

Shan Morgan
Ysgrifennydd Parhaol
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Llywodraeth Cymru
Welsh Government

Mark Isherwood MS
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Welsh Parliament
Cardiff Bay
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15th October 2021

Dear Mark

**Public Accounts and Public Administration Committee – Fifth Senedd
correspondence**

Thank you for your letter of 21 July, I hope that you and fellow Committee members found the introductory meeting on 20 September with Welsh Government Directors' General productive.

We value the reports of the Committee very much and at the request of the Fifth Senedd Committee I am writing to provide you with responses to the final reports and correspondences of that Committee.

The following annexes respond accordingly to:

- Annex 1 – Scrutiny of Accounts 2019-20 – Welsh Government
- Annex 2 – Public Accounts Committee – Fifth Senedd Legacy Report
- Annex 3 – Letter from the Committee Chair to the Permanent Secretary Welsh Government – 22 March 2021

I have welcomed the constructive scrutiny of the Committee in my time as Permanent Secretary for the Welsh Government and am sure the Committee will continue its' excellent work in the new Senedd term.



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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

Yours,
Shan Morgan

Shan Morgan

Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government

Annex 1

SCRUTINY OF ACCOUNTS 2019-20 – WELSH GOVERNMENT

Thank you for the report following the scrutiny by the Public Accounts Committee of the 2019-20 annual Accounts for the Welsh Government. I have considered each of the recommendations, and my responses are set out as follows:

Recommendation 1

While acknowledging practical barriers to publishing all financial reports concurrently, the Committee recommends that the Welsh Government aims to publish these documents either concurrently or as closely together as possible. Specifically, we recommend that the Welsh Government publishes its outturn report as soon as possible following the laying of its accounts each year and ahead of the Accounts Scrutiny sessions.

Accept

The reports noted in the Welsh Government Annual Report and Accounts Part 1 as Key Reports are all produced from a range of source information, or subject to specific reporting requirements which determines their timing.

Budget

The Welsh Government Budget publications are produced in accordance with Standing Orders and impacted by Budget and Spending Review timings determined by HM Treasury.

Outturn Report

The Welsh Government will aim to publish the outturn report for the prior year within 3 weeks of publishing the annual report and accounts. The outturn report is reliant upon the completion of the annual statutory audit.

Welsh Government Annual Report

The Welsh Government Annual Report (WGAR) is a Ministerial report on progress towards the well-being objectives and is not a financial report. The timing, scope and content of WGAR is a matter for Welsh Ministers.

Well-being of Wales Report

The annual Well-being of Wales report provides an update on the progress the nation is making towards its well-being goals. It concerns the collective progress of Wales as a nation and is not a report on the performance of an individual organisation.

The Report is usually published in September each year, to allow for data from the most recent year's National Survey for Wales to be included.

As an Official Statistics publication, the content and timing of the Well-being of Wales report is determined by the Chief Statistician, in line with the code of Practice for Statistics. The Code states that statistics should be released as soon as they are considered ready.

Future Trends Report

The Future Trends Report is required to be produced within 12 months of an election and sets out likely future trends in economic, social, environmental and cultural well-being of Wales and associated analytical information. The report production is linked to election timings and availability of statistical information, the next report is due for publication December 2021.

Recommendation 2

In the interests of transparency, we recommend that the Welsh Government publishes annually details of how decisions have been made in terms of its compliance with the Financial Reporting Manual. We would like to see this information published for scrutiny by the Public Accounts Committee prior to the accounts being prepared. We seek the Welsh Government's view on whether this is possible within the time constraints of any changes to the FReM and the accounts' preparation.

Accept

The Welsh Government will aim to provide the PAC with such an update from 2021-22 onwards. However, although the FReM is usually published in December, in order to support preparation of the accounts from the following April onwards, it is not uncommon for additions or HM Treasury additional guidance to be issued through the accounts preparation period, indeed for the 2020-21 cycle updated guidance was issued in May 2021. Therefore, any update to the PAC will only reflect the position as at that date.

Recommendation 3

We recommend the Welsh Government provide us with an updated timetable for the publication of its Annual Report on Grants Management 2019-20.

Accept

Due to the pressures of dealing with the impact of the Covid-19 pandemic on the business, the 2019-20 grants report was not provided to the Committee until March 2021. However, from 2020-21 onwards the grants report will once again form an integral part of the annual report and accounts.

Recommendation 4

In light of the qualification of the Welsh Government's Accounts, we welcome the FRAB's consideration of the interpretation of International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets). We recommend that the outcomes of these considerations, including any new guidance are shared with the Public Accounts Committee alongside details of lessons learnt by the Welsh Government and how these will be incorporated into financial processes in the future.

Accept

Further to discussion at the November 2020 Financial Reporting Advisory Board, HMT published additional guidance in May 2021 on the application of International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets) for grantor accounting in the public sector ¹.

The HMT guidance is useful in setting out the issues to be considered regarding grantor accounting and IAS37, but the guidance issued was inconclusive and does not prescribe treatment that would impact upon the 2019-20 Welsh Government Accounts. The Welsh Government has considered the additional guidance and concluded our position on the application of IAS37 remains unchanged.

The additional guidance and Welsh Government officials conclusions was considered by the Welsh Government Audit and Risk Committee at its' 12 July meeting.

We are not anticipating any further guidance from the FRAB on IAS37 and grantor accounting in the foreseeable future.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/984519/IAS_37_and_Grantor_Accounting_Application_Guidance.pdf

Recommendation 5

We recommend that the Welsh Government reviews the way in which it explains the variances between its budget and outturn, as reported in the Summary of Resource Outturn. This should use plain language to explain the different elements of the budget and the outturn against them. It should also explain the implications of an underspend for the Welsh Government (including the Wales Reserve) and the delivery of services provided.

Accept

The Welsh Government will continue to seek to improve on the clarity of the explanations provided in the SORO. Unfortunately, until the accounts have been completed and signed off by Audit Wales, we are unable to finalise the outturn position for the year and hence the reserve balance. For this reason further information on the final outturn is provided in a separate report published within 3 weeks of the laying of the annual accounts.

Recommendation 6

The Committee's view is that the Welsh Government should be exemplary in its approach to performance reporting. We strongly recommend that the Welsh Government sets out its performance against all the KPIs in its Annual Report. This should reflect best practice both on the content and presentation of this information.

Further correspondence on the KPI Framework took place with the Committee further to this report being issued, please see Annex 3 which discusses the KPI Framework.

Recommendation 7

The Committee recommends that the Permanent Secretary provide an update about the progress made in developing the KPIs and provides the timetable for the completion of this work.

Further correspondence on the KPI Framework took place with the Committee further to this report being issued, please see Annex 3 which discusses the KPI Framework.

Recommendation 8:

We recommend that the Welsh Government share with the Public Accounts Committee the papers that informed its decision to end the external audit of local authority grant claims, its evaluation of the pilot with Audit Wales and its risk assessment of the decision.

Accept

The decision was based on discussions with Audit Wales concerning the immaterial nature of the results of audit work undertaken thus far and whether it was reasonable or not to place the burden of additional audit work solely on Local Government. Grant schemes are managed by policy officials based on the binding terms and conditions which cover deliverables, outcomes and payment mechanisms. This approach is applied to all third, private or public sector grant recipients. In removing the need for additional audit work Welsh Government is merely applying a consistent approach to all grant schemes.

Recommendation 9

We recommend that Welsh Government provide information about how it obtains the required assurance over grant funding to local authorities following the decision to remove the requirement for audit. This should clarify how the annual statement from Section 151 Officers will provide additional assurance to their certification of individual grant claims.

Accept

All hypothecated grants must detail the legally binding terms and conditions such as deliverables, outcomes and payment mechanisms required from the grant recipient. This is no different for public or private sector organisations. These terms and conditions are then used by policy officials to monitor progress and agree milestone payments. The role of the Section 151 officer is to confirm that the expenditure received has been used for the purposes agreed and in accordance with the legally binding terms and conditions of the grant. In that way it supplements the usual monitoring arrangements put in place by the Welsh Government.

Recommendation 10

We note the weaknesses identified by the Welsh Government's Internal Audit Service in relation to workforce management initiatives. We recommend the Welsh Government provide the Public Accounts Committee with assurances that these weaknesses have been addressed.

Accept

Temporary Duties Allowance

We continue to engage with our TUS colleagues to agree a strategy to manage down the number of staff in receipt of Temporary Duty Allowances (TDA) in the organisation, to a level we are more comfortable with. The number of TDAs has been higher than I'd like in recent years, as we have tried to carefully manage our resources within our budgetary constraints, and have limited our recruitment activity.

Covid has also impacted significantly on our progress in the last 12 months. As an organisation we needed the flexibility to deploy resources quickly to priority roles in the areas of greatest need on a temporary basis. The use of TDAs in this manner has been both appropriate in line with policy, and offered us greater agility in dealing with the immediate issues facing us at the time. Moving forward, my aim is to significantly reduce the need for TDAs, particularly longer term TDAs over 6 months. The internal promotion gateways have enabled us to make a strong start on this with 90 staff across the SEO and G7 grades (51 SEO and 39 G7), who were in receipt of TDAs being successful and promoted into posts at higher grade, thus removing the need for TDA. We expect this position to improve further as the recruitment gateways continue through the grades in the organisation.

We are committed to work closely with TUS to agree further options to manage down TDA, from exit plans for those in receipt of TDAs for a significant time and an amended policy with more stringent governance sign off for longer term TDAs.

Secondments

Progress on implementing the recommendations on the Secondment Audit has been slower than anticipated. They were to be wrapped up in the Corporate Services review implementation, however, the redeployment of resources and a focus on tackling Covid related issues have prevented the review from being fully completed. I am pleased to say however, that we have recently strengthened our approach to secondments with additional resources. This means one team now has oversight of secondments, the process has been streamlined with clear approval mechanisms, we've improved our contractual arrangements with standard documentation and there are enhanced reporting arrangements in place. I fully expect any outstanding actions to be completed in the coming months, with the team working closely with IAS and TUS to implement the recommendations.

Agency Workers

Progress has been made in respect of the Agency worker Audit. A new policy was published in March 21 to reflect the recommendations from the IAS report, and has strengthened the following areas in particular:

- Approval from the HR director prior to appointment and after a 12 week placement;
- the proposed contract end date and evidence colleagues have attempted to fill the post internally.

Recommendation 11

We recommend that Welsh Government ARAC meeting agendas together with an appropriate summary of issues arising from meetings, are published as a minimum.

Accept

It has been agreed with the ARAC Chair that Welsh Government ARAC Agendas and a summary of issues will be published, commencing from the next meeting.

Recommendation 12

We recommend that the Welsh Government shares with the Public Accounts Committee the evaluation of the pilot review of the National Library and a commentary of any lessons learned. The Welsh Government should also publish timescales for evaluation reviews of other Arm's Length Bodies and details of how a risk based approach has been used to determine the order of priority for these reviews.

Accept

Officials in Public bodies Unit will be undertaking an evaluation of the Tailored Review of the National Library for Wales, including a lessons learned exercise. The outcomes of these exercises, will be shared with the Public Accounts Committee.

The Welsh Government will draft a timetable which will set out the details of all Tailored Reviews of Arms-length Bodies in Wales, within the Public Bodies Unit remit over the 5-year term of the new Government. A number of sources of evidence will be used when developing this timetable, including discussion with Partnership Teams, and analysis of a Risk-based Assurance Model. It is worthy of note, a balanced programme of reviews over the 5-year cycle will be required to complete the programme effectively.

Recommendation 13

We recommend that the Welsh Government provides the Public Accounts Committee with an update on the timescales for the evaluation of the Public Bodies Unit and receives a copy of any report and conclusions.

Accept

The Welsh Government will provide the Public Accounts Committee with information on the timings of the evaluation of the Public bodies Unit, and will share the outcome of that evaluation with the Committee.

Preparatory work on that evaluation has commenced, and will include the views of the Public Leaders Forum and Welsh Government Partnership Teams.

Annex 2

PUBLIC ACCOUNTS COMMITTEE: FIFTH SENEDD – LEGACY REPORT

Thank you for the Legacy Report for the Fifth Senedd. I welcome the findings of this report, and provide the following responses to the two recommendations contained within that relate to Welsh Government.

Recommendation 5

We recommend that the Welsh Government responds to Auditor General for Wales reports within 15 working days, to inform Committee decisions about how to prioritise its work, in line with the existing protocol.

Accept

We have reminded officials of the need to reply to Auditor General for Wales reports within 15 days and we will ensure that this target is complied with as far as possible.

There may be occasions where, due to the complexity of the recommendation and the need to obtain multiple contributions to the recommendation, the 15 day target is a challenge to meet. In this situation we will respond to the Auditor General within 15 days, outlining the progress made and when we expect to send the response.

Recommendation 6

We recommend that the Welsh Government continues to respond to our successor Committee's recommendations with either 'accept' or 'reject'.

Accept

The Welsh Government will continue to respond to the recommendations with either an 'accept' or 'reject' response. We have reminded officials of the need to respond in this way.

Annex 3

Letter from the Committee Chair to the Permanent Secretary Welsh Government - 22 March 2021 ²

Your predecessor Committee took a keen interest in the work which I had set in hand to develop a system of Key Performance Indicators. This was the subject of a letter from the Committee on 21 March as well as specific recommendations on their legacy report and reports on accounts.

Work on the system has progressed considerably since I last updated the Committee and our annual accounts include a high level outline of the system as it stands now. We have not put all of the background data into the accounts themselves, partly because to do so would take up a disproportionate amount of space, and partly because some of the data which we employ is confidential or otherwise not suitable for putting into the public domain. We can share all of the data with the Committee if the Committee wishes to see it, but we would need to do so on the basis that it is treated as a confidential document and not shared further.

In addition, of course, Andrew Goodall as my successor will want to consider whether this is an approach with which he wants to continue and develop further going forward, in consultation with the First Minister. I am sure that Andrew will bear very much in mind the points which the Committee have made to me about this system, and that he will keep the Committee in touch with developments.

² [Letter from the Committee Chair to the Permanent Secretary Welsh Government - 22 March 2021.pdf \(senedd.wales\)](#)