

## **Audit Committee Annual Report to Plenary 2005-06**

1. This is the third annual report on the work of the Audit Committee of the Second Assembly, as required by Standing Order 12.2. It summarises the Committee's activities between June 2005 and May 2006.
2. The Audit Committee's purpose is to ensure that the National Assembly for Wales and other public bodies operate to the highest possible standards in the management of their financial affairs. It provides an assurance to the people of Wales that public money is being spent wisely; it is a deterrent against waste, and gives guidance to the Welsh public sector to improve its work.
3. The Committee operates on non-party political lines to give an impartial view on the implementation of policy, and to consider the work of the Auditor General for Wales. Details of the Committee's membership and further details of its role are set out in Annex 1.

### **Summary of the Committee's work**

#### ***Audit Committee reports and related scrutiny work***

4. During the reporting year, the Committee has examined subjects from across the full spectrum of the Welsh public sector. These have ranged from the highly topical issue of protecting NHS staff from violence and aggression to the funding of the National Botanic Garden of Wales. It has held 10 meetings, including 9 evidence sessions, questioning a total of 30 witnesses. Following its examinations, the Committee has published eight reports<sup>1</sup>, which, together, have included a total of 43 recommendations for the improvement of public spending and service delivery.
5. Also in relation to this work, the Committee has considered eight separate responses from the Welsh Assembly Government on its reports. These responses covered a total of 67 recommendations. In the case of the Committee's report, 'Environment Agency Wales: Regulation of Waste Management', published in February 2005, we were unhappy with the Welsh Assembly Government's response, as it did not clearly address the issues raised by our recommendations. We requested a further response and wrote to the Assembly's Environment, Planning and Countryside Committee, which had previously undertaken work in this area.

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<sup>1</sup> 'Energy and Water Management in the Higher Education Sector in Wales'; 'The Management of Sickness Absence by Further Education Institutions in Wales'; 'The Collapse of Antur Dwyryd Llŷn Ltd'; 'The Finances of NHS Wales 2005'; 'The General Report of the Auditor General for Wales 2005'; 'Contract for the provision of the out-of-hours GP service in Cardiff'; 'Protecting NHS Staff from violence and aggression'; 'Funding for the National Botanic Garden of Wales'.

### ***Having an impact***

6. The aim of the Audit Committee is to have a positive, beneficial impact on the delivery of public services. The memorandum from the Auditor General, *Stocktake of value for money work 2005*, which we considered in October 2005, confirmed that we are continuing to achieve this aim. The Auditor General estimated that, since devolution, our work had contributed to actual savings of over £115 million, and identified the scope for a further £35 million. The memorandum pointed to some examples from our earlier work which had recently led to savings being realised, as there can be a considerable time lag between recommendations being made, their implementation by audited bodies, and the subsequent realisation of benefits. For example, two reports that we published in 2002 on the management of the NHS estate in Wales led to around £25 million in disposal receipts and contributed to a reduction of some £40 million in the annual maintenance bill.
  
7. We were pleased to see that our report on *NHS waiting times in Wales*, published in May 2005, featured as an example in the Centre for Public Scrutiny report on *Successful Scrutiny* published in January 2006. The report by the Centre for Public Scrutiny concluded that the Audit Committee “played a key role in securing a sea-change in the Welsh Assembly Government’s approach to, and focus on, improving waiting times for patients in Wales”. Their report highlighted three “learning points”:
  - the benefits to a lay body such as the Committee of building on a report by a professional organisation, such as the Wales Audit Office;
  - the usefulness of co-operation between committees with different specialisations (the Assembly’s Health and Social Care Committee undertook further scrutiny of this topic later in 2005); and
  - the potential for scrutiny bodies to affect the delivery of public services by providing constructive advice.

### ***Major Themes of our Scrutiny Work***

8. The impact of the Committee’s main scrutiny work during the past year has been manifest in four major themes that have run through much of our work:
  - sound employment practices;
  - managing risks;
  - procuring effectively; and
  - collaborating with others.

These are illustrated in the following paragraphs.

### ***Sound employment practices***

9. Two of our reports in the past year addressed the health and well-being of staff working in the public sector and the issues that organisations need to undertake to become good employers. Our report *Protecting NHS staff from violence and aggression* found that the total cost to the NHS of violence at work was some £6.3 million; while our report *The management of sickness absence by further education institutions in Wales* found that sickness absence in further education institutions cost £8 million in lost staff time and £1.5 million for replacement staff. Both of these reports highlighted similar problems for organisations with definitions and measuring the scale of the problem, training for staff, and the impact of stress in the workplace.
10. To provide solutions to a problem, an organisation first needs to understand the scale of it. But in the two cases referred to in the previous paragraph, the poor quality of data hindered organisations' ability to deal with the problems they faced. We found that organisations applied different definitions in analysing sickness absence and violent incidents, making comparisons and benchmarking difficult. Data from earlier years was limited and sometimes of insufficient quality, while under-reporting by staff was also a problem. Action has been taken by the Assembly Government to standardise the definition of a reportable violent incident. And we recommended that each further education institution takes steps to measure sickness absence, using the same definition to facilitate benchmarking.
11. A good employer ensures that the right training is available at the right time so that individuals have the knowledge and skills necessary to carry out their work. We found that some NHS trusts were not releasing their staff for the mandatory training on how to help protect themselves from violence and aggression in the workplace. Assembly Government staff were helping trusts to prioritise which of their staff needed training most urgently. In the further education sector, in many cases line managers were not responsible for sickness absence management, even though, with support from senior managers and human resources, they are the people best placed to support staff. We recommended that line managers take on responsibility for managing sickness absence and receive the necessary specialist training to enable them to do this confidently, consistently and sensitively.
12. Stress is becoming an increasingly large contributor to absence from work and employers have a legal duty to protect their staff. The issue of stress at work is complex as it is difficult to determine to what extent stress is caused by work as opposed to other factors, such as domestic problems. There is also a difference between pressure and stress and at what point this becomes a problem for the individual. In the further

education sector, we heard that institutions are experiencing cases of sickness absence due to stress, a high proportion of which were work related. This was something that the National Council for Education and Training for Wales (and now the Assembly Government), in conjunction with the colleges' representative organisation, *fforwm*, could help institutions tackle, through disseminating best practice on how to collect necessary data on absence through stress and how to manage it.

13. Violence and aggression at work, particularly in mental health settings, is an obvious cause of stress but we were concerned that NHS trusts do not routinely hold information on the extent of sickness absence due to violence and aggression. We recommended that the Assembly Government and NHS trusts develop sickness absence reporting systems that record work-related violence as a reason for absence.

### ***Managing risks***

14. Three of our reports this year specifically covered the assessment and management of risks. As this Committee has noted on previous occasions, there is nothing wrong with the public sector taking risks, but the risks involved need to be identified, assessed and managed.
15. For example, in our report, *Funding for the National Botanic Garden of Wales*, we identified that Welsh public funders (Welsh Assembly Government, Welsh Development Agency and Wales Tourist Board) could have done more to address the risks involved in funding the Garden. This was an inherently risky project, intended to be one of the few botanic gardens in the world that would be self-funding without requiring any public subsidy. To achieve this, the Garden needed to be reliant on income from visitors to cover its operating costs and for the funding of much of its science programmes.
16. Given the inherent uncertainty involved in predicting visitor numbers, we were concerned that the Welsh funders did not pay sufficient attention to the risks arising from the Garden not achieving its ambitious forecasts. We were also concerned that the Welsh funders did not effectively assess new risks posed by substantial changes to those forecasts when revised business plans were provided to support further applications for funding. We recommended that, in future, public bodies should more closely scrutinise business plan forecasts, in particular using sensitivity analysis, and that they should collaborate to identify, assess and manage risks.
17. The importance of collaboration to minimise risk also featured in our examination of the collapse of a Local Enterprise Agency, Antur Dwyryd-Llŷn Ltd, where the frailty of the company was not widely communicated to the public sector agencies that were funding projects that it was running. In this case, the public sector funders of Antur Dwyryd-Llŷn relied wholly on the company to manage the risks to public money that they were paying it, but they did not examine the capabilities of the Company to bear these risks. We concluded that the ability of the public

sector to take a comprehensive view of the public sector's exposure to risk depends in general on the relevant parties sharing information in a timely fashion – not the case in this instance. We made three recommendations in this area.

18. The context of our report *The Contract for Out-of-Hours GP Services in Cardiff* was the award of a contract for patient services to a newly-formed company, in particular the risks associated with the capacity and financial viability of potential suppliers to deliver the services contracted. We concluded that there were serious deficiencies in the checks Cardiff LHB carried out to assess the financial and clinical capacity of the company prior to awarding the contract. We found that, although Cardiff Local Health Board recognised that its decision to award the contract to a new company involved a number of risks, it did not put in place a documented risk management strategy or contingency plan. In light of the wider lessons to be learned from this case, we recommended that public bodies should check that referees are in a position to comment authoritatively on a supplier's capacity to provide the service being tendered for and document those references. We also recommended that, when awarding contracts for patient services to new suppliers, LHBs should develop and document risk management and contingency plans proportionate to the risks involved.

### ***Procuring effectively***

19. The importance of good procurement has continued to be an important focus of our work as the Welsh public sector strives to achieve the £120 million of procurement-related savings targeted in the Government's policy paper *Making the Connections*.
20. In our report on *The General Report of the Auditor General for Wales 2005*, we noted that the number of procurement-related financial audit recommendations had reduced by half compared with the previous year. This is a welcome development and suggests that the procurement fitness checks undertaken by the Welsh Procurement Initiative (now known as Value Wales) are beginning to have an impact on improving procurement practice. We were also delighted to hear that the Initiative had reported savings of £6 million across the whole of the Welsh public sector in 2004, with further savings of £25 million identified as being deliverable in 2005.
21. However, there is still work to be done to ensure that public bodies have a level of procurement capacity and expertise that is adequate for, and proportionate to, the volume and complexity of their purchasing requirements. We recommended that the Welsh Assembly Government publicise examples of best practice highlighted by the work of the Welsh Procurement Initiative (now Value Wales) and that the Assembly Government and its sponsored bodies review their provision of procurement training to provide all staff involved in procurement with the level of skills necessary to carry out the function. Implementation of this recommendation would help to avoid failures to comply with

procurement rules, and to manage more effectively the risks involved in procurement and contract management. As already demonstrated, our report on *The Contract for Out of Hours GP services in Cardiff* saw a number of deficiencies in risk management in that particular case which nevertheless provide important lessons for all public bodies.

22. We also considered the progress made in response to the recommendations of our report on *The Procurement of Primary Care Medicines*. Developments at a UK level to control primary care medicine costs within existing procurement arrangements mean that the scope for savings from centralised procurement has been largely eroded. The introduction of a new community pharmacy contract also means that the pursuit of centralised contracting is less appropriate. Nevertheless, it is pleasing to note that as a consequence of negotiations between the UK health departments and the pharmaceutical industry, indicative savings of some £20 million a year have been delivered through price changes for the ten most commonly prescribed medicines under the existing procurement arrangements. We were also encouraged by the good progress being made in response to our four recommendations to improve prescribing behaviour and medicines management.
23. Finally, following on from our report on *Procurement in the Higher Education Sector in Wales*, our report on *Energy and Water Management in the Higher Education Sector in Wales* again emphasised the importance of developing procurement policies that reflect sustainable development principles. In particular, the report recommended that institutions take account of whole life costing when considering energy and water efficiency criteria in the procurement of new equipment, and in the design of new buildings.

### ***Collaborating with others***

24. We have already, in the context of risk management, made reference to the need for public sector bodies to work together more effectively. More generally, collaboration within the Welsh public service is a core principle of the *Making the Connections* agenda. In the past year, we have reviewed a number of forms of partnership or collaborative working across institutions or sectors.
25. In the context of *Energy and water management in the higher education sector*, collaborative working can enable smaller institutions which do not have the resources individually to support a dedicated energy management professional to share knowledge and resources; an example is the discussions between Cardiff University and Royal Welsh College of Music and Drama on the scope for greater collaboration between their administrative functions, including energy and water management. We also found examples of higher education institutions working with local public bodies to develop a solution to their energy needs, such as the joint working between the North East Wales Institute of Higher Education and Wrexham County Borough Council.

26. A different example is provided by our report on *Protecting NHS staff from violence and aggression*. Local police forces can have a key role in working with NHS trusts to protect staff, but four trusts reported that they believed that the response by the police to violent incidents was unsatisfactory, and not all trusts had formal mechanisms for liaison with the police in place. A good example of the potential benefits of effective collaboration was provided by Conwy and Denbighshire NHS Trust where a local police officer spent 50 per cent of his time based in the hospital. As a consequence, the Trust's accident and emergency staff had developed a very positive and constructive relationship with the police.

#### **The Committee's other work**

27. In addition to its main scrutiny work, the Committee is required to consider the Auditor General's annual estimate of income and expenditure, and his proposals for undertaking examinations of economy, efficiency and effectiveness in the Welsh central government sector— his programme of value for money work.

#### ***The Auditor General for Wales' estimate of income and expenses and value for money programme***

28. In fulfilling its responsibilities under Standing Order 12.2(i), at its October 2005 meeting the Committee considered the Auditor General's estimate of income and expenditure for the year ending 31 March 2006. The estimate represented a 1 per cent reduction over the agreed budget for 2005-06. The Auditor General believed that he might have scope for further efficiency savings in the coming years.
29. At the same meeting, the Committee was given the opportunity to comment on the Auditor General's draft programme of value for money examinations 2006-07. The final programme of value for money examinations for 2006-07 was presented to the Committee at its February 2006 meeting.

#### ***Improving openness and public accessibility***

30. On 1 December 2005, the Committee met at the National Botanic Garden of Wales. The Committee took evidence in connection with the Auditor General for Wales' report, 'Funding for the National Botanic Garden for Wales'. It is intended that the Committee will continue to raise awareness of and improve access to its work by meeting away from Cardiff where practicable. In particular, the Committee will seek to hold external meetings where issues are of specific regional or local interest.

## **MEMBERSHIP, ROLES AND RESPONSIBILITIES**

### **Membership**

1.1 Our current membership is Janet Davies (Chair), Leighton Andrews, Mick Bates, Alun Cairns, Jocelyn Davies, Mark Isherwood, Irene James, Denise Idris-Jones, Carl Sargeant and Catherine Thomas.

### **The Role and Responsibilities of the Audit Committee**

1.2 The role of the Audit Committee is to ensure that proper and thorough scrutiny is given to the Assembly's expenditure. The Committee's key purpose is to ensure that the Assembly and other public bodies operate to the highest possible standards in the management of their financial affairs. The responsibilities of the Audit Committee are set out in detail in Section 102 of the 1998 Government of Wales Act and Standing Order 12. In broad terms, it is the responsibility of the Audit Committee to examine the reports on the accounts of the Assembly and other public bodies prepared by the Auditor General for Wales and to consider reports by the Auditor General on examinations into the economy, efficiency and effectiveness (that is, the value for money) with which the Assembly and other public bodies have used their resources in discharging their functions.

1.3 The Committee operates on non-party political lines, not questioning the merits of policy objectives, but concentrating on whether the organisations concerned implemented their policies and programmes with due regard for regularity, propriety and value for money.

1.4 The Committee also has a responsibility to consider annually the Auditor General's estimate of his income and expenses for the following year and to lay that estimate before the Assembly. At the same time as considering the estimate, the Committee considers the Auditor General for Wales' proposed programme of value for money examinations for the next year. The Auditor General for Wales is required to consult the Committee in determining his programme.

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

1.5 Section 102 of the 1998 Act empowers the Audit Committee to take evidence and report to the Assembly on the basis of reports laid by the Auditor General for Wales. This means that the Committee has a close working relationship with the Auditor General. His work is the starting point for the Committee's own work programme and helps the Assembly and associated public bodies in Wales to secure value for money from their operations and to ensure that their financial affairs are managed in a regular and proper manner.

***The Wales Audit Office***

1.6 The Wales Audit Office, headed by the Auditor General for Wales, was established on 1 April 2005. It is a unified audit and inspection body for the public sector in Wales and delivers a joined-up audit and inspection regime across a wide range of public services.

1.7 The Audit Committee receives reports from the Auditor General for Wales on all parts of the Welsh public sector with the exception of local government.

1.8 After considering a report from the Auditor General for Wales, the Audit Committee will normally take evidence from the Accounting Officer (that is, the senior officer with personal responsibility for the relevant expenditure) of the body in question to consider areas highlighted in the report. The Audit Committee will then produce its own report on the findings.

1.9 Reports produced by the Audit Committee are laid before the Assembly, and the Welsh Assembly Government must respond to its recommendations within 30 working days.

## Annex 2

**Audit Committee reports published in 2005-06**

Title and reference of report	Date evidence taken	Witnesses	Report publication date
Energy and Water Management in the Higher Education Sector in Wales AC(2) 04-05	21 April 2005	Professor Philip Gummett, Chief Executive, Higher Education Funding Council for Wales Mr Richard Hirst, Director of Finance and Risk, Higher Education Funding Council for Wales Mr Chris Cowburn, Head of Estates, Higher Education Funding Council for Wales Dr David Grant, Vice-Chancellor, Cardiff University Mr Scott Allin, Financial Controller, Cardiff University	2 November 2005
The Management of Sickness Absence by Further Education Institutions in Wales AC(2) 05-05	19 May 2005	Elizabeth Raikes, Chief Executive, ELWa-The National Councils for Education and Training for Wales Arwel Thomas, Head of Office of the Chairman and Chief Executive, ELWa-The National Councils for Education and Training for Wales Glyn Jones, Principal, Pembrokeshire College Kathryn Robson, Personnel Manager, Pembrokeshire College Jan Knight, Principal, Coleg Morgannwg Julie Rees, Acting Personnel Manager, Coleg Morgannwg	2 November 2005

Title and reference of report	Date evidence taken	Witnesses	Report publication date
The Collapse of Antur Dwyryd Llŷn Ltd AC(2) 06-05	14 July 2005	Sir Jon Shortridge, Permanent Secretary, National Assembly for Wales Dr Emyr Roberts, Chief Executive, Welsh European Funding Office	2 November 2005
The Finances of NHS Wales AC(2) 07-05	23 June 2005	Mrs Ann Lloyd, Head of the Health and Social Care Department, Welsh Assembly Government Dr Christine Daws, Head of Resources, Health and Social Care Department	7 December 2005
The General Report of the Auditor General for Wales AC(2) 08-05	14 July 2005	Sir Jon Shortridge, Permanent Secretary, National Assembly for Wales Mr Peter Jones, Chief Resource Accounts Officer, National Assembly for Wales Dr Emyr Roberts, Chief Executive, Welsh European Funding Office,	7 December 2005

Title and reference of report	Date evidence taken	Witnesses	Report publication date
Contract for the provision of the out-of-hours GP service in Cardiff AC(2) 01-06	10 November 2005	Siân Richards Chief Executive, Cardiff Local Health Board Alison Gerrard Director of Finance, Cardiff Local Health Board Mrs Ann Lloyd, Head of Health and Social Care Department, Welsh Assembly Government	9 March 2006
Protecting NHS staff from violence and aggression AC(2) 02-06	10 November 2005	Mrs Ann Lloyd, Head of Health and Social Care Department, Welsh Assembly Government Gren Kershaw, Chief Executive, Conwy and Denbighshire NHS Trust	22 March 2006
Funding for the National Botanic Garden of Wales AC(2) 03-06	1 December 2005	Sir Jon Shortridge, Permanent Secretary, National Assembly for Wales David Richards, Finance Director, National Assembly for Wales Martin Swain, Welsh Assembly Government Gareth Hall, Chief Executive of the Welsh Development Agency Ron Slater, Welsh Development Agency Jonathan Jones, Chief Executive of the Wales Tourist Board Lucy O'Donnell, Wales Tourist Board	26 April 2006





**Recommendations contained in Audit Committee reports published between June 2005 and May 2006**

**Energy and Water Management in the Higher Education Sector in Wales**

1. Effective energy and water management is not possible without robust systems for monitoring consumption. **We recommend that the Funding Council identifies those elements of the monitoring and targeting system employed by Cardiff University that might be replicated beneficially elsewhere, and work with Cardiff University to disseminate good practice in the development of these systems more widely across the sector in Wales.**
2. The development of new benchmarks for energy and water consumption, and the collation of consumption figures as part of the Higher Education Estates Management Statistics, should greatly improve institutions' ability to compare their energy and water consumption with other similar institutions. **We therefore recommend that the Funding Council should use this information to critically examine the energy and water consumption performance of the twelve institutions in Wales, and target its efforts on supporting improvement in those institutions that appear to be under-performing.**
3. Local energy and water surveys are important means of identifying opportunities, and practical measures that might be taken, to deliver improved energy and water efficiency. and new opportunities will emerge over time as technology develops. **We recommend that all institutions undertake energy and water surveys on a regular basis to identify potential opportunities for improved energy and water efficiency. In doing so, institutions should focus their attention, where possible, on areas that appear to demonstrate higher than expected energy and water consumption. We also recommend that the Funding Council should challenge institutions on the action taken in response to surveys already completed.**
4. Formal energy and water management policies demonstrate the commitment of institutions to tackling consumption and efficiency issues, but it is also critical that policies are consistent with institutions' broader estates strategies and are translated into practice. **We recommend that the Funding Council, drawing on advice from the Carbon Trust, refresh their guidance on the development of energy policies and related action plans, and work with institutions to fully incorporate considerations of energy and water efficiency within institutions' estates strategies.**
5. Energy and water consumption can be reduced through simple, no-cost housekeeping measures, such as turning off lights in empty rooms, which require

the co-operation of staff and students. Raising the awareness of staff and students can therefore make a valuable contribution to institutions' efforts to reduce consumption and improve efficiency. **We recommend that the Funding Council and institutions together seek to identify, and where appropriate implement, the good practice already operating in some institutions in raising awareness among staff and students of the importance of energy efficiency. Good practice includes the development of awareness raising campaigns and the establishment of cross departmental task groups, including student representatives, with responsibility for tackling energy and water consumption. We also recommend that, where energy and water saving measures such as automatic power down facilities on computing equipment are available, institutions carry out checks to ensure that these facilities are being used.**

6. HE institutions in Wales do not charge academic departments or individual students living in halls of residence for the energy and water they consume. **Although direct charging for energy and water may not be practical in the short to medium term, we recommend that all institutions explore the options for providing financial incentives to individual departments, and possibly even to students in University residences, to encourage more efficient use of energy and water.**

7. Because of their small size, several institutions are limited in the attention they can give to energy and water management because of a lack of staff resources and relevant expertise. **We recommend that all institutions clearly identify an individual member of staff to act as the driving force behind energy and water management, even if they are unable to make a valid business case for a full time energy and water manager. We also recommend that institutions, particularly smaller ones that do not have staff dedicated to energy and water management, should seek opportunities to collaborate with other institutions, to share resources and knowledge. Financial support from the Funding Council may be available to support such collaboration.**

8. As well as establishing specific budgets for investment in energy and water saving measures, some institutions have improved their efficiency by, for example, procuring more efficient products at a higher up-front cost, or by designing additional energy and water efficiency measures into major capital projects. **We therefore recommend that institutions incorporate energy and water efficiency as key criteria within their procurement policies, taking account of whole-life costing, and that the Funding Council works with institutions to help them identify opportunities for energy and water efficiency early in the design stage of new build or major refurbishment projects.**

9. To supplement their own investment in energy and water efficiency measures, some institutions have taken advantage of external sources of funding. **We recommend that the Funding Council issues to institutions guidance on the sources of external funding available to the higher education sector that might promote energy and water efficiency, and work with institutions to identify potential schemes to put forward for funding under these programmes. These may include joint schemes between institutions or with other public bodies.**

### **The Management of Sickness Absence by Further Education Institutions in Wales**

1. It is not possible to manage sickness absence in the absence of the necessary information. Since 11 of the 25 institutions do not routinely measure absence levels, it seems likely to us that the relatively good performance of the sector is a matter of luck, rather than design. **We recommend that each institution measure sickness absence, using the same definition to facilitate benchmarking.**

2. The role of boards of governors is strategic leadership. But where sickness absence is a real problem in an institution – where it is clearly affecting its core business – these matters should be raised at the level of the board of governors. **In order to ensure that sickness absence management retains a sufficiently high profile, we recommend that boards of governors – or an appropriate sub-committee - should receive at least yearly reports on the levels of sickness absence and the costs. We also recommend that senior management teams, whose function is more operational, receive at least quarterly reports.**

3. Stress has become a significant factor in sickness absence, contributing a considerable proportion of cases of long term absence. In many cases, it is difficult to determine the precise cause of stress and whether it is work-related. **Since this issue affects most institutions but can be very complex, we recommend that the Council, along with Fforwm, should disseminate best practice on how to collect the necessary data on absence through stress and how to manage it.**

4. While there is the risk that setting targets for reducing sickness absence may lead to perverse incentives, there is merit in their application, not least as a way of signalling the importance attached to the issue. There is no reason why institutions should not set themselves targets for carrying out the basic procedures properly, such as obtaining self- and medical certificates for absence, and for conducting return to work interviews, as this has been an area of weakness. **When institutions have a reliable and robust set of sickness absence data in place, and when they consider that better management**

would effect a reduction in absence levels, we recommend that they should set targets for reducing sickness absence. We also recommend that institutions set themselves targets for complying with their own procedures if that is an area where they need to improve performance.

5. More sophisticated – and hence more effective – management of sickness absence requires good management information on trends. The analysis of patterns of absence on certain days of the week, the causes of absence and length of absence is critical in determining where policy initiatives and management action should be directed. **We recommend that institutions develop the necessary information systems to capture the necessary data and carry out the detailed analysis that will enable fully-informed decisions to be taken in managing sickness absence.**

6. Sickness absence cases can be difficult and sensitive to handle, and potentially a legal minefield. But these factors should not be used to absolve line managers from responsibility for managing the sickness absence of their staff, as they are closest to the issue and therefore best placed to resolve it. **We therefore recommend that line managers take on responsibility for managing sickness absence and receive the necessary specialist training to enable them to do this confidently, consistently and sensitively.**

7. The role of occupational health is essential in managing sickness absence, not only in facilitating return to work but also potentially in other ways, such as putting preventative measures in place. **In light of the dissatisfaction expressed by a number of institutions on the quality of the service received, we recommend that the Council take the lead in addressing this issue by bringing institutions together and formulating an action plan for improvement, including the possibility of institutions sharing suppliers.**

### **The Collapse of Antur Dwyryd Llŷn Ltd**

1. The Welsh Assembly Government claimed that the fact that the original financial review of Antur Dwyryd-Llŷn Ltd was undertaken for a limited purpose relating to the accreditation of the local enterprise agency in accordance with taxation law might restrict its use for a wider purpose. But, there was no formal bar on such use, and in cases such as this, in which the public sector is relying on a third party to deploy public money to deliver services that the public sector requires, normal business prudence dictates the need for risk assessment and monitoring. **We recommend that public sector funders should collectively consider and keep in view the extent to which organisations such as this, which are largely dependent on the provision of public money, are exposed to the risks of failure.**

2. **We recommend that decisions to advance public funds to such bodies in the first place, on the conditions to attach to such advances and on the detailed monitoring that should follow, should be based on, and be proportionate to the collective risk assessment in each case.**

3. **That standing arrangements be put in place for each body whereby relevant information received by one part of the public sector is communicated in a timely way to all public sector funders.**

#### **The Finances of NHS Wales 2005**

1. Delays in agreeing Strategic Change and Efficiency Plans are not satisfactory and should not be repeated. The strategic change and efficiency plan for Health Commission Wales (Specialist Services) needs to be agreed and approved as a priority to enable it to return to financial balance. **We recommend that every effort is made to agree and approve a robust Strategic Change and Efficiency Plan for this body as soon as possible and that it is monitored very closely over the life of the Plan. We also recommend that all possible support is provided to Health Commission Wales to enable it to resolve the underlying reasons for its deficits and prevent them recurring.**

2. There is a significant variation in the additional funding provided under the SCEPs towards bodies in the Mid & West and South East regions of Wales. There are a number of very long standing problems that have contributed to these variations and the subsequent impact on the financial balance of NHS bodies, particularly those noted at Carmarthenshire NHS Trust. **We recommend that more radical and innovative actions are considered and pursued in the context of the local Wanless action plans so that NHS bodies can provide patient services to acceptable standards within the allocated funding limits.**

3. The ability for NHS bodies to accurately forecast and analyse their results is essential to the good financial management of these organisations and effective monitoring by the Welsh Assembly Government. **We recommend that the Health and Social Care Department work with individual NHS trusts and local health boards to guarantee that forecasts are prepared on a consistent and comparable basis across Wales, and that good practice is disseminated to all organisations.**

4. The balanced scorecard is the means for assessing the performance of NHS bodies on a consistent and transparent basis across Wales, for benchmarking bodies with their counterparts and for reducing the burden of producing information for other inspection bodies. **We recommend that the balanced scorecard is finalised by the Health and Social Care Department and that it is rolled out to all NHS bodies, including Health Commission Wales if appropriate, promptly with appropriate guidance on its use.**

5. The changes in response to the Wanless Report will take some time to engineer and require a number of innovations including partnerships with other service providers, the public and restructuring services. **We recommend that the Health and Social Care Department compile a detailed timescale for the implementation and monitoring of all actions in response to the Wanless Report and distribute this widely once the reconfiguration proposals have been received.**

### **The General Report of the Auditor General for Wales 2005**

1. It is not acceptable that some annual accounts are still being submitted late for audit, and that the quality of those accounts remains inconsistent. The pressure arising from having to prepare accounts earlier could, if not well managed, result in a further deterioration in the quality of accounts. It is essential, therefore, that the implementation of the 'faster closing' initiative in Wales is underpinned by systems improvements in the accounts preparation process, and that there is adequate management ownership of that process. **The Welsh Assembly Government should strengthen the project management system that it has in place to oversee the 2005-06 accounts preparation process, including that for the Whole of Government Accounts. It should also review the adequacy of the steps being taken by individual sponsored bodies to achieve the faster closing requirements and consider what practical measures might be implemented to improve the overall quality of the accounts being prepared by those bodies.**

2. The reported improvement in payment performance has not yet gone far enough. It will be important that the Assembly has a strong process in place to handle its increased payment volumes following the forthcoming merger with a number of its sponsored bodies. This is especially so given that two of the sponsored bodies-the Wales Tourist Board and ELWa will be bringing with them a history of particular difficulties in this area. **The Welsh Assembly Government should implement robust procedures to ensure that all of its enlarged departments will achieve the required payment performance standard from 1 April 2006. It should also review the performance of sponsored bodies in this area and issue good practice guidance on payment processing to help raise the overall level of performance being reported.**

3. The continuing use of cash-based financial information in many bodies substantially restricts the value of financial management information available to corporate management teams, and to their operational staff in areas such as the management of grant schemes and capital projects. The efficiency of annual accounts preparation processes is also severely impaired. We welcome, therefore, the intention of the Permanent Secretary to implement resource based systems across the Welsh Assembly Government by March 2007. **The Welsh Assembly Government should ensure comprehensive financial systems**

are put in place to enable resource-based information to be used within management procedures and decision making. The lessons learned from the development work being undertaken in this area as part of the merger project should be shared with the Assembly's remaining sponsored bodies, to assist them in improving their own financial and management information systems. Staff within sponsored bodies and the Assembly Government should also be given training on how to understand and use resource-based information when it becomes fully available.

4. The sponsored bodies being merged with the Welsh Assembly Government will still need to prepare closing accounts for the 2005-06 financial year. **The Welsh Assembly Government should ensure that the key staff required for the accounts preparation process continue to give high priority to this work in the weeks following the merger on 1 April 2006, in order that the faster closing project timetable is not jeopardised.**

5. This committee is aware of the potential risk that the merging of the former sponsored bodies with the Assembly may result in a loss in accountability for their expenditure. We therefore warmly welcome the assurances provided by both the Permanent Secretary and the Auditor General in this respect and, in particular, the creation of additional sub-Accounting Officers to support the Permanent Secretary as part of the modernisation agenda for financial management within the Assembly. **The Welsh Assembly Government should establish effective governance and financial management structures to support the new sub-Accounting Officers. It should also maintain the visibility of expenditure on the functions of the former sponsored bodies through, for example, appropriate financial analyses within its annual resource accounts.**

6. We endorse the intention of the Welsh Assembly Government to carry out a review to examine how the Assembly estate can be better used, and the proposed creation of a single asset management plan for the Assembly. It will be important also that the weaknesses identified in asset management planning by the Auditor General's review are properly addressed. **The Welsh Assembly Government should embed effective asset management arrangements within its management procedures, supported by comprehensive training for relevant staff. It should also impose a consistent standard of asset management planning across its sponsored bodies, particularly in terms of the scope and content of asset management plans.**

7. The committee notes the excellent results being achieved by the Welsh Procurement Initiative in generating cost savings within Welsh public sector procurement, and the ongoing proposals in this area as part of the Value Wales programme. It is important, however, that public bodies have a level of procurement capacity and expertise that are adequate for, and proportionate to, the volume and complexity of their purchasing requirements. In this respect, the

procurement fitness checks are now identifying a number of key improvement actions. A lack of appropriate expertise can also contribute to the failures in some cases to comply with procurement rules, as highlighted in the Auditor General's report. **The Welsh Procurement Initiative team within Value Wales should complete its programme of procurement fitness checks across all Assembly-sponsored bodies as soon as possible, and the improvement areas identified by the fitness checks completed to date should be addressed promptly. The wider lessons highlighted by the Initiative's work, and examples of best practice, should be publicised by the Welsh Assembly Government. The Welsh Assembly Government should enhance its existing training programme to provide all staff involved in procurement with the level of skills necessary to carry out their functions, including detailed knowledge of the contractual rules relating to procurement. This review of training provision should also be undertaken at the sponsored bodies.**

8. We remain concerned that the final financial loss to Wales arising from the closure of the 1994-99 European Programmes is still not known, and would ask that this Committee be informed as soon as the position is finalised by the European Commission. We are also concerned at apparent complacency in respect of the audit findings on European projects. Whilst we acknowledge that these are often not highlighting weaknesses of a fundamental nature, the number of audit qualifications does suggest a continuing problem with the financial management of projects by grant recipients. It is imperative that these problems are rectified promptly, in order to eliminate the risk that the eventual closure of the current European Structural Funds Programmes may give rise to an even greater potential financial loss to Wales. **The Welsh Assembly Government should impress upon the senior management of all grant recipients (at Chief Executive or Accounting Officer level where applicable) the importance of ensuring compliance with all of the requirements of European funding regulations.**

#### **Contract for the provision of the out-of-hours GP service in Cardiff**

1. Cardiff LHB could have done more at an earlier stage to resolve misunderstandings with a bidder regarding the interpretation of the service specification. **We recommend that public sector bodies should:**

- a) **where appropriate, and being careful to maintain fairness, make pretender contact with the market to discuss and clarify the specification, particularly if it is complex or unusual;**
- b) **offer potential bidders opportunities to discuss any potential ambiguity about the interpretation of the service specification before tenders are submitted; and**
- c) **include a glossary in their service specifications that defines any potentially ambiguous terms.**

2. The whole purpose of taking up references is to obtain authoritative, independent confirmation about a company's capacity to deliver. However, Cardiff LHB took up only oral references for CSUK from referees who were, moreover, poorly placed to comment on CSUK's capacity to deliver clinical services and who had potential conflicts of interest. Also, the references were not adequately documented. On the basis of this case, therefore **we recommend that public sector bodies should confirm that referees are in a position to comment authoritatively on the capacity of the company to provide the services being tendered for, that referees have no potential conflicts of interest, and that all references are fully recorded and retained.**

3. It is inexcusable that Cardiff LHB failed to follow good practice in the basic checks it carried out to ensure that CSUK was financially viable and had the capacity to manage any unexpected costs or expenditure. The Welsh Assembly Government recently issued a Welsh Health Circular directing LHBs to existing Treasury and Office of Government Commerce guidance. **We recommend that LHBs, in exercising their duty to apply normal standards of commercial prudence, should be guided by Treasury and Office of Government Commerce guidance on the financial checks that need to be carried out on companies bidding for contracts, with particular reference to the need to verify that new companies have the financial capacity to deliver the service adequately.**

4. An ineffective out-of-hours service could have an adverse impact, not only on the patients directly served, but also on the entire accident and emergency service. However, despite recognising the importance of the out-of-hours service to patients and that its decision to award the contract to CSUK was inherently risky, Cardiff LHB did not put in place a detailed risk management strategy nor did it have a documented contingency plan. **We recommend that when awarding contracts for patient services to new suppliers, LHBs should develop risk management and contingency plans proportionate to the risks in case of service or financial failure.**

5. Early departure from the terms of a contract in favour of the provider is very risky, should only happen in the most exceptional circumstances and should require a thorough justification. Cardiff LHB did not fully record its original decision to award additional funding to CSUK, but sought to justify its decision on the basis that there had been an unprecedented increase in demand, when, in fact, demand had not risen above the levels set out in the contract. **We recommend that where public sector bodies decide to award additional funding to contractors outside the terms of a contract, they should:**

- a) **robustly assess the evidence that there are exceptional circumstances to justify the funding; and**
- b) **fully record the basis of their decision.**

## Protecting NHS Staff from violence and aggression

1. Although the Welsh Assembly Government has clarified the definition of violence and aggression and increased levels of training through the Passport Scheme, some staff are still reluctant to report every incident of violence and aggression. There are gaps in the information collected about the nature and causes of reported incidents, and a lack of information on the demographics of the staff concerned. Nor are sickness absence reporting systems sufficiently robust to identify the level of staff sickness absence that is related to violence.

**We recommend that:**

- a) **NHS trusts encourage staff reporting of incidences of violence and aggression by seeking to reduce the burden of form filling for front line staff, for example by encouraging security or administrative staff to complete the forms;**
- b) **all information on the causes of incidents of violence and aggression – for instance, where an interview with a manager has taken place after an incident, or as part of an exit interview with staff leaving the Trust’s employment – should be passed to the Trust’s health and safety lead, who should analyse the causes of violence and share any emerging trends with the Trust Board; and**
- c) **the Welsh Assembly Government and NHS trusts should develop sickness absence reporting systems that record work-related violence as a reason for absence.**

2. NHS trusts are required to provide annual statistics for violence to the Welsh Assembly Government’s Health and Social Care Department as part of the balanced scorecard for 2005-06. **We recommend that the Welsh Assembly Government uses its performance management system to provide all NHS trusts with benchmarking data to enable them to compare their violence statistics with those from similar trusts and departments on an annual basis and to assess their rates and performance in handling violence and aggression.**

3. Delays in discharging patients exhibiting disturbed behaviour, such as elderly patients with dementia, may increase the risk of violence and aggression to staff. Trusts do not have data on the number of incidents caused by elderly patients delayed on wards due to a lack of alternative care. **We recommend that trusts seek to reduce the risk of violence and aggression by carrying out risk assessments on the impact of any delayed transfer on a patient’s mental health, and that ward managers ensure that staff are adequately supported where a delayed transfer of care exacerbates the risk of violence from patients.**

4. The Auditor General’s report highlighted a number of legal issues that NHS trusts were wrestling with, namely, how to increase the number of successful prosecutions, working more effectively with the police, and the data protection

and human rights issues that surround tagging the notes of repeatedly violent patients and sharing this information across agencies. The Welsh Assembly Government is carrying out working each of these areas to provide further support and guidance to trusts. **We recommend that the Welsh Assembly Government issues guidance to NHS trusts on increasing prosecutions, working with the police, and the data protection and human rights of patients. The Assembly Government should monitor the impact of this guidance on staff well-being and on the development of effective management systems by trusts.**

### **Funding for the National Botanic Garden of Wales**

1. Welsh public funders did not adequately assess and address the risks involved in funding the Garden. In particular, more could have been done to examine the impact of any failures to meet the business plan forecasts and to challenge the reasons behind significant changes to the Garden's forecasts in later applications. **We recommend that, when appraising applications for large capital projects, public sector bodies should:**

- a) **be guided by intelligent use of sensitivity analysis, identifying and analysing the impact of variations to key operational forecasts;**
- b) **require contingency plans in the event that risks to the financial viability of the project materialise; and**
- c) **robustly challenge any changes to business plan forecasts – especially those that might be based on undue optimism.**

2. Where there are multiple Welsh public funders of a large capital project they should work together to take a collective view of the risks and to provide ongoing support during the crucial early operation phase. **We recommend that, when dealing with large third-party capital projects, public sector bodies should:**

- a) **collaborate to identify the benefits and risks, setting out clear lines of responsibility for particular aspects of business plans relative to organisational expertise; and**
- b) **share material information throughout the project cycle, including, in particular, significant changes to business plans.**

Annex 4

**Consideration of the Estimate of the Income and Expenses of the Auditor General for Wales for the year ending 31 March 2007 and programme of value for money examinations 2006-07**

At its 6 October 2005 meeting the Committee approved the Auditor General for Wales' estimate of income and expenses of the Wales Audit Office for the year ending 31 March 2007. The estimate represented a 1 per cent reduction over the budget for 2005-06. The Auditor General believed that there might be scope for further efficiency savings in coming years.

At the same meeting, Members discussed the Auditor General's draft programme of value for money examinations 2006-07. It was felt that the Auditor General might properly carry out a study of the merger of four major public bodies into the Welsh Assembly Government. Other issues raised included the homebuy scheme and collaborative and partnership working in the voluntary sector.

The final programme of value for money examinations for 2006-07 was presented to the Committee at its meeting on 16 February 2006. The programme includes examinations of:

- informing Healthcare;
- hospital-acquired infection;
- flood risk management;
- capital investment in schools;
- integrated transport;
- the Homebuy scheme;
- the Wales Millennium Centre;
- sustainable development: business decision making;
- maintaining commercial skills during the process of incorporating ASPBs into the Assembly Government.

**Work in progress and planned work**

The Committee is in the process of producing reports on the administration of grants for education support and training (GEST) and the Better Schools Fund, and on a baseline review of adult mental health services in Wales. The Committee will publish these reports in the summer term of 2006.

The Committee will take evidence on work-based learning and the general report of the Auditor General and the audit of NHS bodies during the summer term.

In autumn 2006, the Committee will consider the Auditor General's estimate of income and expenses for the year ending March 2008, together with the proposed programme of value for money examinations 2007-08.