewise, we would check the Charity Commission for England and Wales's website and look at whether there were overdue accounts. So, there are a couple of rudimentary checks. At times, if needs be, we will also look at things like documentation, such as constitutions, to ensure that they are able to deliver. However, more importantly, we would spend our time scrutinising the budgets and the delivery plan for the proposed project to ensure that they add up, and that the costs, in our mind, are reasonable, well calculated, accurate and likely to deliver value for money.

[261] **Darren Millar:** Of course, with AWEMA as an organisation, clearly the Big Lottery Fund made an award. So, those would have been the checks carried out on AWEMA at that time. It would have been assessed against those criteria.

[262] **Mr Rose:** We have made four awards to AWEMA during its time, three of which were very small grants of up to £5,000. In those circumstances, we certainly would not look to go into the same level of due diligence checks as we did with the major award that we made of £518,000. In those instances, we identified that the project was fundable, although we were aware that there were some issues in the planning. So, as such, we ascribed that project high-risk status. As such, had it actually continued to roll out over the years, it would have had a heightened level of monitoring associated with it.

[263] **Darren Millar:** So, you are able to flag up within your processes high-risk projects rather than organisations and lower-risk ones, are you?

[264] **Mr Rose:** We can do. In the future, I think that we will also be better at doing that. I have referred in my written evidence to the fact that we are currently developing a new customer relationship management system, which we expect to roll out next year. That will look at a number of inherent risks, such as the age of an organisation, the amount of money being looked for, what its corporate status is, and how much it is asking for. It will help us to ascribe a risk status based on those factors and the quality of the application that we receive. Taking into account that risk status, we will then apply what we believe to be reasonable and proportionate controls that help to manage the risk associated with that project.

[265] **Darren Millar:** AWEMA made an application for two sizeable grants, which were rejected by the Big Lottery Fund, were they not?

[266] **Mr Rose:** Yes.

[267] **Darren Millar:** With those two particular grants, on what basis were they rejected? Was it risks about the organisation, or was it more about the deliverability of what was being promised?

[268] **Mr Rose:** From memory, in one, there were concerns about the quality of budgeting and project planning, and it was rejected on that basis. Another was rejected because it was a capital project and planning permission was not gained. So, we look to ensure that those types of assurances are in place either before we make the award or, if it is subject to getting those permissions, afterwards. We would not release the money until those are in place.

[269] **Darren Millar:** Finally, on the project that AWEMA was given funding for, which is the £518,000 project, the Big Lottery Fund had transferred only £4,000 physically across to AWEMA at the time that AWEMA's liquidation process was started. That was because the project was slow out of the starting blocks, was it?

[270] **Mr Rose:** That £4,000 was also specifically to allow AWEMA to undertake more

detailed business planning activity in the early stages of the project, so we released money to allow it to do that work. It, in turn, did that work and released the business plan to us, which we assessed and approved at the time. So, it would have moved into the delivery stage next, but it is not unusual for projects to take some time to get going after they have been approved.

[271] **Darren Millar:** Okay. So, you were not worried about timescales or anything in particular. It was just that that was for its more detailed feasibility-type work prior to the delivery of the project.

[272] **Mr Rose:** It was effectively a planning stage.

[273] **Aled Roberts:** Hoffwn ofyn cwestiwn am y prosiect eiriolaeth. Credaf bod dau brosiect arall wedi cael eu gwrthod ar yr un pryd. A wnaeth AWEMA gyfeirio at y gwaith yr oedd yn ei gyflawni ar ran Llywodraeth Cymru neu Swyddfa Cyllid Ewropeaidd Cymru yn ei chais i chi, ac a wnaethoch chi unrhyw beth i ddilysu'r wybodaeth gyda'r Llywodraeth? Os felly, beth oedd agwedd y Llywodraeth i hynny?

Aled Roberts: I want to ask a question about the advocacy project. I believe that another two projects were rejected at the same time. Did AWEMA refer to the work that it was doing on behalf of the Welsh Government or the Welsh European Funding Office in its application to you, and did you do anything to validate that information with the Government? If so, what was the Government's position on that?

[274] **Mr Rose:** I am not completely aware of whether there was anything within the application that made specific reference to other support from WEFO and Welsh Government, but, no, we would not have contacted Welsh Government at that time to validate anything.

[275] **Darren Millar:** Would that never happen? If they had disclosed those things, would it ordinarily be normal for you to contact other funders to see what the status of their arrangements was?

[276] **Mr Rose:** No, it is unlikely unless we have specific concerns. That is not to say that it could never happen if there were concerns or if, for example, we were looking at the likelihood of significant match funding being made available.

[277] **Mohammad Asghar:** I think that you are doing a noble job in Wales with the £45 million to £50 million. We definitely need that. How would you characterise AWEMA's reaction to the Big Lottery Fund's rejection of various of its bids for funding over the past five years, whether at outline or full application stage? Finally, did you ever face any accusation of the sort levelled by AWEMA at the Wales Co-operative Centre in 2006?

[278] **Mr Rose:** I am not aware that we ever received any particularly negative feedback at all. It is not unusual for us to reject projects. We consider probably upwards of 2,000 applications a year and approximately 50% do not go further. I am personally not aware of any direct feedback from AWEMA in relation to rejected applications, although it is highly likely that there would have been telephone calls afterwards had AWEMA asked for feedback additional to the information that we would have given it in any reject letter.

[279] **Darren Millar:** There was no suggestion that it said that there was institutional racism, which is what it said to the Wales Co-operative Centre?

[280] **Mr Rose:** Not to my knowledge. I have never had that feedback.

[281] **Darren Millar:** Thank you for that. We will move on to a question about the discussions that you might have had with the Welsh Government. Obviously, there was an

internal audit services report about the decisions of the Welsh Government and the Big Lottery Fund in the run-up to the termination of the funding of AWEMA. What sort of discussions did you have with the Welsh Government at that time? I seem to remember Ministers issuing statements saying that they were working closely with you as an organisation. What sort of process did they go through?

[282] **Mr Rose:** I have had some discussions with the Welsh Government in recent months in relation to any issues that are arising, but around the time we first heard concerns about AWEMA, which was approximately 12 months ago, we were in discussions with the Welsh Government and felt it appropriate to have a joint approach to that investigation. It helped to save resources from our perspective and also from the Welsh Government's. Following such discussions, we agreed the terms of reference with the Welsh Government, and it progressed with delivering the initial audit that went on during late December and early January and reporting back to us. So, we are signed up to the terms and conditions and we are comfortable with allowing that internal audit team to lead.

4.00 p.m.

[283] **Darren Millar:** You obviously arrived at the same conclusion as the Welsh Government—that you were going to terminate funding to this organisation. Was that an independent decision on your part or did you feel that you had to follow suit with the decision of the Welsh Government?

[284] **Mr Rose:** No, it was an independent decision. There is a bit more to it than simply considering withdrawing. We looked at the evidence. On balance, there were a number of cases of clear breach of our terms and conditions, which were very clear from that report. As a result, we considered our intentions with the chair of our Wales committee and decided that it was an appropriate course of action to withdraw the funding from AWEMA. So, we wrote to AWEMA in relation to the two live applications that we had with it, saying that we were proposing to withdraw funding from those, which gave it the opportunity to respond to what we were making out in our letter as the reasons why we were withdrawing funding. The key thing there is that it had the opportunity to respond to the breaches in terms and conditions that we had identified.

[285] **Darren Millar:** What other options would you ordinarily consider? You mentioned earlier that you had a unit that gave some sort of support to organisations in terms of assisting them, identifying their outcomes, capturing and measuring their performance against those outcomes and developing those sorts of things. Did you not think that a similar approach to supporting the organisation to work through the issues that were identified would have been appropriate in this situation?

[286] **Mr Rose:** In the situation, I felt that it was appropriate to move to withdraw quite quickly because of reputational challenges. As I mentioned, AWEMA was in a situation to have responded to us about the breaches in terms and conditions when we sent it our intention to withdraw those awards. So, it could have responded. We do not believe that we had significant response back in relation to challenging our intention to withdraw the award.

[287] **Darren Millar:** Was there no feedback whatsoever from AWEMA?

[288] **Mr Rose:** I had one telephone conversation with Naz Malik, who rang me up to ask how much AWEMA owed us. That would have been in February of this year, at which point I made it clear that the withdrawal letter needed to be addressed and that we would take a decision then on how much money we might need to recoup, if we needed to recoup moneys.

[289] **Gwyn R. Price:** Good afternoon. What action, if any, has been taken to ensure

greater consistency in the operation of grant schemes between the Welsh Government and the Big Lottery Fund, to develop complementary schemes, to co-ordinate bidding timetables and to improve the clarity and accessibility of information to the bidders?

[290] **Mr Rose:** I can give you a couple of examples there. The one that is evident from my written submission is where Welsh Government funds and our funds were pooled into one pot in order to establish the community asset transfer programme, which effectively means one application process for the customer. It is a scheme that the Big Lottery Fund administers on behalf of us and the Welsh Government. In addition, the Welsh Government has observer status on many of our grant-making committees, in particular our people and places committee, which makes awards of around £3 million every two months. So, it is aware of the type of application coming in there. It frequently has observer status on some of our other committees as well. Likewise, we have exchanged information with officers who are working on programmes such as the community facilities programme, run by the communities directorate. Recently, we have also shared with the Welsh Government grant management school of excellence our standard terms and conditions and we have talked through our approach to both assessment and grant management. So, we have been very keen to share our experience, materials and information with the Welsh Government.

[291] **Gwyn R. Price:** You say that you share with the Government; is it sharing anything back with you?

[292] **Mr Rose:** Yes, we are keen to learn from others as well, so we have been looking at both processes. When we developed the community asset transfer programme, it was very much co-designed. We put a set of proposals, but a number of those required negotiation between us and Government partners to come out with a programme that worked for both.

[293] **Jenny Rathbone:** Thank you for your comments about our recommendation that no more than 5% of an overall grant should be for administration costs. I am sure that we welcome your suggestion that there needs to be a very clear definition of what falls within the category of administration costs. I think that the man on the omnibus would think that it was anything that was not to do with the front-line service that would be received by the beneficiaries. Nevertheless, you are suggesting that outreach and evaluation of a project would not be included in what the Big Lottery Fund counts as its 5% target. Can you elaborate on that a bit, please?

[294] **Mr Rose:** Yes, certainly. First, I think that the Welsh Government is in a slightly different position to us, and I am aware that a great deal of the report was focused on Welsh Government funding. For us, the process as a whole involves receiving applications and assessing them as well as grant management. There is often quite a big cost associated with assessing applications as well as a sunk cost, if you like, of assessing unsuccessful applications. That is to put things in context. In relation to our suggestion about looking at what is defined as an administration cost, there are instances where additional support provided for the applicant can help to deliver better outcomes.

[295] Capital projects are a good example here. Capital schemes are often very complex, and third sector partners, in particular, will engage an architect and will not necessarily have that expertise themselves. At the Big Lottery Fund, we have a capital support unit made up of quantity surveyors and project managers who are able to give the applicant assistance with questioning costs or, if they are facing cost challenges, with looking at where cost savings might be made. That is of real value to the applicant and, ultimately, should help to manage the risk of not achieving the outcomes of those projects. That is a good example of where it adds value.

[296] In addition, particularly in tough times such as at the moment, we are encouraging

our applicants to think really hard about how they evidence the impact that they are having, because, if they are going to go to another commissioner for support afterwards, the commissioner, if he has been asked to fund them, will frequently have to stop funding something else. So it is really important that people understand the impact that they are having. Again, I would regard that as additional to administration costs.

[297] Lastly, if we are undertaking a programme, a detailed evaluation to look at the programme overall and establish its impact arguably adds value, but I would regard that as being beyond the administration costs. To me, administration costs cover the cost of assessing an application, the cost of managing the application and the cost of having that ongoing relationship with the applicant. However, I would like to highlight the fact that it is clearly important to maximise the amount of money that we get out to the public and to minimise our administration costs. Therefore, in many circumstances, we look to minimise that as much as possible.

[298] **Jenny Rathbone:** I can see that management support for a capital project could be very valuable, because I agree that it is very specialist work. That is slightly different from establishing how many people are served by X project. I would have thought that outreach was an important part of evaluating whether a project is worth backing in some cases, although not in all; it depends on the individual concerns.

[299] **Mr Rose:** I would agree that it includes an element of outreach and we do that. However, at times, we undertake quite targeted outreach work, which can include some quite intensive work with specific beneficiary groups or a specific audience. Quite a lot of intensive work can be required to get those organisations or people to a level where they are able to meet our due diligence requirements and understand what is required of a good application.

[300] **Darren Millar:** There is obviously an aspiration at a UK level to get down to 5% of grant costs being related to administration. What sort of percentage is the Big Lottery Fund hovering at at the moment?

[301] **Mr Rose:** Across the UK—and I will need to confirm this afterwards—I think that it is about 6.2% at the moment, so there is some way to go.

[302] **Darren Millar:** However, from what you say, it seems that the percentages are larger on the capital projects than they are on others. Is that right?

[303] **Mr Rose:** I would say that a capital scheme is always likely to be more expensive than a revenue scheme. There is intensive support around capital builds, which are becoming increasingly challenging.

[304] **Darren Millar:** In your paper, and today, you seem to be saying that, if we are going to suggest that the Government has a clear target on this, we need to consider additional factors such as extra management and support that might be required on capital projects.

[305] **Mr Rose:** It is about being aware that some specific outcomes may be more challenging to achieve. It is not about setting yourself an absolute limit in that way and being alive to that. There may be certain projects with which it makes sense to have slightly higher administration costs to ensure that the outcomes are achieved and that the risk is managed appropriately.

[306] **Jenny Rathbone:** A target of 5% for all of your projects would be doable, would it?

[307] **Mr Rose:** Yes. A key difference is that much of our administration costs are associated with assessing applications that may not be awarded if the Government is not

casting its net quite so wide. However, we are very open about inviting applications, so we have to absorb a certain amount of those costs. If you are working with a limited number of grant applicants or grant recipients, it should be reasonable to reduce your administration costs.

[308] **Aled Roberts:** Mae'r Llywodraeth wedi derbyn argymhelliad 5 yn adroddiad y swyddfa archwilio, sy'n galw am asesu risg. Rydych eisoes wedi dweud eich bod yn gwneud hynny, ond os yw sefydliad yn cael ei asesu fel risg difrifol, pa gamau ychwanegol y byddwch yn eu cymryd wrth reoli'r grant yn enw'r sefydliad hwnnw?

Aled Roberts: The Government has accepted recommendation 5 in the audit office report, which calls for risk assessment. You have already said that you do that, but if an organisation is assessed as a serious risk, what additional steps do you take in managing the grant in the name of that organisation?

[309] **Mr Rose:** In some instances, if the risk is considered too severe, we would reject the application—we would not support the organisation. In other instances, we might put in additional controls. That would typically be more frequent monitoring activity—for instance, the monitoring step might be a telephone call, or we might insist on a visit. So, it is frequently about more intense activity, or it could be that we have a higher sampling rate, for example in looking at the costs or invoices on a high-risk award. So, the most common approach is a more intense approach to grant management.

[310] **Gwyn R. Price:** What is the Big Lottery Fund's approach to the use of advance payments in its grant funding? What requirements does the Big Lottery Fund set out as part of its terms and conditions regarding advance payments, for example requiring that funds be held in trust in a separate bank account?

[311] **Mr Rose:** It differs for capital and revenue awards. We would typically make payments three months in advance for large revenue awards, and for revenue awards of up to £5,000, we would pay upfront and then seek details in relation to grant conclusion later on. So, we take into account the position cash-flow position of the organisations. On capital payments, we would pay retrospectively on receipt of the architect certificate, confirming that the build had progressed and that that amount of money in costs had been incurred. Sorry, could you repeat the second part of the question, please?

[312] **Gwyn R. Price:** Would you think of requiring a trust to be held in a separate bank account to cover the cost?

[313] **Mr Rose:** We now require grant holders to hold any moneys from us in bespoke bank accounts, so that we can see that it is not mixed up with other funders' cash. However, I am aware from past experience that that can be difficult for organisations as well, but we certainly require that at the moment.

[314] **Mike Hedges:** One of our interim recommendations is that accredited training for grants managers should be provided by the Welsh Government. What training programmes does the Big Lottery Fund have in place for grant managers?

[315] **Mr Rose:** All of our funding officers, when they join the organisation, undertake a detailed induction, which takes them through the application process and the assessment process. They are then required to have the support of a funding manager. We have a situation where the funding manager would be allocated a sample of that individual's work, right the way through the lifetime of their work, as a quality check. They also have the ability to be able to refer their work upwards. So, a general induction takes place, and there are also mandatory elements of training that are undertaken by all staff across the organisation, such as fraud awareness training, which is on an ongoing basis. I am aware that, currently, our

human resources department is in discussion with the University of Derby about an accredited grant-making course, so that the staff who work for us will be able gain formal credits to support their career development.

4.15 p.m.

[316] **Aled Roberts:** You mentioned earlier that you had been involved in discussions with the Welsh Government regarding terms and conditions, and so on. Have there been discussions with the Welsh Government regarding its training package for grant managers within the Welsh Government?

[317] **Mr Rose:** They are not at a detailed stage yet. When I say that we have had discussions about terms and conditions, we have provided a copy of our terms and conditions for the centre of excellence to look at. We are in ongoing discussions there and we have made it clear that we are happy to work with Government and to support the development of its thinking in this area.

[318] **Darren Millar:** Do you think that it is actively engaging with you sufficiently to take advantage of your experience?

[319] **Mr Rose:** Yes, at this point, we get quite regular contact. We have had Welsh Government officials with us in the last couple of weeks, and I have quite regular contact with them on a number of issues. They are also involved in the work that we are doing on supporting good governance.

[320] **Darren Millar:** So, it is not trying to reinvent the wheel with its own customer relationship software and things like that, because you have some under development at the moment, have you not?

[321] **Mr Rose:** We have talked to the Welsh Government about the potential that our system might have for Government. As I touched on earlier, we are quite different in our approaches. The best way I can describe it is that the Welsh Government needs the back end, which very much looks at what supports grant management and reporting on it. Our system will have a website and a portal at the front end that allows a vast quantity of applications to come in as well. It is an end-to-end process—from finding out about awards right the way through to post-grant monitoring. We are having ongoing discussions about the suitability of that. As I mentioned, our system is currently under development, so it is at too early a stage yet to enable us to show Government what we have.

[322] **Darren Millar:** In terms of lessons that can be learned from what happened at AWEMA, you and the Welsh Government have been involved, while another organisation—the Charity Commission—which is not appearing before this committee today, is still doing some work. How do you think that we can get better co-ordination in the future with third sector organisations such as AWEMA so that if concerns are drawn to the attention of any organisation, they can be addressed as swiftly as possible?

[323] **Mr Rose:** I think that that is already happening. You will have seen reference in my written evidence to a group that I chair which is looking at how can we support improved governance in what I would call the ‘funded sector’—it is not just about the third sector, but those that are funded overall. So, I think that the spirit is very much willing. We also look after the secretariat for the Wales funders forum, which many funders also come to.

[324] It is an interesting question though, because in sharing that information we must also be aware that some of the comments that we hear are rumour. There is an issue there to make sure that we look at these things sensibly and proportionately. We are already looking to see

how we can work more closely together to share that type of intelligence.

[325] **Darren Millar:** In terms of the Charity Commission's role in that, is it part of the forum that you mentioned there?

[326] **Mr Rose:** Yes.

[327] **Darren Millar:** So, it would be able highlight any concerns that were brought to its attention about any organisation to which you or other funders were making a contribution.

[328] **Mr Rose:** Yes, it would. The initial group that we pulled together, because it is needs to be small enough to be functional, includes me on behalf of the Big Lottery Fund, the other lottery distributors, Welsh Government, the Welsh Local Government Association, the Wales Audit Office and the Charity Commission. There is no reason why that group cannot be extended slightly if needs be.

[329] **Darren Millar:** Okay, that is really helpful. Are there any further questions from Members? I see not. Thank you ever so much, John; you have helped us to make up some time, and you have been very clear on the answers. You have given us very useful evidence for our report going forward, so we are very grateful for your attendance today.

[330] We will now continue with our meeting on the All Wales Ethnic Minority Association report produced by the Wales Audit Office. I am pleased to welcome to the table Dr Rita Austin, former chair of AWEMA; in fact, joining us here is something that she did on a couple of occasions during the history of the organisation. We are pleased that you have been able to join us today in order to help the committee with our inquiry.

[331] I will note for the record that Jocelyn Davies is with us now and I thank Lindsay Whittle for his earlier contributions to the meeting.

[332] We do not have a paper from you, Dr Austin, so would you like to make a few opening remarks and then we will go straight to questions?

[333] **Dr Austin:** I received the formal letter that invited me to come to this committee on Friday evening. I read also the transcript of your proceedings on 22 October at that time. The letter suggested that if I wished to know what areas of my evidence would be of interest to the committee, I should enquire of the clerk, which I did. I was delighted to find him at his post at 5.30 p.m. Friday evening, and I had a fairly long conversation with him. In order to marshal my thoughts for this meeting—because I guess I will be presenting evidence to you that you have not heard from the Welsh Government officials who addressed you earlier or indeed have read about in any media outlets because I have not spoken to the media on these matters—I guessed that you would want a record of what I say. I have prepared such a record of what I am about to say because I might not get around to saying it all to you and I hope that I can lodge it with the clerk electronically when I go home tonight or maybe tomorrow.

[334] I would like to make some opening remarks and I have prepared an opening statement. I have prepared a fairly long list of lessons to be learned, some of which have not yet been brought to your attention. So, I hope that, if I do nothing else, I will be able to go through the lessons to be learned and respond to your questions on those.

[335] As you say, I am the former chair of AWEMA; I was chair between January 2002 and January 2007. I took up the chair again after an extraordinary general meeting held on 16 December 2011 and I remained in the chair until the date of our liquidation on 22 March 2012. I do not expect many of you know me from a bar of soap, so maybe I should say that I have served on many public bodies, including Assembly-sponsored public bodies, mostly in

the education field, and latterly a lot in health, but also in criminal justice. I have chaired these bodies' committees on audit and risk management and on quality assurance and performance for eight years, so I am pretty well experienced, you could say, in public service work.

[336] I have been involved in race equality work for most of my adult life, either in paid public service or in voluntary organisations. I have worked a lot as an unpaid volunteer in black voluntary sector organisations where I have usually served as chair or, very often, as a member. My promotion- of race equality in all my work capacities over many years has not endeared me either to senior officials or to politicians. That is how it is. Speaking truth to power is never easy and never more so than in race equality work, but I always choose my words carefully and I have learned never to use 'racism' or 'racist', because it closes conversations down and dissolves too easily into attitudes of self-righteousness and defensiveness. More to the point, it allows matters of cultural stereotyping to be side-stepped, so that people do not actually understand—sometimes wilfully do not understand—of what you speak.

[337] Contrary to what you, Chair, are reported as saying at the meeting of this committee on 22 October, I have not charged racism against anyone in this whole sorry saga. The BBC made that direct attribution to me in its published online comment and it used quotation marks around those words. I challenged it and was able to demonstrate that I had never used those words and it simply withdrew the comment from the BBC online statement and did not apologise. However, it did not withdraw the comment from BBC presenters' blogs. Clearly, the BBC adopts as narrow a focus to dealing with complaints as that for which the Wales Audit Office report criticises the Welsh Government in relation to these matters to do with AWEMA.

[338] I would also like to say, by way of an opening remark, that, given that the whole section of the Wales Audit Office report is devoted to considering whether inappropriate political influence was used in any Welsh Government dealings with AWEMA, I should make it clear that my membership of the Labour Party ended in 1992—20 years ago. That is not to say that I have not dropped the odd leaflet or stuffed the odd envelope on behalf of the Labour Party, as my Assembly Member will attest.

[339] The work that I have done has not been so much as to win me any favours, and neither should the fact that I served in elected office for the Labour Party alongside four people who have since become AMs give anyone any reason to suppose that AWEMA was treated favourably. On the contrary, I could not describe as 'cordial' the relationships between myself and one-time county councillor colleagues who are now AMs, even when I had them. They have become more or less non-existent since that date. Even during the two periods in which I was AWEMA chair, conversation between myself and Assembly Members was limited wholly to AWEMA matters. Perhaps the three or four times subsequently that I have lobbied these four AMs on race—it has always been to do with race equality issues, and primarily to do with mental health and maternity services—I have not been successful.

[340] I should clarify that my only motivation for becoming re-engaged with AWEMA a year ago was because of my commitment to advance race equality initiatives and to defend the only BME development organisation in the whole of Wales, from the chaos of an internal boardroom coup, which threatened its stability and its capacity to do good work.

[341] In terms of my opening statement, there are two aspects of the WAO report where a full and comprehensive assessment of the relationship between the Welsh Government and AWEMA does not materialise. These I feel I need to bring to your attention.

4.30 p.m.

[342] The conclusion that there had been no inappropriate political influence on the Government's decision about funding AWEMA is the first point. That is certainly the case when presented on the narrow construction that politicians always followed officials' advice with regard to AWEMA—that cannot be gainsaid; they did always follow officials' advice. However, that ignores how officials, precisely because they do not work in an ivory tower, but in the real world, are open to all its influences, and so cannot avoid being influenced by the politics that go on around them. Of course they are influenced by what is in the ether; it would be foolish to suggest otherwise, hence it is important for politicians to avoid, or at least to carefully temper, public comment that may unduly influence, or be seen to influence, officials' decisions. However, that is precisely what did not happen during the conduct of the IAS review, which concluded with the recommendation that the funding departments should pull the plug on AWEMA.

[343] There was a clear declaration by the then most senior official of the Welsh Government, the Permanent Secretary, at that most senior of committees that was charged with the scrutiny of the use of public money, which is your committee, that AWEMA should historically have been graded a high-risk organisation, whereas the transcript of your last meeting states that she had no substantiating evidence. It is scarcely credible that the head of internal audit, who reports directly to her—this was a line of report that he was very keen to emphasise on 4 or 5 January, when he rang me to say that the IAS review had been commissioned and he wished to speak with me. It would really test credibility to think that the head of internal audit would take a contrary view to that of his Permanent Secretary.

[344] That was compounded when, shortly after that PAC, at a Plenary session, you, Chair, rhetorically asked whether the end of the road had come for AWEMA. These prejudicial comments followed 20 days, at least, of constant, strident, partial and often ill-informed interventions by AMs of all opposition parties, including their leaders, against AWEMA, which fed into, and legitimated, an unremitting negative media. All of that was at a time when radio silence should have been observed by all politicians in order to avoid influence during the conduct of that review. I am fully aware that such media performances may contribute to the gaiety of the nation when indulged in by politicians against each other, but they are full of menace and threat when directed at a small organisation that is following officials' advice not to comment during the course of the review, which is what we were doing.

[345] However, the main point that I want to make here is that the Wales Audit Office report does not explicitly consider this episode of funding decision making so as to weigh the appropriateness or otherwise of any political influence on the Government's funding decisions. A case study in this respect would have been most welcome and I am sorry that it was not done, because it would have illuminated the dynamic.

[346] I know that you are conscious of time.

[347] **Darren Millar:** I am, I ask you to—

[348] **Dr Austin:** I know that you are conscious of time, but I am not six people sitting before you.

[349] **Darren Millar:** I know, but we are a large number of people who want to ask questions, and your opening remarks are helpful in giving us some pointers, but I am conscious of the clock and that we have certain questions that we want to raise with you.

[350] **Dr Austin:** Right. I will make my second point, which the Wales Audit Office report does not go into, and that is the very weak analysis and commentary devoted to the actions following the AWEMA chief officer's disclosure to the head of the ESF branch on 29

November that allegations, including financial allegations, had been made against him. The most serious of these allegations was known about by the AWEMA trustees at the July annual general meeting. I refer to the advance on expenses that he was holding.

[351] I can understand a practical reason as to why the Wales Audit Office report did not present a better analysis of what did not take place after 29 November. I think that this was because the official confirmed and agreed that, in fact, it had happened, as late in the day as that, although I had raised this matter with the audit office way back in May or June, and asked that the official's memory be tested. So, I can understand that, under pressure of time, there was no time to go into an analysis of this.

[352] The net result of it is that what the official knew on 29 November was no more and no less than what was disclosed by the finance director on 19 December, and rapidly afterwards by the chief officer on that date, except, of course, the finance director used far more colourful language. I never saw the e-mail that he wrote to Carl Sargeant or to the other people that he wrote to, but if it was anything like the e-mail that he wrote to the Big Lottery Fund, which I saw, it was indeed very colourful language. But in content, it was no more and no less than what had been told to the official on 29 November.

[353] I am inclined to the view that the official took so long to remember the content of this conversation that he fails to remember it accurately. It is an important point to me because it was a condition of my acceptance of the nomination to become chair that this disclosure was made. When I came to know about these events, which I did in November, I was appalled that the then trustees had not brought these matters to the attention of their funders. I was insistent that this be done. So, I deeply regret that the official took so long coming to his view about it, and it has had very poor consequences for AWEMA itself.

[354] I will leave that bit of it there, because if I put my notes in for the committee members to read, I hope that you will read them and that they will inform your final judgment.

[355] **Darren Millar:** Thank you for that, Dr Austin. Those opening remarks are noted. We will ensure that electronic copies of your document are circulated to individual committee members.

[356] You said that you have not spoken to the media. I seem to recall you appearing on an episode of *Dragon's Eye*.

[357] **Dr Austin:** Yes. That was the only time in all of this that I appeared.

[358] **Darren Millar:** So, you did speak to the media. Was that the only occasion?

[359] **Dr Austin:** After the vice-chair in the north released information, which I think was on 7 January, I did respond by simply quoting the formal reports that I had written for the police and the Charity Commission. I did appear on *Dragon's Eye*, for all the good that it did me or anything.

[360] **Darren Millar:** Okay. I just wanted to get that on record. With regard to the suggestion of racism, I think that you have cleared up the issue in terms of any remarks that were attributed to you in the media. Obviously, people respond to those remarks when they are attributed to someone and we do not see anyone challenging those remarks. I was not aware that you had challenged any of those remarks. However, a charge of institutional racism has been made in the past by AWEMA, has there not, in respect of the Communities@One programme, which it applied to, which is owned by the Wales Co-operative Centre?

[361] **Dr Austin:** So I read in the Wales Audit Office report.

[362] **Darren Millar:** You were the chair of the organisation at that time.

[363] **Dr Austin:** Yes, I have—

[364] **Darren Millar:** May I just clarify something? Was the charge of institutional racism something that was attributed just to the chief executive? Did he make those comments, or was it a view shared by all members of the organisation at that time?

[365] **Dr Austin:** I was not aware that that charge had been made until I read what I read in the Wales Audit Office report. I simply was not aware of it. I am aware of what institutional racism is, and I am not surprised to see that it occurs. I do not think that any of us should be.

[366] **Darren Millar:** I wish to go back to the time when you were first chair of the organisation, between 2002 and 2007. At that time, AWEMA was a small but developing organisation that grew during your tenure as the chair of the trustees. Can you tell me, in terms of the relationship at that time between the Welsh Government and AWEMA, whether the trustees were fully aware of their obligations and what work was being required of the organisation, in terms of the work that it ought to undertake and what it was required to deliver for the funds that it was in receipt of?

[367] **Dr Austin:** There were no trustees; we were not a charity until 2005. So, between 2002 and 2005, board members were fully aware of what we were expected to do. We had regular board meetings. I would not say that they happened quarterly; they occasionally happened six-monthly. I am sure that any of you who have knowledge or experience of voluntary organisations will know that it is always difficult to get boards to meet and to get people to serve on boards. It is absolutely fair to say that AWEMA had precious few friends at its inception, because people were extremely jealous of the funding that was being given to what they regarded as the new kid on the block and wondered why the funding was not going to them. So, we never had any friends, not among Ministers, AMs or anybody. It was a pretty tough and difficult time.

[368] **Darren Millar:** However, at the time that you were chair of the organisation, you were clear on the basis on which your interaction with the Welsh Government was being formed, were you?

[369] **Dr Austin:** Absolutely. We were there to shadow the policy committees, to respond to policy consultations and to provide policy advice to the Welsh Government. We, along with three other equality organisations, were accorded that task, which we did.

[370] **Darren Millar:** How involved were you as the chair of the organisation in that relationship? Was it more a relationship involving officers of AWEMA, Mr Malik or any other employees of the organisation, or was it more the responsibility of board members to interact with the Government?

[371] **Dr Austin:** I was involved at least at two levels. I was involved in my duties as chair, which were to lead on governance and to make sure that board meetings were conducted properly—I should say that all our board meetings were always attended by members of the equalities unit. They were mostly relatively junior members, but on at least one occasion, there was a very senior member. So, there was no way that the equalities unit did not know what we were about and what we were doing.

[372] I was also very much involved in an operational capacity. There were no senior

people in AWEMA at that time. We were running two, maybe three, short-term funded projects. We were all in one room. In order to respond to the policy consultation work, we did not have that senior capacity other than me. So, I did an enormous amount of operational work for AWEMA. There is a footnote on page 68 in the Wales Audit Office report that speaks of the work that I did. So, I was involved at those two levels.

[373] **Jocelyn Davies:** In your introduction, you mentioned that you have long and broad experience in public service and of lots of organisations, boards and committees. Can you tell us whether there is any significant difference in the governance regime that you experienced at AWEMA compared to those at all the other organisations that you have served with?

[374] **Dr Austin:** Most of my experience, except that with the south Wales committee of Citizens Advice, has been with the black voluntary sector. You will appreciate that the groups that I am talking about are very small. Occasionally, they held grants in order to perform certain activities. The governance arrangements were as challenging in every voluntary sector group that I have ever been in as they were in AWEMA. As chair, I found them most challenging. I have to say that the board meetings at AWEMA were about the most challenging that I have ever experienced anywhere.

4.45 p.m.

[375] There are deep philosophical problems with umbrella organisations and mostly so in the race equality field. They do work, and when I was a paid official of the Race Equality Council, which was a membership organisation and an umbrella organisation, I made it work, but it takes an enormous effort of will to get them to work.

[376] **Jocelyn Davies:** However, was there any significant difference in this case? From the answer that you are giving me, I am picking up that AWEMA was not significantly different. It was more challenging, but was it significantly different in its culture and governance regime from all the other organisations, however small, that you have been a part of?

[377] **Dr Austin:** It was different in that it did a lot more and across a wider brief, and that has an impact on the governance arrangements.

[378] **Darren Millar:** Is that what made it more challenging at AWEMA than with other organisations—the breadth of its work?

[379] **Dr Austin:** It was the breadth of its work and the fact that we were relating to a Government unit, the equalities unit, that was wholly dysfunctional and that we could not get much sense out of. It did not have the knowledge, the experience, the capacity, the people, the interest or the passion that you need to progress race equality work. It simply did not have those things.

[380] **Darren Millar:** Thank you for that. Aled is next.

[381] **Aled Roberts:** Rwyf eisiau gofyn fy nghwestiwn yn Gymraeg. **Aled Roberts:** I would like to ask my question in Welsh.

[382] **Dr Austin:** I am a learner, so I will not trust what Welsh I know. I will use the headset.

[383] **Aled Roberts:** Rwyf eisiau delio gyda'r blynyddoedd cynnar o fewn y sefydliad, os caf. Rydych wedi sôn am rai o'r problemau a oedd yn eich wynebu, ond beth **Aled Roberts:** I want to deal with the early years within the organisation, if I may. You have spoken about some of the problems that you faced, but what did you, as the chair at

wnaethoch chi, fel y cadeirydd ar y pryd, i sicrhau bod rhyw fath o drefn ar weithgarwch AWEMA? Yn fwy na hynny, mae'n debyg bod adroddiadau yn 2002, 2003 a 2004 yn sôn am broblemau ac adolygiadau gan adran gyllid y Llywodraeth. Beth wnaethoch chi ar y pryd i ddwyn y prif weithredwr i gyfrif?

the time, do to ensure some sort of order in the activities of AWEMA? More than that, it seems that there were reports back in 2002, 2003 and 2004 that mentioned problems and reviews undertaken by the Government's finance department. What did you do at the time to hold the chief executive to account?

[384] **Dr Austin:** On what I did as chair in relation to the work that we did, because we were shadowing all these Government subject committees, as I think they were called at the time, we established many meetings with members of the BME groups, who would come to the office. We had an education subject committee, a health subject committee, a housing subject committee and so on. As you will appreciate, that requires a lot of servicing and a lot of work. We involved the membership of the AWEMA board in some of this, although, to be fair, they were busy people as well, so they were not turning out as often as I was.

[385] With regard to the reviews that were conducted of us by the Welsh Government, the two that I remember most clearly are the review in 2002-03—what I call the David Richards review—and the total shambles of the Imani review. Yes, the chief executive was held very much to account by me. As you will no doubt appreciate, I am robust in how I go about my work. He was held to account, and the pity is—and I have to say this—that, after I left the position of chair, the chairs who followed me did not hold him sufficiently to account at all. Under my chairmanship, the internal governance of this smallish organisation was under the pressure of single-year funding and, after the Imani review, three-monthly funding, which made it an unstable organisation from the point of view of going forward. That brought about challenges for governance and my holding the chief executive to account by putting the whole raft of policies in place that good governance involves and needs—policies on procurement, expenses, discipline and so on. It was challenging, I will not deny it, but it was no more challenging than it is for any other voluntary sector organisation that I know.

[386] I have to say that at the time I relied a lot on the progress that was being made with HR on the fact that I was knowledgeable about these things, but once we started applying for the WEFO projects, that sharpened our game no end because of WEFO's demands and requirements that these things be put in place. So, yes, I have no doubt about it—the chief executive was held to account by me.

[387] **Aled Roberts:** You have mentioned the Imani review and the decision that was taken then to move to three-monthly funding. What is your recollection of the nature of the discussions at that time with Welsh Government officials on the continuation of funding for AWEMA?

[388] **Dr Austin:** The Imani review was a complete and utter shambles from beginning to end. We challenged the terms of reference as they were far too narrow. We were not interviewed. The Imani reviewer did not set foot in the AWEMA offices, and interviewed neither me nor the chief officer at the time. I think that I did see a copy of a draft report, which was dreadful—utterly appalling in its content and its analysis. We challenged it, of course. I do not recall ever seeing a copy of a final report. The Wales Audit Office report paints a bit of a picture that I never saw or knew about. All I knew was that, suddenly, we had come to the end of the financial year, or towards the end of the financial year, and again we were doing our agitating on whether we would get funding for the next year, only to be told by the senior official that, no, our funding would be coming in three-monthly tranches. That is what happened, for a whole year. It is very difficult to do any future planning in such circumstances, and that was the year that we were beginning to do the thinking around the WEFO EQUAL project—the first major project that we had.

[389] **Aled Roberts:** During that year when the funding regime changed, within the equalities unit, was there greater monitoring or did you feel that there was still this sort of shambolic arrangement?

[390] **Dr Austin:** There was no greater monitoring. You have to understand that that year and the next were characterised by immensely poor leadership in the equalities unit. This was also the year when the second race equality scheme was being worked on, and what I saw of the draft of that scheme was so appalling in its lack of information and knowledge that I insisted on seeing the Permanent Secretary at the time. I sat in his room for an hour going through a line-by-line analysis of this race equality scheme, which was going to be published as the Welsh Government's scheme. I cannot begin to tell you how appallingly ill-informed it was, which is why we took the attitude that we did on proposing what the race equality scheme should contain. We devoted a whole issue of our newsletter to it. I am sure that it should be somewhere in somebody's records. We distributed that newsletter very widely. That race equality scheme, which incorporated the Race Relations (Amendment) Act 2000, was the first major legislative step forward on race equality since the original Act in 1965. It was something for which we, as black people, had been working for many, many years at Westminster and elsewhere, and I certainly was not going to have a devolved Wales be found wanting in as important a matter as this. So, of course we took the assertive attitude that we did in relation to it. Of course we did.

[391] **Aled Roberts:** With the benefit of hindsight, do you think that it was a wise step to give the responsibility to one body at an all-Wales level to deal with issues of black and ethnic minority rights and promotion?

[392] **Dr Austin:** I think that the Welsh Government chickened out in the election after that first Assembly, for whatever reason. It abrogated its own responsibilities with regard to equality across the field—and what I say about race equality I mean also across the equality field. It abrogated the responsibilities that it should itself have embedded in each of its departments in the pursuit of race equality, to an organisation, which, with the best will in the world—never mind all the petty in-fighting that regrettably goes on among ethnic minority groups—could not perform to the full extent it wanted. However, I do not think that we can be criticised for trying as hard as we did.

[393] I am sure that, if somebody looked in the archives of the education department, they would find up to 10 policy consultations that I wrote. In the end, I got so fed up that I used to write to the director—and I was a member of Education and Learning Wales at the time, so I used to see the director in another capacity—and I would beard him regarding whether we were going to get some replies to all these policy consultations. We never did. Not one came back. So, I will make the point to you now, Mr Roberts, that all this, from the Welsh Government's point of view, is not simply a failure in grants management, but a failure in policy response with regard to race equality. We have only to look at the strategic equality plan, which was published at the top of this year, as an example. I was appalled to find in it race equality items that I assisted the officials to write into the 2006 race equality scheme, and not one hour's work seems to have been done on any of that since. There are no basic data and there are no trend data, while, in England, this information is available. Even police forces throughout Wales will produce these race equality data in delivery terms. So, those items that have lain unattended for six years are now appearing in the strategic equality plan. What is in place to make sure that that strategic equality plan happens? I do not see it as a work objective for the equalities unit, do you? That is what it should be.

[394] **Darren Millar:** We are not here to scrutinise policy today. Obviously, we are a committee that is just looking at the processes of Government, effectively. So, while your comments about people not getting back to you are very important, I think that I just needed to put that on the record.

[395] I would like to go back to something that you said earlier, Dr Austin. You talked about the development of policies as you were applying for funds from organisations such as WEFO and that that was a catalyst to drive up and improve the governance arrangements within the organisation. At a board level, how did you ensure that those policies were being implemented fully within the organisation? Also at a board level, how did you ensure that the issues that had been identified by the Welsh Government, once accepted—if there were issues identified in its reports that were accepted—were also implemented? Was there an action list that was agreed and then responsibilities apportioned to individual board members and the chief executive? What was the response like? I am just trying to get a flavour of it.

[396] **Dr Austin:** We had a personnel sub-committee and we also had a finance and general purposes sub-committee. Certainly, the membership of the board involved in those two sub-committees would be fully aware of the new policy document that we had put together because they would be consulted on it. We tried to road-test it through them. So, that was how it was done. I have been in other organisations that are much bigger, so I cannot say that we replicated any large organisation, because we did not. We performed the function, but at a smaller scale.

[397] **Jocelyn Davies:** I know that you left originally in early 2007, and you told us earlier that you made sure that the chief executive was subject to your scrutiny and that he answered to you. I know that you have probably read the report by the auditor general and so will have seen case study 6. The chief executive must have run amok a bit after you left, because, by July 2007, the chair and the acting chair were writing to the Assembly Government, which was rightly criticised for not taking those allegations seriously enough to scrutinise them properly, about an increase in the pay and pension of the chief executive without the approval of the board. That could not have happened when you were there. By then, a lack of oversight of Mr Malik had developed, and he was hand-picking personal friends to be board members. I am sure that you would agree that, when any organisation, however small, is dealing with public money, it has to be accountable, because the public deserves that. Would you agree?

5.00 p.m.

[398] **Dr Austin:** Of course, I would agree. I stepped down as chair in January 2007. However, because some of the activities that have been complained about happened on my watch—I was still a member at that time of the AWEMA council, though not of the board—I made it my business to track them down, and to have many discussions with the incoming chair and the treasurer. I can say categorically that the board was aware of the salary levels. Many of the allegations made by the acting chair and the acting vice-chair were simply not substantiated by the facts. We could produce board minutes showing both members to be present when the salary structure and progressions were accepted. They were there, and we produced those board minutes for the then senior officer in the equalities unit. What we heard back from the equalities unit after six or seven months gave us a clean bill of health. We had attended to this issue. There were no bonuses, Mrs Davies; there never have been any bonuses paid.

[399] **Jocelyn Davies:** I am just quoting from case study 6.

[400] **Dr Austin:** Yes, I know.

[401] **Jocelyn Davies:** I just read out what was said.

[402] **Dr Austin:** Yes, and the case study quotes from the letters written by the acting vice-chair and the acting chair.

[403] **Jocelyn Davies:** The criticism here from the Wales Audit Office is that those allegations were not properly investigated by the Welsh Assembly Government, despite the fact that this was a matter for regulation by the Charity Commission.

[404] **Dr Austin:** I appreciate exactly what you say; I have read those words as well. All I can say to you is that, if the Welsh Government has not investigated these matters, it is not something that you can lay against AWEMA. That is the Welsh Government not doing its work. All I know is that we heard back from the then senior officer of the equalities unit, who said that the unit had no further issues to pursue. I have read that case study, and the details of what the Welsh Government had not done came as a revelation to me. However, we did not know about that.

[405] **Jocelyn Davies:** I am not suggesting that you did. We are here to take evidence from you in relation to this report.

[406] **Dr Austin:** Yes, yes.

[407] **Jocelyn Davies:** That is your view: public money needs to be carefully scrutinised, however small the organisation; governance needs to be good, regardless of what the organisation is, if it is handling public money; and the Welsh Government is there to see that that happens. Is that correct?

[408] **Dr Austin:** Yes.

[409] **Jocelyn Davies:** You resumed as chair in December, and I believe that you said that you had set caveats so that you could do so. How much contact had you had with AWEMA since you had stepped down in early 2007? My question relates to the way in which the organisation had evolved in that time, because it had been a considerable length of time—several years—and the organisation had moved on in terms of wanting to develop multicultural community facilities. It also had an increasing focus on WEFO-funded project work. How much contact did you have in those intervening years?

[410] **Dr Austin:** I attended the annual general meeting in 2007, within months of stepping down as chair, not least because this last ding-dong over the complaints that had been made about us was still going on. I did not attend future AGMs at all. I took the view that it is best to keep out of the hair of those who succeed you. What always happened, once a year, was that the chief officer would approach me, as he would approach other people, in the run-up to the election for the following council, to see whether we still wished our names to go forward. By this time, the membership was not just hand-picked; it was decided through each of the National Assembly regions. I would be asked if I wished to continue to be nominated from South Wales Central and, most importantly, would I continue to chair the membership appeal sub-committee, which was one of the council's sub-committees. In that conversation, I would be told of the developments at AWEMA, the progress being made in getting WEFO projects and all of the other projects that were applied for, some of them successfully and some not successfully, as you see listed in the Wales Audit Office report. That was the top and bottom of it. So, I had a once-a-year conversation with the chief officer.

[411] I was lobbied hard during November 2011 by council and board members to return to provide some leadership and focus to an organisation that was drifting dreadfully, and I was, frankly, appalled by the state of affairs I found. I was elected chair on 16 December and by Christmas Eve I had established that the accounts had not been done and that there were several other matters of grave consequence. I tried to take the matter up with the then trustees, who promptly resigned.

[412] **Jocelyn Davies:** So, when you agreed to resume the chair in December 2011, you say

that it was an organisation in a pretty poor state. Do you feel that you had full disclosure and full briefing from those who were in the know at the time?

[413] **Dr Austin:** I had no disclosure from the trustees, because they would not co-operate. I mean, not all—

[414] **Jocelyn Davies:** What about the chief officer, who had been keeping you up to date informally every year?

[415] **Dr Austin:** I was fully aware—

[416] **Jocelyn Davies:** So, everything was disclosed to you when you became the chair again.

[417] **Dr Austin:** I was fully aware from him of the state of the organisation. I had read the response that he had provided on the allegations, which had been demanded by the board and should have been discussed at the November board meeting but was not. So, he did keep me informed—I demanded to be made aware; I was not going to come into an organisation without knowing what needed to be done. So, yes, I was aware. However, was I aware of every single little thing? I would not like to swear to that, because, sometimes, you do not know enough to ask the question, do you? However, I was certainly aware of the broad sweep of things.

[418] **Jocelyn Davies:** You knew what you were taking on.

[419] **Dr Austin:** Even if all i's and t's had not been dotted and crossed, yes.

[420] **Darren Millar:** In your opening remarks, you referred to the conversation that Mr Malik had with the senior WEFO official on 29 November. What did he disclose to you, when you were coming back to the chair, about that conversation and its context? We heard earlier from the Welsh Government that it was a matter of someone being grabbed at the end of a meeting and, alongside many other people grabbing him, Mr Malik said that some allegations had been made, but he played them down. Is that the suggestion that you were given by Mr Malik? How did he describe the tenor and context of that conversation?

[421] **Dr Austin:** Let me put it into context. Nomination papers for the extraordinary general meeting on 16 December had to be out, according to our rules, by 1 or 2 December—that was the final date for them to go out. I said that I would not sign the nomination papers until the disclosure of the allegations, both financial, relating to the expenses, and of the HR variety—if I may put it like that—had been made. So, I was quite clear about that. I was told by him that an opportune moment for this conversation to take place would be on Tuesday, 29 November. I remember the date because it was a meeting that he was attending. I said that that was fine and, if he did it then, I would sign the nomination papers after that had been done. I told him what I wished to be disclosed, namely the financial allegations most importantly, as well as the allegations regarding complaints made by members of staff, ex-members primarily. My initial request was that it should also be told to the official in the equalities unit.

[422] He reported back to me that the meeting had happened—yes, it was on the margins of a meeting, but I did not get the impression that it was a cup of tea somewhere; I got the impression that it was something a bit longer than that. I cross-questioned him as to what he had reported, and was told. I was also told by him that, no, he had not gone to see the equalities unit person, because he had asked the head of the ESF branch to pass that on to the head of the equalities unit. Yes, I was a bit disappointed about that; I think that that last bit of it should have been done. I also expected, I have to say, the WEFO official, having been told

this, to have done several things, one of them being to say, ‘Please, chief officer, write me an account of this’. The second would be for him to have gone to his desk and written a file note for himself. These would have been prudent things to do, and I am only sorry that I did not insist that the chief officer write a file note himself.

[423] **Darren Millar:** I was going to ask: why did you take the decision to allow him to inform only verbally, rather than in writing, given the serious nature of the matter?

[424] **Dr Austin:** I wanted the information to go quickly. That is what I wanted.

[425] To be frank, Chair, I was expecting the official to go back. In retrospect, I should have insisted that the chief officer of AWEMA keep a file note himself, and I did not. By that time, I was not fully in, if you follow me—I was not in the office; I was not going in. I was still semi-detached from it. So, yes, you are right: had I been operating at my usual rigorous level, I would have insisted that a file note be kept.

[426] **Darren Millar:** However, it was agreed, in the discussion on 29 November between Mr Malik and the official from WEFO, that WEFO would communicate with the equalities unit. Obviously, that was not followed up, as we know from the report. Jenny, you want to come in.

[427] **Jenny Rathbone:** It sounds to me as though Mr Malik was being a little bit economical with the truth. There are several possible explanations for this exchange on 29 November, one being that he reported in exactly the terms that he reported back to you. Another is that he gave a much more summary version of it, which might explain why the WEFO man did not immediately pick up the phone to the equalities unit. Would you agree?

[428] **Dr Austin:** I absolutely do not agree that he was being economical with the truth with me. He has had to disclose many aspects of his conduct that he knows I disapprove of strongly. So, I do not think that he would be lying to me on any occasion, and I do not think that he has lied on any occasion. Why I am inclined to believe him is that the official took so long to finally agree that he had been told about the financial allegation. The audit office permitted me sight of the draft copy of the report about a week before it was published. At that time, I asked again for that official’s memory to be checked. I had asked in May and I had asked in June, because I had two interviews with the Wales Audit Office, and each time, the answer would come back, ‘No, no, no; the official does not recall ever being told about the financial allegation’. Suddenly, a week before the report is due out, he admits that he has. Perhaps, if we had left it a week longer, perhaps two weeks, he would have remembered the full extent of the conversation. No, I do not believe that I was lied to.

[429] **Darren Millar:** Obviously, some serious allegations were made against the chief executive. I am just trying to get to grips with this issue. Do you think that it was wise, in retrospect, to expect the chief executive, against whom serious allegations had been made, to disclose them himself, rather than a third party such as yourself? As a member of the council of reference and being aware of the issues, you could have disclosed them directly.

5.15 p.m.

[430] **Dr Austin:** In the next life, I want to be an auditor too, because auditors are always right. However, while I am not, what I will say is this: who else could I have asked to have this conversation with the head of the ESF branch, who does not know me from a bar of soap and who would not have known any of the other trustees? A feature of all this is WEFO’s relationship with AWEMA and the excessive confidence it placed in the finance director, who let everyone down on this matter.

[431] **Darren Millar:** To be fair—

[432] **Dr Austin:** Who else could have conveyed this? None of the other trustees were—well, how could I have approached them? At that point, I was simply in the position of being asked to become chair.

[433] **Darren Millar:** I am aware of that, I am simply asking whether it was wise, with hindsight, that you had not requested that the outgoing chair disclosed these things, or that one of the members of the trustees in whom you had confidence should not have disclosed the information, rather than Mr Malik himself, about whom the allegations have been made.

[434] **Dr Austin:** The outgoing chair, by this time, had resigned and gone away. I did not approach the vice-chair north, who was acting as chair, at that time because I was very concerned, as I had heard of the chaotic nature of the 18 November board meeting. So, I did not think that I would have much joy in approaching any of the people present at that meeting, save two trustees, both of whom were not available, as I recall, because of work and other commitments.

[435] **Darren Millar:** I have a couple of Members who want to come in. Jenny wants to come back in, and then I will go to Mike.

[436] **Jenny Rathbone:** I want to go back to the time when you were the chair, because I failed to catch the Chair's eye during the discussion earlier. You told us that you kept a very strong eye on the chief executive's activities. However, case study 5 in the Wales Audit Office report highlights the concerns that WEFO had in 2006 about AWEMA in relation to three matters. One was its procurement processes, the second was that money that was paid in advance to AWEMA was not then passed on to organisations for which it was the interceding body, and the third was that there was ineligible expenditure, including on alcohol and claims for expenses for a foreign visit that had nothing to do with the project that was being funded. These were fairly clear concerns about the way in which AWEMA was conducting its operations. Were you aware of these concerns when you were still the chair in 2006?

[437] **Dr Austin:** I was aware of the whole discussion about not passing on the advance payments. I took serious exception to that, as I did when I realised that, in the convergence projects, the advance payments were not being passed on. It seemed to me absolutely wrong that we should not be passing on advance payments if we had received them. We were a bit stymied on that occasion because our auditors took the view that, if an advance payment was paid out to a partner, and if, when the expenditure of that partner in terms of claims was assessed, some of that expenditure was ineligible, or deemed to be ineligible by WEFO, then AWEMA would stand to lose out, because we would have paid it out. So, there was that technical point. It is also the case that we were told then that a conversation about advance payments had gone on between the finance director and WEFO. For reasons that I do not fully understand, it was the finance director who did everything in relation to WEFO—all the processing of claims and all the rest of it. He managed all of that and reported back, I think, to the chief executive. On the ineligible expenditure, I do not think that I can help you, except to say that, yes, there were times when expenditure was claimed and it was ineligible. However, as I read in the audit office report, there was no evidence of systemic overclaiming in this regard. So, yes, it would happen from time to time. It happened again and you live with it. A decision is made by WEFO. There is no appeal against its decision; you just have to live with it. I have forgotten the other part.

[438] **Jenny Rathbone:** The other part was about the procurement process.

[439] **Dr Austin:** Yes, thank you. For some reason, personal credit cards were used to purchase small items of equipment, which I thought was appalling. So I insisted on a

company card being acquired and used. It then fell out of use, so, by the time I came back, I found that AWEMA no longer had a credit card and that expenses were being claimed for the purchase of laptops and PCs. It was absolutely atrocious.

[440] **Jenny Rathbone:** This was referring to procurement and tendering, so it would not have been about laptops. It involved external evaluators, so it was about slightly more expensive items than laptops.

[441] **Dr Austin:** There was always concern about tendering processes. Mind you, I have served on local health boards that have had problems with tendering processes as well. They are always an issue and a challenge. You must keep within the European Union guidance on tendering and so on. So, I am not surprised. What action did I take as chair? Day-to-day operations on this matter are for the chief executive. In my regular supervision of him, I insisted that he told me about the major items, and I suppose that I was told about the major items that were being discussed. My assumption, once I had given my guidance on, for example—

[442] **Jenny Rathbone:** The credit cards.

[443] **Dr Austin:** Yes—my assumption was then that it would proceed.

[444] **Jenny Rathbone:** However, you never directly heard from WEFO about its concerns—

[445] **Dr Austin:** WEFO has no relationship with members, ever.

[446] **Darren Millar:** Mike wants to come in.

[447] **Mike Hedges:** I have two points. First, when Mr Malik had that conversation, what I would have expected him to do—it is what I would have done—is send an e-mail to the person concerned relating the conversation, copying you in as chair. Also, on procurement, why did you not use a system whereby you purchased things and got invoices?

[448] **Dr Austin:** You are right about the purchasing system. We did have that system after the 2002 David Richards review, as I call it. Purchasing systems were put in place whereby we had invoices and so on. Of course, that is the proper way to proceed. On your first point to do with why a file note was not kept or an e-mail sent, again, you are absolutely right. I do not know why an e-mail was not sent. I would have sent an e-mail. I did send e-mails when I did such things.

[449] **Jocelyn Davies:** May I ask a question on this?

[450] **Darren Millar:** Of course.

[451] **Jocelyn Davies:** When you were asked why you did not do the informing about the allegations you said that it was because you did not know them. Why do you need to know someone in the Welsh Assembly Government or WEFO in order to inform them of something? Why do you need to know them? Why are these things done on an informal basis, without e-mails, without letters, without your being copied in? At that point, when you were saying that the condition on which you would come back as chair was that this was sorted, you were not even being copied in and you had to take someone's word that they had had a chat on the periphery of a meeting with the person concerned, and then that person is blamed for not having perfect recall of that. Why do you need to know someone in order to inform them of something?

[452] **Dr Austin:** Officials are officials and they should follow good administrative practice. It is for officials to keep file notes of conversations, particularly important conversations. Yes, I agree that I should have insisted that the chief officer also kept a file note, and I did not. At the time, I was not in any office at AWEMA. I was very careful not to be stepping on the toes of any of the trustees of AWEMA. I was the incoming chair or, at least, it was hoped that I would be the incoming chair, because I had been lobbied to come in. I did not approach anyone at WEFO. I am not shy about approaching officials, but I feel that I need some standing or locus before I approach officials. Otherwise, officials have no reason to speak with me; I do not know why you are surprised at that.

[453] **Darren Millar:** You were a member of the AWEMA council, were you not, so, in that capacity, you had a standing within the organisation—and you were a former chair.

[454] **Dr Austin:** I was a member of the council who had not attended any annual general meetings in four years.

[455] **Darren Millar:** But you were a former chair, a member of the council and hoping to be the incoming chair of this organisation.

[456] **Dr Austin:** I was a former chair, which was five years earlier. I will say again that the head of that branch did not know me. If I had rung him to ask, 'Have you had this conversation?' he would quite rightly ask, 'Who are you? Where are your credentials? Prove yourself to me'. No, I am not going to be doing any of that. He would—

[457] **Darren Millar:** You could have explained your capacity as someone who was a member of the AWEMA council, a former chair, and hoping to be incoming chair, and that you were concerned about this and wanted it to be addressed.

[458] **Dr Austin:** Well, I did not—

[459] **Jocelyn Davies:** I still do not understand why this was done informally. You were insisting that the disclosure happen or you were not coming back as chair. You set that as the condition, the caveat, and Mr Malik was told that he had to inform WEFO, but not even by letter and copied to you—he was just to go along to tell WEFO. It was important enough that you set it as a caveat or you would not return, but you had no absolutely no proof whatsoever that it happened.

[460] **Dr Austin:** Is there a question there?

[461] **Jocelyn Davies:** Yes, there is a question, actually: do you think that that was appropriate?

[462] **Dr Austin:** I can only tell you that that is what I did. I have also said, in retrospect, with the benefit of 20/20 hindsight, I would have insisted that the chief officer write a confirming e-mail. I do not think that it was appropriate for me, at that stage, in those circumstances, to make a confirming phone call, and I cannot help you any more than that.

[463] **Darren Millar:** Okay. Oscar wants to come in, and then we will go to Jenny.

[464] **Mohammad Asghar:** Thank you, Dr Austin. I think that you made a very interesting statement. You used words like 'very poor leadership' 'very difficult relationship with local AM'—and you know, with the funding coming from these sorts of organisations, you should have very cordial relations with local AMs. My question to you is: what was your relationship with or understanding of Mr Naz Malik during the five years you were there? There were quite a few alarm bells ringing, but why was no action taken? Were you not aware of them?

[465] **Dr Austin:** It is a feature of the Wales Audit Office report and how it is constructed that all the negatives about AWEMA appear in one section and all the positive work that AWEMA does—the audit office has not evaluated the work, but it lists all the positive achievements—appears somewhere else. In reality, the position was different. When criticisms were made of us to whoever—and there were plenty, given the jealousies in the field—and they came to our notice, we attended to them, but that was balanced by, at the same time, good work being done by us, and nobody complaining about a new set of funding that we had achieved or a new bit of work that we had done. The reality is that the negative bits of AWEMA went hand in hand with the positive bits of AWEMA. Yes, you can sit here and check off all the areas where the WAO report says that we were not doing anything very much.

[466] What was my relationship with Mr Malik? A very robust working relationship. I am not his friend; I never have been. Our families do not know each other. I guess I have had a social occasion with him and his family once in 12 years.

[467] **Mohammad Asghar:** How could you run an organisation if the relationship between the chair and the chief executive was no good?

[468] **Dr Austin:** The working relationship between—

[469] **Mohammad Asghar:** You just said that there was no good relationship, so how could you run an organisation for public service when the relationship between the chair and the chief executive was not very good?

5.30 p.m.

[470] **Dr Austin:** That is not what I said, Mr Asghar. The relationship between me and the chief executive was a robust working relationship. I would not have remained as chair for five years if it had not been. He was very skilled at being an entrepreneur and getting funding. He was doing work for and in association with the BME groups and communities, which I could not see many BME groups in Wales doing.

[471] **Mohammad Asghar:** Do you appreciate the work that he has done?

[472] **Dr Austin:** Of course I appreciate his work and what he has done.

[473] **Jenny Rathbone:** I want to move us on to the internal audit report. You said at the beginning that you are very unhappy about the remarks of the Permanent Secretary to the Public Accounts Committee and the launch of the report. I am struggling to understand how, once the allegations had been made by the finance director on 19 December, it would not have been necessary to conduct some sort of internal audit of AWEMA's financial situation, given the seriousness of the allegation.

[474] **Dr Austin:** I had no objection to that audit being conducted. The scope of it was agreed with us; I think I received the scoping document on 9 January. It is important to note that the IA report was not replicating any other work; it focused on financial control and governance, which is what it should have done. By the time Christmas Eve arrived, I was concerned with the financial control and governance, and once I knew that the accounts had not been done, I was concerned about that as well. So, I had no difficulty at all with the IA report being conducted. However, I have difficulty with its accuracy. I was first interviewed on 6 January, when I went in for what I hoped was a meet and greet. However, I ended up with the Spanish inquisition: I was faced by three people from the internal audit team, who grilled me for two hours. I called a halt to it at the end of those two hours.

[475] They kept insisting that they had only heard about all of this on 19 December, and I was just as insistent and clear that the chief officer had made this disclosure on 29 November. Prior to this meeting, I asked the head of internal audit to ask his senior manager, who was taking notes on 6 January, to check her records, and there in her records is a note that I had asked the chief officer to make this disclosure to the official. So, my questions are: why did she not chase this assertion and why did she not ask the official whether the chief officer had, in fact, made these disclosures to her? However, nothing of that sort was done.

[476] So, in terms of factual accuracy, I completely disputed that first paragraph. I was interested, while listening to his evidence, to hear that he normally sends reports out to be checked for factual accuracy—or at least I thought that that was what he said.

[477] **Jenny Rathbone:** Yes, he did.

[478] **Dr Austin:** So, I was very concerned that it had not been checked for factual accuracy. Coming to the end of this, after your Public Accounts Committee meeting at the end of January and the Permanent Secretary's remarks, I rang the senior manager. I can tell you that, during the course of that review, I must have rung either the senior manager or the head of internal audit every other day, or sent them even more memoranda about what I had discovered with regard to the accounts, including, for example, the whole gym membership bit. They did not discover all of that; we discovered all of that, as we were looking through the cheque-book stubs and so on, and we sent that information in. Of course it was going to be a critical report; we had contributed most of the criticism ourselves. So, we should have been asked to correct the report for factual accuracy and, if he did not agree with that, then he could have said so in his final report. That is his prerogative so to do.

[479] The other point with regard to the IA report is why it went for the nuclear option. Did I hear him correctly that he only gave that report to the funding department on 9 February, the day it was published? How can that be? This is the date of its letters to me that terminate the funding. So, at the very least, the funding department must have had the report a few days earlier in order to make up its mind to terminate our funding, but with absolutely no notice whatsoever.

[480] I believed then and I still believe now that the changes that I and the remaining trustees had effected with regard to financial control, personnel services and so on, were sufficient to demonstrate that we could turn the organisation around. At the very least, if it was not the job of the internal audit service to make that evaluation, as the Wales Audit Office report believes, it should have asked the funding department explicitly to consider whether AWEMA could remedy the deficiencies. That is what I call transparent decision making. We do not have that in the case of the IAS report or in the funding departments' decisions. I heard Huw Brodie assert yet again this afternoon that AWEMA could not be capable of remedy. I think that that needs to be demonstrated, because there is no corporate evidence—you have heard it yourself all afternoon—of AWEMA being a failing organisation. That evaluation has never been done, so I think that it was owed; an explicit analysis should have been done. There has not been—

[481] **Darren Millar:** I am sorry to interrupt people, but I am very conscious of the time, and it is important that we get the questions that we want to ask and the responses from Dr Austin on the record. I ask for brief questions and brief responses between now and the end of the meeting.

[482] **Jenny Rathbone:** How could it have been possible to re-establish public trust in AWEMA without having a complete change of senior management?

[483] **Dr Austin:** That could have been a condition. What happens after an audit is that you get an action plan and a time-limited frame in which to respond to it. If you do not do it, you go.

[484] **Darren Millar:** There have, of course, been other reports with clear action plans and timescales that were not fulfilled. That is part of the problem here—it is the history that went with the organisation and the history that the Welsh Government had of the organisation, which made it feel that it had to go for what you described as the nuclear option.

[485] **Dr Austin:** Those reports and action plans may have been in the desks of officials, but they were never communicated to AWEMA. Our feet were never held to the fire to respond to an action plan on development. If it was, I am sure that colleagues in the Wales Audit Office would have discovered it.

[486] **Darren Millar:** I think that they have held their hands up and said that they failed to follow up on any of the monitoring.

[487] **Dr Austin:** They did; our feet were not held to the fire on this. I agree that if it was deemed important, it should have been done.

[488] **Darren Millar:** I agree, as I am sure that committee members will agree that your feet should have been held to the fire about implementing the recommendations in other reports that had been drawn together based on the experiences there. However, that did not happen and that is what we need to get on the record.

[489] **Jocelyn Davies:** You will know that that report identified weaknesses in governance and financial management. Where does the blame lie for that?

[490] **Dr Austin:** With regard to financial control and governance, the blame lies equally in three places.. The blame lies essentially with the finance director for not doing the accounts. It is a pity that he did not bring that to the notice of the world and his wife. He did not do the accounts. He was trained to do the accounts, every previous year he had done the accounts, and he was paid a lot of money to do his job. He did not do it.

[491] The blame lies with the chief executive for not supervising the accounts and ensuring that the accounts were done, although he has told me and I have seen evidence in numerous e-mails from the finance director to the treasurer that the accounts were about to be ready.

[492] Thirdly, the blame lies with the trustees because they, all too easily, allowed themselves to accept what the finance director was saying without demanding written evidence. However, the blame also lies with the funders who, through their performance in monitoring, should have been able to pick up where the accounts were or were not.

[493] **Jocelyn Davies:** The report concluded that these failings permeated the whole of the organisation and suggested that the trustees, including the chief executive officer, had little regard for the recognised standards in public life and the full range of their statutory responsibilities under charity and company legislation. Do you think that it might be slightly difficult for the Welsh Assembly Government to continue to fund an organisation that is described in those words?

[494] **Dr Austin:** I am saying that the decision making by the funding departments, which underpinned a decision to terminate funding, should have been made transparent. We should have been able to see it. The decision at the end may have been the same. I have no idea whether it would have been the same. However, at the time of the funding departments making that decision, knowing what they knew of all the previous history, knowing that much

of the blame must have lain with them for not attending to these matters ahead of time and knowing that, in the immediate previous years, accounts had always been done and so forth, we should have had an explicit analysis of why AWEMA, under its new chair—me—and under its new leadership, given the evidence that I had submitted to the IAS team, about all of the improvements that I was trying to effect in governance, was not going to be up to the job. All I am asking for is the transparency of that decision making and not a simple assertion with absolutely no understanding of the statutory requirements that fell on AWEMA with regard to its employees, project beneficiaries and creditors. There was no understanding of any of that even though I had specifically written to Mr Brodie to say that we had these statutory requirements and obligations and required some assistance with them. He would not even consider it.

[495] I think that we are owed an explicit analysis of this. I do not care who did it. If the IAS staff were not the right people to do it, the funders should have been asked to do it. The decision might have been the same.

[496] **Darren Millar:** It is interesting, Dr Austin, as we heard from the Big Lottery Fund earlier, which came to the same conclusion. Did you feel that you had had a transparent decision from the Big Lottery Fund?

[497] **Dr Austin:** We always did. For some of the evidence, I had to sit outside, so I did not hear all of the evidence provided. However, from the evidence that I did hear, Mr Rose was quite right in saying that a withdrawal letter was sent with a whole set of reasons as to why it was being withdrawn, and it was up to us to demonstrate why it should not be. He is right; it was not responded to at the time, simply because there was no time. I had many other things to do. I was voluntary, unpaid, and down there two or three days a week trying to keep my hand on all of the things that needed to happen. It was not responded to because I think that, when we received that withdrawal letter, we decided that there was no point in challenging any of this if we were not going to exist as an organisation. So, we did not respond. However, we did respond to the final letter saying, 'You have not responded, so we have decided now to curtail it', and this was some two or three days just before the organisation closed. That is a much better way of doing it; it is much more explicit.

[498] **Mike Hedges:** I wish to turn to the issue of the three WEFO-funded convergence programme projects. How much scrutiny did the AWEMA board give to delivering these projects? We know that, financially, they went quite badly wrong. I am told by the audit office that there were problems.

[499] **Dr Austin:** There might have been problems with them, but I do not accept that, financially, they went badly wrong. That is not how I read the Wales Audit Office report. You are asking me what attention the board gave to it. Well, I will speak more about the EQUAL project, because I was not on the board.

5.45 p.m.

he practice has always been that, apart from a chief officer's report, which I used to insist on at board meetings and which would summarise what had been done since the last board meeting, I would organise specific days to get a briefing on the EQUAL projects. Unfortunately, I do not think that that happened with the convergence projects. I do not think that that practice was still in place. So, what did the board know about the convergence projects? It would have been the reports made to it by the chief officer. I chaired only four board meetings since I became chair again. We had other things to deal with.

[500] **Mike Hedges:** Sorry, but I have spent a long time being a member of a board of governors of a college, which is a similar type of voluntary body, where people come along. It

would have a sub-committee and we would get reports on major projects that were taking place, and the college board would expect that information. Was that not expected within AWEMA?

[501] **Dr Austin:** What I am saying is that, with regard to the EQUAL projects, while I was chair, for three or perhaps two and a half years, we did have those reports. With regard to the convergence projects, one started in 2009, when I was not there, and another started in 2010—I think that I have this right—when, again, I was not there. By the time I was there in 2011, to be frank, the four board meetings that I chaired had existential problems before it, more than project management problems.

[502] **Mohammad Asghar:** What discussions did you have with the Big Lottery Fund about the advocacy services for older people project, against the backdrop of the joint internal audit service investigation?

[503] **Dr Austin:** Very little, personally. There was quite a conversation that went on between the chief officer and the finance director who were batting for AWEMA on the advocacy for elders project. I read up on it, of course, when I became chair. I read the file on it, and I had to respond on it for the later stages. One of those projects, as you heard earlier, was fully expended. We did what we had to do on the business plan and it was written and signed off. On the second of the projects, £5,000, which was initial money that was released to us to meet some development costs, we expended on a recruitment process and on some travel to a training function in London, I think. It was the balance of that £5,000 that I finally wrote back to them on, two or three days before the organisation closed.

[504] **Mohammad Asghar:** Were you clear about the Welsh Government's expectations regarding the necessary expenditure after the point at which the Welsh Government announced the termination of the funding?

[505] **Dr Austin:** Yes, well, the letter of 9 February more or less said that we were not to spend any more money. Our salary run is paid on the fifteenth, so the salary processes were beginning. I was ringing Mr Brodie from the crack of dawn on the 10th to ask whether I could pay the salaries. I never got a reply from him until very late in the day when he said that another letter was on its way to me, by which time it was far too late to do anything to stop the salaries. So, yes, I was left in a very difficult position, because I had no idea what to do. The first letter tells you that you cannot spend any money, and only the second letter on the tenth—which I got on whatever that Monday was, the 13th I suppose, although he did e-mail it to me as well—suggested that he was not going to stand in the way of 'normal running costs', which is what I think he said. However, to be frank, for most of my advice about what we should or could spend, I relied on the liquidators, the insolvency practitioners, once they were appointed. They were absolutely clear as to what could be spent and what could not be spent, and I followed their advice to the letter.

[506] **Darren Millar:** So, it was their advice, rather than any clarity from the Welsh Government, that enabled you to see through the final days of the organisation.

[507] **Dr Austin:** There was no orderly closure.

[508] **Darren Millar:** In closing, I want to ask one final question. You have been very robust this afternoon. We have appreciated the evidence that you have given and enabled us to put on the record for our inquiry. I want to give you the opportunity to say, if there were three or four specific lessons that you feel the Welsh Government must learn from this whole process, what would they be? What are your top three or four lessons, although I am sure that you have more?

[509] **Dr Austin:** You must forgive me, Chair, as I cannot think. I am far too tired. I have written the lessons that are to be learned in this document, and I will get that to the clerk tomorrow. I would be grateful if it could be passed around and read by all members of the committee. I do have lessons that could be learned, which you have not heard about, and I would be sorry if they were not heard. However, I simply do not have the strength to say anything else.

[510] **Darren Millar:** Okay. With your permission, we would like to publish that paper for the record.

[511] **Dr Austin:** I would want you to do so. I will even tidy up the grammar in it. *[Laughter.]*

[512] **Darren Millar:** It must be as bad as mine.

[513] I thank you, Dr Austin, for your attendance today. We appreciate your coming before the committee to share some of your thoughts and to answer our questions. Thank you very much indeed. You will be sent a copy of the transcript of today's proceedings. Please feel free to contact the clerks if there are matters of accuracy that need to be addressed within it.

5.51 p.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**

**Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from
the Meeting**

[514] **Darren Millar:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42.

[515] I see that there are no objections. Thank you. I ask that the public gallery be cleared.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 5.51 p.m.
The public part of the meeting ended at 5.51 p.m.*

Agenda Item 3



WALES AUDIT OFFICE

SWYDDFA ARCHWILLO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

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Cardiff / Caerdydd

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Date: 26 November 2012

Our ref: HVT/1764/fgb

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Page: 1 of 6

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Mr Darren Millar AM

Chair of the Public Accounts Committee
National Assembly for Wales

Cardiff Bay

Cardiff CF99 1NA

Dear Chair

GRANTS MANAGEMENT IN WALES – THE WELSH GOVERNMENT’S RESPONSE TO THE COMMITTEE’S INTERIM REPORT

The Clerk’s letter of 6 November 2012 requested my advice on the response from the Welsh Government to the Committee’s interim report ‘Grants Management in Wales’. Although the Welsh Government’s overall response to the Committee’s recommendations is positive, there are several issues that would benefit from further clarification or exploration in more detail. The Committee’s planned evidence session on 3 December, while it will focus on the Wales Audit Office’s recent report on *The Welsh Government’s relationship with the All Wales Ethnic Minority Association (AWEMA)*, will nevertheless provide a timely opportunity for the Committee to take up some of these issues arising from the Welsh Government’s response to the Committee’s interim report.

Observations on the Welsh Government’s responses to the Committee’s recommendations

In its response, the Welsh Government has indicated that it accepts all fifteen of the Committee’s recommendations. Where appropriate, the Welsh Government has also indicated a timescale for action, which will help the Committee to monitor whether the expected progress is being made.

Recommendations 1, 2 and 3

The Committee wanted the Welsh Government’s review of its entire portfolio of grants to proceed much more quickly, with completion by the end of 2013. It also wanted the Welsh Government to provide guidance for its staff and others, especially at local authorities, on the most appropriate funding option for obtaining its desired outcomes in particular circumstances.

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In its response, the Welsh Government confirms that all of the grant schemes which were 'live' in 2011-12 have been subject to an initial review, which included consideration of whether grant funding was the most appropriate way of delivering Ministerial objectives. Proposed new grant schemes will also now be subject to a similar mandatory review before any payments begin.

The Welsh Government intends to review the effectiveness of all of its grant schemes every three years. It also intends to start immediate work with the Welsh Local Government Association, the Wales Council for Voluntary Action and my staff on developing guidance on the appropriateness of various funding options. It aims to complete this work by April 2013.

However, the Committee may wish to seek further information on:

- the nature of the findings and recommendations from those initial reviews of existing grant schemes;
- how the Welsh Government will monitor the progress of each Department in implementing the recommendations made during those initial reviews; and
- the extent to which the Welsh Government's engagement with external stakeholders, particularly the Wales Council for Voluntary Action, is allaying their concerns about any moves away from funding via grants.

Recommendation 4

The Committee welcomed the Welsh Government's intended pilot project with some local authorities for 'better consolidation' of grants into the general revenue support settlement. The Committee was interested in two possible solutions to overcome potential problems with such transfers:

- (i) moving to budgets equal to previous funding levels; and
- (ii) introduction of clear and robust outcome agreements based on new funding levels.

The Welsh Government has accepted the Committee's recommendation to consider good practice on this process from elsewhere in the UK. It has recently made some further progress on its Protocol commitment to reduce the number of specific grants to local government. Annexed to this letter is an update of Exhibits 4 and 5 in my November 2011 report on *Grants Management in Wales*, showing the total values of the transferred schemes for each year from 2005-06 to 2013-14. This shows that the Department for Education and Skills is responsible for the majority of the further progress that has been achieved.

It is also encouraging that the Welsh Government has undertaken to review the 'exit strategies' for all of its current hypothecated grants, so that Ministers will have collective advice on how grants can support the wider public service reform agenda ahead of the next local government settlement for 2014-15.

Recommendation 5

The Welsh Government agrees with the Committee's conclusion that it needs to reduce its grant administration costs to maximise the funds available for service delivery. It has now adopted the target of an average scheme administration cost of 5%, which my report noted was already being used by the Lottery funders in England.

The definition of 'administration costs' will be critical to assessing performance against the 5% target, and in particular the decision as to whether this will include management activities (such as the design of grant programmes, appraisal of applications, monitoring, evaluation and intervention) alongside the more routine administration tasks (such as issuing application forms and processing payments). My report viewed grants administration as including management activities, and my staff will be holding further discussions with the Welsh Government to assist them in their development of an unambiguous definition of costs. The Welsh Government has also accepted that its definition of these costs will need to be benchmarked against the results of a review of grant administration costs that had previously been commissioned by HM Treasury.

Recommendation 6

In response to the Committee's concern that the Welsh Government has not strictly complied with the *Code of Practice for funding the Third Sector* (the Code), the Welsh Government has committed to raising staff awareness of the Code. Code requirements will be observed when grants are designed or revised.

However, I note that the Welsh Government's response does not explicitly acknowledge the Committee's wish that the annual report on grants management should detail any instances of non-compliance with the Code. My staff will be liaising with the Welsh Government to ensure that this is addressed.

Recommendation 7

The Welsh Government has fully accepted that it should compile and publish an annual grants management report, although the content of this will develop over time because, as the Welsh Government has noted, it will be unable to compile all of the necessary information until a new grant management IT system is installed and operational.

My staff will provide advice and support to the Welsh Government as it develops the structure and content of the new annual report.

Recommendations 8 and 9

The Welsh Government states that it has implemented a new process to decide on a case-by-case basis whether third sector organisations should be 'paid in advance'. Its terms and conditions for grants and contracts are now reasonably constant. These arrangements were developed in conjunction with the Third Sector Partnership Council and the payment system will be reviewed by the Welsh Government in six months' time.

In its forthcoming evidence sessions, the Committee may wish to explore:

- how the Welsh Government is training and supporting its staff in applying these new processes; and
- what work is being done within the Welsh Government to bring about more consistency with the approaches taken by other funders (in accordance with the second and third recommendations of my November 2011 report).

Recommendation 10

The Welsh Government intends that its Grants Centre of Excellence will become a single point of contact on grants for external enquirers, as well as for its own staff.

To complement this, I would suggest that the Welsh Government should develop its public website, which would surely be one of the first places where enquirers would look for information.

Recommendations 11 and 12

The Welsh Government accepts both recommendations and explains that a new 'framework' for grants certification is being developed now ready for implementation in April 2013. The Welsh Government will also be working closely with the Welsh Local Government Association to achieve a reduction in the frequency of qualified grant claims.

Recommendation 13

The Welsh Government has rightly adopted a proportionate response to the Committee's recommendation that grant recipient bodies should participate in the National Fraud Initiative (NFI), and has also agreed to include a reserve power to require data to be submitted.

There would be little benefit in many grant recipients participating in the general exercise, but a new reserve power to require participation in a specific and relevant future NFI exercise is most welcome. I am also pleased to note the Welsh Government's commitment to work with me to extend NFI participation to other organisations in Wales.

Recommendation 14

The Committee may wish to ask the Welsh Government how it is developing its training for grants managers, and how the Centre of Excellence will carry out its planned spot-checks of how Departmental staff are operating their grant programmes.

Recommendation 15

While the Welsh Government accepts that grants should support outcomes consistent with its strategic policy objectives, its response suggests that little more needs to change in this regard. The Centre of Excellence will review whether policy outcomes are measured and recorded, and will assist grant managers to amend (or close) their programmes accordingly.

Whilst acknowledging that considerable attention is being given to strengthening due diligence work, I think there is a risk that the 'impact agenda' may to some extent be overlooked. Recommendation 6 of my Grants Management report stressed that project outcomes need to be clearly defined and agreed in writing with recipients before funds are released. This remains a vital lesson from many of the nineteen reports on grants which the Wales Audit Office has published since 2005.

These issues could potentially be explored with the Welsh Government at the Committee's next evidence session, specifically in relation to the successor arrangements for AWEMA's WEFO-funded projects and arrangements for future equalities funding.

I hope that this advice is helpful to the Committee as it finalises its work on this important topic.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Annex
Update to Exhibits 4 and 5 of the Wales Audit Office's
***Grants Management in Wales* report**

Specific grants absorbed into annual Revenue Support Grant or other non-specific Welsh Government grant schemes between 2005 and 2014

Year	Schemes absorbed into non-specific grant funding	Total (£ million)
2005-06	Children First - first phase: £14 million Music Development Fund: £1 million Abolition of Residential Allowances: £24.8 million	39.8
2006-07	Children First - second phase: £15 million Learning Disabilities Grant: £30 million Capacity Grant: £20 million Carers' Grant: £6 million Additional revenue funding for schools: £20 million	91.0
2007-08	Children First - third phase	16.0
2008-09	None	0
2009-10	None	0
2010-11	Schools Special Grant (£9m) School Energy costs (£2m) Older people strategy (£1.7m) Fairer charging (£10m) Mental health carers grant (£4m)	26.7
2011-12	Cymorth (partial: £5.5m) Child family law court fees (£2.6m) Children and Young Persons Act 2008 (£2.5m)	10.6
2012-13	Mental Capacity Act 2005 Deprivation of liberty safeguards	0.7
2013-14 (NB: scheme values for 2013-14 are approximate)	Learning Disability Resettlement (£33m) Special Educational Needs post-16 (£28m) Free school breakfasts (£15m) Local Government Borrowing Initiative (£8m) School counselling (£4m) Appetite for Life (£2m) Blue Badge Scheme (£0.4m)	90.4
TOTAL		£275.2m

**Y Pwyllgor Plant a Phobl Ifanc
Children and Young People Committee**

Cynulliad
Cenedlaethol
Cymru
National
Assembly for
Wales



Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Bae Caerdydd / Cardiff Bay
Caerdydd / Cardiff CF99 1NA

27 November 2012

Dear Darren

At its meeting on 18 October, the Children and Young Committee undertook training on Children's Human Rights, delivered by the Wales Observatory on Human Rights of Children and Young People and the Wales UNCRC Monitoring Group.

The aim of the session was to examine the duties imposed on Welsh Ministers under the Rights of Children and Young Persons (Wales) Measure 2011, identify how they can be held accountable for fulfilling those duties, and the role of Assembly Committees in connection with the Measure.

Members found the training extremely useful and also noted its importance and relevance to other Committees. I am therefore writing to commend this training to you and members of the Public Accounts Committee. If you would like any further details about the course or would be interested in holding a similar session, Carys Eyton Evans, Head of Member Liaison and Professional Development, would be happy to help.

Yours sincerely

**Christine Chapman AM
Committee Chair**

Bae Caerdydd
Cardiff Bay
CF99 1NA

Public Accounts Committee

Meeting Venue: **Committee Room 3 – Senedd**

Meeting date: **Tuesday, 27 November 2012**

Meeting time: **09:00 – 11:00**

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_400000_27_11_2012&t=0&l=en

Concise Minutes:

Assembly Members:

Darren Millar (Chair)
Mohammad Asghar (Oscar) AM
Mike Hedges
Julie Morgan
Gwyn R Price
Jenny Rathbone
Aled Roberts
Jocelyn Davies

Witnesses:

David Sissling, Director General for Health and Social Services, Welsh Government
Alan Brace, Welsh Government
Kevin Flynn, Welsh Government
Helen Birtwhistle, Director, Welsh NHS Confederation
Gillian Body, Assistant Auditor General, Wales Audit Office
Mark Jeffs, Wales Audit Office

Committee Staff:

Tom Jackson (Clerk)
Daniel Collier (Deputy Clerk)

1. Introductions, apologies and substitutions

1.1 The Chair welcomed members and members of the public to the meeting.

2. Health Finances – Evidence from the Welsh Government

2.1 The Chair welcomed David Sissling, Director General, Health, Social Services and Children; Kevin Flynn, Director of Delivery/Deputy Chief Executive, NHS Wales; and Alan Brace, Interim Director of Finance.

2.2 The Committee scrutinised the witnesses.

Action points:

The Welsh Government agreed to provide:

- Further information on costs associated with pay protection packages.
- Further information on how Abertawe Bro Morgannwg Health Board has made savings whilst also making work-force reductions.
- Further information on the increase of elderly people being treated in Accident and Emergency.

3. Health Finances – Evidence from the NHS Confederation

3.1 The Chair welcomed Helen Birtwhistle, Director, Welsh NHS Confederation.

3.2 The Committee questioned the witness.

4. Papers to note

4.1 The Committee noted the update from the Auditor General for Wales on Health Finances.

4.2 The Committee noted the minutes of the previous meeting.

5. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Item 6.

6. Consideration of evidence on Health Finances

6.1 Owing to time constraints, the Committee agreed to discuss the evidence received on Health Finances at its next meeting.