

# ANNUAL REPORT OF THE AUDIT COMMITTEE

SEPTEMBER 2001 - SEPTEMBER 2002

## AND ADDITIONAL REPORT ON ACTIVITY TO END OF MARCH 2003

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## **PREFACE BY THE CHAIR OF THE AUDIT COMMITTEE**

It is the role of the National Assembly's Audit Committee to ensure that taxpayer's money in Wales is spent wisely and well in the provision of public services. I am pleased to introduce the Committee's third annual report, which again highlights the expectation that all public bodies in Wales, including the Assembly itself, must demonstrate the highest standards of financial management.

It is hoped that the deliberations of the Audit Committee over the past year have encouraged those public bodies to continue striving to achieve the best possible value for money for the taxpayer. As we approach the National Assembly elections in May 2003, this report also provides a summary of work undertaken since September 2002 and planned up until the end of March 2003.

The Committee again wishes to express its gratitude to the Auditor General for Wales, Sir John Bourn, and the National Audit Office Wales (NAO) for working so hard to enable the committee to pursue its examinations of public expenditure. It also wishes to publicly recognise the important contribution of all the officials and other witnesses who have appeared before us.

It is important to remind ourselves that the committee seeks to recognise where things have been done well as well as where they could have been done better or differently to ensure better value for money for the taxpayer. Follow-up work by the Auditor General is important to identify savings and other beneficial impacts from implementing the Audit Committee's recommendations.

In this report, readers will note that the follow-up report on Procurement in the Further Education Sector identified savings achieved following the recommendations of an earlier NAO report. Procurement of goods and services by the Welsh public sector continues to be an area where substantial savings can be made, and in its future work the Committee will return to this subject.

Future reports, on the new Assembly building and the Assembly's IT system, will also detail important work in scrutinising the Assembly's ability to effectively manage risk when entering into contracts with the private sector.

The potential financial savings identified through the Auditor General's reports are accumulating and have exceeded the estimated level of 7 times the cost of the investigations. Responsibility for delivering savings lies with the audited body, although the Auditor General will play his part to assist, and it may take some time to realise the full savings.

I am very pleased that the Assembly's Cabinet has welcomed all of the Committee's reports and looked to implement our recommendations. With the assistance of the Auditor General for Wales and his staff at the National Audit Office Wales, the Committee will continue to monitor the implementation of all its recommendations and to evaluate the resulting benefits to the public. We will also continue to give full and proper scrutiny to new areas of the Assembly's expenditure, as laid out in our

forward work programme, and as is rightly expected of us by the people of Wales. The Committee looks forward to continuing this valuable work into the coming year.

**Dafydd Wigley, AM**  
**Chair, The National Assembly for Wales Audit Committee**

# **ANNUAL REPORT OF THE AUDIT COMMITTEE**

**SEPTEMBER 2001 - SEPTEMBER 2002**

## **1. BACKGROUND**

- 1.1 This is the third annual report to the National Assembly for Wales on the work of the Audit Committee as required by Standing Order 12.2. The report sets out the Committee's responsibilities and provides information about its activities during the third year of its operation.

## **2. THE ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

- 2.1 The role of the Audit Committee is to ensure that proper and thorough scrutiny is given to the Assembly's expenditure. The responsibilities of the Audit Committee are set out in detail in Section 102 of the Government of Wales Act 1998 (Annex A) and Standing Order 12 (Annex B). In broad terms, it is the responsibility of the Audit Committee to examine the reports on the accounts of the Assembly and other public bodies prepared by the Auditor General for Wales (the Auditor General); and to consider reports by the Auditor General on examinations into the economy, efficiency and effectiveness (i.e. the value for money) with which the Assembly and associated public bodies have used their resources in discharging their functions. The Committee's key purpose is to ensure that the Assembly and those public bodies answerable to it operate to the highest possible standards in the management of their financial affairs.
- 2.2 The Committee operates on non-party political lines, not questioning the merits of policy objectives, but concentrating on whether the organisations concerned implemented their policies and programmes with due regard for regularity, propriety and value for money.
- 2.3 The Committee also considers annually the Auditor General's estimate of his income and expenses for the following year. At that time the Committee considers the Auditor General's proposed programme of value for money examinations for the next year. The Auditor General is required to take the Committee's views into account when drawing up the programme, but the ultimate decision on its contents rest with him.

### **The Auditor General for Wales**

- 2.4 Section 102 of the Government of Wales Act 1998 (the 1998 Act) empowers the Audit Committee to take evidence and make recommendations to the Assembly on the basis of reports laid by the Auditor General for Wales. This means that the Committee has a very close working relationship with the Auditor General for Wales, Sir John Bourn. His work is the starting point for the Committee's own work programme and helps the Assembly and associated public bodies in Wales secure value for money from their operations and to

help ensure that their financial affairs are managed in a regular and proper manner.

### **The National Audit Office Wales**

- 2.5 The National Audit Office (NAO) is the main public sector body that audits the accounts of UK Government departments and many other public bodies. It may also undertake Value for Money studies on those bodies. It provides independent advice, information and assurance to Parliament on the use of public funds. NAO Wales undertakes the financial and Value for Money audit work on behalf of the Auditor General and provides him with administrative support. NAO Wales staff work in close association with the Audit Committee, providing technical support for its evidence sessions.

### **Evidence and Reports**

- 2.6 After considering a report from the Auditor General, the Audit Committee will normally take evidence from the Accounting Officer (i.e. the senior civil servant with personal responsibility for the relevant expenditure) of the body in question to consider areas highlighted in the report. The Audit Committee will then produce its own reports on the findings.
- 2.7 Reports presented by the Auditor General for Wales for the Audit Committee are agreed reports and are only issued when both the Auditor General and the department in question have agreed the contents. This helps ensure that when such reports come before the Audit Committee there is no dispute as to the facts.
- 2.8 Reports produced by the Audit Committee are laid before the Assembly and the Cabinet must respond within 30 working days. The Committee has published eight reports from September 2001 to September 2002 (Annex D). All the Audit Committee's reports are available on the National Assembly for Wales website: [www.wales.gov.uk](http://www.wales.gov.uk) under Assembly Business.
- 2.9 When he was first appointed the Auditor General gave himself a target of securing savings that were seven times the budgeted cost, to the Assembly, of his work. This target was welcomed by the Committee and gave it, and the Assembly Government, confidence in making available the significant resources now committed to the audit function. The Audit Committee, with the assistance of the Auditor General, will strive to achieve the realisation of these targets, so that the money thus saved can be used for other purposes within the audited departments. Responsibility for achieving such savings lies with the audited bodies, there is inevitably some delay before the savings can be fully achieved. Some recurrent savings are by their nature cumulative.
- 2.10 Against this background it is gratifying to note the Auditor General's assessment that the potential savings emanating from his reports have now passed his seven fold targets. In the 'Estimate of the income and expenses of the Auditor General for Wales for the year ending 31 March 2004', the Auditor

General stated that in the three years since the post was established in 1999, his work has identified over £40 million of potential savings as well as a large number of unquantifiable improvements to systems and the delivery of public services.

- 2.11 The Audit function is therefore not only paying its way but also freeing up resources for better use. This is a significant gain for Wales.

Estimate of the Income and Expenses of the Auditor General for Wales and Programme of Value for Money examinations 2002-2003

- 2.12 The Estimate of the Income and Expenses of the Auditor General for Wales for the year 2002-2003 was presented to the Committee on 6 November 2001, and represented an increase of some £200,000 on the previous year. The Committee agreed that this increase was modest in light of the programme of work undertaken by the NAO Wales, and endorsed the estimate.
- 2.13 The increase reflected a 4% rise in existing operational costs attributed in particular to an increase in salaries. Funds required to improve the information technology infrastructure of the NAO Wales were contained within the 4% increase. £125,000 of the requested increase would be used to employ five new members of staff. Some of these new staff would deal with new accounts to be audited, such as the National Council for Education and Training in Wales, the Care Council for Wales and the Children's Commissioner for Wales, as well as the Objective 1 EU funding. The additional staff were also needed to assist with the Value for Money Programme to ensure a variety of studies are undertaken, some involving visits to local institutions such as hospitals or further education colleges. The additional resources would also be utilised to follow up the implementation of recommendations, and to respond to specific requests by the Committee, such as the update paper requested on the Assembly building.
- 2.14 The committee also considered the Auditor General for Wales' proposed Value for Money Programme on 6 November 2001. The Auditor General was requested to consider investigating fraud in the NHS as part of a future Value for Money programme. The Auditor General agreed to undertake work in this area and a survey of fraud issues was contained in his reports on the NHS Summarised Accounts and the Finances of NHS Wales 2002. The Committee also requested that the Auditor General consider whether the proposed investigation into the Procurement of Drugs in the NHS could be brought forward from the proposed date of 2003-2004, and the Auditor General agreed to explore this suggestion.
- 2.15 The final topics agreed for the programme of Value for Money examinations for 2002-2003 were:
- sickness absence in the NHS

- procurement of medicines in the NHS (to make room in the programme, and reduce the burden on NHS staff, examination of the procurement of utilities in the NHS was deferred until the following year, 2003-04)
- procurement in the higher education sector
- estate management in the higher education sector
- Regional Selective Assistance
- Environment Agency Wales regulation of waste management
- the operations of the Countryside Council for Wales
- the home energy efficiency scheme
- progress with the Assembly's new building project (in particular an examination of the Assembly's actions leading up to the Adjudicator's decision in the legal disputes between the Assembly and the Richard Rogers Partnership)

2.16 The Auditor General's initial proposals for Value for Money topics also included an examination of the foot and mouth crisis. Overall responsibility for handling the crisis across Great Britain remained with Westminster (the Ministry of Agriculture, Fisheries and Food, later the Department of Environment, Food and Rural Affairs) and this was therefore handled through a report by the Comptroller and Auditor General covering the whole of Great Britain. Within this report, the Auditor General undertook to ensure that events in Wales were given due prominence so that relevant findings were readily accessible to readers.

2.17 Procurement and estates management issues continued to be an important feature of Value for Money activities, as it is recognised that better procurement practices could lead to significant financial savings.

### 3. SUMMARY OF THE COMMITTEE'S REPORTS PUBLISHED IN 2001-2002

#### FINANCIAL AUDIT

- 3.1 The annual accounts prepared by the National Assembly for Wales and other bodies sponsored and funded by the Assembly are audited by the Auditor General for Wales.
- 3.2 During the reporting period, the Committee published a report entitled, "NHS Wales Summarised Accounts 1999-2000" and "The Finances of NHS Wales 2002". In addition the Committee considered the "General Report on the Financial Audit Work of the Auditor General for Wales: 2000-2001" and "the National Assembly for Wales Consolidated Resource Account: 2000-2001".

#### NHS Wales Summarised Accounts 1999-2000

- 3.3 On 1 July 1999, responsibility for the administration of the NHS within Wales (NHS Wales) was transferred to the Assembly in accordance with the Government of Wales Act 1998. The Assembly is responsible for preparing summarised accounts of the NHS bodies in Wales for audit by the Auditor General. In 1999-2000, the summarised accounts of NHS Wales were prepared by the Assembly from individual annual accounts submitted by the five Welsh Health Authorities and 16 NHS Trusts. The Auditor General's report, laid before the Assembly on 29 March 2001, covered the overall financial performance of NHS Wales and a range of management and internal control issues in addition to summarising the results of the audit.
- 3.4 The Committee considered the performance of NHS Wales under four main headings:
- the overall financial position of NHS Wales
  - reconfiguration and restructuring
  - prescription pricing
  - tackling NHS fraud
- 3.5 The Audit Committee heard evidence on 28 June 2001 from Ann Lloyd, the Director of the NHS in Wales, Sarah Beaver, the Principal Finance Officer of the NHS in Wales and Jan Williams, the Chief Executive of Bro Taf Health Authority.
- 3.6 The Committee's report in summary stated that:

*'Improving Health in Wales– A Plan for the NHS with its Partners' sets out the Assembly's programme of action for improving the health and health care of the people of Wales over the next 10 years. To ensure its successful implementation, we urge the NHS Directorate to strengthen the levels of both financial and project management skills within NHS Wales.*

*We acknowledge that NHS Wales is making good progress in addressing poor financial performance. However, much remains to be done. We therefore urge the NHS Directorate to address the substantial accumulated deficit of NHS Wales (£58 million at 31 March 2000), to consider carefully our recommendations on managing abolition of the health authorities, and to continue to seek to reduce the level of fraud within NHS Wales. It is crucial that NHS Wales is able to take full advantage of all available resources and use these to maximum effect for the provision of a high quality health service for the people of Wales."*

- 3.7 The recommendations contained in the report are at Annex E.
- 3.8 The Assembly Cabinet accepted the report's recommendations. Steps have been taken by the NHS Directorate to improve financial forecasting in Health Authorities and NHS trusts, and to share best practice. This includes more regular reviews of financial performance, and monitoring of specific projects and programmes where delays might affect future forecasting. The reliability of monthly reconciliation between prescribing and dispensing from Health Solutions Wales is expected to improve as more accurate pricing information becomes available. Targets have also been set for prompt payments by NHS Wales, and recovery plans for North East Wales NHS Trust and the Gwent Health Authority area are being progressed as a matter of urgency.
- 3.9 Assembly officials are monitoring a revised recovery plan for overpayments to pharmacists and expect it will achieve its targets. To improve prescription income monitoring, a statutory framework for levying penalty charges and surcharges has been put in place and publicised. A new Post Payment Verification Unit will carry out exemption checking on a sample of prescriptions and take action against people wrongly claiming exemption, in conjunction with a team in the NHS Counter Fraud Service. A baseline measurement on patient prescription exemption fraud will be established to enable comparisons to be made in subsequent years and with levels in England, and will inform the setting of future fraud reduction targets. Similar exercises are planned to measure ophthalmic and dental fraud.
- 3.10 A senior project director is managing the restructuring of NHS Wales and a full cost and risk analysis of both the existing and proposed new organisational structures is being undertaken. The NHS Directorate will monitor expenditure incurred and report costs in its statutory annual accounts and as part of the monthly financial monitoring process. In response to the report's recommendations on retaining talented NHS staff and minimising redundancies, a joint all-Wales Human Resources Steering Group has been established to manage changes in the employment of health authority staff. All staff will be kept informed of the group's progress and consulted on proposals before final decisions are made.

## The Finances of NHS Wales 2002

3.11 The Auditor General laid a report on "The Finances of NHS Wales 2002" before the Assembly on 20 March 2002. The Committee took evidence from Ann Lloyd Director, NHS Directorate and Sarah Beaver Director, NHS Finance Division on 18 April 2002.

3.12 The Committee published a report on 25 July 2002 on the Finances of NHS Wales, which also covered the themes of overall financial performance, prescription pricing, fraud and restructuring.

3.13 Commenting on NHS Wales' overall financial performance the report stated:

*"We accept that it was necessary to provide strategic assistance funding in order to enable certain NHS trusts to achieve their financial recovery plans. We further accept that it would be unreasonable to burden new NHS organisations with the debts of their predecessors. However, we are concerned that such actions could be regarded as rewarding poor financial performance and could be a disincentive to prudent organisations. The restructuring of NHS Wales and the provision of additional finance for the NHS arising from the budget is an excellent opportunity for a new start. We therefore strongly recommend that the NHS Directorate take this opportunity to emphasise to all NHS organisations in Wales the need for financial stability and the importance of operating within the available resources. We also suggest that it would be appropriate for the NHS Directorate to set out in clear terms from the outset the exceptional circumstances under which repayable loans will be made available.*

*Problems caused by poor financial management and financial difficulties in the NHS detract from the main business of providing a proper standard of healthcare. In future, we intend to take a particular interest in individual NHS organisations that experience financial problems."*

3.14 In its conclusion the Committee's report stated:

*"In his 2002 Budget, the Chancellor of the Exchequer outlined his proposal to raise additional revenue for the benefit of the NHS. The people of Wales are entitled to expect that the resources made available to NHS Wales are utilised wisely, with due regard for the need to secure value for money and to maximise the provision of high-quality patient care. The restructuring of NHS Wales provides a good opportunity to secure the much needed changes. We hope that this opportunity will not be wasted."*

3.15 The detailed recommendations of the report are given in Annex E.

3.16 The Assembly Cabinet accepted the Committee's recommendations relating to the financial stability of NHS Wales and gave a response outlining some actions being taken. A new service and financial framework requires NHS

organisations to demonstrate how Welsh Assembly Government priorities can be delivered within available resources. Actions have been taken to restore the financial position of parts of the NHS that have been unable to achieve financial balance in 2002-2003. The terms of any subsequent Welsh Assembly Government loans to support financial deficits should be set out clearly. The NHS Wales Department was also focusing on the training and development of NHS managers to support them in managing complex organisations, whilst ensuring they abide by a Code of Practice. The Assembly Government said that measures were being taken to impact positively on future financial forecasting, including speeding up the recovery of pharmacist overpayments and reviewing the handling of clinical negligence claims. A streamlined payments system implemented in most NHS Trusts was being closely monitored, and the cost of fraud was being addressed with a cultural change programme including counter-fraud charters signed by NHS professional and regulatory bodies. On restructuring, a common employment contract for staff in the restructured NHS bodies was being developed. The projected cost of restructuring will be under review by the National Audit Office, and the Assembly Government has undertaken to keep it informed of actual costs on a regular basis.

- 3.17 The Committee took the view that the Cabinet's response to some of its recommendations lacked specific detail on how they would be implemented. Examples included what action would be taken for Trusts that did not demonstrate financial balance in two years, details of the work being done to improve the forecasting process, and whether the review of the clinical negligence system would address the Committee's concerns. Since the Committee's report was published, the Committee has written to the Health Minister to raise these concerns, and has asked the Auditor General for Wales to check that future outcomes are consistent with its recommendations. The Auditor General for Wales' report on the Finances of NHS Wales 2003 will provide a further opportunity for the Committee to review the progress made.

### **VALUE FOR MONEY REPORTS**

- 3.18 The Audit Committee published the following Value for Money reports from September 2001 to September 2002;
- Maximising Income from Prescription Charges
  - Educating and Training the Future Health Professional Workforce for Wales
  - Securing the Future of Cardiff Bay
  - Procurement in the Further Education Sector in Wales
  - The Arts Council for Wales: Centre for Visual Arts
  - Managing the estate of the National Health Service in Wales

- 3.19 The detailed recommendations made in these reports can be found at Annex E. Committee activity since September 2002 is detailed in Section 4 of this report.

#### Report on the Maximising Income from Prescription Charges

- 3.20 The Auditor General laid a report on "Maximising Income from Prescription Charges" before the Assembly on 30 November 2000." The Committee held two evidence sessions on this topic. At the first the Committee took evidence from George Craig, senior director of social policy and local government affairs for the National Assembly and at the time was also the acting Accounting Officer for the National Health Service in Wales. At the second session the Committee took evidence from Erica Barrie, Secretary of the Royal Pharmaceutical Society of Great Britain, Welsh Executive; Ann Lewis, Secretary and Registrar of the Royal Pharmaceutical Society of Great Britain; Phil Parry, Chairman of the Welsh Central Pharmaceutical Committee; and Chris Martin, Vice-Chairman of the Welsh Central Pharmaceutical Committee.
- 3.21 During 2000-2001, gross expenditure on prescriptions amounted to over £380 million, or 13 per cent of total estimated NHS expenditure in Wales. There has therefore been considerable interest in the subject of prescribing, and this report was one of a series that the Audit Committee expected to issue on the subject.
- 3.22 The Committee's report focused on the revenue generated by prescription charges. In his report the Auditor General for Wales had assessed the extent to which those claiming exemption from prescription charges were entitled to free prescriptions. While the estimated income received from prescription charges in 2000-2001 was £23 million, the report found that around £15 million a year might be lost to the health service in Wales because of exemptions given to individuals who did not meet the relevant criteria.
- 3.23 In presenting its findings the Committee concluded that:

*"In the Committee's view it is unacceptable that the Health Service in Wales is being deprived of potential income of up to £15 million a year from individuals who are receiving prescriptions free of charge while not being entitled to that benefit. We expect the Assembly to work with everyone involved in the administration of these arrangements to ensure that robust action is taken quickly to address the weaknesses identified by the Auditor General and those discussed in this report.*

*We believe that the Assembly needs to work closely with the representatives of pharmacies in Wales to ensure that pharmacists are properly equipped and supported to discharge their responsibilities and that they operate within contractual arrangements that ensure effective administration of prescription charges. We also expect the Assembly to take immediate action to address the broader systemic weaknesses that we have discussed in the monitoring and*

*management of the system for prescription exemption charges. We recognise that dealing with these weaknesses may add to the burdens already placed on pharmacists. However, given that the intention is to ensure that pharmacists carry out the point of dispensing checks for which they are already paid, more effectively and more consistently, we do not believe that any extra demands would be excessive or unduly onerous.*

*Overall, in the light of the concerns raised by the Auditor General and the firm commitments to tackling these that we were given, we expect to see a rapid year-on-year decrease in the number of exemptions from prescription charges that are given to individuals who are not entitled to this benefit.”*

- 3.24 The Cabinet responded positively to all ten recommendations in the report. In his assessment of the Cabinet response the Auditor General for Wales drew particular attention to the inclusion of clear commitments as to the timing of specific actions outlined in the reply.
- 3.25 In response to the Committee’s recommendations on prescription fraud the Cabinet promised a series of actions. This included work by the NHS Counter Fraud Service to establish a baseline for fraud in the NHS in Wales and revised guidance would be issued setting out the respective roles and responsibilities for monitoring and checking systems.

#### Educating and Training the Future Health Professional Workforce for Wales

- 3.26 This report concerned the Committee’s investigation into the education and training, in Wales, of health professional students – nurses, midwives and other health professionals such as physiotherapists and radiographers. The NHS faces significant shortages of health professionals and an important way to overcome this is through ensuring that the NHS trains the right numbers and types of health professional staff. For these staff to be fit for practice requires good workforce planning and effective commissioning and delivery systems. It also depends on close co-operation between the NHS and other employers of health care staff, the education and training providers and various regulatory and professional bodies.
- 3.27 In 1999-2000, the Assembly spent £42 million on pre-registration training places and bursaries for some 3,200 nursing, midwifery and other health professional students. The majority of this education is provided under NHS contracts with six higher education institutions in Wales, and leads to degree or diploma level qualifications.
- 3.28 The Auditor General for Wales’ report was the first to examine this important subject from both the NHS and higher education perspectives. The Committee was grateful to witnesses from both these sectors, whose evidence assured them that the importance of partnership was embedded in the working relationship between the two sectors. NHS Wales witnesses were Ann Lloyd, Director, Sarah Beaver, Head of NHS Finance Division, and Alan Hanna, Head of Education and Training (Professional and Managerial) Branch,

Human Resources Division, NHS Directorate. Witnesses from Education and Learning Wales were Steve Martin, the Chief Executive and Accounting Officer, and Roger Carter, Head of Programmes.

3.29 The report focused on three main areas:

- the appropriateness of measures used by NHS Wales to overcome staff shortages, including the need to improve the workforce planning system
- whether the education and training arrangements would deliver the necessary numbers of new staff, of the required quality
- how the Assembly and the higher education sector intended to ensure that both parties obtained better value for money from the arrangements for educating and training health professional staff

3.30 In presenting its report, the Committee concluded that:

*“Over the last two years or so, the NHS in Wales has started to experience some significant shortages of health professional staff. Those shortages are jeopardising the planned improvements in health care services. Closer partnership working between the NHS and higher education institutions is needed to ensure that the right numbers and types of health professional student places are commissioned, that the quality of the education and training provided, including practice placements, is maintained and attrition rates reduced. There is also an urgent need to address the need for investment in teaching accommodation and staffing.*

*It is also essential that the cost of the training provision and the price paid by the NHS is balanced and represents good value for money for both sectors. New pricing and costing structures are needed and the Assembly also needs to ensure that clear strategic direction is given to the commissioning of education and training.”*

3.31 The report’s recommendations, detailed in Annex E, were intended to assist the health and education sectors to work together more effectively and in particular to: supply sufficient numbers of new healthcare professional staff; provide the education and training in the most efficient and effective way; and ensure that newly qualified health professional staff are capable of providing good quality patient care.

3.32 The Cabinet welcomed those recommendations. In their response they stated that the use of overseas and agency staff was being reviewed. A programme of training had been established for workforce planning staff and NHS managers, and a computerised system of collecting and monitoring data on staffing levels put in place. A Capacity Review had been undertaken to evaluate the capital investment needed to accommodate anticipated higher student numbers in both academic and clinical settings. Some major difficulties in increasing capacity were already being considered by the Welsh Assembly Government, Higher Education Institutions (HEIs) and the NHS. The NHS was providing more funding and capital funding to help HEIs increase their capacity would be

included in Assembly budget plans. Providing enough teaching staff was identified as a problem, and alternative approaches to providing practice placements were being explored. Access to education is being widened by offering part-time and accelerated entry programmes and developing student support systems to retain incoming NHS staff. NHS Wales and ELWa are working together on best practice in contract negotiation. The way NHS contracts are negotiated has changed to improve transparency and increase value for money without impinging on the quality of course delivery. NHS performance review and contract negotiation is now carried out earlier in the financial year to help manage budgets more efficiently and this will be reviewed in 2003. To ensure a coherent approach within the Assembly, human resource issues for medical and non medical staff are now dealt with by a single Education, Training and Development Branch, and human resource staffing levels have been improved.

### Securing the Future of Cardiff Bay

- 3.33 The report examined the process that led to the winding up of the former Cardiff Bay Development Corporation and the arrangements put in place to carry forward the Development Corporation's work to regenerate the Cardiff Bay area. The Committee took evidence from the Assembly's Permanent Secretary, Jon Shortridge.
- 3.34 The report was the second in a series of three reports about the regeneration of Cardiff Bay. The first report, entitled *The Cardiff Bay Barrage*, was published on 15 February 2001 and concentrated on the construction of the Cardiff Bay Barrage. The third report will focus on the results of the Auditor General's review of the first year of operation of the various bodies that have taken on those responsibilities which were formerly discharged by the Cardiff Bay Development Corporation.
- 3.35 The report contained a general assessment of the process that led to the winding up of the Development Corporation's activities and then considered the following in more detail:
- the sale of the Development Corporation's land at Ferry Road
  - the decision to give Cardiff City and County Council day to day responsibility for the operation of Cardiff Bay Barrage and the Bay itself
  - the payment of set up costs to Cardiff City and County Council and to the Vale of Glamorgan Borough Council
- 3.36 The Committee report drew the following overall conclusion:

*"Bringing the affairs of the Cardiff Bay Development Corporation to an orderly close and putting in place appropriate successor arrangements was clearly a considerable challenge. It involved a tough, high level negotiation, facilitated by the Assembly, between the Development Corporation and its four designated successor bodies. In one regard, this process was a success. It was completed in time to meet the target date for the wind up of the Development Corporation and there were no significant loose ends at the point of transfer."*

*However a second and much more important measure of success is whether the arrangements that were put in place on 1 April 2000 will ensure continued and sustained regeneration around Cardiff Bay and secure value for money from the considerable resources which the Assembly has invested and continues to invest in the area. Although it is too early to reach a definitive conclusion on this, there clearly is a risk that value for money will not be secured. We were, however, reassured that Assembly officials were aware of this and we look to them to monitor vigilantly, and if necessary direct, the activities of the Development Corporation's successor bodies to ensure that the Assembly's aims for the Cardiff Bay area are ultimately achieved."*

- 3.37 The Assembly's Cabinet welcomed the report and gave a detailed response to the recommendations contained in it. The response included a number of specific actions including a commitment to conduct a thorough evaluation of the regeneration of Cardiff Bay during 2003-04, and a commitment to produce central guidance on the process for handling the closure, re-organisation or restructuring of public bodies in Wales.
- 3.38 The Cabinet response also provided detailed information in response to the Committee's request for clarification on certain issues, for example on the extent to which the Assembly can influence the activities of Cardiff City and County Council and those of the Vale of Glamorgan County Borough Council (recommendation viii) - the Cabinet responded that:

*"From March 2000 Cardiff and Vale Councils regained responsibilities for economic, social and environmental regeneration for the whole of their areas including Cardiff Bay with access, as elsewhere in Wales, to the services of the WDA and other economic development bodies.*

*The Assembly Government must approve Cardiff Council's regeneration programme, and this will then be made available to the Audit and Economic Development Committees. While this will only refer to Cardiff Council's proposals for the net sum of £150,000 for 'regeneration', they did receive some transitional funding to enable them to complete a number of CBDC projects and have undertaken to inform the Assembly of other investments in the Bay outside these funding arrangements."*

- 3.39 In his assessment of the Cabinet response to the Committee's report the Auditor General noted that it was generally constructive and positive, but made two observations. The first observation related to the issue of the Auditor General's access to Cardiff Harbour Authority.
- 3.40 In its report the Committee emphasised the importance that it attached to the Auditor General having an unfettered right of access to the records of the Harbour Authority, a recommendation that the Assembly Government endorsed in its response. However the Auditor General has experienced difficulty in securing that access and the Committee returned to the issue at several subsequent meetings. The issue has now been resolved but the

Committee remains concerned at the time it has taken to establish what it regards as the Auditor General's obvious right of access.

- 3.41 The second observation related to the Committee's recommendation that the Assembly Government should consider whether further attention should be paid to its guidance on handling potential clashes of interests or a duality of interest. The Cabinet response endorsed the principle underlying the response but considered the existing guidance on conflict of interest to be effective and robust.

#### Procurement in the Further Education sector in Wales

- 3.42 Approximately thirty per cent of expenditure of further education institutions in Wales is on the procurement of goods and services, which in 1999-2000 amounted to some £79 million. This report investigated whether procurement was securing value for money, and followed on from earlier work by the NAO in 1999 that had pointed to the scope for significant savings by improving procurement practices. After considering the NAO's July 1999 report, 'Further Education in Wales', the Audit Committee recommended that the Auditor General report back later on progress made by the further education sector in improving its procurement of goods and services.
- 3.43 The Auditor General's report took place against the background of a wider examination that was taking place of procurement in Wales. In April 2000, the Finance Minister initiated a broad ranging review of procurement right across the public sector. This review was undertaken by the Assembly's Procurement Section under the oversight of a Steering Group of senior representatives from across the public sector. The review team's draft report, *Better Value Wales - The Review of Procurement in the Welsh Public Sector*, was issued for consultation from March to June 2001.
- 3.44 The Audit Committee took evidence from Steve Martin, Chief Executive and Accounting Officer of Education and Learning Wales (ELWa); Arwel Thomas, Senior Compliance Manager at ELWa; David Richards, Chair of the Steering Group for the Assembly's review of procurement in the Welsh public sector; and Paul Skellon, Assembly Procurement Review Team.
- 3.45 The report focused on three main areas: the development of the Welsh Further Education Purchasing Consortium; other aspects of good practice in procurement; and the potential for future savings in the further education sector - in the context of the Assembly's wider review of procurement.
- 3.46 A number of recommendations were made for both the Council and further education institutions to ensure further improvements, and to secure further savings that would release resources for front line services. The report concluded by considering the broad progress made by institutions in two important areas, other than procurement, which featured in the National Audit Office's 1999 report: financial management and the provision of Welsh and bilingual courses.

3.47 In concluding its report, the committee stated that:

*“There has undoubtedly been some progress in improving procurement practices since the National Audit Office’s 1999 report, and some worthwhile financial savings have been achieved. It is clear, however, that there remains some way for the sector to go in ensuring that all institutions have strategies for better procurement, access to the expertise needed and the management information systems to monitor progress. The sector has made an encouraging start but there is clear potential for much larger savings right across the sector. This will only be achieved through a combination of a determined effort by the individual institutions and the strong support and encouragement of the Council. We look forward to learning from the Council in a year’s time the progress the further education sector in Wales is making towards achieving the savings target it has set itself.”*

3.48 The Welsh Assembly Government welcomed the report and in its response explained the action being taken by the further education sector to improve its procurement practices, in line with the initiatives being developed by the Assembly’s Welsh Procurement Initiative Team; and the National Council’s role in ensuring these improvements are achieved in practice, particularly through supporting the development of the Welsh Further Education Purchasing Consortium.

3.49 Work underway or planned included:

- a strategic plan for the Welsh Further Education Purchasing Consortium, which had been expanded and let out more contracts
- All further education institutions had been issued guidance and required to produce procurement strategies with specific targets. The strategies should state how they would embrace a Best Value approach, and describe their policies and procedures for reviewing their supplier base
- Institutions were encouraged to look to local Welsh businesses where these offered the best value for money
- The use of e-procurement was also being piloted
- Institutions had been asked to ensure that they had access to appropriate procurement expertise, and seven institutions now had specialist procurement officers. Where this was not cost effective, alternative options such as collaborative arrangements or contracting-in expertise should be available
- To improve management of energy consumption, the Council would publish a report on energy management drawing on a relevant value for money study undertaken in the UK higher education sector, and referring institutions to existing energy benchmarking statistics

3.50 The Cabinet accepted the Committee’s recommendation to examine whether the current model for the further education sector, of colleges as independent self-governing bodies, remained appropriate, repeating a recommendation

made in a previous Committee report on *Coleg Gwent*. However, its response did not suggest that an immediate review leading to a fundamental change in current arrangements was likely to take place, and pointed out that any change in arrangements would require primary legislation.

- 3.51 The Council will provide the Audit Committee with a comprehensive update, including the progress on savings being achieved by the sector, in April 2003. In recognition of the importance of the topic, the Auditor General's programme of value for money studies for 2002-2003 includes an examination of procurement in higher education, enabling the Committee to compare the quality of procurement between the higher and further education sectors.

#### The Arts Council for Wales: Centre for Visual Arts

- 3.52 The Centre for Visual Arts was the first large lottery funded project supported by the Arts Council of Wales (ACW) and was conceived as a major tourist attraction. The total cost of opening the Centre, including the extensive refurbishment of its location, the Old Library Building, was almost £8.8 million. Of this, the ACW contributed over £3.2 million (some 37 per cent of total costs) in lottery funding, and provided more than £200,000 a year to help finance the Centre's annual running costs. The Centre opened in September 1999 and due to financial difficulties caused primarily by low visitor numbers, it closed only 14 months later in November 2000.
- 3.53 On the basis of a report prepared by the Auditor General, evidence was taken from Mr Peter Tyndall, Chief Executive and Accounting Officer of the ACW, who was supported by Ms Francis Medley, Deputy Chief Executive, and former Acting Chief Executive; and Mr Rhys Parry, the Director of Finance and Resources. Evidence was also taken from individuals involved in earlier stages of the project: Mr Jon Shortridge, the Assembly's Permanent Secretary, and the ACW's Accounting Officer from September 2000 to September 2001; Mr Emyr Jenkins, Chief Executive of the ACW 1994-1998; Ms Joanna Weston, Lottery Director, ACW from 1994-98 and Chief Executive 1998-2000; Mr Robert Edge, Lottery Director, ACW from 1998-2001; and Sir Richard Lloyd Jones, Chairman of the ACW from 1994-99. It was appreciated that apart from Mr Shortridge, these people were private individuals with no involvement in the current affairs of the ACW, and the committee was grateful that they could provide the committee with their perspective on the lessons to be learnt.
- 3.54 The report focused on the decision by the ACW to fund the Centre for Visual Arts; and its monitoring of the development, operation and closure of the Centre for Visual Arts. Eleven recommendations were made by the Committee, and the report concluded by stating that:

*“The closure of the Centre for Visual Arts after just 14 months was a sad loss for Cardiff and Wales. The £3.7 million invested by the Arts Council of Wales in the Centre are funds that have been lost to other arts projects in Wales. We recognise that the introduction of lottery funding represented a sea change in*

*the activities of the Arts Council of Wales, more than doubling the funding distributed to the arts in Wales, and it is clear that the Arts Council lacked the experience to handle such large capital projects. It has learnt many lessons over the past decade as a consequence of the mistakes made in relation to this early lottery award.*

*The Arts Council of Wales did not follow best practice in rigorously assessing the applications submitted for lottery funding for the Centre for Visual Arts. It did not ensure that the project was based on a sound, realistic and prudent business case, but accepted figures based on research undertaken some three years before the first application for lottery funding. The Arts Council did not challenge the reliability of the forecast visitor numbers, or consider the financial viability of the project if these targets were not met. Furthermore, the plans and building estimates were inadequate, such that the cost of the building subsequently increased by more than £1.8 million.*

*We agree with the Auditor General for Wales that no project is free from risk. It does not follow that the Arts Council of Wales and other lottery distributors should avoid supporting risky projects. However, the Arts Council was not alert to the risks to the financial viability of the Centre for Visual Arts project, and its monitoring of the project, through development and when it had opened, was weak in that it was not designed to address these risks. The Arts Council was alerted to concerns affecting the financial viability of the project, but failed to ensure that swift and effective action had been taken by the applicant to address these concerns. When the Centre for Visual Arts closed, after only fourteen months of being open, only some £100,000 of the Centre's assets have been recovered for allocation to other arts organisations in Wales.*

*We have heard from numerous witnesses that the procedures at the Arts Council of Wales have since been strengthened to avoid such problems in the future. We are pleased to hear that lessons have been learnt but we will need to satisfy ourselves that these improved procedures are operated continuously and to best effect. We look to the Auditor General for Wales to test the adequacy of the revised procedures that the Arts Council of Wales now have in place.”*

- 3.55 In responding to the Committee, the Cabinet was grateful for the report and fully supported the Audit Committee's eleven recommendations to the ACW. A detailed response was provided to the recommendations. In summary the Cabinet was confident that ACW's procedures were now more thorough and responsive to any potential difficulties, and that these procedures would be considered again in the light of the Deloitte Touche Review the ACW had commissioned to look at its grant monitoring procedures, as well as the outcome of other planned reviews, such as its Quinquennial Review, and a review of its new structure due to take place in summer 2003.
- 3.56 The Deloitte Touche review concluded that the systems in place for monitoring projects were working well and that the Council's written procedures were, in the main, being followed. It did highlight the scope for

further improvement to the administration and monitoring of projects and provided a number of wide-ranging recommendations. The Arts Council proposed to strengthen its financial monitoring procedures, taking account of the recommendations by the Audit Committee and the Auditor General for Wales, as well as the review by Deloitte Touche.

- 3.57 The Auditor General plans to undertake a follow-up examination of the Arts Council of Wales to assess the extent to which lessons have been learnt. Staff of the National Audit Office Wales, on behalf of the Auditor General for Wales, will monitor progress with the implementation of the undertakings given by the Welsh Assembly Government and planned follow-up work will provide a further opportunity for the Committee to consider progress.

#### Managing the estate of the National Health Service in Wales

- 3.58 The NHS Wales estate occupies land of more than 1,000 hectares and comprises an estimated 900 properties. The total existing use value of the estate held by trusts and health authorities at the time of this report was some £1.2 billion, and it is essential that these assets are managed effectively and efficiently.
- 3.59 On the basis of a report produced by the National Audit Office Wales, evidence was taken from Ann Lloyd, the Director of NHS Wales with Assembly-wide responsibility for the strategic management of the NHS estate. Evidence was also taken at a separate hearing from Keith Thomson, Chief Executive, North West Wales NHS Trust; John Potts, Director of Estates and Facilities, North West Wales NHS Trust; Martin Turner, Chief Executive, Gwent Healthcare NHS Trust. They represented two of the trusts visited by the National Audit Office Wales during their review of the management of the estate.
- 3.60 The Committee recognised that trusts have faced considerable pressures over recent years with competing priorities and reconfiguration, and that half of them have had to follow financial recovery plans. These challenges have provided opportunities to rationalise services and create new ways of working to increase efficiency and reduce financial deficits, factors that have affected all the trusts' operations including estate management. The report focused on three main areas: the strategic direction provided by the Assembly; management of the NHS estate at trust level; and the performance of the NHS Wales estate.
- 3.61 In concluding its report, the Committee commented that:

*“The estate of the NHS in Wales is a valuable asset, central to effective patient care, worth some £1.2 billion on the basis of its existing use and some £4 billion to replace as new. We recognise the necessity for investment in the estate to be made in the context of services needs for the people of Wales as a whole. We are disappointed at the lack of strategic grip in the past but are*

*glad that this is being rectified through the development of a national estates strategic framework and trust strategies.*

*The performance of the NHS estate in Wales continues to be of concern to us but we are glad to see that a new performance management system has been introduced. We expect this to enable NHS trusts in Wales to realise in practice the potential savings identified by the Auditor General through better use of the estate and appropriately targeted investment. We look forward to real improvements in the condition of properties used for the provision of health services for the people of Wales.”*

- 3.62 The report made a total of 17 recommendations for both the Assembly and NHS trusts to assist them in their management of these important and valuable assets.
- 3.63 The Cabinet welcomed the findings of the current report, and in response noted that a new National Estates Strategic Framework was intended to create the structures, systems and culture in which real health plans could be developed and implemented. The framework mapped out activity for the next few years, and progress against its key actions and performance targets would be monitored through a combination of Annual Strategic Estates Reviews and the Director’s reviews of Chief Executives.
- 3.64 The introduction of the Estates and Facilities Performance Management System would allow a more complete understanding of backlog maintenance and help manage health and safety risks better. The NHS Wales Department had issued guidance to ensure trust’s plans comply with the Disability Discrimination Act. Work was also planned to meet energy efficiency targets.
- 3.65 Trusts had been asked to resubmit their estates strategies by December 2002, to include full space utilisation surveys. All estate strategies were required to include disposal and rationalisation plans and the new Performance Management System would help identify Trusts with rationalisation opportunities. Rationalisation activity would be monitored as part of the Annual Strategic Review Meeting between the Health Department and Trusts.
- 3.66 A further examination by National Audit Office Wales is currently underway, into efforts by NHS Wales to rationalise their estate holdings through providing upgraded and new health care facilities and dispose of surplus land and buildings.
- 3.67 One of the report’s recommendations sought to encourage the NHS Wales Department to consider aligning more closely its capital budgeting with the Assembly’s wider three-year budgetary allocation process. In response the Cabinet stopped short of any explicit undertaking to consider ways to improve the capital budgeting and expenditure process to give NHS trusts greater clarity over future funding availability, and thereby enable them to address major maintenance problems more effectively and efficiently. Nonetheless, the National Audit Office Wales has confirmed that the in depth review by the

NHS Wales Department of its capital planning mechanisms will include the scope for improving capital budgeting and spending arrangements.

- 3.68 In monitoring progress with implementation of all the undertakings given by the Welsh Assembly Government, the National Audit Office Wales will pay particular attention to the actions that the NHS Wales Department takes to produce the potential financial savings identified in the Auditor General's report and viewed by the Committee as important for releasing funds for new investment in the operational estate.

## 4 FUTURE WORK OF THE AUDIT COMMITTEE

- 4.1 Details of the Audit Committee's work from September 2002 to January 2003 can be found below. This section also contains details of investigations the Committee expects to conduct in February and March 2003.

### ACTIVITY SINCE SEPTEMBER 2002

- 4.2 Since September 2002 the Committee has published three reports:

- General Report on the Financial Audit Work of the Auditor General for Wales: 2000-2001
- The renewal and disposal of Property held by the National Health Service in Wales
- European Union Structural Funds: Maximising the Benefits for Wales

#### Estimate of the Income and Expenses of the Auditor General for Wales and Programme of Value for Money examinations 2003-2004

- 4.3 The Estimate of the Income and Expenses of the Auditor General for Wales for the year 2003-2004 was presented to the committee on 24 October 2002, and represented an increase of £177,000 on the previous year. The Committee endorsed the estimate.
- 4.4 The Committee also considered the Auditor General for Wales' proposed Value for Money Programme on 24 October 2002. The committee endorsed the planned Value for Money examinations, but hoped that certain examinations proposed beyond the 2003-2004 financial year might be given a higher priority in the timetable. The final topics agreed for the programme of Value for Money examinations for 2003-2004 were:
- waiting times in the NHS
  - procurement of utilities in the NHS
  - addressing the problem of violence in the NHS
  - flood protection
  - managing staff sickness absence in higher and further education
  - the effective use of grants for education and in-service training
  - European Union Structural Funds – follow up
  - compensation payments for tuberculosis
  - Sports Council lottery funding

## **Financial Audit**

### General Report on the Financial Audit Work of the Auditor General for Wales: 2000-2001

- 4.5 The Auditor General for Wales published his annual General Report, summarising the results of his financial audit work, on 27 March 2002. The Committee considered this report, and the Auditor General's report on the Consolidated Resource Account of the National Assembly for Wales 2000-01, at its meeting on 18 April 2002. The Committee took evidence from Jon Shortridge - the Assembly's Permanent Secretary, David Richards – Principal Finance Officer and Laurie Pavelin – Head of Financial Accountability Division.
- 4.6 The Committee's report focused on the following issues:
- themes arising from the National Audit Office Wales's management letters for 2000-01
  - expenditure financed by the European Structural Funds
  - the National Assembly's accounting and budgeting arrangements
- 4.7 The Auditor General gave unqualified opinions to all but one of the 32 accounts that he audited for the 2000-01 financial year. The one exception was the Summarised Account of the Health Authorities, which was considered separately in the Committee's report on the Finances of NHS Wales 2002.
- 4.8 In total, the National Audit Office Wales made 153 recommendations to the management of audited bodies in Wales in respect of 2000-01, compared with 116 for 1999-00. Of these, 78 (51 per cent) were classed as "Priority 1" requiring immediate action by management. The vast majority of these recommendations emerged for the first time during 2000-01 although the Auditor General cited two examples of previous recommendations not being actioned.
- 4.9 The Auditor General also reported on two themes that emerged from the 2000-01 reports to management, namely:
- Approval and monitoring of grants; and
  - Cash management.
- 4.10 On approval and monitoring of grants the report noted that the Assembly Government and sponsored public bodies have a duty to ensure that applications and claims are properly documented and that sufficient monitoring is undertaken in order to minimise the risk of irregular expenditure going undetected and that failings in this regard are not acceptable and could have potentially serious consequences. It recommended that:

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

- 4.11 On cash management the report noted that the Auditor General had identified a number of problems including a failure to produce timely bank reconciliation, overdrawn bank accounts, misplaced cheques and unauthorised use of direct debits. In response to questions on this topic the Permanent Secretary stated that overdrawn account was a one-off occurrence and the amounts involved with the unauthorised direct debits and misplaced cheques were relatively small. He shared the Committee's concerns that, in principle the failings were serious and should not have happened. The report recommended that:

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

- 4.12 Commenting on the Assembly's management of expenditure financed by European structural funds, the Committee noted with concern that the National Audit Office Wales had to qualify eight out of 24 audit certificates issued in respect of claims for European grant funding made by the Assembly's own sponsored bodies, particularly as many of these errors arose from a lack of awareness or understanding amongst some project managers of the detailed rules governing the European grant schemes. The Committee recommended that:

*“Whilst we recognise that WEFO is working to improve the quality of advice and guidance provided to project managers, we urge it to work more closely with staff at the relevant sponsored bodies to ensure that such errors are minimised in future.”*

- 4.13 Commenting on National Assembly's accounting and budgeting arrangements the report stated:

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

- 4.14 In its overall conclusion the report stated:

*“We are naturally pleased that the Auditor General considers that the standards of financial management and probity remain high in the public sector in Wales. We agree that this is a testament to the hard work and*

*diligence of officials at all levels within the Assembly and its related public bodies.*

*The Auditor General has, however, given some early warning signals particularly in relation to the procedures for claiming grants financed by the European Structural Funds. We urge the Welsh European Funding Office and all organisations associated with European funded projects to heed this warning and take steps to ensure that this vital source of finance is managed properly for the benefit of Wales.”*

4.15 The detailed recommendations are given in Annex F.

4.16 The Cabinet has not published its response to this report as yet.

### **Value for money**

#### European Union Structural Funds: Maximising the Benefits for Wales

4.17 The Committee published its report on European Union Structural Funds: Maximising the Benefits for Wales on 5 December 2002. The report examined the arrangements for managing the European Union Structural Funds that have been allocated to Wales for the seven-year period from 1 January 2000 to 31 December 2006.

4.18 The Committee based its investigation on a report prepared by the Auditor General for Wales and took evidence from four officials in the Welsh European Funding Office (WEFO): John Clarke, the Chief Executive and Accounting Officer; Dr Caroline Turner, Director of Policy and Strategy; Phil Gray, Director of Finance and Support Services; and Sheila Maxwell, Director of the European Regional Development Fund Division.

4.19 The report considered the development of strategy and the management of the Funds in three broad areas:

- the development of strategy and basic management structures
- the development and selection of projects
- the monitoring, control and evaluation of the programmes once grants have been approved

4.20 In summing up the report stated:

*“Wales stands to benefit from £1.4 billion of structural funding during the period 2000-2006. It is vital that we make the most of this unique opportunity to help regenerate our economy, especially in the Objective 1 region of West Wales and the Valleys, which will receive the bulk of the money. The Objective 1 programme had a difficult start: the lack of an agreed management framework at the outset and the rapid launch of the programme created enormous strains on everyone involved. WEFO and its partners are still working to deal with the problems that characterised that period: a lack*

*of guidance for applicants and partnerships, very long appraisal times, a poor information system, and weaknesses in appraisal procedures, among others. It was perhaps inevitable that the sudden expansion of the Structural Funds, when coupled with major organisational changes would create initial difficulties and that these would take time to overcome. We do not wish to dwell on these difficulties, but we hope that better and more timely planning will avoid such severe problems occurring in future programming rounds.*

*It is clear that things have now settled down and that progress is being made on all the key issues. We are particularly keen on the integrated solutions that are being developed: key funds, project commissioning and sub-regional working to prioritise projects and co-ordinate strategies. These actions should help tailor a complex process to specific needs, making it easier to deliver objectives. It should also simplify a complex and potentially off-putting process – thus helping to engage the voluntary and private sectors in a way that has not yet been possible. We urge WEFO to make further progress along these lines, keeping the various processes and regulations as straightforward as possible so that attention is devoted more to outputs and outcomes rather than issues of compliance and procedure.*

*Decommitment remains a real threat, and could jeopardise the performance reserve. It is vital that WEFO, the partnerships and project sponsors work together to develop and appraise projects swiftly, deliver them on time, and submit claims promptly. This will require a clear understanding by all parties of their responsibilities and the rules governing the programmes. This understanding needs to be further developed, as the problems with late and error-prone claims indicate. Finally, the risks involved can only be managed effectively if WEFO has a robust and comprehensive information system. We are pleased that this is now being developed, although we are concerned that even basic monitoring of actual activity has not been possible until now.*

*We welcome the fact that WEFO has accepted the Auditor General's recommendations and is taking action to implement them. Given the importance of the Structural Funds to Wales, we have asked him to provide a further report in due course to review progress in implementing these recommendations, and to review the position on decommitment."*

- 4.21 The detailed recommendations are given in Annex F.
- 4.22 The Assembly Cabinet published its response to the report on 20 December 2002, welcoming the report's findings.
- 4.23 In commenting on the Cabinet response the Auditor General for Wales observed:

*"The Welsh Assembly Government welcomed the Audit Committee's findings and has generally responded positively to the eighteen specific recommendations made by the Committee. The Committee will wish to note the assurance that there will be no decommitment of funds as a result of*

*spending shortfalls in 2002 (recommendation xvi). And the National Audit Office Wales is pleased to be working with WEFO in terms of reviewing the arrangements for audit and financial control, as set out at recommendation xiv.*

*None of the Committee's recommendations have been contested, although the response might, in some cases, have been more forthcoming as to what specific action will be taken in order to implement the Committee's recommendations. It remains to be seen whether and how quickly the Welsh Assembly Government give practical effect to the recommendations."*

- 4.24 The Committee discussed the response at its meeting on 23 January and agreed that the Auditor General should continue to keep a close eye on developments in this area and make further reports as necessary.

#### The renewal and disposal of Property held by the National Health Service in Wales

- 4.25 On the basis of a report on the renewal and disposal of NHS property produced by the National Audit Office Wales, on behalf of the Auditor General for Wales, the Audit Committee took evidence from Ann Lloyd, Head of the NHS Wales Department; Neil Jones, Principal Estates Surveyor in the Assembly's Estates Division; and Neil Davies, Director of Welsh Health Estates.

- 4.26 The investigation followed on from the Committee's earlier report on the management and performance of the estate. The two reports provide a full assessment of strategic and operational management of the NHS estate.

- 4.27 The report focuses on two key areas: property renewal and property disposal. The detailed recommendations are attached at Annex F.

- 4.28 In its concluding comments the report states:

*"The modernisation and upgrading of the NHS Wales estate is central to the delivery of quality patient care. Renewing the NHS Wales estate is a significant challenge for the Assembly and for NHS Wales property holding bodies. It is crucial that the limited resources available for investment in the estate are well targeted, consistent with strategic priorities and local needs. We therefore welcome the various initiatives being carried forward by the NHS Wales Department and NHS Wales property holding bodies to improve the strategic context in which to renew the estate, to procure modern facilities and to monitor capital investment.*

*Disposing of surplus properties is crucial for the efficient management of the NHS Wales estate and for contributing towards funding new investment. Although performance in realising sale proceeds has been below target in recent years, new organisational, performance management and financial incentive arrangements have now been brought in that should begin to make an impact from 2002-03 onwards. We welcome these developments and will be looking to see significant improvements in future in the performance of*

*NHS Wales property holding bodies in identifying and selling surplus properties.*

*Much is on the agenda to ensure that the people of Wales have available to them hospitals and health centres of a consistently high quality capable of providing the very best in healthcare. We shall continue to monitor the progress that the Assembly and the NHS Wales make in managing the modernisation and rationalisation of the NHS estate in Wales.”*

- 4.29 The detailed recommendations are given in Annex F.
- 4.30 In its response, the Cabinet welcomed the report and accepted all the recommendations. In particular the Cabinet echoed the Committee's concern that the NHS Wales Department needs to work closely with those bodies that hold property to secure effective disposal. The response pointed to the National Estates Strategic Framework, which contains a recognition that a range of bodies, including the Assembly Government, need to work together to secure best value in managing the NHS estate. The response also contained commitments to update the Committee in November 2003 on progress in disposing of the remainder of the residual estate and in securing £30 million in savings from Estates disposal.
- 4.31 The Committee will discuss this response at its meeting in February..

#### **INVESTIGATIONS CURRENTLY UNDERWAY**

- 4.32 The Committee has also taken evidence in preparation for publishing a number of further reports.
- 4.33 In October 2002 the Committee took evidence in connection with the report by the National Audit Office on behalf of the Auditor General for Wales on *The Disposal of the Mid Wales Hospital*. The Auditor General has examined further information that came to light after the evidence session and will be reporting back later this term.
- 4.34 In November 2002 the Committee took evidence in connection with the report by the National Audit Office, on behalf of the Auditor General for Wales, on *Osiris: The PFI contract for information technology in the National Assembly for Wales*. We hope to publish this report shortly.
- 4.35 In December 2002 the Committee took evidence in connection with the report by the National Audit Office, on behalf of the Auditor General for Wales, ‘*The National Assembly’s new building: Update report*’
- 4.36 In January 2003 the Committee took evidence in connection with the report by the Auditor General for Wales on ‘*National Council for Education and Training Wales: Accounts for the period ending 31 March 2002*’.

- 4.37 The Committee will be considering a report by the National Audit Office, on behalf of the Auditor General for Wales, on Further Education Estates at its meeting in February 2003, and on Procurement of Primary Care Medicines at its meeting in March 2003.

## **ANNEX A**

### **AUDIT COMMITTEE - TERMS OF REFERENCE**

#### **Relevant Extracts from Government of Wales Act 1998**

- 60.** - (1) The Assembly shall establish a committee to be known as the Audit Committee or Pwyllgor Archwilio.
- (2) The Audit Committee shall have such number of members as the standing orders may provide.
- (3) The members of the Audit Committee shall be elected by the Assembly from among the Assembly members so as to secure that, as far as is practicable, the balance of the parties in the Assembly is reflected in the membership of the Committee.
- (4) Neither the Assembly First Secretary nor an Assembly Secretary may be a member of the Audit Committee.
- (5) The Assembly shall elect one of the members of the Audit Committee to chair the Committee but it may not be chaired by a member who represents the largest party with an executive role.
- (6) The Assembly may not delegate any function to the Audit Committee except as provided by section 94(4).

- 93.** - (4) For each financial year after the first financial year of the Assembly, the Auditor General for Wales shall prepare, and submit to the Audit Committee, an estimate of the income and expenses of his office.
- (5) Each such estimate shall be submitted to the Audit Committee at least five months before the beginning of the financial year to which it relates.
- (6) The Audit committee shall examine each such estimate submitted to it and, after having done so, shall lay the estimate before the Assembly with any such modifications as the Committee thinks fit.
- (7) Where the Audit Committee proposes to lay such an estimate before the Assembly with modifications, the Committee shall first consult the Secretary of State and have regard to any advice which he may give.

- 94.** - (1) The Assembly shall appoint an auditor of the accounts of the Auditor General for Wales.
- (4) The Assembly may delegate to the Audit Committee the function of approving bodies of accountants, or of withdrawing approval from such bodies, but may not otherwise delegate those functions.

- 96.** - (3) The Auditor General for Wales may -
- (a) examine, certify or report on a person's accounts, or
- (b) carry out examinations into the economy, efficiency and effectiveness with which a person has used his resources in discharging his functions,
- if provision is made for the Auditor General for Wales to do so by an agreement entered into by the person with either the Assembly or a Minister of the Crown.
- (4) In determining how to exercise his functions under paragraph (b) of subsection (3), the Auditor General for Wales shall take into account the views of the Audit Committee (or, before the first ordinary election, the views of the Secretary of State) as to the examinations which he should carry out under that paragraph.

**100.** - (1) The Auditor General for Wales may carry out examinations into the economy, efficiency and effectiveness with which the Assembly has used its resources in discharging its functions.

(2) Subsection (1) shall not be construed as entitling the Auditor General for Wales to question the merits of the policy objectives of the Assembly.

(3) In determining how to exercise his functions under this section, the Auditor General for Wales shall take into account the views of the Audit committee as to the examinations which he should carry out under this section.

(4) The Auditor General for Wales may lay before the Assembly a report of the results of any examination carried out by him under this section.

**102.** - (1) The Audit Committee may consider, and lay before the Assembly a report on, any accounts, statement of accounts or report laid before the Assembly by -

(a) the Auditor General for Wales, or

(b) the auditor appointed under section 94.

(2) If requested to do so by the House of Commons Committee of Public Accounts, the Audit Committee may -

(a) on behalf of the Committee of Public Accounts take evidence from the Assembly's principal accounting officer or any additional accounting officer designated under section 98, and

(b) report to the Committee of Public Accounts and transmit to that Committee any evidence so taken.

**103.** - (1) A document to which this subsection applies shall be published by the Assembly as soon after being laid before it as is reasonably practicable.

(2) The documents to which subsection (1) applies are -

(a) any accounts, statement of accounts or report laid before the Assembly by the Auditor General for Wales,

(b) any accounts or report laid before the Assembly by the auditor appointed under section 94, and

(c) any estimate or report laid before the Assembly under 93(6) or 102(1) by the Audit Committee.

## **ANNEX B**

### **STANDING ORDER 12 - AUDIT COMMITTEE**

#### **Membership**

12.1 The Audit Committee shall consist of at least 7 and not more than 11 Members and be chaired by a member of a political group which is not represented in the Assembly Cabinet. A member of the Assembly Cabinet may not be a member of the Audit Committee.

#### **Responsibilities**

12.2 The Committee shall:

- (i) exercise the functions set out in section 93(6)-(7) of the Act relating to estimates submitted by the Auditor General for Wales;
- (ii) present views to the Auditor General for Wales from time to time on the Auditor General's exercise of his or her powers to undertake examinations into the economy, efficiency and effectiveness of the use of resources;
- (iii) exercise any functions relating to the approval of bodies of accountants delegated to it by the Assembly under section 94(4); and
- (iv) submit an annual report to the Assembly on the work of the Committee.

12.3 The Committee may:

- (i) report to the Assembly in accordance with section 102(1) of the Act on documents put before it by the Auditor General for Wales or that officer's auditor; and
- (ii) take evidence and report to the House of Commons Committee of Public Accounts if requested by that Committee to do so.

12.4 In the performance of its responsibilities under paragraph 12.3(i) the Committee shall not question the merits of the policy objectives of the Assembly, or those of any other body or person which is the subject of the Committee's report.

12.5 Whenever the Committee submits a report to the Assembly under paragraph 12.3(i), it shall send a copy to the First Secretary. Within one month of the First Secretary receiving the report an Assembly Secretary shall, on behalf of the Assembly Cabinet, lay before the Assembly a response to the Committee's report; and if that response is of an interim character, the Assembly Secretary shall lay a final response before the Assembly within a further two months.

## **Meetings**

12.6 The Committee shall determine its programme of work, in consultation with the Auditor General for Wales. The Auditor General may attend private meetings of the Committee, with the permission of or at the request of the chair.

12.7 No member of the Committee shall participate in its consideration of any matter if he or she was at the relevant time a member of the Assembly Cabinet.

12.8 The Presiding Officer may issue guidelines for members on avoiding conflicts of interest when participating in the activities of the Audit Committee.

12.9 If the chair is disqualified from participating in the Committee's consideration of any matter under the standing orders or voluntarily withdraws from such participation, the Committee shall elect another member to chair it whenever that matter is being considered. The Committee may not elect as its temporary chair a member of the largest political group that is represented in the Assembly Cabinet.

12.10 A member of the Committee who has given advance notice to the Chair may be represented at a meeting, or a part of a meeting, of the Committee by another member of the same political group. The appropriate political group shall nominate for temporary membership of the Committee another member of the group whose name has been notified in advance to the Chair. The nominated representative shall not be a member of the Assembly Cabinet. No member may represent more than one committee member at a meeting.

## **Summoning of Witnesses and Production of Documents**

12.11 In the course of preparing any reports, the Committee shall take evidence as necessary from the Assembly's Principal Accounting Officer or from other Accounting Officers with responsibilities relevant to the matters under consideration.

12.12 In accordance with section 74 of the Act, the Committee may resolve to summon witnesses or require the production of documents. Any such motion shall identify the persons who are to be summoned or the documents that are to be produced.

12.13 When the Committee has resolved to summon witnesses or order the production of documents, the chair shall notify the Presiding Officer of the terms of the resolution, and request the Presiding Officer to give notice in writing to any relevant persons. Such a notice shall contain the information specified in section 74(6) of the Act, and comply with the requirements of section 74(7).

12.14 A person who has been summoned to attend the Audit Committee may be required to take an oath (or make an affirmation). In the absence of any of the officers specified in section 75(1)(a) of the Act, or if the chair is disqualified from participating in the Committee's consideration of the matter under paragraph 12.7, the temporary chair of the Committee may administer the oath (or affirmation).

12.15 Where an oath is to be sworn or an affirmation made under paragraph 12.14, it shall be in the form set out in paragraph 9.17.

**MEMBERSHIP OF AUDIT COMMITTEE**

## Current Membership:

Dafydd Wigley (Chair) Chair 19.03.02 -	Plaid Cymru	Caernarfon
Eleanor Burnham Replaced Kirsty Williams 31.01.02	Liberal Democrat	North Wales
Alun Cairns	Conservative	South Wales West
Janet Davies Chair 23.06.99 – 19.03.02	Plaid Cymru	South Wales West
Janice Gregory Replaced Lynne Neagle 27.11.01	Labour	Ogmore
Jocelyn Davies	Plaid Cymru	South Wales East
Alison Halford	Labour	Delyn
Ann Jones	Labour	Vale of Clwyd
Val Lloyd Replaced Peter Law 27.11.01	Labour	Swansea East

**ANNEX D****AUDIT COMMITTEE REPORTS, OCTOBER 2001 - SEPTEMBER 2002**

<b>Report number</b>	<b>Title</b>	<b>Issue date</b>
06-01	Report on the Maximising Income from Prescription Charges	29 November 2001
01-02	NHS Wales Summarised Accounts 1999-2000	16th January 2002
02-02	Educating and Training the Future Health Professional Workforce for Wales	24th January 2002
03-02	Securing the Future of Cardiff Bay	16th April 2002
04-02	Procurement in the Further Education Sector in Wales	25th April 2002
05-02	The Arts Council for Wales: Centre for Visual Arts	19th June 2002
06-02	Finances of NHS Wales	25th July 2002
07-02	Managing the estate of the National Health Service in Wales	1 August 2002

**AUDIT COMMITTEE REPORTS, OCTOBER 2002 – JANUARY 2003**

<b>Report number</b>	<b>Title</b>	<b>Issue date</b>
08-02	European Union Structural Funds: Maximising the Benefits for Wales	5 December 2002
09-02	The renewal and disposal of Property held by the National Health Service in Wales	12 December 2002
01-03	General Report on the Financial Audit Work of the Auditor General for Wales: 2000-2001	3 February 2003

**RECOMMENDATIONS OF AUDIT COMMITTEE REPORTS PUBLISHED  
OCTOBER 2000 - SEPTEMBER 2001**

**FINANCIAL AUDIT**

**NHS Wales Summarised accounts 1999-2000**

*Financial forecasts and results for 1999-2000*

- (i) We recommend that the NHS Directorate and NHS Wales should work together closely to ensure that these measures are fully tested and in place by 31 March 2002, to enable accurate financial forecasts to be made for the 2002-03 financial year and subsequent years.
- (ii) We encourage the NHS Directorate to seek opportunities arising from the consultation process to find more effective ways of assisting the general practitioner community to provide a better quality and range of services at their practices and to make best use of the resources available.
- (iii) We are therefore deeply disappointed that only a marginal improvement in prompt payment performance was achieved in 1999-2000, and strongly urge the NHS Directorate to take action to ensure a significantly higher level of performance in the speed of invoice payment in future years. In this regard, we welcome Mrs Lloyd's proposal that supplier payment performance, particularly by NHS trusts, should become a formal performance criterion. We intend to monitor progress closely in this regard.
- (iv) We urge the NHS Directorate to agree recovery plans for North East Wales NHS Trust and the Gwent health authority area as a matter of urgency. We intend to continue to monitor the progress of the financial recovery process within NHS Wales.
- (v) We consider that sound forecasting of the financial consequences of reorganisation is essential to an informed decision-taking process and to the NHS Directorate's ability to monitor implementation. We look to the NHS Directorate to identify the likely order of costs and to track these costs against the forecasts.
- (vi) We acknowledge the strenuous efforts made by Health Solutions Wales in dealing with the backlog arising from the increase in Category D drugs dispensed by Pharmacists during 1999-2000, and note Mrs Williams' assurance that Health Solutions Wales will be back on target for processing prescriptions by November 2001.
- (vii) We urge the NHS Directorate to work closely with Health Solutions Wales and the health authorities to ensure full recovery of the overpayments at the earliest opportunity, so that these funds can be channelled back into patient care.
- (viii) We look to Health Solutions Wales, working in partnership with the 5 health authorities and the Assembly, to improve prescription income monitoring and to reduce significantly the income foregone as a result of allowing inappropriate exemptions.
- (ix) However, we agree with Mrs Lloyd's contention that responsibility for the identification and countering of fraud rests with all NHS staff, and not just those working in hospital accounts departments. We therefore urge the NHS

Directorate to work closely with the Counter Fraud Operational Service (Wales) Team to ensure that all staff within NHS Wales are fully aware of their responsibilities in tackling fraud.

## **Finances of NHS Wales**

### *On the overall financial performance of NHS Wales*

- (i) We accept that it was necessary to provide strategic assistance funding in order to enable certain NHS trusts to achieve their financial recovery plans. We further accept that it would be unreasonable to burden new NHS organisations with the debts of their predecessors. However, we are concerned that such actions could be regarded as rewarding poor financial performance and could be a disincentive to prudent organisations.
- (ii) The restructuring of NHS Wales and the provision of additional finance for the NHS arising from the budget is an excellent opportunity for a new start. We therefore strongly recommend that the NHS Directorate take this opportunity to emphasise to all NHS organisations in Wales the need for financial stability and the importance of operating within the available resources. We also suggest that it would be appropriate for the NHS Directorate to set out in clear terms from the outset the exceptional circumstances under which repayable loans will be made available.
- (iii) We note the measures taken to date to improve the accuracy of financial forecasting. We look forward to formal confirmation of the results for 2001-02 and an even better result for 2002-03. We recommend that the NHS Directorate and NHS bodies continue to take appropriate measures to improve their financial forecasting to ensure that available resources are deployed at the earliest opportunity to maximise patient care.
- (iv) We remain deeply concerned at the ever-increasing cost of clinical negligence claims. Such costs will eat a large hole into the additional financial provision for the NHS recently announced by the Chancellor of the Exchequer. We trust that the external review of the management arrangements for the Welsh Risk Pool will consider all aspects of the management of claims from incidence to resolution and settlement.
- (v) Any new system for managing clinical negligence claims should draw on best practice elsewhere and include in-built incentives to provide the best possible standards of patient care, reduce the incidence of and the expenditure on clinical negligence claims and provide value for money for the taxpayers.
- (vi) Whilst not criticising Conwy and Denbighshire's NHS Trust, we question whether the operation of the Pool by one NHS body on behalf of the whole of NHS Wales is still appropriate given the increasing complexity of claims management and resolution and the amounts of money now involved. The ongoing restructuring of NHS Wales provides an excellent opportunity to look at these arrangements afresh and we trust that this issue will be addressed as part of the review.

- (vii) We welcome the improvement in prompt payment performance but stress the need to make further efforts to ensure that all valid bills are paid within the 30-day target deadline. In this regard we also welcome the intention to introduce a statutory target for 2003-04. We stress that the key target should relate to the number, rather than the value, of bills paid to ensure that small suppliers are not overlooked.
- (viii) We also recommend that the NHS Directorate ensure that the target is applied and measured in a consistent manner across all NHS bodies. We consider that the target should focus on payments to external suppliers and not include salaries or inter-NHS payments.
- (ix) We urge the NHS Directorate to work with Carmarthenshire NHS Trust and Cardiff and the Vale NHS Trust and take all reasonable measures to recover their financial position. We are particularly concerned at the over reliance on and the cost of engaging agency staff, as well as the potential impact that this could have on the standard of patient care.
- (x) We are concerned about the time taken to produce an acceptable recovery plan for the Gwent health economy area and expect an acceptable plan to be finalised and agreed without further delay. We concur with Mrs Lloyd's view that the role of management in the NHS has changed considerably in the last five years. We note the steps being taken to ensure that NHS managers have access to continuing professional development and have the necessary tools to manage complex organisations in an effective way. We also agree that it is the responsibility of the NHS Directorate to make clear its expectations of NHS managers to help them manage the environment in which they now work.

*On prescription pricing*

- (xi) We are disappointed with the further slippage in clearing the prescription pricing backlog and the delay in the recovery of overpayments to pharmacists. This unacceptable delay has had a detrimental effect on the efforts to improve financial forecasting. The current paucity of information on the prescribing habits of general practitioners has made it more difficult to control the cost of drugs. We expect the NHS Directorate and Health Solutions Wales to ensure that there are no further delays and that the whole sorry matter is concluded well before the abolition of the health authorities in 2002-03.
- (xii) We note that some prescribing information relating to 2000 has recently been placed in the public domain. We trust that this will be updated and enhanced at regular intervals so that prescribing habits and the associated costs can be managed in a more structured way by the new local health boards.
- (xiii) In our view it is vital that the health authorities make a reasonable and robust estimate of the shortfall in revenue from prescription charges and to use this as the starting point for taking appropriate action to combat associated fraud and error. We note the action taken to date and recommend that the health authorities continue to work closely with their appointed auditors and Health Solutions Wales to address this issue.

### *On NHS fraud*

- (xiv) We welcome the work now being undertaken to assess the extent of fraud in NHS Wales and look forward to seeing the results. We also welcome the measures being taken to increase the awareness of fraud and its effect on the public purse. More needs to be done to ensure that those responsible for enforcing regulations at the point of delivery of service are aware of their responsibilities. This may require a change of systems in order to have fraud avoidance built in to operating procedures.

### *On restructuring*

- (xv) We note that the NHS Directorate will be estimating the costs of restructuring and we would welcome regular updates on the actual costs in future years. We agree with the Auditor General that redundancies and early retirements must be publicly defensible and note in this context that the NHS Directorate has now issued guidance on severance terms. We urge the NHS Directorate to act further on the Auditor General's recommendation and provide advice as appropriate on the drafting of new employment contracts.

### *Overall conclusion*

In his 2002 Budget, the Chancellor of the Exchequer outlined his proposal to raise additional revenue for the benefit of the NHS. The people of Wales are entitled to expect that the resources made available to NHS Wales are utilised wisely, with due regard for the need to secure value for money and to maximise the provision of high-quality patient care. The restructuring of NHS Wales provides a good opportunity to secure the much needed changes.

## **VALUE FOR MONEY**

### **Maximising income from prescription charges**

- (i) We recommend that the Assembly work with the pharmacy profession to define more explicitly the training needs of pharmacists and their staff in this area, to develop a strategy for meeting that need more effectively and to put measures in place that would allow the evaluation of the impact of the approach used to meet that need.
- (ii) We recommend that the Assembly consider the suggestions to improve the checking of eligibility (including the possibility of a bigger role for GPs in this process) put to the Committee by the Royal Pharmaceutical Society and the Welsh Central Pharmaceutical Committee with representatives of the profession to identify those that offer the better potential operational benefits and whose practical implementation could be assessed.
- (iii) We recommend that the Assembly look again at the contractual arrangements with the pharmacy profession in Wales to see whether it is possible to specify obligations more clearly and develop better incentives to encourage pharmacists to carry out Point of Dispensing checks more effectively.
- (iv) We also recommend that in looking at ways of improving incentives for pharmacists the Assembly consider the feasibility of putting in place sanctions or penalties that could be invoked in those cases where pharmacists are

consistently found not to be undertaking Point of Dispensation checks to the standard specified in their terms of services.

- (v) We recommend that the Assembly addresses as a matter of urgency the weaknesses identified by the Auditor General in relation to age related exemption and move to a position where a patient's age or date of birth is automatically recorded on a prescription form.
- (vi) We look to Assembly officials to maintain the pressure for improvement in the performance of Health Solutions Wales and we wait with interest to learn about the progress that has been made.
- (vii) We recommend that the Assembly formulate an action plan to respond to the challenge of developing better checking and monitoring arrangements. We believe that it will be important for the Assembly's work in this area to be guided by a quantified target for decreasing year on year the number of exemptions from prescription charges given to individuals who are not entitled to this benefit either because of error or fraud.
- (viii) We look to the Assembly to build on the approach developed by the National Audit Office Wales in the course of its examination and put in place arrangements with other organisations such as the Benefits Agency to facilitate other controls that supplement the Point of Dispensing checks and confirm that those checks were accurately conducted.
- (ix) We recommend that individuals who improperly or fraudulently claim entitlement to exemption to prescription charges be pursued vigorously and for any penalties imposed on them to receive as much publicity as possible with the objective of deterring others.
- (x) We recommend that the Assembly produce clear guidance on respective roles and responsibilities for monitoring and checking systems intended to ensure that only individuals properly entitled to free prescriptions receive that benefit and also on responsibilities for protecting the system against fraud and for combating fraud when it is detected.

### **Education and training the future health professional workforce for Wales**

- (i) NHS Wales should set and monitor targets for the use of overseas and agency staff; NHS Trusts should check and maintain records of the training received and should seek to reduce their reliance on such staff within an agreed timeframe.
- (ii) The NHS Directorate should work with all NHS employers to ensure that they have appropriately skilled workforce planning personnel, use common data and planning systems and collect accurate comparable data on vacancy rates.
- (iii) The NHS and higher education institutions should evaluate the capital investment needed to accommodate the current and planned expansion in student numbers arising from the NHS and agree explicitly how this should be funded.
- (iv) The NHS and higher education institutions should continue to seek innovative approaches to identify and use practice placements and for overcoming problems with regard to teaching staff. The decision to fund placements should in due course be reviewed to assess whether this represents optimum value for money in the use of public funds, and the Committee informed of the conclusions reached.

- (v) The NHS needs to involve higher education institutions fully in planning education and training for the new health professional workforce and adopt a joint approach and shared responsibility for recruitment, selection and retention.
- (vi) The contract negotiation process should include full transparency of costs and prices for NHS funded courses. There is a need to strike a balance between driving down the cost to the NHS, retaining quality and not adding to the financial difficulties of the institutions. There should be no surprises on either side and an efficient monitoring system is needed to ensure that both parties obtain good value for money from the relationship.
- (vii) The NHS and higher education institutions should agree a clear policy framework governing contracts. These should include nationally consistent input and output targets that facilitate benchmarking and performance management.
- (viii) The Workforce Planning review work to develop confederations and re-scope the Professional and Managerial Education and Training Group should be completed in a timely way to provide the needed strategic oversight. That the new arrangements are put in place at the earliest opportunity.

### **Securing the future of Cardiff Bay**

- (i) The Auditor General's Report together with the evidence we heard clearly identified some important lessons for the Assembly and we recommend that officials take full account of these in their future planning of the closure, re-organisation or restructuring of public bodies in Wales. We highlight the following.
  - We endorse the key lesson drawn out in evidence by the Permanent Secretary. Namely in future closures and reorganisations of public bodies in Wales, the governing administration that has the primary responsibility for ensuring a successful outcome should have a fuller role in the process from the outset.
  - The process of closing or reorganising public bodies inevitably becomes a negotiation between the parties involved and the nature of negotiations is such that they have a tendency to go to the wire. Consequently it is crucial that key decisions are taken as early as possible in the process and that any delay in taking these key decisions is not allowed to weaken the Assembly's negotiating position. In this context Assembly officials are aware, for example, that previous work undertaken by the National Audit Office indicated that in the wind up of other Development Corporations key decisions on successor bodies were needed at least two years before the wind up date.
  - We welcome the Permanent Secretary's recognition that another reason for making key decisions as early as possible is to avoid the adverse impact of uncertainty on staff. The closure and reorganisation of organisations is a stressful time for staff. This means the process must be managed sensitively and in an open way giving the individuals concerned as much information as possible. The aim should be to give staff an absolute assurance on their future and the prospects for their jobs and, again, this should be done as early as possible in the process.
  - There is a risk that, in taking forward a process which is in effect a negotiation, officials may lose sight of a range of other related administrative

matters. The Auditor General found that this happened in the course of the wind up of the Cardiff Bay Development Corporation in relation to the payment of Stamp Duty, the recovery of Value Added Tax and the handling of doubtful debts. While individually each of these matters may be relatively small, cumulatively they can have an adverse impact on efforts to draw to a close in an orderly way the activities of an organisation and transfer responsibilities to other organisations.

- (ii) The initial reaction of the successor bodies to the new arrangements is encouraging. Nevertheless it serves to emphasise the need for the Assembly to have in place robust arrangements for financial and performance monitoring of the successor bodies. We also believe it illustrates the need for periodic evaluations of the progress which the successor bodies are making against the targets which the Cardiff Bay Development Corporation had developed for its regeneration activities.
- (iii) We support the Permanent Secretary's proposal to carry out a thorough evaluation of how the regeneration of Cardiff Bay has gone and we recommend that the Assembly makes the funds available. In our view this exercise is an essential element of the Assembly's arrangements for ensuring that it secures value for money from the considerable resources that it has invested and will continue to invest in regenerating Cardiff Bay.
- (iv) We also recommend that the Assembly ensures any evaluation of the regeneration of the Cardiff Bay area is carried out in an open and transparent way. We further recommend that the results of any evaluation should be made available to Assembly Members and that the Auditor General is given access to all the information and material supporting the evaluation.
- (v) We take this opportunity to emphasise again the importance we attach to the Auditor General having an unfettered right of access to the books and records of the Cardiff Bay Harbour Authority in accordance with the relevant section 165 Agreement.
- (vi) Currently we have the Assembly's version of the Ministerial Code to guide us on handling potential clashes of interest. But we are a small country and we also have Members who represent regions rather than constituencies. This in itself, to use the Permanent Secretary's words, raises 'a tricky issue' in relation to identifying potential clashes of interest or a duality of interest. This is an area where all Members must constantly combine vigilance and openness. Accordingly, we would welcome in the Cabinet's response to our report some assessment of current arrangements for dealing with potential clashes of interest on the part of Ministers and whether the Assembly collectively needs to look again at the adequacy of those arrangements.
- (vii) On the issue of the risk of cross-subsidising functions, we note that the relevant section 165 Agreements are explicit about the purposes for which funding provided by the Assembly can be used. We also recommend that as the Assembly develop the practical implementation of funding arrangements, it should be prepared, where appropriate, to ring fence resources to ensure that the funds which it provides are only used for the purposes intended.

## **Procurement in the further education sector in Wales**

- (i) The expanded Consortium build on its success to date by further increasing the number of contracts it has in place and turning its attention to best practice in procurement such as target setting, and e-procurement.
- (ii) All institutions consider the cost-effectiveness of appointing a dedicated procurement officer, and where institutions consider that an in-house appointment is not cost-effective they should seek to increase their expertise through other means.
- (iii) The Council work with institutions to ensure not only that the information is available in order to make effective decisions about procurement, but also to facilitate the monitoring of the savings achieved over time.
- (iv) All institutions identify a list of activities to be reviewed as a first step to initiating a programme of review. They should report the results of this programme to the Council.
- (v) All institutions initiate a programme of supplier rationalisation with a view to establishing a robust list of suppliers for future purchases to secure higher service levels and lower costs.
- (vi) All institutions remain aware of what the local market has to offer, while ensuring that value for money - which usually means the cheapest bid consistent with an acceptable quality - remains their overriding priority in the procurement of goods and services.
- (vii) All institutions adopt a systematic approach to energy management. They should as a matter of priority develop robust energy management strategies, including consumption and supply prices, which they should make available for examination by the Council.
- (viii) The Assembly examine whether the current model for the further education sector of colleges as independent self-governing bodies remains appropriate [repeating a recommendation in a previous Committee report].
- (ix) Within twelve months of the publication of this report, the Council report back to the Committee on the further progress the sector is making towards achieving its target of cumulative annual savings of at least £2.5 million.

## **The Arts Council for Wales: Centre for the Visual Arts**

- (i) As part of the independent review that it has commissioned of its procedures, examine the adequacy of its assessment of risk in lottery projects. In particular, a rigorous scrutiny of the key risks underpinning the financial viability of projects, including the visitor numbers forecasted for new arts attractions, should be an intrinsic part of the assessment of all lottery applications.
- (ii) Ensure that adequate contingency plans are in place in the event that risks to the financial viability of the project materialise.
- (iii) Properly document its consideration of such fundamental issues as the relationship between entry charges and visitor numbers on projects to which it proposes to award lottery grants.
- (iv) Assess its general record keeping policies to ensure that adequate records are maintained of the Councils' key decisions and deliberations about lottery projects.

- (v) Monitor more closely any changes to the nature of the attractions to be offered by projects to which it awards lottery grants, to ensure that the possible revenue consequences of changes introduced after lottery grants have been approved are properly examined.
- (vi) Not only draw weaknesses identified by its independent assessor to the attention of the applicant but that, as part of its monitoring of the project, take positive and early action to ensure that the applicant has addressed these concerns.
- (vii) Review its scrutiny arrangements to ensure that the need for items such as IT equipment are fully recognised and properly costed at the lottery grant application stage.
- (viii) Ensure that for any project of this scale that the business plan include a full-scale risk assessment process complete with realistic and fully developed contingency plans.
- (ix) Impress upon successful lottery applicants, at the outset of each project, that they should not change the original plans without the full and prior knowledge of the Council.
- (x) Specify clearly, at the outset of each project, the information to be provided by the lottery applicant and how frequently it should be provided. These requirements should be set out in a legally binding agreement between the Arts Council of Wales and the applicant. If an applicant fails to adhere to this requirement, then funds should be withheld.
- (xi) Review its procedures to ensure that prompt action is taken to safeguard its interests in any residual assets when a project that received a lottery award fails.

### **Managing the estate of the National Health Service in Wales**

- (i) The NHS Wales Department monitors the application of the new national estates strategic framework at the local level and modify it as necessary to reflect changes in the pattern of service developments.
- (ii) The Welsh Assembly Government ensure that the latest published targets on estate condition for the NHS in Wales are sufficiently stretching yet achievable by trusts.
- (iii) Trust chief executives ensure they operate with adequate professional support in managing their estates, striking an appropriate balance between need and affordability. The review of the functions of Welsh Health Estates is carried out in full consultation with trusts and that the resulting service arrangements for providing core, central expertise on estate matters for the NHS Wales represent good value for money for both the Assembly and NHS property holding bodies.
- (iv) Trusts ensure that ownership and tenancy records are actively managed in accordance with the relevant guidance as part of the NHS Director's reviews of chief executives performance.
- (v) The capital funding application process is streamlined to speed up approval of high priority health and safety projects to allow work to start sooner, subject to assurances that the proposed solution represents good value for money.
- (vi) All NHS property holding bodies in Wales actively manage health and safety risks associated with the estate they own or occupy for the benefit of patients, visitors and staff.

- (vii) The NHS Wales Department takes early action to establish more accurately the projected cost of remedying backlog maintenance and the reasons for the disturbing increase in the reported extent of backlog maintenance.
- (viii) The NHS Wales Department considers ways of providing funding on a three year basis rather than through annual allocations for tackling major backlog maintenance problems within an agreed strategic plan at national and local level.
- (ix) NHS management at trust level strive to reduce significantly the proportion of the estate that is below acceptable standard regarding fitness for purpose.
- (x) All trusts consult with disabled people to ensure that their plans to comply with the Disability Discrimination Act are appropriate.
- (xi) The NHS Wales Department takes steps to ensure that full space utilisation surveys are completed at all trusts by December 2003.
- (xii) The estate strategies of all trusts address their space utilisation problems through a comprehensive and rigorous assessment of underused and overcrowded accommodation, and bring forward practicable proposals to improve the situation. This would include making the most efficient use of all available space.
- (xiii) Chief executives of trusts ensure that early action is taken to rationalise their estates and reduce the amount of empty and underused space. This should result in financial savings from the maintenance and disposal of these sites and thereby release funds for new investment for improving the operational estate. We look to the Head of the NHS Wales Department to press chief executives to do this cost effectively and with appropriate urgency.
- (xiv) Further work is done to provide reliable information on the benefits that can be secured by the NHS in Wales through targeted investment in energy efficiency measures.
- (xv) Realistic but challenging energy consumption targets are set for each trust individually against the background of the overall target set by the government.
- (xvi) The Assembly considers the merits of using waste heat from other sources and provides guidance for trusts on integrating the use of low-grade waste heat from local businesses in combined heat and power units at new hospitals and health care buildings.

## **RECOMMENDATIONS OF REPORTS PUBLISHED SINCE SEPTEMBER 2002**

### **General Report on the Financial Audit Work of the Auditor General for Wales: 2000-2001**

#### ***On the themes arising from the National Audit Office Wales's management letters for 2000-01***

- (i) We consider that external audit reports to management are a vital and integral part of the audit process that must be given full respect and acted upon. It is clear that the Permanent Secretary takes his responsibilities seriously in this regard and we commend the procedures that he and the Finance Group have put in place for monitoring the implementation of the recommendations made by the National Audit Office. We are concerned that, in a small number of cases, management has not actioned key recommendations and we urge that such cases be pursued with vigour including the taking of disciplinary action in serious cases;
- (ii) In respect of grant schemes, the Assembly Government and sponsored public bodies have a duty to ensure that applications and claims are properly documented and that sufficient monitoring is undertaken in order to minimise the risk of irregular expenditure going undetected. Failings in this regard are not acceptable and could have potentially serious consequences. For example, in the case of projects supported by European Structural Funds, there is a risk of claw-back and vital money being lost to Wales;
- (iii) We therefore urge the Assembly Government to act promptly on any failings brought to light, to review the operation of major schemes on a regular basis and to provide a systematic training programme for all staff engaged on grant appraisal and monitoring activities;
- (iv) We expect all public sector bodies in Wales to pay particular attention to their cash management procedures, which we view as fundamental to their sound financial management. In particular, all bank accounts should be reconciled in a timely manner and care should be taken to avoid overdrafts, misplaced cheques and the unauthorised use of direct debits;

#### ***On expenditure financed by the European Structural Funds***

- (v) We note with concern that the National Audit Office Wales had to qualify eight out of 24 audit certificates issued in respect of claims for European grant funding made by Assembly Sponsored Public Bodies. It is clear that many of the errors identified by the auditors arose because of a lack of awareness or

understanding amongst some project managers of the detailed rules governing the European grant schemes. This is unacceptable. Whilst we recognise that WEFO is working to improve the quality of advice and guidance provided to project managers, we urge it to work more closely with the relevant sponsored bodies to ensure that such errors are minimised in future;

- (vi) In respect of the moratorium on annual audit certificates for ESF projects, we note that this has been imposed in response to genuine difficulties experienced by private sector auditors in both Wales and England. We consider that the requirement for annual audit certificates provides a valuable 'early warning', both for project managers and for WEFO, of emerging problems on each project. We therefore look to the Assembly Government to act with all speed in concluding the review of guidance to the auditing profession on the levels of assurance required to validate ESF grant claims, and to reinstate this important independent check at the earliest opportunity;
- (vii) We note the assurances we have received that European funds clawed back from one project can be recycled by WEFO into other projects, rather than surrendered to Europe. Whilst clawback of grant should always be viewed very much as a last resort, we consider that WEFO should not hesitate to take such action where appropriate. This would send a strong message to other grant recipients that mismanagement will not be tolerated. It would also help to ensure that Wales is able to maximise the benefits that can be obtained from European funding;

### ***On the National Assembly's accounting and budgeting arrangements***

- (viii) We are very pleased to note the progress made with resource accounting and preparation for the introduction of "whole of government" accounts, which we understand compares favourably with the position elsewhere in the United Kingdom. In this context we note that the future need to consolidate the financial results of many more public bodies in Wales is likely to result in considerable pressures being placed on the Finance Group in order to meet the statutory deadlines. We trust that the Permanent Secretary and the Principal Finance Officer will continue to ensure that this important operation is properly resourced by suitably qualified and experienced staff. We also urge the Finance Group to work with the bodies concerned to ensure that they are fully aware of their responsibilities and the time scales for submission of financial information;
- (ix) We also note the recent introduction of resource-based budgeting and the new financial and management accounting system and look forward to the benefits that should accrue over time in terms of the management of the Assembly's finances. We trust that the teething troubles with the new accounting system – particularly the delays in making payments - have been or soon will be resolved, and that the further planned improvements can be rolled-out as quickly as possible.

### ***Overall conclusion***

We are naturally pleased that the Auditor General considers that the standards of financial management and probity remain high in the public sector in Wales. We agree that this is a testament to the hard work and diligence of officials at all levels within the Assembly and its related public bodies.

The Auditor General has, however, given some early warning signals particularly in relation to the procedures for claiming grants financed by the European Structural Funds. We urge the Welsh European Funding Office and all organisations associated with European funded projects to heed this warning and take steps to ensure that this vital source of finance is managed properly for the benefit of Wales.

### ***The renewal and disposal of property held by the National Health Service in Wales***

1. Within the new strategic context, the NHS Wales department works closely with the NHS Wales property holding bodies to deliver real results in modernizing and upgrading the estate;
2. The NHS Wales Department raises the awareness of trusts on the scope for working closely with voluntary and charitable organisations to procure more appropriate accommodation for the delivery of healthcare;
3. The Auditor General for Wales considers carrying out an investigation into PFI funded projects in the NHS Wales to assess whether the proposed benefits were being realised;
4. Contracts for private finance initiatives in the NHS Wales follow the latest good practice and, in particular, provide for profit sharing and risk transfer in ways that deliver value for money to the taxpayer;
5. The NHS Wales Department monitors closely the new arrangements introduced to control the extent of any transfer of capital funds to revenue by trusts;
6. The Head of the NHS Wales Department reports to us in 12 months time on progress with the disposal of the remaining residual estate;
7. The NHS Wales Department takes all reasonable steps to ensure that there are no more cases where sale costs significantly exceed sale proceeds;
8. The NHS Wales Department, supported by Welsh Health Estates, urgently develops disposal targets for NHS Wales property holding bodies that are both challenging and realistic and that all possible efforts are made to reduce the average time taken to dispose of surplus properties;
9. The NHS acts vigorously to identify under utilised and unsuitable properties for disposal. We also recommend that the Head of the NHS Wales Department reports back to this Committee in 12 months time on progress towards realizing the additional £30 million.

### **European Union Structural Funds: Maximising the Benefits for Wales**

- i) For future programmes, the basic management arrangements are settled well in advance of the programme's launch, and that comprehensive guidance for partnerships and applicants be issued in good time;

- ii) WEFO monitors rigorously the geographical distribution of programme expenditure and benefits, to identify areas of common concern, and to take a proactive role in assisting partnerships to develop solutions;
- iii) WEFO and the Assembly take all necessary steps to ensure that WEFO is sufficiently resourced to carry out the full range of its work;
- iv) WEFO takes all reasonable steps to ensure the timely completion of the remaining phases of the required IT improvements and urge it to do everything possible to keep the costs of achieving this to a minimum, new computer systems being notorious for time delays and cost escalation;
- v) WEFO seeks to be as proactive as possible in monitoring the availability and take-up of match funding so that problems – and possible solutions – can be identified by those who have the necessary influence to deliver improvements;
- vi) all remaining posts for the private sector facilitators are filled without further delay and that WEFO puts every effort into ensuring the success of the “blueprint projects”;
- vii) WEFO keeps under review the project development and assessment process, with a view to removing or amending those elements which become superfluous. We agree with WEFO’s intention of dispensing with the second phase of consultation with partnerships, provided that the first phase is working well, and urge that this be done at the earliest opportunity;
- viii) WEFO uses its new information system to monitor appraisal times systematically, so that any problems or delays can be identified quickly;
- ix) WEFO continues to develop proposals for key funds and project commissioning, while monitoring closely the effect that they have on the rate of spend;
- x) WEFO takes early action to strengthen its guidance and develop a framework for assessing added value. We expect this to lead to greater clarity and a wider understanding of what is needed, and a rigorous risk-based assessment of added value at the appraisal stage;
- xi) WEFO ensures that a suitably detailed assessment of project need is carried out for all projects, incorporating the work of partnerships where possible, and that in future this is properly documented on WEFO files;
- xii) WEFO develops a more consistent and robust system for assessing the value for money of project costs and outputs;
- xiii) WEFO, perhaps through its financial control visits, takes steps to confirm early in the life of each project that good systems and record keeping arrangements are in place and that there are no serious problems in delivery;
- xiv) WEFO undertakes a review of the current arrangements for audit and financial control, with a view to improving the clarity and co-ordination of the roles of the external project auditors and its own financial control team;
- xv) WEFO considers adopting a policy of visiting all project sponsors at least once to review general progress and verify output information;
- xvi) WEFO takes all possible steps to minimise the risk of decommitment particularly on EAGGF and FIG where those risk currently appear greatest;
- xvii) We recommend that WEFO pays particular attention to developing its forecasting procedures - and the capability of project sponsors in the same area –to ensure that modest overcommitment, whilst tightly controlled and in line with recent trends, is sufficient to fully utilise the available structural funds; and

- xviii) WEFO and the Assembly Government together consider how the exchange rate risk can be managed in the final stages of the programmes when the scope for altering expenditure within the programming round will be progressively reduced.