

Scrutiny of Accounts

Welsh Government 2020-21

March 2023



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Welsh Parliament

Public Accounts and Public Administration Committee

Scrutiny of Accounts

Welsh Government 2020-21

March 2023



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddPAPA

Current Committee membership:



**Committee Chair:
Mark Isherwood MS**
Welsh Conservatives



Mabon ap Gwynfor MS
Plaid Cymru



Natasha Asghar MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

The following Member attended as a substitute during this inquiry.



Huw Irranca-Davies MS
Welsh Labour

The following Member was also a member of the Committee during this inquiry.



Rhys ab Owen MS
Plaid Cymru

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Chair's foreword

The Public Accounts and Public Administration Committee of the Sixth Senedd undertook its first scrutiny of the Welsh Government Consolidated Accounts in extraordinary circumstances.

Not only was the laying of Welsh Government Consolidated Accounts 2020-21 significantly delayed and signed nine months later than the timetable originally agreed, but the Accounts were also qualified by the Auditor General on three separate issues. These included a payment made to the former Permanent Secretary, Clinicians' pension tax liabilities and Expenditure for some COVID-19 Business Grants.

These are serious matters and we appreciate the time taken by Audit Wales to thoroughly audit the Welsh Government's accounts to ensure that these matters were explored and reported on in an open, fair and transparent manner. We also appreciate the work of Welsh Government officials in preparing the accounts which, given many of the issues identified by the Auditor General, took additional time, particularly given the unprecedented amount of Welsh Government spend during the pandemic.

We welcome the positive and proactive engagement of Audit Wales and the Welsh Government with the Committee while it has undertaken its scrutiny of these accounts.

The work of this Committee remains vital in terms of exploring important issues of governance and financial management within the Welsh Government. Our scrutiny of the accounts provides us with an opportunity to highlight any issues of concern in the public domain, providing reassurance, transparency and openness on how public money is being spent.

We have taken the time to explore a number of serious issues within the Welsh Government's Consolidated Accounts 2020-21, with particular focus on the matters prompting the Auditor General's qualifications, as well as a number of concerns relating to how the Welsh Government approaches its financial reporting. Our findings are set out in detail in this report.

Mark Isherwood MS,

Chair of the Public Accounts and Public Administration Committee

Recommendations

Recommendation 1. We recommend the Welsh Government provides to the Committee its definition of 'secondment', together with its policies for such arrangements, including any specific guidance relating to the arrangements for Senior Civil Servants. Page 32

Recommendation 2. We recommend that any future secondment arrangements, both inward and outward, relating to staff at Senior Civil Service Pay Band 2 and over (Director, Director General and Permanent Secretary, including Chiefs Dental, Digital, Medical, Nursing, Social Care, Scientific and Veterinary Officer, as well as Chief Executives) within the Welsh Government are clearly communicated and set out to the Public Accounts and Public Administration Committee. This includes any changes to the periods of the secondments. Page 32

Recommendation 3. Where the Remuneration and Staff Report in its Accounts and/or in its Pay Policy Statement disclose information about individual members of staff who are on secondment, we recommend the Welsh Government reports the term of office for the arrangements in those published documents..... Page 33

Recommendation 4. We note a substantive appointment process for the post of the Chief Executive of the NHS in Wales and Director General for Health and Social Services Group is due to commence in 2023. We recommend that the Public Accounts and Public Administration Committee be provided with a timeframe for and details of the process including the approach to recruitment i.e. will the role be advertised internally or externally and will the post be appointed on a temporary or permanent basis..... Page 33

Recommendation 5. It is essential that significant changes relating to the role of the Permanent Secretary are flagged with the Public Accounts and Public Administration Committee at the earliest available opportunity to ensure timely and appropriate scrutiny of such matters. It is deeply concerning that, when asked about changes to the former Permanent Secretary's working arrangements in 2019, these were not divulged to our predecessor Committee. We recommend the Welsh Government demonstrates increased levels of transparency in its future engagement with the Committee on such significant matters of interest. Page 33

Recommendation 6. We recommend the Welsh Government review its reporting and record-keeping practices to ensure that internal decisions around the Permanent Secretary role, along with any other roles at Director General level or above, are clearly documented.

This is particularly significant where Welsh Government HR policies are being applied by subordinate employees. The outcome of this review should be shared with this Committee, once it is concluded. Page 33

Recommendation 7. We recommend the Welsh Government’s Consolidated Accounts should include details of any substantive changes in a Permanent Secretary or Director General’s working arrangements or remuneration, with an explanation as to why the change has taken place. This should be completed, as a matter of course, in the Accounts relevant to the accounting year the change took place. If this is not possible, this Committee should be informed in writing about any relevant changes, with an explanation provided about why this was not communicated in the relevant set of Accounts. Page 33

Recommendation 8. We note the weaknesses raised by our predecessor Public Accounts Committee in the Welsh Government’s organisational culture that have given rise to deficiencies in the robustness of its record keeping processes and how these themes have reoccurred in our own work. As such, we recommend the Welsh Government should take specific action to ensure all staff are aware of the requirements of its internal record keeping processes as we do not expect poor record keeping to be a reoccurring theme. We request that the Welsh Government provide us with details on the action it will take to improve its record keeping processes. Page 34

Recommendation 9. We recommend that the Auditor General formally notifies the Chair of the Public Accounts and Public Administration Committee in writing if he is unable to complete an audit within the four month statutory deadline. Page 34

Recommendation 10. We welcome the broader work the Cabinet Office intends to undertake on the relationship between Cabinet Office and the Permanent Secretaries of both the Welsh Government and Scottish Government. We recommend the Welsh Government advises the Committee on when this work is taking place and provides us with further information on what this work will involve and the timeframes for completion and outputs. Page 34

Recommendation 11. We are disappointed to note the Welsh Government’s Consolidated Accounts 2021-22, which were laid before the Senedd on 13 December 2022, do not include an estimate of fraud and error. We recommend that an explanation of why this was the case be provided to the Committee, particularly given the assurances officials provided to us that this estimate would be included. Page 48

Recommendation 12. We welcome the outcome whereby one local authority had opted to pay for and use the additional National Fraud Initiative products, and which identified fraud and error of a significant value. This would suggest conducting such further checks offer value for money. We recommend the Welsh Government establishes a clear account of the action that local authorities have taken to assess and respond to the risk of fraud and error in the business support grants they administered and reports back to the Committee..... Page 48

Recommendation 13. We recommend that the Welsh Government provide further clarity on the latest position on recovery from the COVID-19 Support for Business schemes it has administered, including explanation of how these figures relate back to the sums reflected in the Auditor General’s memorandum and those provided by the Welsh Government during oral evidence..... Page 48

Recommendation 14. We welcome that a new team of ten staff to work on Post Completion Monitoring focusing on grants to micro and SME businesses was established on a temporary basis of two years, with eight of the ten members externally recruited for a fixed term ending summer 2023. We recommend the Welsh Government provides the Committee with an update on the staffing situation regarding this team beyond summer 2023. Page 49

Recommendation 15. We will continue to monitor the progress made by the Welsh Government in terms of completing its Post Completion Monitoring work as part of our future scrutiny of the Welsh Government’s Annual Report and Accounts. We recommend that the Welsh Government provides the Committee with six monthly updates on the progress being made..... Page 49

Recommendation 16. We recommend that the Welsh Government provides the Committee with further information on the timescales and discussions that took place between the Welsh Government and HM Treasury regarding the Welsh Government’s request to carry forward at 31 March 2021 a sum in excess of the limit on the Wales Reserve. This information should include details of any discussions that took place prior to and following the year-end (March 2021) and November 2021..... Page 56

Recommendation 17. We do not expect any further funds to be lost to Wales following an underspend by the Welsh Government and recommend that it seek approval for flexibility from HM Treasury as early as possible, before the end of the financial year, so that funds can be utilised in year should its request not be granted..... Page 56

1. Introduction

1. The Welsh Government annually publishes its consolidated Accounts (“the Accounts”), which provide an outline of the Welsh Government’s finances and statutory obligations. The financial transactions contained therein reflect the transactions and balances of the Welsh Government, its subsidiaries and NHS organisations.

2. The Public Accounts and Public Administration Committee (“the Committee”), and the Public Accounts Committee previously, has scrutinised the Welsh Government’s Accounts since 2014. The 2020-21 Accounts are the first to be approved and signed by the current Permanent Secretary, Dr Andrew Goodall, who took up post on 1 November 2021.

2. Account preparation, approval and delay.

3. Section 131 of the Government of Wales Act 2006 requires the Welsh Ministers to submit their Accounts to the Auditor General for Wales (the “Auditor General”) for audit no later than 30 November in the following financial year. The Auditor General is required to lay before the Senedd his examination and certification of the Accounts within four months of receipt of an auditable set of Accounts.

4. The Welsh Government has committed to publishing an annual timetable for the production and publication of its Accounts, following a recommendation by the previous Public Accounts Committee during its scrutiny of the 2017-18 Accounts¹. This timetable is indicative and subject to change should issues arise during the audit.

5. The timetable for the 2020-21 Accounts, agreed between Welsh Government officials and the Auditor General for Wales, was as follows:

- Submitted to Audit Wales: 23 August 2021
- Signed: 25 October 2021 to 29 October 2021
- Laid before the Senedd: 29 October 2021

6. During the summer of 2021 the Committee was informally made aware, by both the Welsh Government and the Auditor General, that the Welsh Government’s Accounts for 2020-21 may be finalised later than the agreed timetable, by around the end of November 2021. We were told that the delay was due to the additional work being undertaken by Audit Wales on support to business grants provided by Welsh Government.

7. Had the Accounts been audited and laid by the end of November 2021, this would have been within the statutory timeframe for doing so. Towards the end of November 2021, we were alerted to a further delay in the finalisation of the Accounts, after the Welsh Government advised Audit Wales of a potential post-balance sheet event associated with a payment made to the former Permanent Secretary on the termination of her employment.

8. On 30 November 2021, the Permanent Secretary wrote in confidence to the Committee with an update on the delay in finalising the Welsh Government 2020-21 Accounts. On 16 December, the Auditor General also wrote to the Committee privately confirming this further

¹ Report of the Public Accounts Committee, [Scrutiny of Accounts 2017-18](#), March 2019

delay and stating that he had asked for further information to be provided to him by Welsh Government officials by early January 2022.

9. On 26 January 2022, the Committee asked the Permanent Secretary about the delay since the Accounts had not yet been signed off. He stated it was:

"... possible that, over the next one to two weeks, we will be in a position to have those Accounts signed off, but obviously the audit opinion is out of my hands and I'll just need to make sure that we can still reconcile any outstanding information."²

10. On 4 February 2022, we wrote privately to the Llywydd to express concern about the delay, noting the risk the statutory deadline could be missed. The Llywydd responded on 21 February 2022.

11. The Committee received regular private updates on the progress being made in finalising the Accounts from the Auditor General and the Welsh Government, enabling the situation to be monitored. The delay in the publication of the Accounts was also raised by Members of the Senedd in Plenary on 18 January 2022 and on 29 June 2022.

12. The Permanent Secretary approved and signed the Accounts on 4 August 2022, 16 months after the year-end.

13. The Auditor General signed his Certificate and Report on 4 August 2022, the same date as the Accounts were approved and they were laid before the Senedd on 5 August 2022. This was nine months later than the original planned timetable and some nine months later than the 2019-20 Accounts, which were laid before the Senedd on 2 November 2020.

14. On 30 September 2022, the Auditor General published a Public Interest Report entitled "Payment to the Welsh Government's Former Permanent Secretary on Termination of Employment"³ (the Public Interest Report'). The report sets out details about the circumstances surrounding the payment made to the former Permanent Secretary, that led to the Auditor General providing qualified audit opinions on the Accounts 2020-21.

² Record of Proceedings (RoP), 26 January 2021, paragraph 11

³ Audit Wales, Payment to the Welsh Government's Former Permanent Secretary on Termination of Employment, September 2022

3. Qualifications

Welsh Government Accounts 2019-20 qualifications

15. The Auditor General qualified his 'true and fair' opinion of the 2019-20 Accounts, the first time this had occurred. The reason for this was that the Auditor General did not agree with the Welsh Government's assessment of the accounting requirements for the cost of some of its Coronavirus emergency interventions. Specifically, in which financial year some expenditure relating to grants linked to Non-Domestic Rates for small businesses and those in the retail, leisure and hospitality sectors should be recognised. The Welsh Government had not included the related expenditure in its 2019-20 Accounts. The Auditor General's view was grants, with a reported cost of £739m, should have been included in the 2019-20 Accounts. Consequently, the Auditor General provided a qualified 'true and fair' opinion on those Accounts.

16. The 2019-20 Accounts reported a net underspend of £436m against the Welsh Government's budget for that year, which had been approved by the Senedd. If the omitted costs of the aforementioned business support schemes had been included (£739m), the Welsh Government would have reported an overspend of £303m for the 2019-20 financial year. Any overspend is considered irregular or unauthorised and, accordingly, the Auditor General is required to qualify his regularity opinion.

17. The Accounts were scrutinised by the Public Accounts Committee of the Fifth Senedd in Autumn 2020 and the Committee's report was published in March 2021⁴.

Welsh Government Accounts 2020-21 qualifications

18. The Auditor General's opinion was that the Welsh Government Accounts 2020-21 provided a 'true and fair' view 'except for' the effects or possible effects of the following matters⁵:

- **Payment to the former Permanent Secretary** – the Welsh Government had provided insufficient appropriate evidence for him to determine whether the expenditure in the Accounts relating to a payment to the former Permanent Secretary was materially correct and properly authorised.

⁴ Report of the Public Accounts Committee, [Scrutiny of Accounts 2019-20: Welsh Government](#), May 2020

⁵ Welsh Government Consolidated Accounts 2020-21, page 178

- **Clinicians' pension tax liabilities** – the 2020-21 Accounts included a material omission of expenditure relating to clinicians' pension tax liabilities.
- **Expenditure for some COVID-19 business grants** – the Welsh Government included material expenditure relating to certain business grants in the 2020-21 Accounts, instead of the 2019-20 Accounts. This was a consequential qualification arising from matters that led to the 2019-20 'true and fair' audit qualification, which we describe earlier in this report.

19. The Auditor General also qualified his regularity opinion in relation to the payment to the former Permanent Secretary.

20. In addition, the Auditor General drew attention to disclosures made in the Governance Statement regarding the payment to the former Permanent Secretary and also regarding the estimated level of fraud and error in the COVID-19 business grants. In relation to the latter, Audit Wales prepared a Memorandum on **COVID-19 business support in 2020-21** to provide additional evidence and explanation.

21. With the exception of the issue relating to Clinician's pension tax liabilities, which was a legacy issue from the 2019-20 accounts, further information about these issues is covered in subsequent sections of this report.

4. Payment to the former Permanent Secretary

Appointing a new Permanent Secretary and the role

22. Dame Shan Morgan was appointed to the role of Permanent Secretary in February 2017, on a five-year term. In May 2021, the Welsh Government advertised for her replacement, as her contract would not be renewed.

23. On 9 September 2021, the Welsh Government announced the appointment of Dr Andrew Goodall, who had, since 2014, been seconded to the Welsh Government from the Aneurin Bevan University Health Board (ABUHB)⁶. The Cabinet Office also announced the appointment and reported Dr Goodall would take up the post in November 2021⁷, suggesting Dame Shan Morgan would leave some three months before the end of her five-year term (February 2022).

24. The current Permanent Secretary, in his update in the Governance Statement in the 2020-21 Accounts, stated:

"Since her [the former Permanent Secretary's] identified successor was an internal candidate who could start immediately and it was in the interests of the organisation to avoid a protracted handover period, the former Permanent Secretary was prepared to leave sooner than the end of her contract."⁸

25. The Auditor General provided some further context, stating in his Public Interest Report:

"My understanding is that the First Minister requested that the contract be terminated early as the Permanent Secretary's successor had been identified, and he wanted a programme of reforms to be led from the outset by the person who would be in post throughout the period of the new Senedd. In these circumstances, the Permanent Secretary agreed that her contract be ended ahead of its fixed term and for her civil service employment to end on the same date."⁹

⁶ Welsh Government Media Release, 'New Permanent Secretary of the Welsh Government announced', 9 September 2021

⁷ Cabinet Office Media Release, 'New Permanent Secretary to the Welsh Government', 9 September 2021

⁸ Welsh Government Consolidated Accounts 2020-21, Accountability Report, p140

⁹ Audit Wales, Payment to the Welsh Government's Former Permanent Secretary on Termination of Employment, September 2022

26. In relation to the former Permanent Secretary's early departure, the Permanent Secretary told the Committee:

"... it was my arrival as an internal candidate who was successful through the Permanent Secretary process that actually triggered the departure arrangements. So, I was—rather than an external candidate, where there could have been a very different discussion about starting dates—available to start with more immediate effect. I think it was in the interests of the organisation to avoid a protracted handover period ... But I know and I would share that it was the First Minister's preference that the long-term senior civil service leadership, not least for the programme for government, should be in place as soon as possible in the new Senedd term, noting the recruitment arrangements that had been put in place."¹⁰

The Current Permanent Secretary's Terms and Conditions

27. Having taken up post on the 1 November 2021, the disclosures about Dr Goodall's remuneration and pension in the role of Permanent Secretary will be first reported in the Welsh Government's 2021-22 Accounts. However, the Committee considered these arrangements in the context of the payment made to the former Permanent Secretary, the early termination of her employment and the appointment of the current Permanent Secretary.

28. For 2017-18, the salary payable to Dr Goodall as Chief Executive of the NHS Wales and Director General of the Health and Social Services Group at the Welsh Government was in the band £200,000-£205,000. He had been seconded to the Welsh Government from ABUHB "initially for a five-year term and then, that was extended subsequently by another two years and potentially up to another two years again"¹¹.

29. The salary payable to the former Permanent Secretary was, at this point, in the band £155,000-£160,000.

30. The post of Permanent Secretary was advertised in May 2021 with a salary between £162,500 and £180,000. Dr Goodall confirmed, after his appointment to the role of Permanent Secretary, he remained on secondment from ABUHB. He also confirmed that he remained paid on the NHS chief executive pay framework and was subject to the terms and conditions of the

¹⁰ RoP, 6 October 2022, paragraph 221

¹¹ RoP, 19 October 2022, paragraph 47

NHS¹². As such, his current salary exceeds the salary that was advertised for the post of Permanent Secretary.

On that basis, we queried how Dr Goodall's terms and conditions compared with those advertised for the role of Permanent Secretary. He explained his employment rights:

"are maintained throughout that period of time [of the secondment], so if there are any changes to my employment under the very senior managers category, whether they are general terms and conditions changes, pay awards or pension contributions, they simply apply in the normal way as part of the annual process for the NHS. Those mechanisms are reported into Welsh Government and then there is an exchange on the funding side between Aneurin Bevan University Health Board, as my employing organisation, and Welsh Government."¹³

31. On 1 October 2021, the Welsh Government announced that Judith Paget, the Chief Executive of ABUHB, would succeed Dr Goodall as the Chief Executive of the NHS in Wales and Director General for the Health and Social Services Group at the Welsh Government¹⁴. The Permanent Secretary explained how these arrangements had been agreed:

There was an opportunity, in checking out with colleagues in Wales, to second Judith Paget from Aneurin Bevan health board into that post—a very experienced chief executive...¹⁵

32. The Permanent Secretary told the Committee that Judith Paget had taken up the role at the Welsh Government on a temporary basis, with a substantive appointment process to follow. We were told that this process would start in 2023¹⁶.

33. To further complicate matters, an interim Chief Executive was initially put in place to replace Judith Paget at ABUHB. The Permanent Secretary informed us the Board had confirmed 'an existing member of the executive team was able to take up that role and there would be confidence from the board in that appointment as well.'¹⁷ It was reported in the media on 1

¹² RoP, 19 October 2022, paragraphs 37 & 40

¹³ RoP, 19 October 2022, paragraph 40

¹⁴ Welsh Government Media Release, '[New NHS Wales Chief Executive and Director General for Health and Social Services appointed](#)', 1 October 2021

¹⁵ RoP, 19 October 2022, paragraph 33

¹⁶ RoP, 19 October 2022, paragraph 33

¹⁷ RoP, 19 October 2022, paragraph 33

October 2021 that the then Deputy Chief Executive of ABUHB, Glyn Jones, who was also Executive Director of Finance and Performance, would take on the role of Chief Executive on a temporary basis.¹⁸

34. On 5 September 2022, the ABUHB announced the appointment of Nicola Prygodzicz, who was previously its Director of Planning, Digital and IT, as its new Chief Executive Officer, and noted she was taking up the post on the same day¹⁹.

35. We sought to clarify some of these arrangements, given that the Permanent Secretary and Judith Paget were seconded to the Welsh Government from the same local health board. The Permanent Secretary said:

"So, when I moved across from the Aneurin Bevan health board mechanism—as I said, I'm on the NHS chief executive pay framework—I removed myself from the substantive appointment for Aneurin Bevan University Health Board. So, Judith Paget had taken that on substantively and had been appointed to that role through an external recruitment process."²⁰

36. These arrangements raise a number of further questions about the status of the roles at ABUHB and the secondments to the Welsh Government. We note that Judith Paget's appointment to Chief Executive at ABUHB was to a permanent post, even though Dr Goodall was appointed to the Welsh Government on a secondment. It is unclear what will happen regarding these positions at the end of Dr Goodall's secondment.

37. We asked the Permanent Secretary to clarify these arrangements and he stated:

"I have a substantive status in that organisation [Aneurin Bevan UHB] based on the chief executive payroll, so I am an employee as part of those secondment arrangements. But given that, at the time I was appointed to be the NHS Wales chief executive, I was appointed initially for a five-year term and then, that was extended subsequently by another two years and potentially up to another two years again, it would have been inappropriate to have left the organisation with unclear and interim leadership arrangements. So, you could argue that that exposes me to risk, but I

¹⁸ South Wales Argus, [Aneurin Bevan University Health Board new CEO](#), 1 October 2021

¹⁹ Aneurin Bevan University Health Board, ['New Chief Executive Commences Role'](#), 5 September 2022

²⁰ RoP, 19 October 2022, paragraph 45

*retain substantive employment arrangements within the organisation; I've just allowed that post to be free to be appointed to.*²¹

Changes to the former Permanent Secretary's working arrangements

38. The former Permanent Secretary was appointed to a full-time post. The Welsh Government 2018-19 Accounts reported a decrease in the Permanent Secretary's salary for 2018-19 compared with the previous year. It reported this was because the former Permanent Secretary elected to benefit from her pension on 31 March 2018. In a note in the Accounts, the Welsh Government said:

*"The reduction in Shan Morgan's salary from the previous year is a consequence of the decision to stop accruing pension in the PCSPS. This has reduced the cost of employment to Welsh Government but the role continues to be delivered on a full time basis."*²²

39. The Public Accounts Committee of the Fifth Senedd asked the former Permanent Secretary about this in October 2019 during its scrutiny of the Welsh Government Accounts 2018-19.

40. During that scrutiny the former Permanent Secretary was asked why she was paid less in 2018-19 than for the previous year but continued to work full-time. The former Permanent Secretary explained:

*"... I'm 64, I have worked full-time for over 40 years in the civil service, so I've ended up in a very similar situation to the one that's been publicised for the doctors in relation to taxation. I decided, therefore, that I would end my contributions to the civil service pension scheme last April. That involves various rules that mean I have to take a 20 per cent reduction in salary."*²³

41. The former Permanent Secretary added she was "not working any fewer hours at all. If anything, with Brexit, I'm working more"²⁴.

²¹ RoP, 19 October 2022, paragraph 47

²² [Welsh Government Consolidated Accounts 2018-19](#), page 68

²³ Public Accounts Committee, RoP, [7 October 2019](#), paragraph 164

²⁴ Public Accounts Committee, RoP, [7 October 2019](#), paragraph 165

42. It is of fundamental importance to note that, when queried by the previous Public Accounts Committee, about the reduction in her salary, the former Permanent Secretary made no mention of the arrangements that the Welsh Government now maintains had been put in place for her to partially retire and with changes to her working arrangements.

Changes to the former Permanent Secretary's working arrangements

43. The Auditor General concluded there was no evidence that the Welsh Government had documented²⁵:

- Which decisions relating to a Permanent Secretary's employment are reserved to the Cabinet Office, and which are decisions for the Welsh Government to take.
- Where decisions are for the Welsh Government to take, how those decisions should be taken and approved. This is particularly important given that the involvement of subordinate civil servants in decisions relating to a Permanent Secretary's terms of employment including pay, working pattern and leave entitlement would involve an inherent conflict of interest.
- How 'line-management' responsibilities should be undertaken, and by whom. For example, performance management arrangements, leave and flexible working authorisation and record-keeping.

44. The Auditor General notes that the Permanent Secretary's pay is determined by the UK Cabinet Office, which also issues the written contract of employment. This contract, along with the Welsh Government's HR policies and guidance, represented the Permanent Secretary's terms and conditions of employment. The Cabinet Secretary acts as the Permanent Secretary's line manager.

45. The Public Accounts Committee of the Fifth Senedd reported on the dual accountability of the Permanent Secretary role, with responsibilities to the Cabinet Secretary and Head of the Civil Service as part of their role as a UK civil servant, and to the First Minister and to the Welsh Government²⁶. The previous Public Accounts Committee had concerns about the potential for tensions or conflicts of interest to arise from this dual accountability.²⁷

²⁵ Audit Wales, Payment to the Welsh Government's Former Permanent Secretary on Termination of Employment, September 2022, page 9, paragraph 18

²⁶ Public Accounts Committee, Scrutiny of Accounts 2018-19: Welsh Government, May 2020

²⁷ Public Accounts Committee, Scrutiny of Accounts 2018-19: Welsh Government, May 2020, page 45, paragraph 163

46. In his Public Interest Report, the Auditor General states that “at some point prior to February 2018”, the former Permanent Secretary said she wanted to “partially retire”. Under the Civil Service Pension rules, “partial retirement” is permitted only if the member’s job is reshaped either by reducing their hours or by reducing responsibilities so that the salary reduces by at least 20%. Alternatively, employees could agree to move to a lower paid job.

47. The Welsh Government says it reshaped the role from 1 April 2018 by agreeing the former Permanent Secretary could take an additional day’s leave each month. The Auditor General notes evidence that suggests the Permanent Secretary continued to work full-time and says the Welsh Government has “been unable to provide my auditors with any contemporaneous documentation to confirm that the Permanent Secretary’s job was reshaped”, as per pension scheme rules.²⁸

48. The Auditor General also concludes that the Welsh Government did not have clearly documented governance and accountability arrangements in place for the role of Permanent Secretary. His report states the former Permanent Secretary’s terms and conditions of employment provided her with an annual leave allowance of 30 days per annum, with no entitlement to overtime payments.

49. The Auditor General goes on to say he had not seen any evidence that suggested the First Minister was aware of any change or “partial retirement”, either prior to the application or as part of the decision to agree it. The Auditor General states, the Cabinet Office had confirmed it should have been notified of, and approved, any change in working arrangements in advance.

50. The current Permanent Secretary told the Committee on 6 October 2022:

“I am aware that Shan had not made her line manager, the Cabinet Secretary, aware of the specific change in working arrangements back in 2018, but we were discharging those arrangements as Welsh Government, as her employer, which was the core principle for what the civil service pension arrangements required...it became clear that there was some lack of clarity and no agreed processes in place between devolved governments and the Cabinet Office concerning the notification of changes in the working arrangements of Permanent Secretaries, and perhaps the shared understanding wasn't as clear in respect of the different responsibilities of the UK civil

²⁸ Audit Wales, Payment to the Welsh Government’s Former Permanent Secretary on Termination of Employment, September 2022, page 13, paragraph 32

service on the one hand and Welsh Government having to discharge not least its legal status as an employer.”²⁹

51. The former Permanent Secretary’s working arrangements changed again from 1 April 2019. Instead of taking one day of leave per month, the Auditor General notes the Permanent Secretary would accrue “partial retirement days” to be taken at the end of her contract. The Auditor General concludes she would have accrued and been entitled to over 120 “partial retirement days”, amounting to some 6 months’ leave, before the end of her employment.

52. The Auditor General notes this would be outside the scope of the Welsh Government’s HR policies. He also reports the changes from April 2018 and April 2019 were approved by the Welsh Government’s HR Director.

53. In his Public Interest Report, the Auditor General notes the Welsh Government’s Director of Human Resources told auditors that discussions had been held in early 2020 about the former Permanent Secretary’s working hours. No notes had been retained of these discussions. He also notes there were no contemporaneous records to demonstrate the amount of “partial retirement days” accrued or taken by the former Permanent Secretary³⁰, or to demonstrate compliance with the ‘Special Payment’ provisions of Managing Welsh Public Money³¹.

54. The Permanent Secretary was asked by the Committee about the records the Welsh Government kept in respect of the former Permanent Secretary’s new working arrangements. He said:

“There was some of that documentation at the time, on some of the matters of detail, that weren't as precise as we would have wished or documented, but actually the Permanent Secretary's office did maintain a record of the days that she was taking off at that time.”³²

55. He further told the Committee the former Permanent Secretary had not informed her line manager, the Cabinet Secretary, of the change in her working arrangements, but rather had dealt with it through the Welsh Government “as her employer”³³. Indeed, the Auditor General

²⁹ RoP, 6 October 2021, paragraph 206

³⁰ Audit Wales, Payment to the Welsh Government’s Former Permanent Secretary on Termination of Employment, September 2022, page 21, paragraph 68

³¹ Audit Wales, Payment to the Welsh Government’s Former Permanent Secretary on Termination of Employment, September 2022, page 22

³² RoP, 6 October 2022, paragraph 205

³³ RoP, 6 October 2022, paragraph 206

notes in his Public Interest Report the Cabinet Secretary was not informed about the change until August 2019, through “informal, personal correspondence”³⁴. The Permanent Secretary acknowledged:

“... through our recent discussions with the Cabinet Office, it became clear that there was some lack of clarity and no agreed processes in place between devolved governments and the Cabinet Office concerning the notification of changes in the working arrangements of Permanent Secretaries, and perhaps the shared understanding wasn't as clear in respect of the different responsibilities of the UK civil service on the one hand and Welsh Government having to discharge not least its legal status as an employer.”³⁵

56. On 6 October 2022, the Permanent Secretary told the Committee:

“... these were matters [changes to the former Permanent Secretary's working arrangements] that were disclosed in previous Accounts; it wasn't that our Accounts this year were the first time that the part-time arrangements had been made explicit in terms of the pension agreement that we put in place.”³⁶

57. However, the Welsh Government's Accounts for 2018-19 and 2019-20 did not provide further information about the former Permanent Secretary's change in working arrangements. The Accounts for 2018-19 set out the reduction in the Permanent Secretary's salary but, as noted in paragraph 38 of this report, did not provide any information about a change in working hours and did not make any reference to this during oral evidence when our predecessor Committee scrutinised those accounts

58. The issue was again referred to in the 2019-20 Accounts, which stated:

“Shan Morgan elected to benefit from her pension on 31 March 2018. In accordance with Civil Service Pension Scheme rules her salary was reduced from 1 April 2018 onwards.”³⁷

³⁴ Audit Wales, Payment to the Welsh Government's Former Permanent Secretary on Termination of Employment, September 2022

³⁵ RoP, 6 October 2022, paragraph 206

³⁶ RoP, 6 October 2022, paragraph 215

³⁷ Welsh Government Consolidated Accounts 2019-20, p91

59. The Welsh Government's Pay Policy Statements for 2018, 2019, 2020 and 2021 did not include any reference to changes to the former Permanent Secretary's working arrangements.

Payment in October 2021

60. The Accounts 2020-21 noted the Permanent Secretary was paid £92,018 on her departure. This included her final month's salary (£11,499) and a payment of £80,519, comprised of:

"... pay in lieu of notice, annual leave untaken and an extra-contractual payment amounting to £39,123 (of which £30,289 was accrued at 31 March 2021 as part of the general Employee Benefits accrual) in relation to partial retirement days for which Shan worked."³⁸

61. The approval and governance arrangements differ depending on the nature of each payment, therefore the type or category of payment is significant. As an example, special severance payments are required to be approved by the First Minister in line with Managing Welsh Public Money provisions.

62. The Auditor General's Public Interest Report provides additional context about each element of the payment, including:

- **Payment in lieu of notice (£31,843)** – the Auditor General concludes it would not have been unreasonable for the former Permanent Secretary to seek a special severance payment upon early termination. However, he determined she was not entitled to receive a payment in lieu of notice. The Welsh Government did not seek legal advice about the payment, although its legal team was aware of it. Whilst the First Minister approved this element of the payment, the request for approval did not explain the terms of the Permanent Secretary's contract. The Auditor General, therefore, concluded the First Minister had not been provided with "sufficient information to make an informed decision" about the payment.
- **Annual leave (£9,553)** – the leave entitlement and the daily rate were based on the former Permanent Secretary having a full-time working arrangement after she took "partial retirement". It also included leave the former Permanent Secretary would accrue during the notice period, up to the end of her contract on 5 February 2022. The Welsh Government's Director of Governance and Ethics supported the decision to make the payment but said it would be necessary to consult the Chairs of the

³⁸ Welsh Government Consolidated Accounts 2020-21, p151

Welsh Government's Audit and Risk Assurance Committee and the Remuneration Committee, before finalising the arrangements. The Auditor General reports this did not happen.

- **Extra-contractual payment (£39,123)** – this payment related to “partial retirement” days. The Auditor General described this element of the payment as “the most contentious element of the overall payment”, which was “premised on the Permanent Secretary having a part-time working arrangement after she took partial retirement”. The Auditor General describes the payment as “novel” and unsupported by sufficient documentary evidence, saying it did not comply with Welsh Government HR policies and procedures.

63. In relation to the extra-contractual payment, the Auditor General reports correspondence between the former Permanent Secretary's office and the Welsh Government's HR Director confirmed she would have 74 “partial retirement” days as at 31 October 2021. The Auditor General states this was not supported by evidence and the HR Director offered to pay for these 74 days, which represented half of the 148 “partial retirement” days the former Permanent Secretary would have accrued between 1 April 2019 and 5 February 2022.

64. The Auditor General concluded the HR Director should have told the First Minister about this element of the payment as it was not within the standard arrangements for all staff and not provided for in Welsh Government HR policies. The Auditor General described this element as a “special payment” which should have been formally referred to the Welsh Government's Corporate Governance Unit for consideration, in accordance with Managing Welsh Public Money. The Auditor General notes the calculation of eligible days was “arbitrary and without proper basis”, with an “unclear, inconsistent, and inaccurate” methodology used.

65. When asked whether the Welsh Government had sought legal advice regarding the payment, the Permanent Secretary noted “legal advice wasn't directly taken at the time about the offer of a payment”, but the HR Director's “role and responsibility does cover off the requirement for an understanding of these wide range of areas irrespective of legal advice”³⁹.

66. The Welsh Government subsequently obtained legal advice, prior to and after the Auditor General published his Public Interest Report⁴⁰. The Permanent Secretary explained:

“That legal advice tells me that there is an entitlement, in employment law terms, on the three areas, even if we change the labels around, that were highlighted as part of

³⁹ RoP, 6 October 2022, paragraph 234

⁴⁰ RoP, 19 October 2022, paragraph 54

*Shan's departure arrangements. That would be in respect of any time left on the former Permanent Secretary's contract, and indeed on any aspects around annual leave that hadn't been taken, or, indeed, some of the implications that we had originally described as extra-contractual payments as well.*⁴¹

Qualification

67. The Auditor General qualified his 'true and fair' opinion on the 2020-21 Accounts, as he was unable to secure sufficient documentation to demonstrate the former Permanent Secretary's arrangements since April 2018. In particular, the Auditor General could not confirm the following⁴²:

- The basis on which the payment was made.
- How the payment was calculated.
- Whether the Welsh Government had an obligation to make the payment.
- Whether it is, or should be, in the Welsh Government's financial statements for 2020-21.

68. The Auditor General has also provided a qualified regularity opinion as he was not able to conclude the former Permanent Secretary was entitled to the payment. In his report in the Accounts, the Auditor General states:

*"The Welsh Government did not keep contemporaneous records of its reasons for making the payment, the rationale for the amount paid or evidence of who authorised the payment. I have therefore been unable to satisfy myself that the payment was properly authorised in accordance with the framework of authorities governing the expenditure and whether the expenditure was incurred for the purposes intended by the Senedd."*⁴³

69. He reiterates the Permanent Secretary's explanation for the payment, as set out in the Governance Statement included in the 2020-21 Accounts, was "not supported by contemporaneous evidence" and the evidence he received "does not support the commentary set out in the Governance Statement". In his Public Interest Report, the Auditor General lists the

⁴¹ RoP, 6 October 2022, paragraph 235

⁴² Welsh Government Consolidated Accounts 2020-21 page 179, paragraph 7

⁴³ Welsh Government Consolidated Accounts 2020-21, p173

following actions that the Welsh Government had set out that it would be taking to improve processes:

- Better documentation of agreements reached in these circumstances so that there is an adequate audit trail.
- Reviewing the terms of reference of its Remuneration Committee so the agreement of the Committee, or at least the Chair, is sought for individual exit payments or other significant changes to terms and conditions for staff at Director level and above.
- Production of a documented set of processes, agreed with the Chairs of the Audit and Risk Assurance Committee and the Remuneration Committee, for dealing with any significant HR matters which arise in respect of the Permanent Secretary or other very senior staff of the Welsh Government. This will include guidance on notifying other interested parties.
- Working with UK Cabinet Office to develop specific guidance for the line management of permanent secretaries in the devolved context.

70. In a subsequent letter to the Committee on 9 December 2022, the Permanent Secretary noted the Welsh Government HR team had worked with the Cabinet Office to draft a Permanent Secretary Terms and Conditions framework, which is “now in operation”⁴⁴. The letter states:

“This clearly sets out roles, responsibilities and decision making across all aspects of employment, reflecting the Welsh Government context and ensuring both organisations are involved appropriately in future matters. This has been put in place in advance of broader work the Cabinet Office intend to undertake on the relationship between Cabinet Office and the Permanent Secretaries of both Welsh Government and Scottish Government.”⁴⁵

71. The letter explains the framework has been “put in place in advance of broader work the Cabinet Office intend to undertake on the relationship between Cabinet Office and the Permanent Secretaries of both Welsh Government and Scottish Government”.⁴⁶

⁴⁴ Letter from Permanent Secretary to Public Accounts and Public Administration Committee, 9 December 2022

⁴⁵ Letter from Permanent Secretary to Public Accounts and Public Administration Committee, 9 December 2022

⁴⁶ Letter from Permanent Secretary to Public Accounts and Public Administration Committee, 9 December 2022

Record keeping and notification

72. The payment made to the former Permanent Secretary raises a number of issues regarding the documentation of decision making and record keeping by the Welsh Government. This is not the first time such issues have arisen and the previous Public Accounts Committee raised concerns regarding these matters throughout the Fifth Senedd commenting on it in its Legacy Report.⁴⁷

73. The Public Accounts Committee of the Fifth Senedd also wrote to the former Permanent Secretary in April 2020 to express concerns about the Welsh Government's record keeping of decisions⁴⁸, as part of an inquiry into the Welsh Government's approach to responding to COVID-19. In response, she stated:

"As for documenting decisions taken, I have already written to all of my additional accounting officers emphasising the importance of maintaining and retaining records of the need being met, the reason for the decision taken and any potential risks."⁴⁹

74. More recently similar issues have been identified by the Auditor General in his letter to the Committee regarding the Welsh Government's Purchase of Gilestone Farm in which he stated:

"... the Welsh Government did not keep a record of matters discussed with Green Man in various virtual meetings during its consideration of Green Man's business plan outline and the process leading up to acquisition of Gilestone Farm."⁵⁰

75. When asked by the Committee, during its scrutiny of the Accounts, how record-keeping could be improved in future around the role, the Permanent Secretary stated:

"I... think that there is something about what is the precision of using policies. In many respects, policies and frameworks are there not just for compliance; they are there to try to steer into consideration, in sometimes quite personal and individual circumstances as well. And I think there has to be some ability to ensure that there is still a level of interpretation. Even with all of the technical advice that is available for the annual Accounts, there is still a subjective and an interpretation aspect about

⁴⁷ Public Accounts Committee: Fifth Senedd Legacy Report

⁴⁸ Letter from Public Accounts Committee to Permanent Secretary, 17 April 2020

⁴⁹ Letter from Permanent Secretary to Public Accounts Committee, 28 April 2020

⁵⁰ Letter from the Auditor General for Wales to the Public Accounts and Public Administration Committee, 'The Welsh Government's purchase of Gilestone Farm', 19 January 2023

*where choices can be made, about how you allocate and align things as well. So, I think we also need to allow that to happen as well. But, absolutely, we need to make sure that we're able to find that balance between the bureaucracy of what you monitor, as well as ensuring that we still remain a delivery focused organisation, to improve services and outcomes for the people of Wales.*⁵¹

Our View

76. We believe the reasons for the early departure of the former Permanent Secretary remain unclear. It could be argued there would have been merit in the former Permanent Secretary remaining in post until the end of her contracted term while the Welsh Government was still responding to the COVID-19 pandemic.

77. We find some of the arrangements surrounding the appointment of the current Permanent Secretary confusing and unclear with announcements regarding Dr Goodall's appointment omitting that he remained on secondment from ABUHB. We also note, prior to his appointment, the Welsh Government did not report the period of Dr Goodall's secondment from ABUHB in its Accounts, other than to say it commenced on 9 June 2014⁵². Neither was any detail provided on the duration of his secondment.

78. The process for back filling Dr Goodall's post, Director General for Health and Social Services Group and Chief Executive of NHS Wales, was also unclear and gives us cause for concern. It was suggested to us that the process for appointing Judith Paget, another secondee from ABUHB, albeit it on temporary basis, was conducted without any competitive recruitment exercise. In the interests of transparency we would expect, at a minimum, that all appointments made to Director General level and above be made following public advertisement and open recruitment campaigns.

79. We also consider there has been a lack of transparency regarding the continuation of Dr Goodall's secondment after his appointment to Permanent Secretary, especially since these arrangements were only made clear during our evidence gathering, as were the secondment arrangements for his successor as Director General for Health and Social Services Group and Chief Executive of NHS Wales. Unfortunately without the explanations provided to us, these arrangements could be confused with a number of acting-up and interim arrangements. Given

⁵¹ RoP, 6 October 2022, paragraph 272

⁵² Welsh Government Consolidated Accounts 2014-15, page 4

the seniority of these posts, and the need for stability within the organisation they lead, these arrangements should be transparent.

80. Evidence heard confirmed that the Welsh Government advertised the role of Permanent Secretary at a specific pay scale and then appointed at a higher pay band. This raises the question of whether the Welsh Government may have attracted different candidates had the post been advertised at a higher pay scale.

81. We are concerned that such arrangements expose the Welsh Government and NHS Wales to risk. The evidence provided to us would suggest that, should Dr Goodall's secondment to the role of Permanent Secretary to the Welsh Government come to an end, NHS Wales would be required to continue to remunerate Dr Goodall on his existing pay scale without a commensurate post to take up. We question whether it is appropriate to have such open ended secondments for such senior roles.

82. We acknowledge the value of secondment arrangements, both inward and outward, and the benefits they bring to organisations and staff alike, but these are normally temporary or time limited arrangements. The arrangements, as described to us, raise wider concerns about the extent to which there are potentially other similar arrangements across other posts within the Welsh Government and other public sector bodies, and whether some clear points of principle are needed about these arrangements.

83. The Committee is concerned to note the Auditor General's conclusions about the payment to the former Permanent Secretary on her early departure. In particular:

- The Auditor General's concerns about the Welsh Government's justification for the "payment in lieu of notice". This is particularly concerning as no formal legal advice was sought at the time the payment was agreed and officials did not provide full information to the First Minister, who was obliged to approve the payment.
- The novel arrangement to award "partial retirement days" to be taken at the end of an employment contract, which the Auditor General concluded was not in compliance with Welsh Government HR policies and procedures, with insufficient documentary evidence and transparency.
- The absence of records to substantiate the number of "partial retirement days" accrued or taken by the former Permanent Secretary.
- The lack of evidence that the Welsh Government complied with the requirements of Managing Welsh Public Money.

84. The Committee is surprised to hear that changes in the former Permanent Secretary's working arrangements were not communicated to her line manager, the Cabinet Secretary, before August 2019 and only then in what the Auditor General's report said appeared to be informal, personal correspondence⁵³. This was over a year after she made the request to "partially retire" and around sixteen months after the first change to her working arrangements came into effect.

85. In particular, the practice of subordinate members of staff making significant determinations around the working arrangements, without sign off or approval by others, of a superior is of concern. This is particularly notable given the Auditor General's conclusion that the Permanent Secretary's working arrangements after April 2019 may have been outside the scope of Welsh Government HR policies, which raises further concerns about the propriety of these arrangements.

86. However, when asked about how the Welsh Government now approaches arrangements whereby subordinates are reporting in to senior colleagues, we were told that a revised terms and conditions framework deals with that issue "very visibly and explicitly".⁵⁴ A copy of the revised Terms and Conditions Framework has been shared with the Committee and sets out when matters relating to HR decisions should be communicated and to whom and the balance of the actions that are taken forward by Cabinet Office, alongside the actions that are taken forward by Welsh Government, as the employer⁵⁵.

87. We are concerned that deficient record-keeping about how important decisions were taken resulted in a lack of clarity and insufficient opportunity for scrutiny by this Committee, particularly around the payment to the former Permanent Secretary. It is concerning that the Welsh Government did not provide the Auditor General with sufficient contemporaneous evidence to establish the change in the former Permanent Secretary's working arrangements and to justify the payment made on her departure. As noted in paragraph 73 of this report, poor record-keeping has been a consistent shortcoming within the Welsh Government's procedures and processes and an issue our predecessor Committees have raised on numerous occasions.

88. As far back as 2016, our predecessor Committee in the 4th Senedd reported on the Regeneration Investment Fund for Wales and recommended the Welsh Government must, as a

⁵³ Audit Wales, Public Interest Report, Payment to the Welsh Government's Former Permanent Secretary on Termination of Employment, paragraph 25

⁵⁴ RoP, 6 October 2022, paragraph 247

⁵⁵ [Letter from the Permanent Secretary to the Public Accounts and Public Administration Committee, 9 December 2022](#)

matter of urgency, address the weaknesses in its organisational culture that have given rise to deficiencies in the robustness of its record keeping processes.⁵⁶ We question why these shortcomings remain unaddressed.

89. The Welsh Government only notified the Auditor General towards the end of November 2021 of the potential post-balance sheet event, which would need attention. The Auditor General had, at this point, been in a position to sign off the Accounts and this late notification started a series of events that led to the significant delay in the finalisation of the Accounts. Since it is clear from the Auditor General's report that discussions around the matters giving rise to the payment to the former Permanent Secretary were already underway by at least early September 2021, the Committee remains unclear whether the notification of the post-balance sheet event could have been brought to the attention of Audit Wales sooner.

90. We believe this late notification, coupled with the insufficient record-keeping and reporting practices employed by the Welsh Government, materially complicated the process of auditing these Accounts. This meant that scrutiny was conducted by this Committee significantly later than originally intended, with a limited opportunity to make impactful recommendations ahead of the preparation of the Welsh Government's Accounts for 2021-22. This, we feel, undermined aspects of the scrutiny process in this instance, notwithstanding our scrutiny of important matters relating to the qualified audit opinions.

91. The Senedd Finance Committee also considered the significant delay in laying the Accounts 2020-21 as part of its annual scrutiny of the Audit Wales and the Auditor General. The Chair of the Finance Committee wrote to us highlighting that the Auditor General, in evidence to the Finance Committee, stated he would welcome clarification of the expectations placed on him by Members of the Senedd should he be unable to meet the four month statutory deadline for completing an audit of Accounts in future.

92. As the Finance Committee is responsible for oversight of the governance of Audit Wales and office of the Auditor General, it believes it is important that it is notified directly of such instances and recommended:

⁵⁶ Report of the Public Accounts Committee, Regeneration Investment Fund Wales, January 2016, Recommendation 11

Recommendation 5. The Committee recommends that the Auditor General formally notifies the Chair of the Finance Committee in writing if he is unable to complete an audit within the four month statutory deadline.⁵⁷

93. We fully endorse this recommendation and make our own similar recommendation below. We note the Auditor General's response and acceptance of the Finance Committee's recommendation in relation to the Welsh Government's accounts⁵⁸. However, we also note his comments about the need to work with the Finance Committee to understand and agree expectations regarding other public bodies.

94. We are concerned about the overall lack of transparency surrounding the changes to the former Permanent Secretary's working arrangements. Specifically, when questioned during oral evidence by the previous Public Accounts Committee, an impression of continued full time working was given, which later emerged as not being the case. No mention was made at that time to the changes which later underpinned part of the payment made to the former Permanent Secretary when she left her post. It is deeply concerning and disappointing that these changes were not drawn to the attention of our predecessor Committee when Members specifically asked for clarity in October 2019.

95. We note and share the concerns of our predecessor Committee regarding the dual accountability of the Permanent Secretary role, with responsibilities to the Cabinet Secretary and Head of the Civil Service as part of their role as a UK civil servant, and to the First Minister and the Welsh Government. We are concerned by the Auditor General's findings that, despite complexities of the various accountabilities of the role of Permanent Secretary, decisions around the position of Permanent Secretary were not clearly documented.

Recommendation 1. We recommend the Welsh Government provides to the Committee its definition of 'secondment', together with its policies for such arrangements, including any specific guidance relating to the arrangements for Senior Civil Servants.

Recommendation 2. We recommend that any future secondment arrangements, both inward and outward, relating to staff at Senior Civil Service Pay Band 2 and over (Director, Director General and Permanent Secretary, including Chiefs Dental, Digital, Medical, Nursing, Social Care, Scientific and Veterinary Officer, as well as Chief Executives) within the Welsh

⁵⁷ Report of the Finance Committee, [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales](#), November 2022

⁵⁸ [Letter from the Auditor General for Wales to the Chair of the Finance Committee, Finance Committee Annual Scrutiny of the Wales Audit Office, 19 January 2023](#)

Government are clearly communicated and set out to the Public Accounts and Public Administration Committee. This includes any changes to the periods of the secondments.

Recommendation 3. Where the Remuneration and Staff Report in its Accounts and/or in its Pay Policy Statement disclose information about individual members of staff who are on secondment, we recommend the Welsh Government reports the term of office for the arrangements in those published documents.

Recommendation 4. We note a substantive appointment process for the post of the Chief Executive of the NHS in Wales and Director General for Health and Social Services Group is due to commence in 2023. We recommend that the Public Accounts and Public Administration Committee be provided with a timeframe for and details of the process including the approach to recruitment i.e. will the role be advertised internally or externally and will the post be appointed on a temporary or permanent basis.

Recommendation 5. It is essential that significant changes relating to the role of the Permanent Secretary are flagged with the Public Accounts and Public Administration Committee at the earliest available opportunity to ensure timely and appropriate scrutiny of such matters. It is deeply concerning that, when asked about changes to the former Permanent Secretary's working arrangements in 2019, these were not divulged to our predecessor Committee. We recommend the Welsh Government demonstrates increased levels of transparency in its future engagement with the Committee on such significant matters of interest.

Recommendation 6. We recommend the Welsh Government review its reporting and record-keeping practices to ensure that internal decisions around the Permanent Secretary role, along with any other roles at Director General level or above, are clearly documented. This is particularly significant where Welsh Government HR policies are being applied by subordinate employees. The outcome of this review should be shared with this Committee, once it is concluded.

Recommendation 7. We recommend the Welsh Government's Consolidated Accounts should include details of any substantive changes in a Permanent Secretary or Director General's working arrangements or remuneration, with an explanation as to why the change has taken place. This should be completed, as a matter of course, in the Accounts relevant to the accounting year the change took place. If this is not possible, this Committee should be informed in writing about any relevant changes, with an explanation provided about why this was not communicated in the relevant set of Accounts.

Recommendation 8. We note the weaknesses raised by our predecessor Public Accounts Committee in the Welsh Government's organisational culture that have given rise to deficiencies in the robustness of its record keeping processes and how these themes have reoccurred in our own work. As such, we recommend the Welsh Government should take specific action to ensure all staff are aware of the requirements of its internal record keeping processes as we do not expect poor record keeping to be a reoccurring theme. We request that the Welsh Government provide us with details on the action it will take to improve its record keeping processes.

Recommendation 9. We recommend that the Auditor General formally notifies the Chair of the Public Accounts and Public Administration Committee in writing if he is unable to complete an audit within the four month statutory deadline⁵⁹.

Recommendation 10. We welcome the broader work the Cabinet Office intends to undertake on the relationship between Cabinet Office and the Permanent Secretaries of both the Welsh Government and Scottish Government. We recommend the Welsh Government advises the Committee on when this work is taking place and provides us with further information on what this work will involve and the timeframes for completion and outputs.

⁵⁹ Report of the Finance Committee, [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales](#), November 2022

5. COVID-19 Business Support

Welsh Government Administered Schemes

96. Welsh Government reserve expenditure in response to COVID-19 was reported as £5.3 billion in 2020-21⁶⁰. As well as the support provided to business by the UK Government, the Welsh Government allocated funding for the specific needs of the Welsh economy. The Welsh Government identified two intended outcomes for this: to help businesses survive falls in revenues from COVID-19 and from lockdown measures; and by increasing the chances of business survival to safeguard jobs.

97. In his report on the 2020-21 Welsh Government Consolidated Accounts, the Auditor General highlights that for Welsh Government administered schemes, and later phases of the local authority administered schemes, totalling £893 million, the eligibility criteria were more specific to target the provision of grant support.⁶¹ He notes that businesses were required to apply for the schemes when they were announced and:

"While there were some checks on some of the eligibility criteria before grants were paid, these checks were not systematic or always documented. The Welsh Government also relied upon self-declarations for certain aspects of the eligibility criteria and plans to check some of these at a later stage. The Welsh Government's estimate of the level of potential fraud and error in these grants is disclosed in the Governance Statement, but there are uncertainties in this estimate as a result of data limitations. While the level of fraud and error in these grants is uncertain, I am satisfied that there is sufficient evidence to conclude that this does not constitute material expenditure in the Welsh Government's Accounts."⁶²

98. In its COVID-19 business support in 2020-21 (the Memorandum) Audit Wales says:

⁶⁰ Welsh Government Consolidated Accounts 2020-2021, page 53

⁶¹ Welsh Government Consolidated Accounts 2020-21, page 182, paragraph 29

⁶² Welsh Government Consolidated Accounts 2020-21, page 182, paragraph 29

"As noted in its 2020-21 Governance Statement, the Welsh Government considers that the controls it put in place around application and award were proportionate, effective, and provided adequate safeguards for public funds."⁶³

99. We sought clarity on the effectiveness of the checks on some of the eligibility criteria and were told by the Permanent Secretary:

"We don't accept the general point [...]. Of course, systems needed to develop over time, and there was a wide variety of grant mechanisms that were put in place, from small to large, and inevitably, there will have been some issues along the way, including, I have to say, for some of the smaller schemes. But, we were responding in days, further to lockdown, in an exceptional manner. I think we tried [...] to ensure that the design was able to avoid some of the potential fraud and error that could have occurred. There was actually a very high rejection rate, so we were avoiding some of these things in advance through the process that was established. Our head of counter fraud in Welsh Government has actually confirmed and given his own opinion that the actual role of the delivery schemes was impressive in respect of that level of control that happened."⁶⁴

100. An official provided further clarity stating:

"I think Audit Wales, for example, may have been referring to the fact that in the very early phases of the economic resilience fund, we didn't keep some of the backing data for eligibility for the microbusinesses, which is the smallest element of the funding we did. That was purely a systems capacity issue, so we just weren't able to build a system quick enough to collate."⁶⁵

Post Completion Monitoring (PCM)

101. The Welsh Government's 'Post Completion Monitoring' ("PCM") is aimed at ensuring that grant terms and conditions are adhered to and to address instances of incorrect awards. It is also being used to consider the performance of the business in terms of their commitments

⁶³ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, page 6, paragraph 11

⁶⁴ RoP, 19 October 2023, paragraph 198

⁶⁵ RoP, 19 October 2023, paragraph 200

such as jobs protected, with a view to taking recovery action where relevant. The timing for PCM was set initially at 12 months after payment.

102. Working alongside its existing Monitoring and Due Diligence team, the Welsh Government established a new team of ten staff to work on PCM, focusing on grants to micro and SME businesses. The Welsh Government initially established the new team for two years, with eight of the ten members externally recruited for a fixed term ending summer 2023. Monitoring for larger businesses is being undertaken as part of the Welsh Government's business as usual monitoring arrangements for financial support to business.

103. We questioned officials on the timescales for completing PCM for later phases of the COVID-19 support for businesses, what resources have been identified for it and the main risks of delaying its completion. Officials told us that in addition to the usual post-completion monitoring team, which is part of the Welsh Government's grant activity, there is a dedicated team of 10. We were told:

"... [there is] another 18 months to two years of post-completion on this work. It is a challenging area and, again, we need to really focus on the higher areas of risk where we possibly can and our objective is to release people from terms as quickly as we can".⁶⁶

104. The Permanent Secretary assured us that:

"we'll make sure that we have a mechanism to support the next 18 months to two years as necessary".⁶⁷ With regard to the fixed term appointments due to end in Summer 2023 the Committee were told that the need for continuation of those posts had been made clear and that the Welsh Government would make sure it has the mechanisms in place to continue those arrangements as well".⁶⁸

105. As with the design of the support, the Welsh Government's approach to date for PCM has varied according to the size of the business in receipt of the support.

⁶⁶ RoP, 19 October 2023, paragraph 234

⁶⁷ RoP, 19 October 2023, paragraph 236

⁶⁸ RoP, 19 October 2023, paragraph 238

106. Audit Wales says “Having been through a further pilot, PCM for phase 3 was underway with plans to progress the arrangements for later phases of support over the summer”⁶⁹. In its Accounts 2020-21, the Welsh Government says “post assurance and retrospective checking against COVID-19 related work will be ongoing for quite some time”⁷⁰.

Fraud and Error

Estimate of fraud and error 2020-21

107. Audit Wales says the results of its sample testing of the first phase of grant and rates relief, administered by local authorities and which totalled £1.1 billion, did “not identify any significant eligibility issues with payments made under these schemes.”⁷¹

108. The other schemes, which totalled £893m, included wider eligibility criteria. In Autumn 2021, when it had “substantially completed” its audit of the Accounts 2020-21, it had been:

“... unable to obtain sufficient appropriate audit evidence to confirm that these grants had been paid to eligible businesses and the Welsh Government had not collated sufficient information with which to quantify the potential level of fraud and error across these grants.”⁷²

109. In its Accounts 2020-21, the Welsh Government says:

“Overall, from the reported incidence of fraud and PCM [Post Completion Monitoring] completed a range of fraud and error of between 0.08% and 4.17% has been assessed.”⁷³

110. It suggests this gives a potential range of risk of fraud and error from £0.7m to £37.2m on the allocation of £893m. It notes this was “well below the threshold for materiality for the Welsh Government Accounts”.

⁶⁹ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, paragraph 23, page 11

⁷⁰ Welsh Government Consolidated Accounts 2020-21, page 60

⁷¹ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, page 14, paragraph 36

⁷² Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, page 14, paragraph 36

⁷³ Welsh Government Consolidated Accounts 2020-21, page 141

111. Audit Wales noted some local authorities have not identified any cases of fraud and error. Drawing attention to the one local authority where additional National Fraud Initiative (NFI) checks were carried out (and fraud and error amounting to £570,000 had been identified), Audit Wales said the likelihood of there being no cases of fraud and error is “unlikely in practice, albeit that such cases may not have been identified to date”.⁷⁴ We asked officials if the Welsh Government had encouraged other local authorities to take up the offer of using the additional NFI checks, which the UK NFI Team had offered to all local authorities but at a cost.

112. We were told that the option of additional NFI checks was raised and made available to all the authorities. However, different authorities had varying needs for it and officials explained:

“... if you had a really well-cleansed non-domestic rates database, the national fraud initiative was not as useful, and also in its application. Of course, we're funding for the majority of authorities buildings and physical properties that you can see and feel. Where it has real value is where, for example, you're able to apply a national insurance number or a personal check, which wasn't always possible for a big group of companies. So, yes, it was made available. Not all of them used it, as you've identified. Some used it extremely effectively.”⁷⁵

Audit Wales’s findings

113. In his Audit Certificate, the Auditor General draws attention to the disclosures the Welsh Government makes about the estimated level of fraud and error in business grants. He says there are uncertainties in this estimate as a result of data limitations.

114. In its Memorandum, Audit Wales provides further information. The uncertainty arises from the data which the Welsh Government has used and how the rate has been calculated, which included the following:

- The Welsh Government calculated the percentage incidence rate from the total number of grant awards rather than the value of the incidences relative to the overall expenditure.
- The lower estimate has been derived from the 142 identified cases of fraud and error in 16 local authority ‘fraud returns’. The Welsh Government has extrapolated this

⁷⁴ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, paragraph 40, page 16

⁷⁵ RoP, 19 October 2022, paragraph 184

figure to estimate a total of 195 cases (0.08%) across 246,127 individual grant awards made by local authorities.

- The higher estimate was calculated from the one recovery to date from 24 survey responses, received from SMEs supported through Phase 3 of the Economic Resilience Fund, which equated to an error of 4.17%.
- The estimates reflected emerging themes, which may not be representative of the population.

115. In his Report on the Accounts 2020-21, the Auditor General concludes:

"While the level of fraud and error in these grants is uncertain, I am satisfied that there is sufficient evidence to conclude that this does not constitute material expenditure in the Welsh Government's Accounts."⁷⁶

116. In its Memorandum, Audit Wales quantifies the materiality level set for the Accounts 2020-21 to be £175 million.

117. We questioned officials on their assessed range of fraud and error of between 0.08 per cent to 4.17 per cent, quantified to range from £0.7m to £37.2m and whether it was possible to disaggregate between what was fraud and what was error. Officials explained:

"that is absolutely feasible and possible. We can do it in the NDR, but we'd have to go back and break it out. So, at the moment, I don't hold that total data. But as we compile 2021-22 data, we will be able to break out fraud and different classifications. I'd suggest eligibility and fraud is a splittable number, yes."⁷⁷

118. We wrote to the Welsh Government asking for further information about its calculations. In doing so, we referred to the approach taken by the UK Government Department for Business, Energy and Industrial Strategy (BEIS). We note that BEIS had set out details about the calculation of its estimates of fraud and error in relation to UK Government COVID-19 grants in its Annual Report and Accounts 2020-21, which the Welsh Government had not. We were also concerned to hear that more detailed data setting out the disaggregation between fraud and error is not

⁷⁶ Welsh Government Consolidated Accounts, page 182

⁷⁷ RoP, 19 October 2022, paragraph 189

currently held by the Welsh Government and we queried how the estimations of fraud and error could be calculated without it.

119. In correspondence to the Committee, the Welsh Government stated that the estimated level of potential fraud and error was calculated on the basis of information received from local authorities. This information was collected from the completion of a survey looking at the 2020-2021 financial year for the local authority-administered schemes and from the PCM that had been undertaken at that point for the Economic Resilience Fund (ERF) Welsh Government administered schemes.

120. The letter noted that the Welsh Government does not have the data split of the estimate between fraud and/or error but it reported no instances of fraud had to date been identified in the PCM on the ERF administered by the Welsh Government. To obtain any further split the Welsh Government said that it would need to contact the local authority teams. However, the letter provided some further clarity on how rates of fraud and error were calculated and information to distinguish cases relating to eligibility from incidences of detected fraud.

121. We asked Welsh Government officials if they expected to report on the estimate of fraud and error in the Governance Statement for 2021-22 and if so, whether they were going to make any changes to how they calculated that estimate following the findings in the Audit Wales Memorandum.

122. Officials confirmed the intention to publish an estimate on fraud and error in the 2021-22 Accounts, but they were not “expecting a significant change” in what was reported on the “2021 position”⁷⁸. While the Welsh Government does not expect to make changes to how the estimate is calculated, officials have reflected on it and will still look to learn around the methodologies and gather feedback along the way⁷⁹.

123. In terms of keeping the estimates up to date to reflect information from local authorities, we were told that the Welsh Government had already implemented some changes and that they remain “committed to continuous improvement” in what they do and deliver⁸⁰.

124. We note in its Memorandum, Audit Wales reported that at July 2022, the Welsh Government was at various stages with PCM for Welsh Government administered schemes, with activity underway up to Phase 3 and further activity planned. We asked for an explanation as to why PCM had not been completed 12 months after payment.

⁷⁸ RoP, 19 October 2022, paragraph 243

⁷⁹ RoP, 19 October 2022, paragraph 245

⁸⁰ RoP, 19 October 2022, paragraph 251

125. We were told the Welsh Government had not anticipated it would still be delivering COVID-19 support two years after it started and 12 months after the Economic Resilience Fund (ERF) 1 and 2, restrictions were still in place. A Welsh Government official said:

"... if we had conducted a 12-month review on all those companies, many of them were actually still closed 12 months after the event. So, in effect, we just had to respond to events. I thought it would be all done and dusted by July 2020. Actually, in reality, as we mentioned, it was two years' delivery over eight phases, and 300,000 grants."⁸¹

126. We asked the Welsh Government to provide an update about the progress and results of PCM for Phases 1 and 2 to enable us to compare the current position with the position in July, as set out in Audit Wales's Memorandum. This information was provided in written correspondence and is set out below:

Position at July 2022 (Audit Wales's Memorandum)

- As at July 2022 the ERF PCM teams had:
- issued 9,094 surveys to micro businesses supported during phases 1 and 2, receiving returns from 3029 (33%).
- issued 2,527 surveys to SMEs, receiving returns from 1,370 (54%) – the fuller PCM for these phases had not been completed.
- issued requests for information to 52 large businesses, receiving returns from 41 (79%).
- Having been through a further pilot, Post Completion Monitoring for phase 3 was underway with plans to progress the arrangements for later phases of support over the summer.

Position at November 2022 (Welsh Government)

- As at November 2022 the ERF PCM teams have:
- Issued 9,094 surveys to micro businesses supported during phases 1 and 2, receiving returns from 3029 (33%).

⁸¹ RoP, 19 October 2022, paragraph 205

- Issued 1,257 surveys to SME's supported during phases 1 and 2, receiving returns from 421 (33% response).
- Issued 1,270 requests for fuller PCM information to SME's supported during phases 1 and 2 with 599 responses currently being considered and 466 cases closed (36% closure rate).
- Issued requests for information to 52 large businesses supported during phases 1 and 2 with 46 cases closed (88%)

127. It is unclear from the figures what progress has been made as details for SME's has been broken down differently.

128. The Permanent Secretary states, in his letter, that it is difficult to impose a deadline for completion on this activity as it is "very dependent on the speed and quality of the response provided by the businesses"⁸². Given the low level of response rates as set out in the table above it is difficult to determine whether the results from the responses received can be representative of non-respondents.

129. The Committee asked how much ineligible or double funding the Welsh Government had identified and how much it had managed to recover. We were informed, in terms of recovery, "to date, around £2 million of spend"⁸³ had been clawed back. However, it was acknowledged this was "behind the curve" expected and Welsh Government was catching up and would continue to carry on delivering on that until complete.⁸⁴

130. We note that Audit Wales, in its memorandum, reported that £1.6m had been recovered from PCM on phases 1 and 2. This was based on information that had been supplied to auditors by the Welsh Government and the position at July 2022⁸⁵. In oral evidence a figure of £2million was reported to the Committee by the Permanent Secretary. This increase could reflect a more up-to-date figure, but it does not align with the figure quoted in a follow up letter from the Permanent Secretary in December 2022⁸⁶. The data presented in the letter seems to suggest the Welsh Government had only actually recovered by November 2022 a total of £1.06m in terms of funds actually received from recovery on WG administered ERF. As such, it has not been

⁸² Letter from the Permanent Secretary, 9 December 2022

⁸³ RoP, 19 October 2022, paragraph 209

⁸⁴ RoP, 19 October 2022, paragraph 210

⁸⁵ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, page 15, paragraph 38

⁸⁶ Letter from Permanent Secretary to Public Accounts and Public Administration Committee, 9 December 2022

possible to reconcile the information provided to us previously and these figures need clarification.

131. In terms of future work, Audit Wales says:

"Having been through a further pilot, Post Completion Monitoring for phase 3 was underway with plans to progress the arrangements for later phases of support over the summer."⁸⁷

132. We note the Welsh Government has not completed PCM within the timeframe that was set. Phases 1 and 2, administered by the Welsh Government, operated between April and July 2020⁸⁸. We acknowledge it continued to support business, but over two years after the schemes operated, the Welsh Government has still not completed PCM.

Local Authority Schemes

133. To enable a rapid response, the Welsh Government administered discretionary and targeted grants itself, but also used the 22 local authorities in Wales as its agents to administer some grants, predominantly property-related non-domestic rates based grants, alongside rate relief.

134. The Welsh Government issued guidance to local authorities for the COVID-19 Non-Domestic Rates (NDR) Grant Scheme. However, local authorities were able to apply discretion regarding eligibility. Audit Wales refers specifically to the discretion relating to, and changes in guidance about, self-catering accommodation.

135. In its Memorandum, Audit Wales set out the parameters of the discretion given to local authorities:

"As with the Welsh Government administered schemes, these criteria evolved across and sometimes within individual phases of support. For example, early in the pandemic in April 2020, the Welsh Government issued updated guidance which set out specific criteria concerning self-catering accommodation and eligibility for grant support amid concerns about a potential loophole regarding second home ownership. Nonetheless, the Welsh Government's guidance on grant awards

⁸⁷ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, page 11

⁸⁸ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, Appendix 1

emphasised that final decisions to provide grant support ultimately lay at the discretion of the local authority with the aim of providing support to genuine businesses that were negatively impacted".

136. Audit Wales further noted:

"We are aware that the question of discretion has given rise to some concerns about the consistency of approach applied by different local authorities, taking account of their specific circumstances and including practical constraints relating to the resources required to process and check applications in a timely way. In plenary on 26 January 2021, the First Minister confirmed the Welsh Government's position that, "Discretion will mean that some local authorities go about that in ways that others do not. That is in the nature of discretion."⁸⁹

137. Adding that the Welsh Government obtained some information from local authorities but:

"... has not sought to formally evaluate the full extent or significance of any differences in the approaches adopted, whether in terms of authorities' design of their systems of control at the point of application, their ultimate decisions on the award of grants, or their arrangements for post payment monitoring."⁹⁰

138. We questioned the Welsh Government on the extent of commonality or variation across local authorities in how they applied their discretion and, where there were differences in approach, how comfortable the Welsh Government was with these, particularly given the updated guidance about self-catering accommodation.

139. A Welsh Government official explained that all 22 local authorities in Wales operated within shared and jointly agreed scheme rules, as they were required to do.⁹¹ Officials were confident that decisions were "made broadly consistently" and the Welsh Government:

"... engaged throughout with the 151s and also had a trusted group of 151s, which was designed to use those difficult cases and push out core messages".

⁸⁹ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, paragraph 29, page 12

⁹⁰ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, paragraph 30, page 13

⁹¹ RoP, 19 October 2022, paragraph 150

140. Specifically in relation to self-catering businesses, we heard very early in the scheme, a particular issue was identified where the Welsh Government wanted to support self-catering businesses, but not necessarily second home owners, who were registered with the Valuation Office Agency for small business rates relief. Therefore, the Welsh Government issued additional guidance and amended eligibility rules from around April 2020, to address the issue.

141. We raised concerns that, after the amended guidance was issued, many legitimate self-catering businesses contacted their Members of the Senedd to raise concerns that the guidance was not being applied consistently across local authorities.

142. Officials accepted this was an issue but reiterated that guidance was issued consistently to all 22 local authorities for the operation of the scheme. However, we heard:

"... within that, [...], 'This is not a black-and-white position', discretion was applied to those 151 officers, who are the accounting officers in that sense—and discretion is exactly that—and they had discretion to apply those rules sensibly."⁹²

143. We were told the Welsh Government wanted to support every eligible business that had closed and/or had its business restricted severely by the COVID-19 regulations, and to apply the criteria "as consistently as possible".⁹³

144. We asked officials if they could confirm the degree to which discretion applied and what redress was available for legitimate businesses who were denied support to which they were entitled. Officials stated that any such cases could be referred to Welsh Government officials for consideration.⁹⁴

145. In terms of assurance over grants to local authorities, in its 2018-19 Accounts, the Welsh Government reported it had decided to remove the need for the external audit of grants it provided to local authorities. From 2019-20, the Welsh Government would place assurance with the Section 151 (S151) Officer or Chief Finance Officer.

146. For its COVID-19 support for business administered by local authorities, the Welsh Government says it obtained assurance "via a combination of mechanisms provided by S151 officers and the control framework implemented by the Welsh Government for each specific intervention."⁹⁵ These included certification of claims by local authorities' Section 151 officers and

⁹² RoP 19 October 2022, paragraph 153

⁹³ RoP, 19 October 2022, paragraph 153

⁹⁴ RoP 19 October 2022, paragraph 155

⁹⁵ Welsh Government Consolidated Accounts 2020-21, page 107

submission of regular monitoring information, as well as regular meetings with the Welsh Government, the Welsh Local Government Association and local authorities, which provided “live” oversight and to communicate any significant issues that arose”.

147. Audit Wales reported, at July 2022, the Welsh Government had received returns from S151 officers from 19 of the 22 local authorities for 2020-21. Ten of these related to the first phase of grants from March 2020 only. Audit Wales noted that the Welsh Government had not identified any areas of concern or non-compliance, but:

“Nevertheless, there is still outstanding work for the Welsh Government to do in this area to comply with its own control framework and that we would expect to be concluded this year.”⁹⁶

148. We asked for an update on this work and were told 20 out of 22 local authorities had provided the required certifications. However, all 22 local authorities had responded to the Welsh Government's fraud and audit survey⁹⁷.

149. Officials explained the Welsh Government also required all local authorities to work within their existing audit frameworks and it intended to issue another fraud and error survey in 2021-22. Officials would continue this work and, where they identified funding that wasn't eligible, they would “encourage local authorities to go after that funding”⁹⁸.

Our View

150. We note the evidence from officials that guidance to local authorities for the COVID-19 Non-Domestic Rates Grant Scheme was issued consistently to all local authorities. However, we are concerned about how this discretion was used.

151. Specifically, we are concerned about the inconsistent application of the amended guidance issued in relation to self-catering businesses. This resulted in support being paid out to some businesses even when they did not meet the set criteria, while in other local authorities, which strictly applied the criteria, some businesses did not receive the support they needed. It was not clear from the evidence provided to us the degree to which discretion had been

⁹⁶ Audit Wales - COVID-19 business support in 2020-21 - Memorandum for the Public Accounts and Public Administration Committee, October 2022, paragraph 31, page 13

⁹⁷ RoP, 19 October 2022, paragraph 162

⁹⁸ RoP, 19 October 2022, paragraph 167

applied and what redress is available for legitimate businesses who were denied support to which they were entitled.

152. We note that PCM, post assurance and retrospective checking of the Welsh Government's COVID-19 support for business will be ongoing for quite some time. We are concerned the Welsh Government did not explicitly confirm it would amend its methodology for calculating the estimate in light of auditors' findings and the Auditor General's observations in his Audit Certificate on the 2020-21 Accounts.

153. We note from Audit Wales's Memorandum some local authorities had not identified any cases of fraud and error and how unlikely this is. We are particularly concerned that, one local authority where extra NFI checks were conducted, fraud and error amounting to £570,000 was identified. This raises concerns whether, without these additional checks, fraud and error could be missed by those local authorities that have not opted to undertake the additional NFI checks.

154. We are surprised that the Welsh Government has not done more to encourage local authorities to conduct additional NFI checks on the COVID-19 grants they administered. More generally, we are not convinced that enough is being done to identify fraud and error.

155. We acknowledge the difficulties in imposing a deadline for completion of PCM given its dependency on the speed and quality of the response provided by the businesses and the volume of work required. We welcome the Permanent Secretary's commitment to ensuring there are sufficient resources to deliver this work but stress the importance of this work being completed in a timely manner.

Recommendation 11. We are disappointed to note the Welsh Government's Consolidated Accounts 2021-22, which were laid before the Senedd on 13 December 2022, do not include an estimate of fraud and error. We recommend that an explanation of why this was the case be provided to the Committee, particularly given the assurances officials provided to us that this estimate would be included.

Recommendation 12. We welcome the outcome whereby one local authority had opted to pay for and use the additional National Fraud Initiative products, and which identified fraud and error of a significant value. This would suggest conducting such further checks offer value for money. We recommend the Welsh Government establishes a clear account of the action that local authorities have taken to assess and respond to the risk of fraud and error in the business support grants they administered and reports back to the Committee.

Recommendation 13. We recommend that the Welsh Government provide further clarity on the latest position on recovery from the COVID-19 Support for Business schemes it has

administered, including explanation of how these figures relate back to the sums reflected in the Auditor General's memorandum and those provided by the Welsh Government during oral evidence.

Recommendation 14. We welcome that a new team of ten staff to work on Post Completion Monitoring focusing on grants to micro and SME businesses was established on a temporary basis of two years, with eight of the ten members externally recruited for a fixed term ending summer 2023. We recommend the Welsh Government provides the Committee with an update on the staffing situation regarding this team beyond summer 2023.

Recommendation 15. We will continue to monitor the progress made by the Welsh Government in terms of completing its Post Completion Monitoring work as part of our future scrutiny of the Welsh Government's Annual Report and Accounts. We recommend that the Welsh Government provides the Committee with six monthly updates on the progress being made.

6. Resource outturn

156. The 'Summary of Resource Outturn' (or 'SORO') reports the Welsh Government outturn against the budget approved by the Senedd for each Ambit (Main Expenditure Group or Department). In the notes to this, the Welsh Government explains the main reasons for the under and overspends.

157. In its reports on the scrutiny of the Welsh Government Consolidated Accounts during the Fifth Senedd, the Public Accounts Committee (PAC) made recommendations that the Welsh Government improve the clarity and transparency of the explanations in the SORO.

158. In April 2019, the Welsh Government said its annual outturn report provided comprehensive details of how the Welsh Government outturn compares with the budget⁹⁹. It later identified the outturn report as one of the four key reports it prepares to cover "the delivery and activities of the Welsh Government and Civil Service"¹⁰⁰. In its report on scrutiny of the Accounts 2019-20 (March 2021), PAC recommended:

"... 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".¹⁰¹

159. In its response, the Welsh Government said it would "continue to seek to improve on the clarity of the explanations provided in the SORO"¹⁰². It added:

"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

⁹⁹ Letter from the Permanent Secretary to the Public Accounts Committee, 30 April 2019

¹⁰⁰ Welsh Government Consolidated Accounts 2020-21, page 36

¹⁰¹ Public Accounts Committee, Scrutiny of Accounts 2019-20: Welsh Government (March 2021)

¹⁰² Letter from the Permanent Secretary to the Public Accounts and Public Administration Committee, 15 October 2021

*in a separate report published within 3 weeks of the laying of the annual Accounts”.*¹⁰³

160. We note, given the delay in presenting the 2020-21 Accounts, the Outturn Report for that financial year was available at the time of the Committee’s scrutiny. The Outturn Report for 2021-22 was published on 27 February 2023, even though the 2021-22 Accounts were laid on 13 December 2022. This is disappointing as it is beyond the three weeks the Welsh Government suggested and could be regarded as a step back in terms of the timeliness in reporting.

161. The Welsh Government’s Outturn Report is prepared on a different basis to the Summary of Resource Outturn. In its Outturn Report 2020-21, the Welsh Government said:

“The Consolidated Accounts of the Welsh Government contain a Summary of Resource Outturn against the control totals approved in the Third Supplementary Budget motion of 2020-21.

*This report [the Outturn Report] provides details of final outturn against the lower-level controls operated and enforced by HM Treasury. These administrative budgets are reported in the documentation and tables which supported the Third Supplementary Budget 2020-21”.*¹⁰⁴

162. In its Explanatory Note for the Third Supplementary Budget 2020-21 (the Senedd approved budget for the year), the Welsh Government noted the “slightly different basis” for the preparation of the figures in the two “reports”.¹⁰⁵

163. This noted the Welsh Government’s budget, used for the Summary of Resource Outturn, included “items which do not score as part of the ‘Resources Requested’ by Welsh Ministers”¹⁰⁶. These include amounts for ‘supported borrowing’ (£88.8 million) and ‘National Non-Domestic Rates Payable (and Collection Costs)’ (£697.2 million). It provided a table to reconcile between the two by each portfolio. This showed:

- The total Welsh Government budget for 2020-21, included in the Budget Motion and Summary of Resource Outturn, is £25.689 billion.

¹⁰³ Letter from the Permanent Secretary to the Public Accounts and Public Administration Committee, 15 October 2021

¹⁰⁴ Welsh Government Report on outturn 2020 to 2021, 9 August 2022

¹⁰⁵ Welsh Government 3rd Supplementary Budget for 2020 to 2021, Explanatory Note, page 58

¹⁰⁶ Welsh Government 3rd Supplementary Budget for 2020 to 2021, Explanatory Note, page 58

- The Welsh Government budget for 2020-21, included in the Explanatory Note and Outturn Report, is £26.498 billion.

164. The difference of £809 million is spread over all Welsh Government Main Expenditure Groups, except Mental Health, Wellbeing and the Welsh Language.

165. Since they are not reporting on the same basis, the Welsh Government's suggestion that the Outturn Report supplements the information in the Summary of Resource Outturn does not seem appropriate. Reading across the reported figures could be confusing for readers trying to understand the reasons for the under or over spends against the budget.

166. We explored what changes the Welsh Government has made to improve the explanations for the differences between its outturn and budget and whether the reasons and the implications for the Welsh budget for 2020-21 are clear.

167. In explaining what it had done differently for 2020-21 to improve the clarity of explanations provided in the Summary of Resource Outturn, the Committee was told:

"We've included an explanation of what the summary of resource outturn is, and an explanation of how it relates to the outturn reports. Those are the very last explanations in the Accounts in relation to the SORO. We've included for each of the ambits a breakdown of the overall variance in each type of budget, and provided an explanation for the main variances within that."¹⁰⁷

168. Officials added that the Welsh Government continues to try and use plain language where possible to explain variances and had previously introduced a glossary of budget terminology. However, the Welsh Government welcomes feedback from the Committee and stakeholders on how further improvements could be made¹⁰⁸.

Implication of £155.5m underspend at the end of 2020-21

169. The Welsh Government Outturn Report 2020-21 noted the balance on the Wales Reserve at 1 April 2021 was £505.5m, which exceeded the limit by £155.5m. The Welsh Government said the Chief Secretary to the Treasury had rejected its request to carry forward funds in excess of the Wales Reserve limit.

¹⁰⁷ RoP, 19 October 2022, paragraph 89

¹⁰⁸ RoP, 19 October 2022, paragraph 90

170. In her covering letter to the Finance Committee to Outturn Report 2020-21, the Minister for Finance and Local Government said:

*"As a result, Wales will be deprived of £155.5m which we should have been able to carry forward - a position I have expressed to the Chief Secretary as wholly unacceptable."*¹⁰⁹

171. The Finance Committee asked the Minister for Finance and Local Government about this on 29 September 2022¹¹⁰. She said it was "disappointing" the Welsh Government hadn't been granted the same flexibilities by HM Treasury as had previously been the case¹¹¹. These included enabling it to offset its capital overspend against its revenue underspend. The Welsh Government also had:

*"... a lot of engagement with Treasury on this particular issue, both myself with the Chief Secretary to the Treasury, going back a long time, in terms of the budgetary flexibilities, which we talk about very frequently, but then also at official level as well, to try and seek assurance on this particular point..."*¹¹²

172. The Minister added:

*"And I think that Wales does have one of the best records of being amongst the best departments in the UK, and devolved Governments, of course, in terms of utilising the budget to the full."*¹¹³

173. Given HM Treasury's rejection of the Welsh Government's request to carry forward funds in excess of the Wales Reserve limit at 31 March 2021 and the resulting loss of £155.5m to Wales, we asked officials if they could explain why the Welsh Government was not able to use this funding before it was lost.

174. Officials explained why they thought HM Treasury might have taken this decision stating:

¹⁰⁹ Letter from the Minister for Finance and local Government to the Senedd Finance Committee, 4 August 2022, page 2

¹¹⁰ Senedd Finance Committee, RoP, 29 September 2022, paragraph 91

¹¹¹ Senedd Finance Committee, RoP, 29 September 2022, paragraph 92

¹¹² Senedd Finance Committee, RoP, 29 September 2022, paragraph 92

¹¹³ Senedd Finance Committee, RoP, 29 September 2022, paragraph 93

"In terms of why, we don't have a firm answer on that, [...] I think it was in respect of the overall level of the underspend across the UK, particularly across UK departments, which was £25 billion. I think in my mind, if we'd been allowed flexibility last year, the question would have been, 'Well, what about flexibility elsewhere?' Also, I think what came into the Treasury thinking was around the impact of potential consequentials. The health department in England actually returned over £18 billion-worth of funding. If the Treasury had looked at that from a Barnett consequential point of view, that would mean £1 billion for Wales, which obviously wouldn't have been acceptable."¹¹⁴

175. To put matters into context and highlight the significance of the funding lost to Wales, we highlighted to officials the £155.5 million, that was either not drawn down or paid back to HM Treasury, equated to around two thirds of 1p on income tax. This amount was confirmed in subsequent correspondence received by the Committee. This stated:

"In 2022-23, based on the ready reckoner published alongside the 2022-23 draft Budget, £155.5 million is equivalent to around two-thirds of the revenue raised from putting 1p on each of the Welsh rates of income tax."¹¹⁵

176. In terms of lessons learnt, we heard that highlighting any changes or a need for flexibility by the Welsh Government to HM Treasury sooner would be helpful. We heard the Welsh Government received the final confirmation HM Treasury would not afford it flexibility on 19 April 2022. We were told:

"There was a very long, protracted discussion between not only the Ministers, but between officials. So, we found out very late that this wouldn't be happening."¹¹⁶

177. Furthermore, it was explained:

¹¹⁴ RoP, 19 October 2022, paragraph 113

¹¹⁵ Letter from Permanent Secretary to the Public Accounts and Public Administration Committee, 09 December 2022

¹¹⁶ RoP, 19 October 2022, paragraph 112

*"The supplementary estimates for the UK Government are done about January time. Perhaps, if we have one of these exceptional years again, we can flag our needs, maybe, in January rather than February. That may make a difference—."*¹¹⁷

178. We asked the Welsh Government to set out the timeline for its request to carry forward at 31 March 2021 a sum in excess of the limit on the Wales Reserve and the response from HM Treasury, which rejected it. The Permanent Secretary set out the following timeline:

- November 2021: HM Treasury officials advised the Welsh Government it could not retrospectively offset its capital overspend against its revenue underspend.
- December 2021: The Welsh Government "provided options to HMT with suggestions of how the 'excess' could be utilised including reprofiling into future years and ring-fencing to be used on specific programmes"¹¹⁸.
- March 2022: HM Treasury told the Welsh Government it "did not accept any of the suggestions and would apply its position as set out in November 2021"¹¹⁹.
- 29 March 2022: The Minister for Finance and Local Government met with the then Chief Secretary to the Treasury to discuss the issue.
- 4 April 2022: The Minister for Finance and Local Government wrote to the then Chief Secretary to the Treasury to request he reconsider his decision.
- 19 April 2022: The Chief Secretary to the Treasury rejected the Minister for Finance and Local Government's request.

Our View

179. We welcome the improvements the Welsh Government has made to the presentation of the explanations of budget variance in the notes to the Outturn Report, in response to the recommendation made by our predecessor Public Accounts Committee on the 2019-20 Accounts. However, we believe there remains work to do to make the language used more accessible and avoid the overuse of budget terminology.

¹¹⁷ RoP, 19 October 2022, paragraph 115

¹¹⁸ Letter from Permanent Secretary to the Public Accounts and Public Administration Committee, 09 December 2022

¹¹⁹ Letter from Permanent Secretary to the Public Accounts and Public Administration Committee, 09 December 2023

180. We are disappointed that significant funding was lost to Wales as a result of the Welsh Government's underspend in 2020-21, which could have been utilised to fund essential public services. As confirmed in correspondence with this Committee, the £155.5 million equates to around two-thirds of 1p on income tax. This is significant funding and we are very concerned that this was lost at any time but particularly now when there are such pressures on public funding.

181. It is difficult to understand why the Welsh Government waited so long to be told it could not do as it wished with the underspend, and why such a request was made retrospectively. The Welsh Government appears to have assumed, based on previous HM Treasury decisions, that it would be granted flexibility to use the funding. There are some gaps in the evidence provided to us in the timeline for the Welsh Government's request to carry forward at 31 March 2021. We note, in November 2021, HM Treasury officials advised the unused revenue budget could not be retrospectively switched to capital to offset an overspend against the capital budget. As a result, the revenue underspend exceeded that which could be accommodated within the Wales Reserve. However it is not clear to us when the Welsh Government made the request for flexibility and what discussions occurred between the Welsh Government and HM Treasury prior to and following the year-end (March 2021) and November 2021.

182. This raises questions as to whether making a request sooner may have enabled the funds to be used. We do not expect to see a repetition of such funding being lost from Wales again and any future requests should to be made sooner.

Recommendation 16. We recommend that the Welsh Government provides the Committee with further information on the timescales and discussions that took place between the Welsh Government and HM Treasury regarding the Welsh Government's request to carry forward at 31 March 2021 a sum in excess of the limit on the Wales Reserve. This information should include details of any discussions that took place prior to and following the year-end (March 2021) and November 2021.

Recommendation 17. We do not expect any further funds to be lost to Wales following an underspend by the Welsh Government and recommend that it seek approval for flexibility from HM Treasury as early as possible, before the end of the financial year, so that funds can be utilised in year should its request not be granted.

Annex A: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. [Transcripts of all oral evidence sessions](#) can be viewed on the Committee's website.

Date	Name and Organisation
6 October 2022	<p>Dr. Andrew Goodall Permanent Secretary, Welsh Government</p> <p>Peter Kennedy Human Resources Director, Welsh Government</p> <p>Gawain Evans Director of Finance, Welsh Government</p> <p>Tim Moss Chief Operating Officer, Welsh Government</p> <p>Duncan Hamer Director of Operations – Business & Regions, Welsh Government</p>
19 October 2022	<p>Dr. Andrew Goodall Permanent Secretary, Welsh Government</p> <p>Peter Kennedy Human Resources Director, Welsh Government</p> <p>Gawain Evans Director of Finance, Welsh Government</p> <p>Tim Moss Chief Operating Officer, Welsh Government</p> <p>Duncan Hamer Director of Operations – Business & Regions, Welsh Government</p>