



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Cyfrifon Cyhoeddus
The Public Accounts Committee**

**Dydd Mercher, 19 Ionawr 2011
Wednesday, 19 January 2011**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

| | |
|-----------------|---|
| Peter Black | Democratiaid Rhyddfrydol Cymreig Welsh Liberal Democrats |
| Jeff Cuthbert | Llafur Labour |
| Irene James | Llafur Labour |
| Bethan Jenkins | Plaid Cymru The Party of Wales |
| Sandy Mewies | Llafur Labour |
| Darren Millar | Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee) |
| Jonathan Morgan | Ceidwadwyr Cymreig Welsh Conservatives |
| Lynne Neagle | Llafur (yn dirprwyo ar ran Alun Davies) Labour (substitute for Alun Davies) |
| Janet Ryder | Plaid Cymru The Party of Wales |
| Joyce Watson | Llafur (yn dirprwyo ar ran Lorraine Barrett) Labour (substitute for Lorraine Barrett) |

Eraill yn bresennol
Others in attendance

| | |
|--------------------|---|
| Clive Bates | Cyfarwyddwr Cyffredinol, Dyfodol Cynaliadwy, Llywodraeth Cynulliad Cymru Director General, Sustainable Futures, Welsh Assembly Government |
| Ceri Breeze | Pennaeth Tai, Llywodraeth Cynulliad Cymru Head of Housing, Welsh Assembly Government |
| Paul Dimblebee | Partner Ymgysylltu, Swyddfa Archwilio Cymru Engagement Partner, Wales Audit Office |
| Simon Edge | Partner Ymgysylltu—Cydymffurfiaeth, Swyddfa Archwilio Cymru Engagement Partner—Compliance, Wales Audit Office |
| Joanna Jordan | Cyfarwyddwr Gwasanaethau Corfforaethol a Phartneriaethau, Llywodraeth Cynulliad Cymru Director of Corporate Services and Partnerships, Welsh Assembly Government |
| Gareth Lynn | Cyfarwyddwr, KTS Owens Thomas Cyf Director, KTS Owens Thomas Ltd |
| Patrick Spillane | Archwilio Mewnol a Rheoli Risg, Swyddfa Archwilio Cymru Internal Audit and Risk Management, Wales Audit Office |
| Huw Vaughan Thomas | Archwilydd Cyffredinol Cymru Auditor General for Wales |
| Carol Warburton | Cyfarwyddwr, KTS Owens Thomas Cyf Director, KTS Owens Thomas Ltd |

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

| | |
|-----------------|---|
| Alun Davidson | Clerc Clerc |
| Joanest Jackson | Cynghorydd Cyfreithiol Legal Adviser |
| Andrew Minnis | Dirprwy Glerc Deputy Clerk |

*Dechreuodd y cyfarfod am 9.29 a.m.
The meeting began at 9.29 a.m.*

Ymddiheuriadau a Dirprwyon Apologies and Substitutions

[1] **Darren Millar:** Good morning, everyone. I welcome you to the first meeting of the Public Accounts Committee in 2011. I remind you that the National Assembly for Wales is a bilingual institution, and members of the committee and witnesses are invited to speak in either Welsh or English as they choose. Headsets are available with translation on channel 1 and amplification on channel 0. I ask that everyone in the room switches off their mobile telephones, as they can interfere with the broadcasting and amplification equipment. If the fire alarms go off, the ushers will tell everyone what to do, and if everyone follows their instructions, we should not have any mishaps.

[2] Before we start the meeting proper, there is an additional piece of correspondence from the Auditor General for Wales, and I would like to draw it to the attention of Members. It was not part of the papers circulated prior to this morning.

[3] Do we have any apologies or substitutions?

[4] **Mr Davidson:** Yes, from Lorraine Barrett and Alun Davies.

[5] **Darren Millar:** Okay, so Joyce Watson is the substitute for Lorraine Barrett, and Lynne Neagle is substituting for Alun Davies.

9.31 a.m.

Tai i Oedolion ag Anghenion Iechyd Meddwl: Tystiolaeth gan y Cyfarwyddwr Cyffredinol, Dyfodol Cynaliadwy Housing for Adults with Mental Health Needs: Evidence from the Director General, Sustainable Futures

[6] **Darren Millar:** I welcome Clive Bates, the director general of sustainable futures, along with Joanna Jordan, the director of corporate services and partnerships at the Welsh Government, and Ceri Breeze, the head of housing. Welcome to you all.

[7] I remind Members of the reason why we are having this discussion this morning. The auditor general published his report, 'Housing Services for Adults with Mental Health Needs', on 23 November last year, and he found that progress in delivering housing targets had been poor, strategic planning had remained poor, and, in many parts of Wales, people with mental health needs continue to face difficulties in accessing suitable housing and related services. The Public Accounts Committee received a briefing from the auditor general on this report, and decided to invite the relevant accounting officer to appear before the committee.

[8] We will go straight into questions, if that is okay. Feel free to give a preamble to what you say in response to this first question. The Wales Audit Office report highlighted limited

progress by local agencies in delivering the Welsh Government's 2005 national service framework housing targets. Why has such little progress been made?

[9] **Mr Bates:** I will start by saying that we welcome the auditor general's scrutiny. It has been helpful to us, and has already precipitated some action—it did so from the moment that the field work was done. I would like to offer a response under three main headings. First, I have an explanation, rather than an excuse—I am trying to be candid. What I think has happened is that the target regime in the national service framework for mental health has become disconnected from the delivery system. In a sense, that is what has been picked up in the report—the reporting, monitoring and so on of those targets essentially forms the core of the report.

[10] There are three main reasons for that. The first is that the performance management and governance regime was always light-touch, relying a lot on local authorities, and we do not micromanage or rigidly performance-manage them; the responsibilities are very much theirs. Secondly, in the way that this is delivered, we have the Supporting People agenda, which has a subtly different focus—it focuses on vulnerable groups of all types. Essentially, there is a lot of money involved in Supporting People, and that is what is driving a lot of what is happening at local level. Thirdly, there has been a lot of reorganisation in this area, both on the health side, in the housing directorate and in the arrangements for managing housing at local level. In the course of that, this disconnection has, in a sense, deepened between the national service framework and the delivery mechanisms. That is our best shot at an explanation of what has happened. As I say, it is an explanation, not an excuse.

[11] The second point that I would like to make is that we have responded to this, both from 2009, when the field work was done and the initial findings came out and also very recently in preparation for this hearing and the committee's own scrutiny.

[12] First of all, we have homeless and vulnerable groups' health action plans, which were published in 2009, and those are supposed to deal with some of the planning requirements that the auditor general has found lacking. Those have taken longer to come into place than we would have liked, but, nevertheless, that is the approach that we want to take. We are issuing a new code of guidance for local authorities on allocation and homelessness, which will draw more attention to the target regime, and, essentially, try to embed the ideas of the national service framework more strongly. Given that there is a perceived weakness in the way in which we have gone about some aspects of dealing with mental health, we now have the Mental Health (Wales) Measure 2010, which is designed to create a stronger framework for dealing with mental health across the piece—it is not just a housing Measure. Stronger statutory guidance and advisory guidance will arise from it and it will be championed by the new mental health strategy planning board, which has been set up as a governance arrangement for that.

[13] On the housing side, a lot of the focus has been on our Supporting People agenda. Independently of the Wales Audit Office and the auditor general, but, for similar reasons, we asked Professor Mansel Aylward to review our approach there. He has produced a very good report with a number of recommendations that overlap quite closely with the recommendations that the auditor general has made, which is pleasing. Ministers have accepted those and we are now in the process of implementing them. A number of other smaller things have happened. The report has been discussed with all housing officers. We have commissioned new guidance from Gofal to address some of the shortcomings found in the report. The mental health accommodation network has met, discussed and is producing guidance to respond to some of the auditor general's findings. So, since 2009, we have been through a process of responding to some of the concerns that are highlighted, and the field work itself was valuable.

[14] My final point is that there is clearly a disconnect between the housing target framework in the national service framework and the delivery system, but that does not mean that the delivery system is not working or doing good things in mental health. Section 3 of the report highlights the success that we have had on reducing homelessness and there is a lot of good activity that is happening around Supporting People. It is not that it is not improvable—that is what Mansel Aylward has told us—but there is good work going on that shows that we are delivering for the housing needs of people with mental health conditions.

[15] Something that was very stark in the report was the experience of Cardiff; in the very striking chart that you have, it came out as worst. If you believe that chart—which we do—it looked as though it had done nothing. One thing that I commissioned in preparation for this was, essentially, an assessment of what Cardiff has been doing. To be honest, it has come back with a very positive story about what it is doing on the ground, the amount of provision that it has, the performance management regime that it has locally and the needs assessment that it has in place. I am not saying that we have subjected it to the kind of forensic scrutiny that the auditor general would have done, or that this committee would do, but, at first sight, the account from Cardiff looks very compelling. It may be that there is a difference between what the report tells us about the implementation of the national service framework and the delivery for people with mental health conditions in terms of housing.

[16] **Darren Millar:** You have covered a lot of territory there. You mentioned the importance of the Supporting People regime across Wales. The Deputy Minister with responsibility for this commissioned a review of Supporting People, the outcome of which is potentially going to lead to the redistribution of the Supporting People grant around Wales. To what extent does that put at risk the improvements that we need to see in this area, for example in respect of the services that are already being delivered on the ground in those parts of Wales from which the Supporting People grant may be removed?

9.40 a.m.

[17] **Mr Bates:** One of the more important recommendations made by Professor Aylward was, essentially, to realign the funding with an objective assessment of need, rather than funding being given as a result of bidding or on an historical basis. Your point is well made. If you just did that overnight, the danger is that there would be too much dislocation, and services that are up and running well would find that their funding had gone. So, the intention is to taper the change from the funding arrangements as they are now, in which there is a degree of arbitrariness, to something that is more objectively needs-based.

[18] **Darren Millar:** You say that there is a degree of arbitrariness, but those funding streams were established on the basis of demonstrated need in the first place. That is why the cash was given.

[19] **Mr Bates:** I think that it was more the case that those who were effective at providing services and getting grants got the grants. There was no formulaic basis behind it, as there is in the case of the revenue support grant, which said what a need in a particular area would be. The aim is to try to get onto something that is a little more objectively clear in that way. Ceri, do you have anything to add on that?

[20] **Mr Breeze:** Professor Aylward was clear on the need for transition in the arrangements for Supporting People. You are right about the potential risks of moving very quickly from one stage to another. The needs in different areas of Wales differ considerably, as Clive said, and, historically, the funding programme has built up on a different basis across Wales. One may argue that that has led to inequities in the distribution. Professor Aylward flagged up the need for a much greater focus on outcomes, including mental health, and the pilot work that was done last year did that, and mental health is a strong point in the

outcomes.

[21] **Sandy Mewies:** Given that you are doing your best to react to some of the weaknesses that have been pointed out to you, will the introduction of the new housing allowance and benefits system, particularly in the private rented sector, affect housing for vulnerable people, including those with mental health difficulties? There are concerns that raising the age from which people are allowed to rent a room from 25 to 35 may result in vulnerable people being put together in one house when that may not be satisfactory for them. Are you identifying those sorts of changes, and are you coming up with ways of dealing with them?

[22] **Mr Bates:** That is a really interesting question. The changes in the housing benefit regime create a whole series of challenges for us, including the potential for migratory effects and those points regarding young people and so on. That would be assessed and understood in the local planning regime. The changes will have peculiarly local effects, and we would expect that to be managed at a local level. It may be that we should look to see whether we need to take a systematic approach to this. At present, I do not think that we do so, and I do not think that we have taken that into this area.

[23] **Mr Breeze:** The potential impacts of housing benefit are well recognised, particularly in the private sector, as was discussed in the Communities and Culture Committee's meeting last week as part of its inquiry into private sector housing. There is the potential for huge impacts for young people, and vulnerable groups in particular. We have a lot of work going on to assess the impacts of housing benefit. They are not in our control, and it is about managing them. Local authorities are looking at this issue carefully, and housing associations are also very switched on to this arrangement. I was talking to a housing association recently about its provision. It provides accommodation for young people. Approximately 60 per cent have mental health issues of varying degrees. The housing association has employed the services of a psychologist and given training to all of its key workers in recognising mental health needs and being able to build that into the assessment. The impact of housing benefit could mean that more of the same is needed on that. However, I would say that there are many organisations out there, particularly housing associations, that are very switched on to this.

[24] **Mr Bates:** My colleague Simon has just pointed out that we are onto this and doing something about it with guidance. I did not realise that, and I would probably have to admit that I do not know what that is, so it would be better for me to write to you about it.

[25] **Darren Millar:** Okay, thank you for that undertaking.

[26] **Jonathan Morgan:** Clive, you have talked about the disconnect between the national service framework and the delivery mechanisms. However, there is a disconnect that the auditor general refers to in paragraphs 1.9 to 1.13 of the report between the statutory guidance issued by the Welsh Assembly Government and the way in which that statutory guidance effectively does not reflect the commitment set out in the national service framework. Can you explain, given that you are responsible for the statutory guidance and the national service framework, why one did not reflect the other, how that led to a lack of awareness among social housing providers about the requirements they were supposed to follow, and what you have done to remedy that?

[27] **Mr Bates:** Most of the guidance in this area is not statutory. For example, the Welsh health circular in this case is not statutory. The guidance that we have on homelessness and vulnerable groups' health action plans is not statutory either. We do not have very strong levers over local government that would enable us to enforce these commitments. The question is whether we should have and whether we will move to that under the new Mental

Health (Wales) Measure 2010, which will bring in statutory guidance. There is a great deal of guidance, and it is available to local government if it wants to use it, but the responsibility largely rests with local government to pick it up.

[28] **Jonathan Morgan:** Chair, if I may, I wish to pursue that. You said that there is a difference between guidance and what you would term statutory guidance. In fact, the auditor general states that the Assembly Government did not produce specific guidance for social housing providers on their role and that the requirements of the framework were not reflected in revised statutory housing guidance. You are responsible for the statutory housing guidance that comes from the Welsh Assembly Government. You are also responsible for the national service framework. So, why on earth did the two sets of documentation not match?

[29] **Mr Bates:** I tried to give an explanation for that in my opening remarks, but let me try to get to the bottom of this. We produce a code of guidance for local authorities on allocation and homelessness. It refers to the responsibilities with regard to mental health and vulnerable groups, but our focus has generally been on vulnerable groups, broadly expressed and covering all vulnerabilities. In light of the auditor general's report and this committee's hearing, we are revising this code of guidance. It was last done in 2003. We are revising it now, and we are going to bring a sharper focus to the national service framework targets in that. That is essentially how we are responding on that particular piece of guidance. The other guidance, on producing homeless and vulnerable groups' health action plans, is not statutory, but it does refer to the national service framework.

[30] **Peter Black:** The guidance was revised in 2003. When was the national service framework put together?

[31] **Mr Bates:** The last guidance was, I think, in 2003, and this was done in 2005. The national service framework was updated in 2005, so it could not have been included at that point.

9.50 a.m.

[32] **Peter Black:** When you did the national service framework, would it not have been natural then to say, 'Now that we have this new framework, let us look at the guidance'?

[33] **Mr Bates:** Yes, it would have been.

[34] **Peter Black:** So why was that not done?

[35] **Mr Bates:** I do not know. It was not done at the time, which is one of the reasons why there is a disconnect.

[36] **Peter Black:** We hear about departments being silos and not talking to each other, but it appears that you have a silo within your department. Your guidance is not matching up with your framework.

[37] **Mr Bates:** As a director general, I am interested in the broader issues that this raises. Essentially, the national service framework was developed in our health and social services department, for which I am not the accounting officer. Its delivery agencies, in terms of the housing targets—action 9—are local authorities. Obviously, the housing side is part of my responsibilities. There is a deeper question here about the status that these targets have, and the sort of performance management regime that we implement across the Government to make these things—

[38] **Peter Black:** So, you are saying that it is all the fault of the local authorities because

they did not follow guidance that you did not produce.

[39] **Mr Bates:** No; that is not what I am saying. The national service framework places responsibilities directly on local authorities, and it is their responsibility to implement these things. There has been guidance to do that. It does not have statutory force. That is the difference. There was the opportunity to use statutory guidance, but that was not taken. We might do something different if we were doing it now and we may well do it when we implement the Mental Health (Wales) Measure. Do you wish to comment, Ceri?

[40] **Mr Breeze:** You are right to ask why the guidance was not updated when the framework came in. It is a fair point. We are now updating it. Even though it includes mental health, we are updating it to include the range of issues that have been covered in the auditor general's report. In terms of the disconnect that Clive mentioned, there were reporting and monitoring arrangements in place, as identified by the auditor general, but the gap was in the cross-departmental working by the Assembly Government to bring it all together at a sufficiently high level to drive the process of action forward.

[41] The guidance did not include the national service framework and the targets. However, it raises one other interesting point. All local authorities and local health boards had the same information and guidance. We have some at one end of the extreme, and some at the other end. Progress is patchy across Wales, which reflects a wide variety of circumstances in local government, which is doing a huge amount of work dealing with vulnerable groups of varying degrees and levels with varying resources. There is a far greater issue there about the take-up of good practice between areas and the transfer of knowledge.

[42] **Peter Black:** You have other tools at your disposal, however, such as Supporting People delivery plans, for example.

[43] **Mr Breeze:** Yes, we have. Again, the review that was commissioned from Professor Aylward identified that far better and effective cross-working within local authorities, within the Assembly Government and in other organisations is fundamental to make further improvements.

[44] **Mr Bates:** I have tried to be candid; there has been a disconnect. I have said that that was an explanation rather than an excuse. While conceding that this has not worked as it might well have done, we are saying that we are putting things in place to address that disconnection. In its place, we did a lot with the Supporting People regime, which has a slightly and subtly different focus on vulnerable people rather than people with mental health needs. That, in itself, has driven quite good outcomes for people with mental health problems in terms of housing. I am not sitting before you trying to claim that all has been well and that there is nothing at all to worry about. We have responded to the auditor general's report and these concerns, as you would expect. It has been put to us quite clearly, and we will be stronger about it in the future. Do you wish to comment from the health side, Jo?

[45] **Ms Jordan:** Yes, if I may, just from the health point of view and on the national service framework itself. In developing the national service framework and the targets within it, there was close working between the health department and colleagues in the housing directorate. It is important to point out that there was no argument over some of the priorities and focus on this. In respect of the piece of guidance that possibly could have been updated at the time, measures were taken to ensure that local health boards also had a clear responsibility for implementing this as well as local authorities, which were made aware that the NSF had been issued and that responsibilities had been placed on them. Letters were issued, in October 2005 and again in January 2006, at chief executive level, to local authorities and local health boards, to point this out to them. We have gone over the issue of whether or not we then updated the guidance that sat behind some of that. However, as Clive has already pointed out,

the focus of the guidance has been on the responsibilities of local authorities in relation to a range of people who are vulnerable and have housing needs, rather than focusing specifically on mental health needs. That is something that we clearly need to address.

[46] As Clive has said, the Measure will help us to do that. Many of the targets were about systems and processes being put in place and a proper assessment of need. There is nothing there that could then force local authorities to give that person priority for housing, but we wanted to ensure that their needs were properly considered. The Measure will give the statutory backing to ensure that that is done in the future. A number of Assembly Members here have been closely involved in scrutinising that legislation. It has been some time in the process, but it will give us the levers and make it clear what the Assembly Government's priorities and wishes are in this area, so we can only look to improvements in the future.

[47] **Janet Ryder:** You have said a lot about this area and have mentioned some of the things that you are going to do to improve the situation, but paragraphs 1.17 and 1.18 of the report point clearly to the Government's ineffective monitoring of performance. You have admitted that in paragraph 14 of your own report. Will you explain why we got into that situation and how it happened?

[48] **Mr Bates:** It goes back to how directive and prescriptive we are with local government and what levers we have—money, statutory force or political pressure—when things that are its responsibility are not happening. Those levers are not particularly strong, and deliberately so, because we do not treat local government as though it were a prime contractor for this sort of thing. The responsibilities rest clearly with it, and we assume that it is locally accountable for those things. Having said that, the reporting was patchy and not particularly comprehensive. Action 9 is one of 44 actions in the national service framework, and it was not getting the attention that some of the other things, which were equally or more important, were getting. That is essentially what happened.

[49] **Ms Jordan:** There is not much more to say on that. A reporting system was set up, but the reports did not appear from all local authorities as frequently as they should. Those that did arrive, perhaps, did not have the detailed scrutiny on this particular issue that would, possibly—in retrospect—have been necessary. The independently chaired board that was set up to oversee the implementation of the national service framework did receive some reports about this. However, from reviewing the minutes of those meetings, it is clear that, rightly or wrongly, the housing targets were not the focus of their attention.

[50] **Janet Ryder:** So, no action was taken to encourage those authorities that had not reported to report?

[51] **Ms Jordan:** Action was taken in 2007 to seek reports from all local authorities. Not all responded.

[52] **Janet Ryder:** At that point, what action would have been open to you?

[53] **Ms Jordan:** Simply to chase again. It was not a statutory requirement that local authorities should produce the reports, or produce them in a certain way. Some information was sent via the local mental health planning groups that had been established in the areas, so we were getting some information from them, but in terms of the submission of the formal reports, we had no powers to absolutely insist that those reports were produced.

10.00 a.m.

[54] **Janet Ryder:** So, it was not picked up by the board that was established to oversee this.

[55] **Ms Jordan:** It was not the focus of its attention.

[56] **Peter Black:** May I ask a quick question, Chair?

[57] **Darren Millar:** If Janet has finished, you may.

[58] **Janet Ryder:** I wanted to ask whether you are satisfied now that that will not happen again, but Peter may have a different question.

[59] **Peter Black:** My question is whether you have enough staff to do this job properly.

[60] **Mr Bates:** We never have enough staff, to be honest. We have our Supporting People operation. Part of our reform to that is to place more responsibilities on local authorities and to do less micromanaging of Supporting People grants ourselves, partly because we cannot keep up. Also, it is a doomed effort to try to understand needs and to manage this too closely from the centre. This has to be led by local government. It is a prime local needs responsibility.

[61] On the health side, I know that there are plans to put in much stronger arrangements for scrutiny, but perhaps Jo should say something about that.

[62] **Ms Jordan:** I cannot comment on the level of staffing around 2007-08 on this agenda, but I can say that, as part of the reorganisation not only of the NHS in Wales, but of the health directorate, we are in the process of greatly strengthening the resources around the mental health and vulnerable groups agenda, bringing it all together under one new head of division, with me overseeing that as director. That brings together the child and adolescent mental health services and the adult mental health agenda and the whole issues around vulnerable groups and their health needs. So, I am confident, going forward, that we are putting in place sufficient resources to drive the whole mental health agenda forward, including the delivery of the Measure.

[63] **Janet Ryder:** To return to what I was going to ask, you said that you believe that it is the responsibility of local government to take this forward and to monitor it. Are you satisfied that you have in place a regime sufficient to monitor that that happens? How will you ensure that that happens and prevent us from getting into this situation again?

[64] **Mr Bates:** From our side, we are doing that through the way that we address the Supporting People agenda and the new reforms that we are putting in place as a result of Mansel Aylward's review, some of which overlap with the recommendations made by the auditor general. If we follow those recommendations, that will give us stronger performance management and engagement with local government and the local delivery bodies on this. However, again, we do not always want to be in a position where we are quite prescriptive about this. Local autonomy is also involved in this, which we try to respect.

[65] **Mr Breeze:** To reassure you, we talked earlier about links between the housing department and health and social services. Those links are now much stronger in terms of cross-departmental working. As a result, the mental health national programme board now includes the chief executive of a housing association. That will ensure that housing is at the forefront of the consideration of services in the future. In addition, and as a result of the auditor general's report, I am meeting all chief housing officers in Wales to look at this subject and how it should be moved forward. Part of our role is being aware of what is going on and of progress in different areas in Wales and, where appropriate, taking action on it. I will introduce one other point, which is an important one, and that is local service boards. I sit on the Merthyr Tydfil Local Service Board and, last week, there was a discussion on mental

health services for the next five years. I am totally confident, as a result, that it will address fully the issues in the Auditor General for Wales's report. That needs to be replicated across Wales, obviously.

[66] **Darren Millar:** I am conscious of the time, so we will have to move on from this particular area.

[67] **Bethan Jenkins:** Touching on what you have said with regard to social housing, with the increase in stock transfer, social housing has more responsibility in this area. Although we have seen in some areas that the local authority retains the statutory obligations with regard to homelessness, for example, quite often, it is at the back of the queue with regard to receiving housing in areas in which stock transfer has happened. Can you tell us what are you doing to encourage local housing associations to deliver on the targets related to housing in the NSF?

[68] **Mr Bates:** The housing associations have a responsibility to respond to the needs identified by local government. For the most part, they have proved to be quite responsive and innovative; there are some very good examples of good practice by housing associations, so there is a good story to tell there. Formally, the guidance on local authority allocations and homelessness—the guidance that we are revising at the moment—will make a stronger case around the responsibilities of registered social landlords in this area. We are also working with Community Housing Cymru and some of the RSLs who are good in this area to produce more guidance and a clearer framework for RSLs working in this area. So, we are taking some measures to ensure that RSLs stay in line, but it is worth recognising that there has been some very good practice by specialised and generalised RSLs in the way that they have delivered on these targets.

[69] **Bethan Jenkins:** Given the nature of housing associations, you may not have as strong a hold on what they deliver. How confident are you that the ones that are doing positive work in this area are showing the way forward to their colleagues in other housing associations, because the concern is that provision could be piecemeal across the board in this particularly important sector of mental health?

[70] **Mr Bates:** That is right, and that is true of local authorities as well. As the report shows, there is quite a lot of variation in what they have reported on the targets. We intend to address that by having stronger guidance, and using our regulatory framework as a way of ensuring that they are compliant with these things in the future.

[71] **Mr Breeze:** Building on Clive's point about the regulatory framework, that is a challenging approach, as it involves not only self-assessment but assessment by the Assembly's regulatory team. It will allow us to examine what RSLs are doing for vulnerable people, and not just in terms of mental health. That will provide a very important base for spreading good practice, which you mentioned. There are some very good examples of RSLs across Wales—I mentioned one earlier. Some of them are specialising in the care services that are provided, and they vary in size.

[72] The report flags up low awareness of mental health issues in terms of the national service framework, which I do not doubt. Three housing associations were covered in the sample. Over the last year, my perspective on housing associations' awareness has been different from that. Awareness varies, but I think that there is considerable awareness on the part of housing associations. Those that specialise and offer specific services are at one level, but, in addition to that, they are dealing with various levels of mental health issues, including anti-social behaviour and its causes. So, they tend to be dealing with it day in, day out.

[73] There is an issue about spreading good practice. There is some really good stuff going on and we need to spread that across Wales.

[74] **Darren Millar:** We will move on to strategic planning. Before we do, I remind Members of the time. We have a lot of ground to cover, so I would appreciate it if Members could be brief in their questions and witnesses brief in their answers.

[75] **Peter Black:** Paragraphs 2.4 to 2.7 identify a number of weaknesses in terms of the collection of data. It is not news that there is no integration of IT systems between health and social care—that is a longstanding problem. However, particularly on the thoroughness of data collection and the non-participation of agencies—Welsh Assembly Government agencies such as health bodies, probation agencies, and so on—in co-operating and collating all the information that is needed to plan properly, what are you doing to ensure that the quality of needs assessments, which are required to underpin planning and investment decisions, improve? How will you address the particular problems identified in these paragraphs?

10.10 a.m.

[76] **Mr Bates:** This subject was covered in Professor Aylward's review, and he drew the same conclusion as the auditor general. Essentially, we are responding by implementing his recommendations. That is, basically, our overall response. We are not in the business of treating local authorities like subcontractors in this case, but we are making it clear that they have a responsibility to make these assessments using the multi-agency machinery that they now have—the local service boards, for example—and to plan these things properly. There are good examples; Cardiff has a good approach to this and it has solved this problem. That is how we are going to address it.

[77] **Peter Black:** It is not just about local government; paragraph 2.7 talks about complex manual assessment forms, examples of non-participation by probation and health authorities, and so on.

[78] **Ms Jordan:** I will pick up on that. The Measure is reinforcing the position around a proper assessment of need. We will be issuing further guidance and a code of practice around that, which will back it up. Work on that will start shortly. In considering what that should include, we will need to look at this issue in particular. We recognise that that can be improved. There are some good examples, but it needs to be improved. So, the Measure will help with that.

[79] With regard to better sharing of information, we are now also starting to look at how we can ensure that there is some sort of system whereby data can be more easily shared across agencies. We are just starting some scoping work on that now. We recognise that that is a priority, in the mental health agenda in particular, and we are starting work to look at that, which will help.

[80] **Mr Bates:** The key planning and assessment tool is the homeless and vulnerable groups' health action plans, which we introduced from 2009 onwards. They are not yet fully embedded, but that is the vehicle for doing what you mentioned.

[81] **Mr Breeze:** I will not build on Jo's point, but we have a series of homelessness prevention projects. One of those is looking at the whole system for homelessness advice; it will address issues such as where information comes from and assessment, and it should lead to improvements.

[82] **Sandy Mewies:** In paragraph 2.9, the report states that the Welsh Government had not undertaken any strategic assessment of local authorities' annual Supporting People operational plans to identify the national picture of supported housing demand and supply or to determine future policy decisions on national supported housing priorities. I know that you

have touched on some of these things. Why was this not done? Also, perhaps more importantly, how will it be done?

[83] **Mr Bates:** The strategic look at this will come when we develop the formula for allocating Supporting People funds. We have to take a national view of need, and that is how we will go about doing that. I keep coming back to this point. In terms of the specific needs, there has to be a local view of it. All the machinery for assessing need is organised at local level.

[84] **Sandy Mewies:** The point is, though, that you have talked about a light touch, non-statutory guidance, and local authorities, but what happens if they do not carry out their work effectively?

[85] **Mr Bates:** That is how we have established this system. We rely on local government and agencies to do this and to be held accountable locally. A tremendous debate is raging all around us about how prescriptive we should be with local government. Local authorities say that we should not be prescriptive at all and that we should leave them to get on with it, as they are responsible. However, some would say that we should be treating them with a lot more of a whip hand. We have recently seen in the Westminster Government a radical change in that philosophy, from one that was very prescriptive under the previous regime, and which had a comprehensive performance agreement and many targets, to one that is much more focused on localism and local responsibility. Here in Wales, we are somewhere between the two.

[86] **Sandy Mewies:** Anyone who has had any contact with a local authority will know that those people who would benefit from Supporting People moneys are always very worried about whether the money going into the authority for that actually comes out the other end to give them what they want. I am not being reassured by what I am hearing. If no-one takes responsibility for that, some very vulnerable people are going to suffer.

[87] **Darren Millar:** Thank you; I think that that was a point rather than a question.

[88] **Sandy Mewies:** It was.

[89] **Irene James:** Many of the points that I am going to raise have already been touched on. Paragraphs 2.11 to 2.19 highlight weaknesses in multi-agency planning and the commissioning of housing and support services. In particular, the effective engagement of health and social care agencies in planning housing and Supporting People services has remained a problem. What are you doing to ensure that, in the future, all relevant partners play an active role in planning and delivering services for vulnerable people with support needs?

[90] **Mr Bates:** I have already mentioned many of the things that we are doing. The planning framework for this includes the homeless people and vulnerable groups' health action plans, which are integral to our Supporting People agenda, and which are coming in now. We have the code of guidance for local authorities on allocation and homelessness, which we are strengthening to reflect the concerns raised by the auditor general. We have much stronger leverage through the Mental Health (Wales) Measure 2010, which will create statutory guidance and will give us more leverage over local agencies than we have had to date. We are also implementing the findings of the Mansel Aylward review, which deals with some of the concerns that were raised in the previous question about our more strategic approach. We have had that looked at independently and, happily, that independent review and the auditor general have reached similar conclusions, and we are now implementing those recommendations.

[91] **Ms Jordan:** The reconfigured health boards in Wales will also help with that, given that we now have bigger, more strategic organisations. In the early stages of this, local authorities were working through local health boards, which then had to deal with their constituent trusts. We now have health bodies that are responsible for the whole delivery of the care system. The engagement, as it matures, should therefore be much better and more strategic between the bigger local health boards and the constituent local authorities. So, it should help not to have an intermediary body, which the old local health boards had, as they were really only the planning bodies.

[92] **Mr Bates:** We have put this on the agenda of the national bodies and networks that are responsible for this, which include the new national mental health programme board, the mental health accommodation network and the housing leads in local government. So, with the machinery available to us, we are trying to get the concerns raised by the auditor general and voiced by this committee onto their agenda.

[93] **Darren Millar:** However, responsibility for some of the partner agencies that need to be around the table to solve some of the problems that were identified has not been devolved to the National Assembly, such as responsibility for the probation service, which you mentioned earlier, Joanna. What are you doing to ensure that such agencies participate fully and are playing their part?

[94] **Mr Bates:** The responsibilities lie with local health boards and local authorities, but they have the local service boards, which are the main multi-agency fora for dealing with this. You are right that the police, probation and other agencies have an important role to play. The meeting place for them is the local service boards, and they are beginning to start to use those local service boards to routinely examine these issues.

10.20 a.m.

[95] **Irene James:** Thank you for your responses so far; however, as Sandy said, I am not reassured that everything is going to be in place. You say that these things are on the agenda, but when are we going to have something concrete to say that they are in place?

[96] **Mr Bates:** We are putting them in place now to varying degrees. We put the homeless and vulnerable groups' health action plan framework in place in 2009, so that is working through the system now. All of the other things are coming in at various times; they have either been put in place in the past or will be put in place in future. The big stick—the stronger measure—is the Mental Health (Wales) Measure 2010, which has only just gone through the Assembly. Under that Measure, we will be able to bring in statutory guidance and add non-statutory guidance that will strengthen some of this work at a national level.

[97] **Jeff Cuthbert:** I note your last point about your ability to use sanctions, although you did not use that term. The mental health Measure may give you a little more ammunition to address shortfalls, and I hope that that is the case. My specific question, however, relates to paragraphs 3.4 to 3.13, and problems with temporary accommodation. Some of the issues identified include deficiencies in risk-assessment processes, Criminal Records Bureau checks and the means of ensuring that temporary accommodation meets the requirements of the 2006 homelessness Order. What steps is the Welsh Assembly Government taking to ensure that these areas of concern are addressed and that vulnerable homeless people are being safeguarded?

[98] **Mr Bates:** We have legislation in this area: the Homelessness (Suitability of Accommodation) (Wales) Order 2006 is Welsh secondary legislation that is there to ensure that appropriate accommodation is found for people. Under the Housing Act 2004, local authorities have a duty to find that accommodation, as have registered social landlords and

providers. There is already a legal framework for ensuring that that happens and there is also the code of guidance—I know that I keep coming back to that, but it is a way of strengthening the guidance in this area.

[99] There are practical issues associated with Criminal Records Bureau checks, given the flexibility in the way that temporary accommodation works and that a lot of the people may potentially be involved in it. We are, therefore, going to have to take that issue away to think about it a bit more to see whether it is practical to undertake those checks. I think that we have the right framework in place.

[100] **Mr Breeze:** One of the steps that I am taking with chief housing officers across Wales is to understand better the situation in different areas and understand what the issues are in implementing this. It is the responsibility of local authorities to implement it; obviously, we have a clear interest in it, and a clear interest in knowing where things can be improved and whether the Assembly Government can help.

[101] **Mr Bates:** It is not one of those areas where we manage the performance of local government; it is clear that it is its responsibility to do this.

[102] **Jeff Cuthbert:** I take your point that it is its responsibility, but the recurring question is that if that responsibility is not adequately discharged, what do we do about it? It is the service that is important.

[103] **Mr Bates:** That is right—

[104] **Mr Breeze:** That is where understanding precisely what the issues are with local authorities in different areas comes into play. Once we have that understanding, it will point to exactly what we need to do.

[105] **Mr Bates:** That comes back to a more strategic point that goes well beyond this issue, regarding the relationship that we have with local government and how directive we are. It is possible to be much more directive and have a more prescriptive performance management regime, like the comprehensive performance assessment regime that was in place in England until the last election, or it is possible to have much more of a local agenda and let the reins go completely, and I think that we are somewhere between the two.

[106] **Jeff Cuthbert:** The issue is whether the service is delivered or not. That is the real acid test.

[107] **Mr Bates:** On that point, I think that that is why we stressed that there is a disconnect between the targets. The third point in my introductory remarks was that there is a possible disconnect between the targets in the national service framework and the quality of delivery at a local level, which may not be one and the same thing.

[108] **Darren Millar:** You pointed out earlier in response to Peter Black that you had not revised the guidance in accordance with the national service framework.

[109] **Mr Bates:** That is right.

[110] **Darren Millar:** Of course, local authorities would pay heed to the guidance.

[111] **Mr Bates:** That is something that we are now addressing. I am trying to be candid. There has been a disconnect here, but the services at a local level for people with mental health problems are good. The Cardiff case study is striking in the sense that the report is full of red ink, but the response that we have had from them on what they are actually doing is

very encouraging and there is a good story to tell there. There is a disconnect there; it is not necessarily a failure of service delivery. The measures in the national service framework are process measures, not final outcome or delivery measures.

[112] **Darren Millar:** If you have finished, Jeff, we will move on to Joyce.

[113] **Joyce Watson:** Paragraphs 3.14 to 3.17 note that there are no measures of repeat homelessness and dual diagnosis. How do you propose to address those weaknesses in performance? It is the same issue time and again, is it not? There is a lack of comprehensive and reliable information, locally and nationally, without which we are not able to drive things forward. We take that as read, now; everyone agrees that that is the case. We are trying to drill down into the particulars, and this is a particular aspect of that.

[114] **Mr Bates:** The area that you are describing is one that is beset with data collection and data quality problems. The question then is what you can actually do with the data. Local authorities have been strongly opposed to our collecting data in this area because they think that they are not of a type that you can do anything useful with. That has been the starting point for that, and it reflects the fact that individuals have quite complex histories that do not lend themselves to capture in an easy, statistical way. Therefore, the approach has been to attempt to personalise the service much more, and deal with individuals as they are, rather than to do it in a statistical way. Jo, do you want to come in here?

[115] **Ms Jordan:** Yes, just briefly, and particularly on the dual diagnosis problem—those who have substance misuse and mental health problems. This is something that Ministers have been very conscious of: there are issues around these individuals and meeting their needs. From my own agenda, we issued guidance under the substance misuse treatment framework, both on the issue of dual diagnosis and comorbidity problems specifically, and on addressing homelessness for people with substance misuse problems. We have tried to reinforce the importance of this and to promote an understanding that it is a difficult issue that cannot always be recorded. However, that is not to say that this is an issue that we have ignored—we have tried to address it through guidance, albeit under the substance misuse treatment framework.

[116] **Mr Breeze:** May I come in on this point?

[117] **Darren Millar:** Briefly, because I know that Sandy wants to come in.

[118] **Mr Breeze:** A review of all housing statistics is currently under way, including homelessness, and we will talk about this particular issue with the parties involved.

[119] **Sandy Mewies:** My point is brief. I understand exactly what you are saying about the difficulties that you might have in complex cases, but if we are ever to have consistent services and assessment, and if performance indicators are to indicate anything useful, there has to be a consistency in the statistics that are collected. That is often not the case across local authorities, or across housing and health services. Is anything being done about that? You say that not all local authorities feel that the statistics are meaningful and I understand why they do not want to collect them if they feel that. So, what can you do to ensure that they are meaningful and consistent? There is no point in having performance assessment if it does not give you an indication of what to do next.

10.30 a.m.

[120] **Mr Bates:** There is not much that we can do about the underlying complexity of the issue. If it means collecting data as a distraction, and we end up collecting the wrong things, then we should not do it. Ceri's point is that that should be taken into the review of the

housing statistics, and we should check again that the approach that we are taking is the right one. It did not come up in Mansel Aylward's review of Supporting People as something that we should do. He has not identified that as a shortcoming.

[121] **Mr Breeze:** As part of the review of statistics, our statistics division will liaise with its counterpart on health statistics. So, there should be some coherence on that. Obviously, it is a work in progress, but it is an important point.

[122] **Darren Millar:** We shall move on to our final question, which is from Lynne Neagle.

[123] **Lynne Neagle:** People with mental health needs are still facing difficulties in accessing and maintaining social housing. Paragraphs 3.18 to 3.23 show that services were rarely tailored to ensure that vulnerable people were supported to use services and exercise their rights and that many landlords still exclude people from housing waiting lists. Given the importance of a stable home in helping people with mental health problems to maintain independence and avoid crisis, how do you propose to address these problems?

[124] **Mr Bates:** The premise of the question suggests that the housing needs of people with mental health problems are not being met, but I do not think that that is the case. There is actually quite a good story to tell about the quality of the service, the reduction in homelessness, and the variety of things that are happening at a local level to do that. I do not doubt that not everyone will have their housing needs met, but then people who do not have mental health problems also face difficulties in housing. It is a problematic area, full stop.

[125] On the issue of exclusions and so on, anti-social behaviour may be an element of that, and we need to make sure that that is handled sensibly and sympathetically in cases where people have an underlying mental health condition. Again, as a result of the report, we will focus on that in the next wave of guidance. There is quite a negative premise in your question, but in reality the system is working reasonably well here; it is just not connected back that well to the national service framework targets.

[126] **Darren Millar:** That brings us to the end of this item on the agenda. You have made many references to Sir Mansel Aylward's review today. It would be useful if Members could have a copy of that from you in order to draw some parallels between the auditor general's report and Sir Mansel Aylward's recommendations. Thank you for the written and oral evidence that you have provided. You have been very helpful.

10.34 a.m.

**Adolygiad o Ddatganiadau Ariannol Swyddfa Archwilio Cymru rhwng 2005 a
2010: Tystiolaeth gan yr Archwilwyr am Gyfrifon Archwilydd Cyffredinol
Cymru**

**Review of the Wales Audit Office Financial Statements 2005-2010: Evidence
from Auditors to the Accounts of the Auditor General for Wales**

[127] **Darren Millar:** We are taking evidence today from the external auditors to the accounts of the Auditor General for Wales. I am delighted that Gareth Lynn and Carol Warburton, who are directors at KTS Owens Thomas, are with us today. Thank you for the paper that you have provided; it has been circulated to Members. If we may, we shall move straight to questions on the paper and some of the concerns that Members have.

[128] When and how did you become aware of the full extent of Anthony Snow's departure settlement?

[129] **Mr Lynn:** We were first alerted to Mr Snow's departure in September 2009.

[130] **Darren Millar:** Okay. Over to Janet.

[131] **Janet Ryder:** Clearly, Mr Snow came from previous employment with the Audit Commission. What audit work did you undertake to ensure that the settlement was in accordance with the terms of the civil service compensation scheme or any reserved rights that were inherited from Mr Snow's previous employment with the Audit Commission?

[132] **Mr Lynn:** When the compromise agreement was presented to us at the beginning of our audit, we went through it. It is silent on quantum in terms of its ongoing pension obligation, but it included sums that he would receive as lump sum payments on departure. We audited that on the data that were provided to us, and, as presented to you in the paper, the Wales Audit Office was in a position where it said that it could not provide any accurate reasonable estimate of the ongoing pension obligation.

[133] **Darren Millar:** These things pretty easy to establish, are they not?

[134] **Mr Lynn:** Clearly not.

[135] **Darren Millar:** We have a figure for ongoing liabilities now, though, so why could that not be established at the time?

[136] **Mr Lynn:** That is a question that you will have to put to the Wales Audit Office.

[137] **Darren Millar:** With respect, you are the external auditors.

[138] **Mr Lynn:** Indeed.

[139] **Darren Millar:** It is a question that you should put to the Wales Audit Office, is it not?

[140] **Mr Lynn:** It is a question that we did put to it, as we have shown in the extract of the minutes that we presented to you in this paper.

[141] **Janet Ryder:** May I ask why you were satisfied to accept that explanation from the Wales Audit Office?

[142] **Mr Lynn:** As I said, the compromise agreement is silent on the quantum of the pension obligation. We cross-referenced that position with other audit evidence available to us during the audit, none of which gave a contrary view that there were available data to quantify it.

[143] **Janet Ryder:** And you were satisfied to write that into your report without having the details in front of you.

[144] **Mr Lynn:** We were carrying out the auditing standards. Looking at IAS 19 and IAS 37, they were applied correctly. There was no reliable estimate of the quantum. We could not find any evidence to support a figure, and we sought written assurance from the auditor general that they were content with that position. We received that assurance.

[145] **Jonathan Morgan:** Chair, in your question, you asked when KTS became aware of the full extent of Anthony Snow's departure settlement. Gareth, you said that you were aware of the departure in 2009. When were you aware of the settlement?

[146] **Mr Lynn:** On 1 March 2010.

[147] **Jonathan Morgan:** And the detail of the compromise agreement? Was that the same day?

[148] **Ms Warburton:** No, the compromise agreement was provided to us at the commencement of the audit, which was 10 May.

[149] **Peter Black:** You indicated that the details were not available to you. Did you put a note on your audit to the effect that that was the case?

[150] **Mr Lynn:** Yes, as is set out in the chronology of events provided, having exhausted the attempt to ascertain a quantum, we also noted that the accounts presented to us for audit did not contain any disclosure about a continuing obligation. So, in accordance with IAS 37, we insisted that there would be disclosure of that continuing obligation, which was accepted and included in the accounts, as you will see.

[151] **Darren Millar:** You say that you exhausted attempts to establish the full total of the liability. What steps did you take? Did you just ask?

[152] **Mr Lynn:** Not at all. We cross-referenced it. We made enquiries to the finance team and requested disclosure of all payments to and in connection with Mr Snow and others in the senior management team. We reviewed the management accounts and the narrative to the management accounts, the budgets and the forecasts. We reviewed the executive committee minutes. We reviewed the internal audit reports, and we reviewed cashbooks and journals to identify large and unusual items.

10.40 a.m.

[153] **Irene James:** Are you satisfied that the settlement is fully in accordance with Mr Snow's entitlement?

[154] **Mr Lynn:** The entitlement is set out in the legal compromise agreement. So, as long as he gets what is in that, it will be correct.

[155] **Irene James:** Are you satisfied that that is what it should be?

[156] **Mr Lynn:** I am not a lawyer to comment on that.

[157] **Irene James:** That is fine.

[158] **Darren Millar:** You just said that the details of the departure package were in the compromise agreement, and you say that his entitlement, therefore, was in accordance with that, but you were not able to quantify that at the time. How would you have been able to match and establish the entitlement if you were unable to quantify what that entitlement was?

[159] **Mr Lynn:** Our only remit is to form an opinion on the accounts. That was an accounting estimate provided by the Wales Audit Office. We do not have a remit to comment on the legality or otherwise of compromise agreements.

[160] **Darren Millar:** Okay. There are questions of propriety though, are there not?

[161] **Peter Black:** In undertaking your audit of the Wales Audit Office's accounts, do you follow the guidance given in the Auditing Practices Board's practice note 10, 'Audit of Financial Statements of Public Sector Bodies in the United Kingdom'? If so, are you aware

that paragraph 279 requires auditors of public sector bodies to consider reporting when issues of propriety come to light, either to management or, for serious matters, to the Assembly in the case of the Welsh public sector?

[162] **Mr Lynn:** Yes, we are. For clarification, the practice note 10, and its paragraph 279, that you refer to was issued in September 2010. That was not the extant practice note that was relevant to the audit that we undertook in 2006, which I have here. However, the note is exactly the same; it is a different paragraph number. We are entirely content that we were not alerted to any matters of impropriety. If we had been, we would have reported that to the chair of the audit committee.

[163] **Joyce Watson:** Do you consider that the circumstances of Anthony Snow's departure settlement gave rise to potential issues of propriety? Specifically, do you consider the way in which the settlement was negotiated, and the fact that the knowledge of the termination package was restricted to three individuals, to be conducive to the proper conduct of public business?

[164] **Mr Lynn:** I will take the first part of that question first. We do not have, in our remit, any requirement to report on the regularity, corporate governance, risk management, or internal controls of the Auditor General for Wales. Our remit is laid out in section 15 of the Government of Wales Act 2006. I am sure that Members here will be aware, from reports prepared and presented to you by the Wales Audit Office on public bodies, of where they are required to report not just on the financial statement, but on matters of regularity as well. That is not the case in our appointment. There is nothing in our audit planning to question the legality or the operational decisions made around removing tiers of management. I need to make that point very clear.

[165] In terms of propriety, as I say, we were alerted to nothing in the course of our audit to suggest that there was any impropriety. We are, of course, aware of the reports that have now been laid before this committee in terms of comments made by individuals that they were told to keep things quiet. We are truly astonished at that.

[166] **Darren Millar:** So, you were not aware of any such comments at the time of your review.

[167] **Mr Lynn:** Absolutely not, Chair.

[168] **Darren Millar:** So, as far as you were concerned, there was no question of propriety in terms of the termination package awarded to Mr Snow.

[169] **Mr Lynn:** That is absolutely correct.

[170] **Darren Millar:** There was therefore no need to report on it.

[171] **Mr Lynn:** We have no regulatory requirement to report on it.

[172] **Jeff Cuthbert:** Please forgive me if I am misunderstanding something here, but in the written evidence that you have provided, on page 2, under 'Key themes', you refer in the fifth bullet point to the external audit close meeting on 25 May 2010, at which I assume you were present. Is that right? You state that

[173] 'The need to provide for the pension obligation for Mr Snow and WAO's inability to provide quantum was discussed. We noted that there was no reference...to the continuing pension obligation and we insisted this be addressed and the disclosure of the continuing obligation was agreed. We requested that the accounts receive full review by the Interim

Auditor General and Managing Partner’.

[174] **Jeff Cuthbert:** That suggests to me that you sensed a problem at that point. Am I interpreting correctly?

[175] **Mr Lynn:** The question is a good one. There was a tension between two accounting standards—IAS 19, where it talks about termination benefits, and IAS 37, which states that, if you cannot make a reliable estimate, you do not provide one. So, there was a tension there. It is for the Wales Audit Office—these are its accounts—to come up with a judgment on whether it can make a provision. We were merely pushing for it to make that decision.

[176] **Jeff Cuthbert:** Yes, but you, professionally, saw a problem, did you not?

[177] **Mr Lynn:** The problem was a technical one, as I have just explained.

[178] **Jeff Cuthbert:** Okay.

[179] **Janet Ryder:** I was going to ask a question similar to Jeff’s. You stated that, under regulations, you did not have to make an account of this, but you have already intimated in your answer to Jeff that you felt there was an issue here. Why did you not take that any further?

[180] **Mr Lynn:** We did. It was also discussed at the ARMC close meeting, at which we clearly outlined various matters in the accounts, including the Mr Snow situation.

[181] **Bethan Jenkins:** My question is with regard to the notes that you have provided. Clearly, there is a divergence of opinion between the Wales Audit Office and you as external auditors. I just want you to confirm whether the notes that you have given us have been shared with the WAO and whether they were agreed by the WAO at the time. Also, could you tell us who exactly attended these meetings, so that we have some clarification? It is quite difficult to have an understanding of this if you do not know who was in the room and who was making these decisions.

[182] **Ms Warburton:** These minutes are extracts from our audit evidence. These are fundamental meetings that we have throughout the course of our audit planning and audit completion. I will deal with each of these meetings separately. I attended the 1 March meeting with the head of finance and a senior manager from our organisation. Gareth and I attended the second meeting, with the head of finance. These notes are contemporaneous notes, which I made at the time, typed up; they have not been shared with the WAO.

[183] **Bethan Jenkins:** So they are purely your take on the situation, are they?

[184] **Ms Warburton:** Yes.

[185] **Bethan Jenkins:** Okay, thank you.

[186] **Darren Millar:** For Members’ information, I have requested minutes and notes of meetings from the WAO to compare them with the information that has been provided by KTS Owens Thomas. I thought that might be helpful. Jonathan has the next question.

[187] **Jonathan Morgan:** Questions have been raised about the way in which Mr Snow’s package was concluded and the way in which that information was held and who knew about the extent of his entitlement. Did you consider reporting to the Assembly, as part of your report on the 2009-10 accounts, on the somewhat unusual way in which the package was agreed, and, one could cruelly say, almost kept secret?

[188] **Mr Lynn:** The first point is that we were not aware of how it was agreed. We were simply presented with a compromise agreement, which is not unusual. Secondly, in terms of propriety, having seen that legally-binding agreement, we were not alerted to any impropriety. Therefore, we had no reason to report to the chair of the audit committee. In terms of reporting to this committee, again, I would go back to my earlier comment. At this juncture, section 15 of the Government of Wales Act 2006 does not require the external auditors to engage with PAC in terms of the formal process of reporting on regularity.

[189] **Jonathan Morgan:** You state that, on 25 May, as Jeff Cuthbert has mentioned, you insisted that the continuing pension obligation be addressed. The use of the word 'insisted' suggests to me that you were sufficiently concerned about the way in which the accounts had been prepared at that stage for you to pass comment as to whether you thought that was acceptable.

[190] **Mr Lynn:** As I said, the draft accounts prepared for us did not contain any element about the future ongoing obligation, which was against IAS 37, which states that if you cannot provide, you have to state that there is an obligation. So, that was the basis for why we were asking them to put that disclosure in the accounts.

[191] **Jonathan Morgan:** So, at that point, you insisted that the accounts be amended to reflect that concern that you expressed, and the concern that it did not comply with the international accounting standard as set out by the financial reporting manual.

[192] **Mr Lynn:** Correct.

[193] **Jonathan Morgan:** Okay. After that date, I met you, Carol and the clerk to the committee as Chair of the committee. That was after the accounts had been formally signed off.

10.50 a.m.

[194] **Mr Lynn:** Yes.

[195] **Jonathan Morgan:** I asked you in that meeting whether there were any concerns at all about the preparation of those accounts, and you said there were no concerns.

[196] **Mr Lynn:** That is correct.

[197] **Jonathan Morgan:** Further to that, in these accounts, you have signed a document that confirms that the accounts comply with the financial reporting manual. How do the accounts comply with the financial reporting manual if they were not amended in the way that you wanted in order for them to comply with international accounting standards?

[198] **Mr Lynn:** The accounts were amended. They did include the obligation. So they put that in the accounts—

[199] **Ms Warburton:** The disclosure.

[200] **Mr Lynn:** Yes, the disclosure of the obligation that there is an ongoing pension commitment.

[201] **Jonathan Morgan:** But not the ongoing commitment itself.

[202] **Ms Warburton:** Which could not be quantified.

[203] **Mr Lynn:** Yes, which they could not quantify.

[204] **Sandy Mewies:** Did your firm attend the Wales Audit Office's audit and risk management committee meeting on 9 June?

[205] **Mr Lynn:** Yes, we did.

[206] **Sandy Mewies:** Did you then raise the issue of the package, its size and the manner in which it was negotiated with the members of that committee?

[207] **Mr Lynn:** No, because we were not aware of how it was negotiated. Our discussion on the Mr Snow obligation was with regard to the accounts.

[208] **Sandy Mewies:** So, you were not aware of the way in which was negotiated or the size, were you?

[209] **Mr Lynn:** Absolutely not.

[210] **Sandy Mewies:** Did the committee look at the package at all during that meeting?

[211] **Mr Lynn:** The discussion was around what was in the accounts, as disclosed in the accounts—the lump sum payment—and the obligation, that there was an ongoing commitment to pension contributions and that it could not be quantified. That was discussed in the ARMC.

[212] **Darren Millar:** Did you not feel that, given the size of the lump sum payment, it might be appropriate to ask some questions about how that had been negotiated and how that figure had been arrived at under the terms of the compromise agreement? This is a senior member of staff at the Wales Audit Office who is departing in unusual circumstances via a compromise agreement, and yet you did not feel it appropriate to ask how that was negotiated, who was party to the discussions around those negotiations and who knew about the potential liabilities in future.

[213] **Mr Lynn:** We have no remit to ask about the regularity of compromise agreements.

[214] **Darren Millar:** However, you have a remit in terms of propriety, do you not? Therefore, you should have asked those questions.

[215] **Mr Lynn:** We tested what was presented to us by cross-reference to all other information available to us.

[216] **Darren Millar:** Did you ask specific questions about how that had been negotiated?

[217] **Mr Lynn:** We did not ask how it was negotiated.

[218] **Darren Millar:** Did you ask why there was a compromise agreement in the first place, with a significant lump sum for a senior member of staff leaving the organisation?

[219] **Mr Lynn:** It is not uncommon for a compromise agreement to be legally signed, so—

[220] **Darren Millar:** No, it is not, but one with such a sizeable sum is. How many other sums of that size have you come across elsewhere?

[221] **Mr Lynn:** The quantum that is now in the media was not available to us.

- [222] **Darren Millar:** You had the quantum in terms of the lump sum.
- [223] **Mr Lynn:** We had the quantum of the £107,000; that is correct.
- [224] **Darren Millar:** That is a significant sum of public money.
- [225] **Mr Lynn:** It is indeed.
- [226] **Darren Millar:** Did that not bring any questions about propriety to your mind as an auditor?
- [227] **Mr Lynn:** It is legally binding. We are not there to question compromise agreements that are legally binding.
- [228] **Darren Millar:** However, you are there to question propriety, are you not? With a significant sum such as that, surely questions should come to mind about how it had been negotiated, who knew about it and whether it was within the usual terms or conditions that one would expect, given the fact that this is a public sector employer. Issues of propriety then kick in, do they not?
- [229] **Mr Lynn:** Yes.
- [230] **Darren Millar:** So why did you do not ask those questions?
- [231] **Mr Lynn:** The questions that we asked were about the lump sum payment and the continuing obligation and how they were arrived at—
- [232] **Darren Millar:** What was the explanation of how the lump sum payment had been arrived at?
- [233] **Mr Lynn:** The lump sum payment was based on the requirement to pay him whatever they had agreed in terms of their legal negotiation.
- [234] **Darren Millar:** You did not ask how that negotiation had been carried out, however.
- [235] **Mr Lynn:** We did not ask how that negotiation was undertaken or who was involved. From the compromise agreement, it was clear that that was undertaken by two reputable firms of lawyers, and that was satisfactory evidence. It is legally binding.
- [236] **Jeff Cuthbert:** When you say ‘legally binding’—you have not used the words ‘contractual arrangement’, although perhaps that is what you mean—was that in writing? Did you see evidence that it was legally binding, or were you simply told that that was the case?
- [237] **Mr Lynn:** We were given the compromise agreement. The compromise agreement is signed.
- [238] **Darren Millar:** Did you not feel that it was appropriate to ask questions, given the scale of the payments and given the fact that a senior member of staff departed that organisation in unusual circumstances? Such agreements are not uncommon, but it is unusual for someone to depart an organisation in that way. Did you not feel that it was appropriate to test the propriety issues that could have arisen as a result of that package and payment?
- [239] **Mr Lynn:** It is not within our remit to do so.

[240] **Darren Millar:** Well it is, with respect, in terms of the propriety issues, is it not?

[241] **Mr Lynn:** I disagree.

[242] **Darren Millar:** Why do you disagree? The Auditing Practices Board issues guidance to public sector auditors on propriety. Paragraph 279 of Practice Note 10 states:

[243] ‘When issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how, they may be reported. Where propriety is part of the wider statutory role, as it is for the Comptroller and Auditor General, the auditor considers whether a matter is of such significance that it needs to be reported to Parliament.’

[244] It would be reported to the Assembly in this case. It goes on to state:

[245] ‘In other cases, where propriety falls within the terms of the auditor’s engagement, reporting may be to management.’

[246] You do have a role, do you not, in terms of propriety?

[247] **Mr Lynn:** If we were alerted to any matter—

[248] **Darren Millar:** Well, you did not ask the questions. That is the problem, is it not?

[249] **Mr Lynn:** We asked the questions that were necessary to form an opinion on those financial statements around those numbers. That is what we did.

[250] **Darren Millar:** Did you ask who was party to the negotiations for this agreement?

[251] **Mr Lynn:** No, we did not.

[252] **Darren Millar:** Did you ask why this was such a significant lump sum?

[253] **Mr Lynn:** No, we did not.

[254] **Darren Millar:** Did you ask why this individual had left via the use of a compromise agreement?

[255] **Mr Lynn:** We were informed that Mr Snow left because of the restructuring as a result of the international peer review.

[256] **Ms Warburton:** In the context of the packages for voluntary severances that were ongoing and the reshaping of the Wales Audit Office that was happening at the time, that was reasonable.

[257] **Darren Millar:** It seems to me that some obvious questions have been missed here, frankly.

[258] **Lynne Neagle:** Did you raise the matter of Anthony Snow’s departure package in your report to those charged with governance required under International Standard of Auditing 260?

[259] **Mr Lynn:** Yes. Our compliance with ISA 260 is in three parts. First, there is our external audit plan, which we presented to the audit and risk management committee, on what was expected of us and of them. Then there is the ARMC meeting itself and the discussions

around Mr Snow's pension obligation. Finally, there is our management letter, which is in draft form at the moment and is awaiting response. So, we complied with ISA 260.

[260] **Bethan Jenkins:** My question touches on much of what the Chair has said previously. As regards the public perception of the Wales Audit Office, the media attention given to some of the issues that were coming out at the time and the governance arrangements at the Wales Audit Office, did you see it as your obligation to carry out any sort of governance review or report to the National Assembly or to the management board as a result of these public demonstrations of concern with regard to the Wales Audit Office? Many of us are aware that we were going to initiate a committee inquiry to this end, but did not follow through with that. What obligations or role do you see you having with regard to holding the Wales Audit Office to account in terms of governance arrangements and the systematic problems that have been identified within the office?

[261] **Mr Lynn:** I will answer that in two parts, if I may. First, I take you to the audit report. It is specifically stated that we are not required to report on corporate governance, regularity, risk management or internal controls. We are not required to do that. So, that is prior to signing the audit report. On the media attention and the information given in the media, when this became apparent, we wrote to the chair of the ARMC to provide a complete chronology of the audit process.

[262] **Jonathan Morgan:** As you are aware, the National Audit Office review into the Wales Audit Office's accounts for 2005-06 to 2009-10 concludes that the Wales Audit Office should have accounted for early departure settlements in accordance with the financial reporting manual, which, in turn, requires compliance with IAS 19. Why did you agree with the Wales Audit Office's accounting treatment, which enabled ongoing payments to the pension administrators to be charged over time as they fell due, rather than upfront when the agreement was made?

11.00 a.m.

[263] **Mr Lynn:** To take you back to the earlier discussion and our audit of this compromise agreement, there were two international accounting standards in play, namely numbers 19 and 37. We discussed those at some length, as shown in the minutes. We were content that there was no evidence available nor was information provided to us that allowed the Wales Audit Office to provide a quantum of the ongoing pension obligation. The lump-sum payments were clearly paid, so they were included in the accounts. I cannot tell you more than that, because that is what happened.

[264] **Jonathan Morgan:** In essence, you are saying that the Wales Audit Office could not establish a provision for future liabilities because the amounts were uncertain.

[265] **Mr Lynn:** That is the information that was presented to us throughout the audit and by the auditor general at the end of it.

[266] **Jonathan Morgan:** I find that curious; why did you accept a provision of £715,000 in the 2009-10 accounts for voluntary early retirement to be taken in 2010-11 when, at the time, it was uncertain who would be leaving and there was no guarantee that any requests for early severance would be accepted? It seems as though you have applied two different standards; one for the amount of £715,000, which was taken into account, and the other for Mr Snow's settlement, which was not.

[267] **Ms Warburton:** At the time of the audit, the voluntary severance scheme was under way and a list of 16 named individuals was highlighted to us. The details surrounding those individuals, in terms of the likely package that they would be receiving on voluntary

severance, were provided to us, and were calculable and auditable. At the time of the audit, meetings were being held with those individuals, so that provision was crystallising under our noses.

[268] **Jeff Cuthbert:** To be clear on that point, you were presented with a list of 16 people who could, potentially, have benefited from this. Are you saying that their entitlement or potential entitlement added up to that £715,000?

[269] **Ms Warburton:** That is right.

[270] **Jeff Cuthbert:** I see; thank you.

[271] **Jonathan Morgan:** There seems to be an inconsistency between allowing for one amount to be set in the accounts for voluntary early retirements when there would have been no guarantee who was going to be taking that early retirement and not allowing for the full amount to be paid on Mr Snow's departure in the accounts. I find it quite alarming that there is rather an inconsistent approach to the same process. As I understand it, the 'Financial Reporting Manual', which refers to the old financial reporting standard 12, states that

[272] 'a provision should be recognised when an entity has a present obligation... as a result of a past event, it is probable that transfer of economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Except in extremely rare cases an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.'

[273] The question remains as to why the complete cost of Mr Snow's departure was not put in the accounts upfront in 2009-10 when you were satisfied that a sum of £715,000 could be set aside for those hitting early retirement age.

[274] **Mr Lynn:** The answer is the same: the £715,000 was calculable and data were available to do so.

[275] **Jonathan Morgan:** However, the ongoing liability of the departure package for Mr Snow—who was 50 years of age—would presumably extend until his sixtieth birthday. I think that most actuaries would accept that, if you are fortunate enough to hit your fiftieth birthday, you have more than a 90 per cent chance of hitting your sixtieth birthday. It is, therefore, reasonable to estimate that Mr Snow's package would have amounted to a 10-year obligation for the amount in question in each year. If you are basing an estimate on something that is pretty firm, to say the least—it would have been rare, in an actuarial sense, for someone to not reach their sixtieth birthday having reached their fiftieth—I fail to understand why that estimate would not have been included.

[276] **Ms Warburton:** No estimate was provided to us by the Wales Audit Office during the course of our audit; we had no paperwork to audit, nor did we have any figures to look at.

[277] **Jonathan Morgan:** The estimate would have been based on the fact that you would have known that legal obligations would have continued until his sixtieth birthday, unless he had departed before then. The chance of someone reaching their sixtieth birthday, at that point, is very high. So, you, as a firm of accountants, would have known that the chances of him reaching his sixtieth birthday were extremely high, and, therefore, what the obligation would have been.

[278] **Ms Warburton:** If we had had a figure for the obligation, we would have been able to challenge that. We had no figure for the obligation, and we had no information provided to

us.

[279] **Darren Millar:** That is a poor excuse, is it not? If you were able to quantify the packages that might arise for 16 people, if the restructuring was completed, and make an estimate, which was reported in a very different way in the accounts, why could you not do so for one person? Is it not pretty extraordinary that you were not able to establish exactly what this liability would be?

[280] **Mr Lynn:** I can only repeat what I said before: the legal compromise agreement is silent on continuing obligation. The Wales Audit Office represented to us that it could not provide a reliable estimate in accordance with IAS 37.

[281] **Darren Millar:** Did you not compare and contrast that with it being able to give you reasonably reliable estimates for 16 other members of staff?

[282] **Mr Lynn:** We audited the information available for the 16 members of staff, which is why we were content with that provision.

[283] **Janet Ryder:** A firm like yours, which is well established in accounting, would, presumably, have some background knowledge from previous accounts of what the liability, or the sums involved, were likely to be, given Mr Snow's age, experience, background and position—I assume that you must have had some figures in your own heads. Yet you seem to have been happy to sign off the accounts even though you were given no information on that, and to sign off accounts without that information in them. Did you ever question the way in which this was being dealt by the Wales Audit Office?

[284] **Mr Lynn:** Yes; as explained in the extracts of the minutes of the meeting, we provided a challenge at the outset and during the course of the audit, and we explained to the ARMC that no quantum was available.

[285] **Janet Ryder:** At what point did you make the interim auditor general aware of your concerns?

[286] **Mr Lynn:** The interim auditor general, executive committee, head of finance and head of internal audit were all present at all ARMC meetings; therefore, they would have been party to all of that.

[287] **Darren Millar:** You put it to them that you felt unable to comply with the usual accounting practice for this payment simply because there was no quantifiable liability.

[288] **Mr Lynn:** There was compliance with IAS 37 as long as there was a disclosure that there was an ongoing obligation, which is why we insisted on that.

[289] **Darren Millar:** I know what you are telling me, but did you raise, as a matter of priority, the need to try to establish a quantum?

[290] **Mr Lynn:** We did so at the planning meeting on 1 March and throughout the duration of the audit.

[291] **Darren Millar:** You indicated that you would like to quantify that in order to comply with the other IAS.

[292] **Mr Lynn:** Yes.

[293] **Jonathan Morgan:** However, the point still stands that, even if the accounts had a

note stating that there was a liability, it is the extent of the liability that is the issue. The National Audit Office is fairly clear in its view that, in the case of early retirement benefits paid via the civil service pension scheme, it would be an extremely unusual conclusion to reach where a contingent liability would need to be disclosed in the notes to the financial statement. So, the issue is not so much whether the liability is recognised, because a liability was obviously recognised at that point, as he was leaving, but whether the notes contained the relevant information. That is the sticking point for us. You went on to produce an unqualified report, whereas there were clearly issues as to whether this particular package of severance had been treated and accounted for correctly. I still think that that is the major sticking point here.

[294] **Darren Millar:** You have explained that there were some significant or lengthy discussions about which IAS you would comply with.

[295] **Mr Lynn:** Absolutely.

11.10 a.m.

[296] **Jeff Cuthbert:** My question is about other accounting issues. The National Audit Office review highlights a number of other areas where the Wales Audit Office's accounts do not comply with the financial reporting manual or where accounting judgments have been applied inconsistently. These include the non-recognition of liabilities associated with moving offices in March 2008, the provision for bad debts, the treatment of financing from the Welsh consolidated fund, and significant deficiencies in the presentation of the remuneration report. Your opinion on the Wales Audit Office's accounts states that the accounts comply with the financial reporting manual. Were you aware of these deficiencies? If so, why did you not seek an amendment to the accounts?

[297] **Mr Lynn:** I will take the first part of that question on the financial reporting manual—FReM. As disclosed in your paper, the Wales Audit Office in 2005 sought clearance from Her Majesty's Treasury on accounts direction. The Wales Audit Office, when it came into being, wanted to present its accounts in a more commercial manner, not in a pure resource accounting manner. You have seen the extract of the e-mail from Her Majesty's Treasury confirming that to the Wales Audit Office. So, with regard to certain elements of the National Audit Office report on funds not being reported through reserves, but in the formal income and expenditure statement, there was a departure from the FReM, but the Wales Audit office was following the direction and clearance from Her Majesty's Treasury in that respect. That is quite clear.

[298] **Jeff Cuthbert:** My understanding is that the financial reporting manual requires any such departures to be fully disclosed in the accounts. Are you saying that there was some sort of waiver to that?

[299] **Mr Lynn:** Yes, in the e-mail that is appended to your report. On the other points made by the National Audit Office, there was a full discussion about the premises, which were up for subletting. Where there is an economic benefit outweighing the cost, where you expect an economic benefit arising, you do not need to make that provision, and those offices were sublet. So, that was the decision that the Wales Audit Office took on that provision.

[300] The bad debts were discussed in detail at the ARMC meeting and are included in our management letter, along with the severances. I draw your attention again to the letter of representation from the interim Auditor General for Wales, where the last paragraph confirms that she is content with severances, the dilapidation provisions and the bad debts.

[301] **Jeff Cuthbert:** Were you content with that?

[302] **Mr Lynn:** Having had that information, yes.

[303] **Darren Millar:** I want to return to the issue of the pension liability, which is the difficult issue for most Members. Given that Mr Snow was participating in the civil service pension scheme, would it not have been possible to use some generally available figures to assess the likely liability going forward? Did you find, or ask for, any correspondence between the Wales Audit Office and the pension administrators calculating the annual payments that might be due?

[304] **Mr Lynn:** We only have access to the information from the Department for Work and Pensions. All of the figures come directly from there to the Wales Audit Office.

[305] **Darren Millar:** Did you not ask for any figures or correspondence regarding the pension liability?

[306] **Mr Lynn:** All that we discussed was the compromise agreement and its requirement to try to meet IAS 19 and IAS 37.

[307] **Darren Millar:** Did you not feel it appropriate to ask whether there had been any correspondence regarding future liabilities?

[308] **Ms Warburton:** We requested information about Mr Snow's severance and were provided with only the compromise agreement.

[309] **Darren Millar:** Did you specifically ask about any correspondence relating to his future liabilities?

[310] **Ms Warburton:** You will see, from the minutes, that I challenged that there must have been information available somewhere. That information was not provided to us.

[311] **Darren Millar:** However, you did not, at any point, feel it appropriate to make a more formal request in writing to the Wales Audit Office for that information.

[312] **Mr Lynn:** The representation from the auditor general is our request in that respect.

[313] **Jeff Cuthbert:** You referred to an e-mail, which I assume is the e-mail from Nick Bailey that refers to the Companies Act 2006 format that can be used if that is considered more convenient, but does that then override the requirement of the financial reporting manual for such departures to be fully disclosed in the account? Format or how one sets something out is one thing, but surely a requirement cannot be overridden by that.

[314] **Mr Lynn:** The last point from the HM Treasury specialist confirms the point that you are raising. The accounts direction does not need to specify which format should be used, as it says, in essence, follow the FReM, which allows the use of Companies Act formats.

[315] **Jeff Cuthbert:** Yes, the format. I am not an accountant or lawyer, but does that mean that the requirement to disclose in a clear way is not a requirement anymore?

[316] **Mr Lynn:** It is implicit in the FReM that they are allowed to use Companies Act formats if they think that that is appropriate.

[317] **Jeff Cuthbert:** However, it was not disclosed. My understanding is that, in whatever format, this information was not disclosed.

[318] **Mr Lynn:** I am very sorry, but I do not understand the point that you are making.

[319] **Darren Millar:** I think that the point is that we accept that a direction was issued that allowed for the accounts to be presented in a slightly different format, but there are still accounting requirements in terms of the reporting that could not be set aside, given the direction that had been issued. It is also noted, is it not, by all members of the committee, that that direction was issued in 2005-06, before the Welsh consolidated fund existed? Did you not feel that it would be appropriate to ask for a fresh direction?

[320] **Mr Lynn:** We periodically ask whether the accounts direction has been updated. The answer is 'no'. That is the last accounts direction that is available.

[321] **Darren Millar:** When was the last time you requested information regarding any fresh direction?

[322] **Mr Lynn:** Probably 2008.

[323] **Darren Millar:** Probably?

[324] **Mr Lynn:** I do not have my audit files in front of me, but we do ask whether there has been a change in the accounts direction.

[325] **Darren Millar:** You would have asked that prior to the preparation of—

[326] **Mr Lynn:** Absolutely, but this is the last accounts direction that was communicated to us.

[327] **Peter Black:** Was there not an accounts direction issued on 24 February 2006? Is there not a reference in the WAO internal audit report and the NAO report that the direction of 1 November 2005 was out of date?

[328] **Mr Lynn:** I am not aware of that report, I am afraid.

[329] **Peter Black:** Are you aware of the direction that was issued on 24 February 2006?

[330] **Mr Lynn:** I am not aware of that direction, off the top of my head. If we asked and we were not presented with it, then we do not have it.

[331] **Peter Black:** Have you seen the WAO internal audit report or the NAO report?

[332] **Mr Lynn:** We have seen the NAO report and the WAO report.

[333] **Peter Black:** Do they not refer to the fact that the accounts direction of 1 November 2005 is out of date?

[334] **Ms Warburton:** They do refer to the fact that it is out of date. If you would like us to expand on that, perhaps we should do so from our audit files.

[335] **Peter Black:** You cannot expand on it now.

[336] **Mr Lynn:** We cannot provide a comment on that without referring to our audit files.

[337] **Darren Millar:** May I ask you quite a pointed question? Given all the issues that have surfaced regarding the Wales Audit Office accounts, the views of the current auditor general, the findings of the National Audit Office and the concerns that Members have raised

today as a committee, do you still consider that you are able to continue as external auditors to the Wales Audit Office?

[338] **Mr Lynn:** Yes, we feel that we have discharged our duties in accordance with auditing standards.

[339] **Darren Millar:** Even though other bodies significantly differ in their view in that respect.

[340] **Mr Lynn:** On our continued appointment or on their opinion on the—

[341] **Darren Millar:** No, in terms of the way that you compiled the accounts.

[342] **Mr Lynn:** First, we do not compile the accounts. We express an—

[343] **Darren Millar:** In the way that things were reported in the accounts.

[344] **Mr Lynn:** The way that things were reported in the accounts is a matter for management. Our role is to express an opinion on them.

[345] **Darren Millar:** Are there any other questions from Members?

[346] **Janet Ryder:** You have just said that it is your role to express an opinion on them, yet you did not think that it was your role to express an opinion that this pension liability was not being accounted for.

[347] **Mr Lynn:** No, we did. That is in the extracts of the minutes. We had that discussion, we brought it to the attention of the appropriate individuals, we discussed it with the audit and risk management committee and we sought written representation from the auditor general, which we received.

[348] **Janet Ryder:** At no point did it cross your mind that perhaps this might be of interest to the Chair of this committee.

11.20 a.m.

[349] **Mr Lynn:** There was no reason for us to suspect any impropriety at that point of signing off those accounts.

[350] **Darren Millar:** Do Members have any further questions? I see that they do not. Therefore, that brings this part of our meeting to an end. I thank you for your attendance at today's meeting. We are very grateful to you.

11.21 a.m.

**Cyflawni Gwaith Archwilio Perfformiad Lleol Arfaethedig Swyddfa Archwilio
Cymru ers 2005
Delivery of Planned Wales Audit Office Local Performance Audit Work Since
2005**

[351] **Darren Millar:** We have received some correspondence from the auditor general and a copy of the Wales Audit Office report on the internal audit. Would you like to introduce that, please, auditor general?

[352] **Mr Thomas:** I would just like to remind the committee of the various steps that are in play in order to put this in context. You will recall that, last time, you had the report from the NAO and our internal audit, on which you have just asked questions to the external auditor. I indicated then that work was taking place to look into allegations that, in effect, the Wales Audit Office had been systematically recognising income without undertaking the work connected with it. I took that sufficiently seriously to require a 100 per cent check of all of the projects that have been carried out since 2005. I asked that the internal audit subjected this to a more than proportionate crosscheck. I have also appealed for anyone with specific evidence to come forward on several occasions, and we had a discussion about that the last time that I was here.

[353] No tangible evidence has been presented. I will invite Simon Edge to comment on the report that you have received in a moment. As a result of the checks that we have carried out, the report indicates that there are 11 projects that we have not yet fully bottomed out—that number has now been narrowed down to eight—against the large number of over 2,500 projects that were conducted during that period. As the report indicates, in one case, I am satisfied that, with one and a half days having been spent on the project, both the audited body and the staff concerned moved on to other things. I have therefore authorised repayment of eight and a half days' worth of fees to that audited body. As I said, that leaves another eight that we are still bottoming out, and that would be my approach if any were found not to have been delivered.

[354] You will remember that the allegations and the headlines referred to millions of pounds; this does not demonstrate it at all. I remain open to the possibility of undertaking any further inquiries on the basis of any tangible evidence that is presented to me. There, I need to pause.

[355] We have spent £30,000 so far on the work. As you remember, the National Audit Office indicated that it thought that around 150 days' work was probably needed to pursue that work. The cost of 150 days is roughly £100,000, and we have spent £30,000 of that. I think that this is the point at which I say that I have spent enough money to show that the allegations do not hold water and we have therefore probably done as much as we can at the present time, subject to any further evidence being presented to me.

[356] **Darren Millar:** Thank you for those opening remarks. A copy of the internal audit report and the auditor general's letter has been made available to members of the committee. Are there any questions on those papers?

[357] **Jonathan Morgan:** Auditor general, thank you for the report and the way in which you and your colleagues have responded to this matter. I was deeply concerned when the allegations were made, not because I had any concern that they would be found to be true, but because of the way in which the media had responded by simply printing the allegations as though they were a statement of truth, and it was therefore left to the audit office to defend itself against what was published in the *Western Mail*. It is sloppy journalism and demonstrates where we are at the moment in terms of reporting matters as they arise. You have dealt with the matter thoroughly. The important thing is for us to understand how staff will now be made aware of the work that has been done, perhaps not just those who were involved in preparing the report but those further down the chain. Clearly, those allegations came from within the organisation itself, and it is important that you outline how staff will be more engaged in having a better understanding of how the work is done and what the report has referred to.

[358] I am satisfied with the report, Chair. It is thorough, and I am grateful to the audit office for being open and transparent in the way in which it has dealt with the matter.

[359] **Darren Millar:** Does anyone else want to comment?

[360] **Joyce Watson:** I sat and worked my way through the report over the last few days, as I am sure have other Members, and did so again very early this morning to remind myself. It seemed to me that the allegations were somewhat spurious, and, according to the report, they have been proven to be unfounded. Despite the open request that you made for people to provide you with any information that could uphold those allegations, which could be done in total confidence, you did not have any such information to hand. So, it is fair to say that you have done a thorough job. It has cost £30,000, and could have gone on to cost hundreds of thousands of pounds. I agree that this is a sensible point to draw a line underneath the matter. We are all charged with the useful expenditure of public money, not the complete waste of it, and it seems that it has cost £30,000 to find out that there was no case to answer.

[361] **Bethan Jenkins:** I want to go on record to thank the auditor general for the review that has been carried out, and for the rigorous way in which it has been presented to us today. As the Assembly Member who raised the issue, I am heartened that the Chair wrote to all Assembly Members to try to clarify the situation. I have been in correspondence with the auditor general, copying in the Chair, in order to make the point that I am glad that it has been investigated, because some previous allegations have proven to have quite substantial legs, so to speak. I would not want to think that, if there are future problems, the committee and the auditor general would not look into them. I am heartened by the way in which the review has been carried out, and I hope that, in future, matters can be communicated via the committee as opposed to being communicated in other ways.

[362] **Darren Millar:** Does anyone else want to comment on this matter? I see that you do not. I think, auditor general, that the consensus is that the report draws a line under this matter. The allegations were clearly unsubstantiated, and neither the committee nor your offices have been furnished with any evidence. It appears that there has been no systematic overbilling whatsoever. Where you have been able to identify a situation where there is insufficient information to suggest that someone may have been undertaking some audit work, you have undertaken to reimburse the organisation involved, and I think that that is entirely appropriate. This will, hopefully, be the last time that this matter appears on our agenda. Do you have any further comments to make?

11.30 a.m.

[363] **Mr Thomas:** I am grateful to Members for their comments. I will just comment briefly, if I may. As Jonathan Morgan indicates, it is one thing to look at allegations and say, 'This is the result'; but it is the question of what one picks up and applies for the future that is important. As the paper indicates, the landscape of performance audit has changed considerably with the Local Government (Wales) Measure 2009 and structured assessments in the NHS, so the potential for this has diminished. However, at the same time, there are inherent weaknesses in terms of audit trails and e-mails, for example, and more needs to be done internally to improve record-keeping, and so on. Those are all lessons that we will pick up.

[364] There is also an issue about ensuring that staff better understand exactly how we bill and account for our performance work. That, too, needs to be addressed. There is always a difficulty. We were confronted with the need to prove a negative, and that is almost impossible. We have done our best, and I am grateful for those comments, but as Bethan Jenkins has indicated, the door remains open for me to conduct further work on the basis of evidence presented.

[365] **Darren Millar:** Thank you for those helpful comments, auditor general. Before we lose you from our midst, there was a matter arising from the Public Accounts Committee

meeting held on 9 December, regarding some training costs for a former employee of the Wales Audit Office. You kindly undertook to write to committee with further details, and committee members have had sight of the paper and letter that you sent. In paragraph 9 of the written evidence that you provided, on the expenditure on training, you suggest that the former auditor general may also have been in receipt of training at a significant cost. Could you provide us with any further information on that?

[366] **Mr Thomas:** There are a couple of points that I would want to make on paragraph 9. First, I draw your attention to the average annual spend on training within the Wales Audit Office. We do not compare well with Audit Scotland or the National Audit Office on that, so there is a need to look again at the amount of training we receive and exactly how we fund it. We do compare well, I have to say, with the senior civil service, in terms of the amount of training per head. As for the paper on Anthony Snow's average expenditure on training, you will see from the paper that it was about £8,800; the average for Mr Colman was also over £8,000.

[367] **Darren Millar:** So, the former auditor general was in receipt of training at an average annual cost in excess of £8,000.

[368] **Mr Thomas:** On average, yes.

[369] **Darren Millar:** Is there any information as to why these two individuals had such expensive training requirements?

[370] **Mr Thomas:** The paper explains that there is an absence of adequate records for the authorisation process and the choice of training undertaken by Mr Snow. You will therefore not be surprised to find that there is a lack of adequate records for the former auditor general's training. We looked at this because we needed to make a comparison. It would be fair to say that these are the figures for the average spend on training for the former auditor general, and that some years are higher than that; considerably so.

[371] **Darren Millar:** So, you have undertaken some further work with regard to the former auditor general. Could you make that information available to this committee?

[372] **Mr Thomas:** Yes. As soon as we have completed a similar kind of analysis to the one you have set out here, I will write.

[373] **Darren Millar:** Is there a total cost covering a particular period that you can give us today, or is that information not yet available?

[374] **Mr Thomas:** I have figures for certain years. This is why I am hesitant in answering fully now. In one year, there appears to be a nil cost. I want to be sure that that is a nil cost, or rather, that the records have not been found. The calculation of £8,000 assumes a nil cost for that year.

[375] **Darren Millar:** So, it could potentially be much higher.

[376] **Mr Thomas:** Yes.

[377] **Peter Black:** You say in paragraph 5 that the human resources records do not contain a copy of the PDPR for Mr Snow. Presumably, the practice at the Wales Audit Office is that staff have a regular review of their training needs, and that that is recorded and monitored. Is that the practice as it now exists?

[378] **Mr Thomas:** Yes, as set out in paragraph 2.

[379] **Darren Millar:** As a matter of interest, auditor general, who authorises the training expenditure for the auditor general?

[380] **Mr Thomas:** I was thinking about that on the way here, to be honest. [*Laughter.*] I suppose that the reality is that it is me, but this brings us back to the issue about the governance committees, for which you will have seen adverts appear over the last week. Governance committees are brought in for remuneration and resources. It would be useful for me to at least have a discussion with the eventual chair of the remuneration committee in terms of my position. However, the reality in terms of accounting is that it is me who authorises that expenditure.

[381] **Darren Millar:** That is until a future date when the chair is in place; in this case, it would have been the former auditor general authorising what many people would think is pretty lavish expenditure of £8,000 a year on training for himself.

[382] **Mr Thomas:** As I commented before, I wish that I had known that these were the going rates when I provided mentoring and coaching services.

[383] **Darren Millar:** Were it not so serious, it would be laughable, would it not?

[384] **Jonathan Morgan:** The expenditure is quite interesting. The figure that jumps out is the figure in the 2008-09 financial year, which shows that Mr Snow had more than £14,500 spent on training for him as an individual. That is a significant sum of money—it is more than some people earn. It would be helpful to understand the process that members of staff have to go through in order to make the case for why that training is necessary. In other areas of the public sector and for those in the civil service, if you wish to undertake a training scheme, the expectation is that a rigorous case is made to support such expenditure and to detail what the member of staff will gain as a result. Therefore, I assume that, as his line manager, the former auditor general, Mr Colman, was solely responsible for determining whether or not Mr Snow was allowed to undertake that training, and was therefore singly responsible for signing off that expenditure.

[385] **Mr Thomas:** Yes.

[386] **Darren Millar:** Thank you for that clarification.

[387] **Janet Ryder:** My question is very similar to Jonathan's, namely how do you define which training courses a senior member of staff needs to go on? There seems to be an exceptional number of senior executive coaching sessions, which all seem to have a rather high price tag. Have you put in place a system so that, in future, a person has to make a business case or demonstrate a gap in their ability or a need to update skills before they can attend a training course?

[388] **Mr Thomas:** As you rightly say, these are external coaching sessions. Most of the training that the former auditor general undertook was also of a coaching and mentoring nature. I am afraid that I cannot help you further, because I would have expected that any coaching and mentoring undertaken by a person is, almost by definition, in the areas on which that work will concentrate, identified as a part of that person's annual review, six monthly review or periodic review in terms of how they are performing the job and the areas they need to strengthen or where they need extra help. There is no trail for that for Mr Colman or for Mr Snow.

11.40 a.m.

[389] **Darren Millar:** Further to Janet's question, I note that the venues were often in London, Windsor, Kendal and lots of different locations across the country. What were the travel and subsistence costs, and are they included here in the prices of the training that was provided, or are they additional costs that we need to factor in, in terms of the total cost of this training?

[390] **Mr Thomas:** We have identified such costs in response to some freedom of information requests. If you look down the column that says 'training course', you will notice that there is, if you like, a running cost of how some of these have been broken down. I will need to double check that that includes the extra travel and subsistence costs.

[391] **Darren Millar:** That would be helpful information. Just to inform Members, Mr Snow has agreed to come before the committee at a future meeting to give some evidence, so it would be useful to have that information for that particular meeting. A few other Members want to come in here. Sandy is first, and then Joyce.

[392] **Sandy Mewies:** Briefly, looking at these, you have to wonder why a room has to be hired for one person to have senior executive coaching. There are some things here that raise eyebrows, and looking at these figures, I would say that they do not include subsistence and travel. They do not seem to add up. Usually, when people agree a personal development plan and record, there is a very basic need that not only does it develop the person in their role, but that it benefits the organisation. We can all go on training courses—well, I cannot now; I am far too old. However, it has always been the case that people can go on training courses—teachers, for example—in certain areas, but it is about developing their role within the organisation for which they work to the benefit of that organisation. I am presuming that when you look at individuals' PDPR proposals in future, they will have to be agreed by both sides, but there will also be a test.

[393] **Mr Thomas:** Indeed. Paragraph 4 notes that Mr Snow says that he did discuss and agree his training needs for the courses he attended, as well as the planned and achieved outcomes of that training, with the auditor general.

[394] **Sandy Mewies:** Is there documentation?

[395] **Mr Thomas:** No.

[396] **Sandy Mewies:** That is the point, is it not?

[397] **Mr Thomas:** You do not always respond on individual training needs. Sometimes, you have to look collectively. Let us say that I might identify that some partners need extra training in particular areas, it is more cost-effective for the organisation to have group training, conducted in-house, than to send everybody away. It is that kind of analysis that I would have looked for, namely the justification as to why it was always on an individual basis.

[398] **Sandy Mewies:** That will be put in place, will it? Can we be reassured that that will happen in future?

[399] **Mr Thomas:** You can.

[400] **Joyce Watson:** There are a few things that fall out of this. It does not make good reading for the public out there, who are being told that they are taking a pay freeze, losing their jobs and things like that. Reading the detail of some of this, I am sure that it will make their blood boil. We are charged with overseeing the accounting mechanisms that allow for what are, in my opinion, quite lavish expenses for an individual, to the point of receiving

training the day before he left, which no organisation could gain from, as you commented. It seems obvious to everybody who reads these, and certainly to me, that we cannot go on like this. All of us have restricted budgets, and we are asking people to make the very best of those budgets in the future. My question and challenge to you is whether you will give us confidence in your role to know that that will be what will come out of this. In my opinion, it is what has to come out of it. I am sure that that is the opinion of others sitting here. Benefit must be maximised, and you alluded to that. Linking this up with your previous report, in which you looked at issues of training that need to happen, when it happens, we must ensure that we do not end up investing huge amounts of money in one individual—in other words, putting all our eggs in one basket to the tune of nearly £40,000—and find that no-one else has benefited from that, while the person in whom we have invested can take that training elsewhere fairly rapidly.

[401] **Darren Millar:** Before you answer that, I just wish to clarify one point that Joyce made about the timing of some of the sessions. One was actually after this gentleman's departure from the Wales Audit Office.

[402] **Mr Thomas:** It was during his notice period.

[403] **Darren Millar:** It was during his notice period, but it was a day before his formal cessation of employment. It was after the time when he was no longer required in the office, was it not?

[404] **Mr Thomas:** Indeed, although I understand that that invoice was paid before the compromise agreement was reached. In other words, it was a training course that had been paid for in advance, and he went on it. If Mr Snow is going to be attending the committee, that may be a question that you wish to put to him. However, I just remind you that the estimates that I have put in for next year represent a marked reduction in expenditure in the Wales Audit Office. That means that we cannot afford such extravagance—I have to use that word—in terms of training. There are two issues that I look at: first, the cost of training and its relevance, and also the issue of the time that is lost.

[405] **Darren Millar:** Absolutely.

[406] **Mr Thomas:** That is why I expressed surprise at the frequency with which these courses were held offsite, with the costs incurred by the organisation in terms of attendance and down time in travel terms and so on. I would have thought that you would need to look holistically at the training requirements of the organisation at senior levels before you authorise an individual set of coaching of this nature.

[407] **Jeff Cuthbert:** What I would not want to come out of this is any suggestion that we are viewing negatively the whole issue of continuing professional development. I think that we have to be very clear that we are fully in favour of properly costed and planned CPD and that that will continue to the best of our abilities. In my view, this is an example of bad practice that we learn from. The fact that the expenditure on Mr Snow's training and development increased dramatically year-on-year makes you wonder, because he clearly was not learning in one year as even more was being spent in the subsequent year, rising from £2,000 to £8,000 and then £14,000. That is surprising, unless there was a fundamental change in the nature of the job. However, these are points that you are going to take on.

[408] For the sake of completeness, with regard to appendix 1 on page 6, the top three are quite sizeable costs. However, no date or venue are given, which is a little surprising. Whether there is an omission and there was something on the invoice, I do not know, but it is surprising that we do not know that. Again, for the sake of completeness, there are four coaching sessions with Helen Love in Canton listed, but it does not say what the coaching is

in. So, with regard to planning and agreeing, never mind evaluating, courses afterwards, it seems difficult to do that. So, there are stacks of lessons in here to be learned for future.

[409] **Mr Thomas:** I understand that the ones at the top of the page represent participation in a group of people from various organisations, so it does not refer to an individual session. I think that that is the reason why the invoices are silent on locations and venues.

11.50 a.m.

[410] **Bethan Jenkins:** I understand why you have given us details with regard to Anthony Snow, due to the issues surrounding how this information was made public, but did you assess the costs for other partners? You mentioned earlier that Jeremy Colman and Anthony Snow had agreed to this training verbally. Did that happen in any other instance with anyone else in the Wales Audit Office? We need a holistic picture of where the problems were and how it will change across the board.

[411] **Mr Thomas:** If you look at paragraph 9, you will see that I have separated the partners from the rest of Wales Audit Office staff, and the average cost is about £700. If you have an average cost for that period, it is legitimate that, in one year, someone might have a high cost. However, it does mean that both Anthony Snow and Jeremy Colman stand out quite remarkably in terms of numbers of days and costs of their training.

[412] **Bethan Jenkins:** Do you have any evidence regarding how the other training was agreed to? Was it done verbally with the former auditor general or was it put forward in a business case?

[413] **Mr Thomas:** One thing that worries me—I mentioned it in response to the last report, and it appears again in paragraph 2 here—is that the standards of record keeping are not good. They need to be improved across the board, including the training elements. The procedure is there, the discussions are there, but they must be recorded. They must be reviewed with regard to how one moves on to do further training with an individual.

[414] **Darren Millar:** I think that you have given us some confidence that, going forward, things will be dealt with very differently, particularly with the independent governance arrangements that you are putting in place. We are very grateful for the report that you have prepared. There is no doubt that this committee will want to ask some direct questions to Mr Snow when he comes in to give evidence, and we will also have some questions that we would like to ask Mr Colman in respect of his training requirements.

11.53 a.m.

Cynnig Trefniadol Procedural Motion

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

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37.

[416] I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

Daeth rhan gyhoeddus y cyfarfod i ben am 11.53 a.m.
The public part of the meeting ended at 11.53 a.m.