

**Shan Morgan**  
Ysgrifennydd Parhaol  
Permanent Secretary



Llywodraeth Cymru  
Welsh Government

Nick Ramsay AM  
Public Accounts Committee Chair  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

16 October 2017

Dear Mr Ramsay,

Thank you for the opportunity to appear before the Committee earlier this month for scrutiny of the Welsh Government's Annual Accounts. Signing the 2016-17 Annual Accounts this summer was a major milestone for me as Permanent Secretary and Principal Accounting Officer for the Welsh Government. I hope that the Committee found the scrutiny session productive.

Following the session the Committee has asked for three items:

1. Please find enclosed a copy of the handover letter provided to me by my predecessor, Sir Derek Jones.
2. The Committee requested figures on changes to individual earnings over £100,000 in the reporting period. Please see a table at Annex 1 which sets out details. At the end of the reporting period there were two more members of staff earning over £100,000; in both instances these relate to promotion or movement into vacant roles requiring a higher level of responsibility.



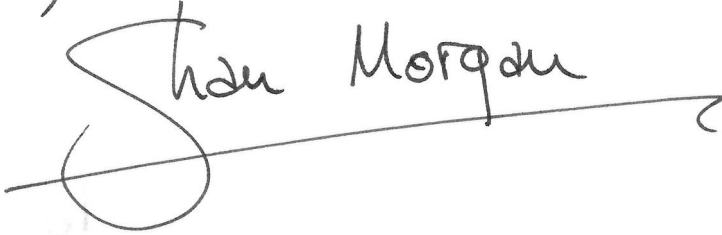
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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

3. And lastly, please see a link to the Welsh Government's Pay Policy Statement:  
<http://gov.wales/about/civilservice/how-we-work/facts-figures/ourfinance/PayPolicyStatement/?lang=en>

I hope the Committee finds these resources of use. Please do contact me if you have questions on the enclosed.

Yours,  


**Shan Morgan**  
Ysgrifennydd Parhaol/ Permanent Secretary  
Llywodraeth Cymru/ Welsh Government

## **Handover Note from Sir Derek Jones to Shan Morgan on Principal Accounting Officer Issues**

We have discussed informally the immediate challenges which you will face as Principal Accounting Officer for the Welsh Government, but I also thought that it might be helpful if I were to set down for you the live issues, as they seem to me, which you are taking over; and the general context of PAO business within which you will do so.

This does not, of course, include a definitive list of all the challenges which you will face in the role – you will be fully briefed on those in due course – but reflects my own view on the more immediate issues to which I suggest you will need to give your attention.

### **Context**

The organisation is well-placed in terms of governance, audit and accountability processes; the teams involved in operating them; and their leadership. (Internal Audit recently received a very positive report from an external peer-professional benchmarking exercise.) The procedures for financial control and risk management are also generally very sound, as are the processes for supporting the Audit and Risk Committees; and indeed the Committees themselves – see below.

You also have available to you a strong cohort of Additional Accounting Officers. The PAO role is unique - the overall accountability that goes with it is essential to your authority, even if that makes it a lonely place at times! But in practice you can also rely on your AAOs for carrying out a range of business on your behalf, including where appropriate at the PAC.

### **Establishing constructive relationships**

I cannot stress too highly how much it has helped me in the role to have established positive and professional relationships with both the Public Accounts Committee and with the Auditor General for Wales. I have always given high priority to my appearances in front of the Committee and sought to take a positive and open approach to the encounters. I have also benefited enormously from a constructive and candid “no surprises” regular dialogue with the AGW. I know that you are determined to establish the same relationships.

Another key relationship of course will be between yourself and the Chair of your Audit and Risk Committee, where I have been extremely well supported by the current Chair, who has always been a wise source of counsel and advice. When the time comes to appoint a new Chair you will want to consider how you fill this important role very carefully.

## **Arms-Length Bodies**

You will have seen that shortly before your arrival the Wales Audit Office published a very helpful discussion paper on governance of Arms-Length Bodies. We had a constructive and illuminating seminar with the senior teams of the Welsh Government and the Wales Audit Office which fed into the final version of the paper. So there are important strategic issues about our relationship with our Arms-Length Bodies which you will want to consider moving forward. Related to this issue, and arising from recent experience with some of them, I think that there is more which can be done to ensure that our sponsorship and oversight role is being discharged as effectively as it can. Work to take this forward is in the early stages and you will want to satisfy yourself that it is rigorous and that improvements are being implemented.

## **Grants Management**

You will soon have the latest annual grants management report to the Public Accounts Committee to sign off and the Committee will no doubt invite you to give evidence on the report. This is an annual occurrence and the Committee can ask you some quite wide-ranging questions. We have been focussed on improving our procedures for managing grants for some years, following a series of WAO reports which highlighted some shortcomings. With the assistance of the WAO we have been making steady progress but there are still areas where we can improve – and of course, given the sheer volume and variety of the grants that we make, there will always be a small number of cases where things go wrong.

The challenge here is accepting that those cases which do go wrong need to be considered carefully and lessons learned where appropriate, but without over-reacting to the publicity and criticism – keeping the right balance of risk appetite. A lot more goes right than goes wrong.

## **Tackling Fraud**

Related to grants management, there has been some interest recently from the PAC about our counter-fraud measures and you will wish to consider how we should move forward on this front. The arrangements which we have for combatting fraud and for taking action where we have concerns about specific cases are sound and have improved steadily over the last few years but I am sure that there will be further improvements which we can make moving forward. Not least, because there have been a small number of high profile cases which I anticipate the Committee will keep in mind.

## **Legacy Issues**

There have been a few high-profile cases which have arisen in the last few years where the PAC has been quite critical of the way in which we have handled them. Although the specific issues arising from each case individually have largely been dealt with, I think that the PAC will expect you to familiarise yourself, broadly, with the main issues for each one and the

lessons which came out of them, to help us avoid having similar issues in the future. The cases which I have particularly in mind are AWEMA, RIFW, Life Sciences, Senior Public Sector Pay and the furniture contract.

### **Brexit and Austerity**

These are – of course – very major policy issues with which Welsh Government Ministers are wrestling. But they also bring their own challenges for the Accounting Officer going forward. The Audit and Risk Committee quite rightly took a strong interest in how I was approaching these issues as Permanent Secretary and Accounting Officer and I am sure that they will continue to do so with you. The medium and long-term prospects for replacing European funding (including funding which currently pays for permanent staff) remain very uncertain.

### **Audit and Risk Committees**

When I restructured my senior management team in 2015 I also took the opportunity to set up a new system of Audit and Risk Committees to support the new Additional Accounting Officer arrangements. These new arrangements will soon have been in place for two years and you might feel that that would be a good time to take stock, to review their effectiveness, and to see what improvements you might want to make. I told my last meeting of the ARC Committee that in my view the Committees in future should concentrate upon management focus on Value for Money and simplification of processes to ensure capability and resourcing within the organisation are managed effectively, particularly in view of significant current and future pressure on resources. I would expect these strains to increase with the ongoing impact of the European Transition process.

### **Tax**

Finally, as well as the challenge of spending money wisely, there is the new challenge of raising revenues efficiently and effectively. Our plans for the management of devolved taxes are well advanced (and recently positively reviewed by the WAO). But I am sure that the PAC and WAO will want to keep a close watching brief on this process up to and beyond the first switchover of taxes in 2018.

**Sir Derek Jones**

**March 2017**

## Annex 1

### Changes to Welsh Government employees earning over £100,000 during 01 April 2016 – 31 March 2017

<b>Welsh Government Group</b>	<b>Post Title</b>	<b>Salary Range £,000 01-Apr-2016</b>	<b>Salary Range £,000 31-Mar-2017</b>	<b>Reason for salary change</b>
Health & Social Services	Chief Medical Officer	0	190-195	Joiner
First Minister and Cabinet Office	Permanent Secretary	0	160-165	Joiner
Health & Social Services	Chief Dental Officer	0	125-130	Joiner
Economy, Skills and Natural Resources	Deputy Permanent Secretary	135-140	135-140 (*)	Increase
Education and Public Services	Deputy Permanent Secretary	135-140	135-140 (*)	Increase
Education and Public Services	Chief Inspector	95-100	120-125	Increase
Economy, Skills and Natural Resources	Director Transport and ICT Infrastructure	95-100	100-105	Promotion

## Annex 1

### Changes to Welsh Government employees earning over £100,000 during 01 April 2016 – 31 March 2017

First Minister and Cabinet Office	Permanent Secretary	165-170		Departure
Health & Social Services	Chief Medical Officer	185-190		Departure
Health & Social Services	Director Of Finance	130-135		Departure
Education and Public Services	Chief Inspector	125-130		Departure
Health & Social Services	Senior Medical Officer for Primary Care	105-110		Departure

(\*) Actual salary increase within original £5k banding.