



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

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

**Dydd Iau, 20 Mai 2010  
Thursday, 20 May 2010**

**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**

Jeff Cuthbert	Llafur Labour
Alun Davies	Llafur Labour
Irene James	Llafur Labour
Jonathan Morgan	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee)
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Janet Ryder	Plaid Cymru The Party of Wales

**Eraill yn bresennol**  
**Others in attendance**

Gillian Body	Archwilydd Cyffredinol Cymru Auditor General for Wales
Katrina Febry	Arbenigwr Perfformio, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
Ann-Marie Harkin	Partner Ymgysylltu, Swyddfa Archwilio Cymru Engagement Partner, Wales Audit Office
Mark Jeffs	Arbenigwr Perfformio, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
Matthew Mortlock	Arbenigwr Perfformio, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
David Rees	Rheolwr Llywodraethu, Swyddfa Archwilio Cymru Governance Manager, Wales Audit Office
Ben Robertson	Arbenigwr Perfformio, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office

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

Alun Davidson	Clerc Clerk
Andrew Minnis	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 8.59 a.m.*  
*The meeting began at 8.59 a.m.*

**Ymddiheuriadau a Dirprwyon**  
**Apologies and Substitutions**

[1] **Jonathan Morgan:** Good morning and welcome to the Public Accounts Committee. I remind Members that the usual housekeeping arrangements apply with regard to mobile phones, BlackBerrys and pagers. I remind everyone that we are a bilingual institution, so there are headsets available to hear the simultaneous translation from Welsh to English. If the fire alarms do sound, please follow the advice of the ushers.

[2] We have had apologies this morning from Lorraine Barrett and Sandy Mewies. We also had apologies from Alun Davies, but thankfully he is able to join us this morning. Just for your information, I am writing to the Government Chief Whip to express concern about the availability of Members from the Labour group to attend meetings. I know that there have been difficult diary clashes for Alun and Lorraine, who have both been helping out on legislation committees. Of course, that is not their fault, but I would expect a party group that has 26 Assembly Members to be able to diary-manage its group better to ensure that Members can attend what is seen as the first scrutiny committee of this institution. So, I will be raising a general concern with the Government Chief Whip, because it is important that Members have time in their diaries to attend these meetings, so that we can scrutinise the way in which public money is spent and, where we are able to, receive reports from the auditor general. Having said that, I am delighted that Alun is joining us this morning.

[3] We have not been notified of any substitutions. However, I understand that Bethan Jenkins will have to leave the meeting early, after she arrives.

9.00 a.m.

### **Y Fenter Twyll Genedlaethol: Gwybodaeth gan Archwilydd Cyffredinol Cymru The National Fraud Initiative: Briefing from the Auditor General for Wales**

[4] **Jonathan Morgan:** We will now move on to the first item. I welcome Gillian Body, the Auditor General for Wales, as well as David Rees and Katrina Febry from the Wales Audit Office. The report was published this week and the auditor general will brief the committee ahead of any questions.

[5] **Ms Body:** I am very pleased indeed to bring along Dave and Kate, who led the national fraud initiative on behalf of the Wales Audit Office. Just by way of introduction, I will explain what the national fraud initiative is and why we do it, and then I will pass over to Dave to explain to you some of the findings and issues that came out of that work.

[6] The initiative is an electronic data-matching tool that is designed to detect and prevent fraud against public bodies. It cross-checks information between systems and public bodies to identify anomalies that might be due to fraud or error. Then, the public bodies that participate in the exercise investigate those anomalies to see whether they are entirely legitimate or whether they are fraudulent or erroneous overpayments.

[7] We run the exercise every two years. It is a UK-wide exercise, and so we collaborate with the Audit Commission, Audit Scotland and the Northern Ireland Audit Office to make sure that we approach the exercise in a consistent way, and to minimise any burden or duplication of effort. We operate the exercise in accordance with the auditor general's code of data-matching practice, which was approved by the National Assembly.

[8] In this latest round, some 70 Welsh public bodies participated in the exercise, and those included all local authorities, all national health service bodies, the Welsh Assembly Government and some other organisations as well. It is entirely fair to say that the success of the initiative is down to the efforts of the public bodies that review and investigate the data matches to identify and stop fraud. It is they who take appropriate action against those who are found to be culpable of fraud and recover overpayments. So, that is broadly what it is.

[9] Why do we run it? That might be fairly self-evident, really. We run it because it supports public bodies in their ongoing fight against fraud, and it ensures that those who are in receipt of public services and benefits are entitled to them. Fraud is an expensive business. Every pound lost to fraud is a pound wasted and is a pound less available for essential

services. As the committee has discussed previously, with the forthcoming financial constraints on the public sector, it is ever more critical for public bodies to drive out fraud and waste. Fraud is not a victimless crime. It impacts on those in genuine need who may have to wait longer for services, benefits or help from public bodies.

[10] The tool also has an important deterrent effect. The publicity around the actions and sanctions taken against those who have offended is a valuable means of deterring other would-be fraudsters from trying to get benefits and services to which they are not entitled.

[11] The report trumpets the fact that the latest round was the most successful to date. It led to the detection and prevention of £4.5 million-worth of fraud or error and, since it started in 1996, it has saved £16 million. The various outcomes of the latest round are set out in exhibit 3 on page 10 of the report. Just by way of headline messages, that was 28 successful prosecutions, 69 other sanctions imposed, more than 1,000 cancelled claims for single person's council tax discount, nearly 1,400 blue badge parking permits cancelled, more than 4,000 concessionary travel permits cancelled, and stopping the payment of pensions to 16 persons who are now deceased. So, those are the sort of results that have come out of the latest exercise.

[12] I will now pass you over to Dave, who will flesh those out in a little more detail for you.

[13] **Mr Rees:** What I intend to do for the next few minutes is give a little more detail on those findings and a little more explanation of the exercise.

[14] The national fraud initiative, as Gillian has already mentioned, data matches from a wide range of systems. Those systems include public sector payrolls, housing benefit claimants, housing rents, and students in receipt of student loans. It matches against the deceased persons register, visa applications and failed asylum seeker records. It matches the electoral register. It matches blue badges, council tax discounts, records of licence holders, pensions, and a number of other data. I will not go through them all, but what I am trying to get across is that this is a very large exercise. Vast numbers of data items are included in the NFI.

[15] I will give you a few examples of the things that it identifies. It can identify individuals who have claimed housing benefit against a number of different authorities. So, they might be in receipt of housing benefit from four or five different authorities. It can identify, as Gillian has already mentioned, deceased persons who are still being paid pensions. It can identify individuals who have more than one full-time job in public services—that is, people who are working full-time for more than one public sector body. It can identify public sector employees who have no right to reside or work in the UK, and it can identify public sector staff who have no right to claim housing benefit but have still submitted claims and are being paid housing benefit. So, that is just a flavour of the type of matches that are identified through the national fraud initiative.

[16] Essentially, the national fraud initiative has two different types of matches nowadays. It started in 1996, and the first type of matching had nothing do with Wales; it was matching people in London claiming student mandatory awards against several different authorities. So, back in 1996, it was finding people who were getting student mandatory awards at maybe 10 or 12 London boroughs. That was why it was initially kicked off.

[17] In the early years, there were three key types of matches. One related to pensions, and I have already mentioned that the NFI matches people in receipt of pensions with the deceased persons register. We are still seeing examples of people being in receipt of a pension when they have died occurring today. The good news is that, when NFI was originally kicked

off, there were very large numbers of these being identified and very often the payments had been made for many years after the individual had died. What we have seen because of NFI is the numbers reducing dramatically and the value reducing dramatically. So, NFI has been very successful in driving out this type of fraud. Even back in 2004-05, there were 61 cases identified in relation to Welsh pension schemes, but, in 2008-09, that had reduced to just 16. So, it is clear that it is really having an impact.

[18] Payroll is the other traditional type of match. What it is matching is things like people who have more than one employment. It is matching against visa applications and failed asylum seekers. It identifies few examples of that occurring, but when they do occur they are very significant.

9.10 a.m.

[19] The report identifies or gives examples of two in case studies six and seven. In one case, you had an individual working for two NHS bodies in Wales: at one they were signed off on the sick, and they were working full-time in the other. In the other case, an individual who had no right to work in the UK was working for an NHS body in Wales and had got the job by using a forged passport. So, these are small numbers but they are very significant and clearly they have an impact on potential health and safety issues and also on the perception of public services.

[20] The third big area of the traditional matches in NFI is housing benefit. It has traditionally been the largest area for identification of fraud and error. The last exercise identified £1.7 million in fraudulent payments either detected or prevented. That was a significant rise from the previous exercise, which found £0.7 million. I am anticipating a question about why that might have increased and, unfortunately, I cannot give you a definitive answer as to why that might be. I can only give you factors that may have contributed to it. The economic downturn may have had an impact. Also, individual public bodies being more proactive in investigating the matches has probably had an impact. Thirdly, there have been new matches around housing benefit introduced, specifically matching individuals who have applied for licences for taxi driving, for alcohol licences and market trading who perhaps have not declared their income when claiming housing benefit. So, again, that may have been a factor involved.

[21] Those are the traditional matches. There have been a number of new matches introduced in the last exercise. I will just mention a couple of them. The first is the council tax single person's discount—this is where individuals are entitled to claim a 25 per cent reduction on their council tax bill either if they are the sole occupant of a property or there are no other individuals in the property besides themselves who are subject to council tax—certain people have exemptions from council tax. So, it is commonly known as the council tax single person's discount, but, technically, it is a little bit more complicated than that.

[22] As a result of investigating matches to the electoral register, 1,098 cases were identified of individuals who said that were entitled to this discount of 25 per cent but, in fact, investigations found that they were not. That has resulted in fraud or error amounting to £1.2 million being detected and prevented in the last exercise alone.

[23] Another match is creditor payments—the NFI also matches payments to local authorities, NHS bodies and the Welsh Assembly Government, looking for duplicates. So, if a creditor has been paid more than once it picks it up. You might expect that to not to have found anything. In fact, it identified duplicate payments of £370,000, which have now almost all been recovered.

[24] There are a number of other matches, which I am not going to go into in detail,

because of time. I will just mention one other, which involves small numbers but which, again, could be very significant and I think shows the power of NFI. One of the matches that is looked at is payments by local authorities to residential care homes. Those payments are matched against the deceased persons register. So, in other words, we can identify where a residential home is still receiving payments for a residential care premises when the individual receiving the care has died. Only a small number of examples of that were identified in Wales—there were only five—but these payments can be very large indeed, because the care payments are big payments. Again, not only has it been successful in detecting fraud but it also gives assurance to public bodies that there is not fraud within their systems as well.

[25] Briefly, if I have time, I want to mention what we are planning for the future of NFI. NFI has been very successful. It was the most successful exercise to date, but there is potential to improve its effectiveness. The more data sets that are included within NFI the more matches can be identified and the more fraud can be identified. At the moment, the bodies participating in NFI in Wales have been the Welsh Assembly Government, National Museum Wales, all principal local authorities and all NHS bodies. We are keen to see the exercise extend to other public bodies in Wales and, in particular, we would like to see Assembly Government sponsored bodies participate. We would like to see housing associations participate and, potentially, further education and higher education participate. We were very encouraged that the Permanent Secretary wrote to the auditor general last week to indicate that she, too, was keen to see NFI extended to other public bodies, and already some meetings have taken place with representatives of the housing associations and representatives of FE and HE with a view to seeing whether there can be further participation there, so we are very encouraged by that.

[26] Clearly, to get the maximum benefit out of NFI we would like to see more engagement from all public bodies participating. The level of participation by individual bodies varied. Some were very proactive in investigating the matches, and some less so, and we would like to see a consistently high level of engagement with the exercise.

[27] Again, there is the potential to add new data sets into NFI and we are actively exploring that. There are a number of pilots on the go of potential new matches. Quite an exciting development, potentially, is the involvement of private sector bodies in NFI. In the last NFI exercise there were one or two private sector companies who voluntarily submitted their payroll and pension scheme details into NFI. Again, the more data that goes into NFI the more matches are identified and the greater the benefit for the public sector. In the next exercise, a number of private sector companies have already said that they voluntarily want to add their data into NFI. That is very encouraging and it could lead to significant additional fraud being identified in the next exercise.

[28] The final thing that I want to say is that the auditor general is clearly very aware of the need for the national fraud initiative to be subject to very high levels of security. The security arrangements around NFI are very robust indeed. On NFI going forward, we are always looking at how security controls are developing and looking at what else could be done to ensure that the exercise remains as robust as it currently is. So, that is a word of reassurance that that itself is at the top of the agenda.

[29] **Jonathan Morgan:** Thank you. Before I open the questioning to Members, in the report there is reference to the £7 billion that is lost from the public sector. I think that is across the UK. Is it possible to use that figure to extrapolate or to provide a figure that extrapolates from that the likely annual loss to the public sector in Wales?

[30] **Mr Rees:** The £7 billion figure is fraud against public services expenditure in the UK rather than fraud against the public services. The latest estimates of fraud that include

expenditure and income put the figure at £30 billion for the public services. Extrapolating for Wales would be a very difficult exercise, because there tends to be significant regional variation, particularly around the London boroughs. There has traditionally tended to be very much higher levels of fraud within London boroughs than in other parts of the country and there tends to be far more organised crime in those areas.

9.20 a.m.

[31] It would be possible to do a very rough rule-of-thumb estimation of fraud in Wales, but it would be no more than that. Just to emphasise the difficulty, the National Fraud Authority has published two reports suggesting what the level of fraud is in the public services in the UK. The two reports were published within a three-month timeframe, and the figures in both were significantly different, which I think emphasises that there are significant problems in calculating it.

[32] **Alun Davies:** I would like to continue in that vein. A number of figures in this report leap out at one. The round figure of £4.5 million is one of them because, if there is a £215 million target or result from the NFI across the United Kingdom, pro rata, you would anticipate something over £10 million from Wales. Now, I accept what you say about organised crime and other issues in the London boroughs and other major metropolitan areas of England. Nevertheless, less than 50 per cent of that pro rata figure does not seem to be a good response.

[33] **Mr Rees:** I would agree with that. I do not think that NFI really took hold in Wales initially in the early years, and in the last couple of exercises, public bodies have taken note of NFI much more. They have been far more proactive in Wales in investigating the matches. There is still significant scope, as I mentioned, to improve the level of engagement in public bodies in Wales in investigating the matches. My personal view is there is still significant scope to increase the level of fraud identified.

[34] **Alun Davies:** What would you say needs to be done to realise that ambition?

[35] **Mr Rees:** There are issues for auditors to actively promote and encourage public bodies to work on the matches and ensure that they are followed up appropriately. So, I think that there is a role for us in making sure that that happens. Also, there is probably a role for the Welsh Assembly Government in this in promoting and encouraging the use of the exercise across Wales and perhaps in ensuring that it receives the profile it deserves.

[36] **Ms Body:** That is one of the values of this report, because it highlights the merits of the exercise, and the case studies in particular illustrate what can be gained from investigating these matches rigorously. If the committee was minded to do something with this report and to take evidence from various witnesses, then of course that would raise the profile further. As Dave has mentioned, the Permanent Secretary is already very positive about this and keen to promote it further where she can. It is quite evident that across local government, for example, some organisations are very engaged in it and others less so.

[37] **Alun Davies:** The other thing that strikes me from reading the case studies rather than the body of the report is that much of this seems quite obvious. I am surprised that these bodies do not have the processes in place to identify these issues on an ongoing basis. To me, given the technology that we have available to us and the ability of local authorities and others to use and manipulate the information and data, in any process of due diligence, this sort of issue should be highlighted quite easily. Is there any reason why this is not embedded in the systems on an ongoing basis?

[38] **Mr Rees:** I think that you are right that you would expect some of what NFI detects

to be routinely identified. Again, it emphasised that there is still some variation in the quality of the controls which some bodies have in place. Having said that, it would be difficult for individual public bodies to pick up some of the things to come out of NFI. For example, where an individual is claiming housing benefit against three or four different authorities, it would be very difficult for any local authority internally to find that out. It is the ability to cross-match across public bodies that helps.

[39] Likewise, when somebody has an undeclared pension in a housing benefit claim, if the pension is being paid by one authority and the housing benefit claim is being made of a second authority, it would be very difficult to put systems in place to pick that up, unless you were actually able to match across the authorities.

[40] **Alun Davies:** Sure, I accept that. In cases of death, for example, when somebody claims benefits under the name of someone who has died, it appears to me that that is a failure in process that should be picked up across the whole of the public sector on a daily basis rather than waiting for one of these exercises to take place.

[41] **Mr Rees:** I think that is a fair point.

[42] **Ms Body:** The reality is that the exercises are picking up these cases, and it also helps public bodies to recognise that there are gaps in their arrangements that need to be plugged.

[43] The other thing about it is the fact that we undertake the exercise across the UK. So, within Wales, even if there was collaboration across Wales, they would not pick up fraud that is happening across the border.

[44] **Jeff Cuthbert:** This question follows, to a degree, from the points that Alun Davies has just made. Before I continue my remarks, I will make it clear that fraud like this must be picked up and the perpetrators dealt with. There cannot be any dispute about that.

[45] In your report you have pointed out that, in Wales, you identified £4.5 million worth of fraud and overpayments. Do you have a ballpark figure as to how much the NFI in Wales costs to administer and to actually produce that amount? Can we see the balance sheet, as it were?

[46] Chair, if I ask my questions in one go, it might be easier and save a bit of time.

[47] In the summary at paragraph 3, you talk about the importance of public bodies working to eliminate waste—it is a point on inefficiencies, which is the point that Alun was making. Do you follow that up? Presumably, lessons are learned as a result of every successful investigation. Do you then follow that up expecting to see the necessary changes to deal with what may have been systemic faults for the following year?

[48] The final point at this stage is that the case studies that you highlight in your paper appear to be actions by individuals. Do you find evidence of organised crime, which I appreciate puts it on a different level and would, I presume, involve full involvement with the police and what have you? Are you satisfied, just on the case studies here, that it is overwhelmingly individual fraud as opposed to organised fraud?

[49] **Mr Rees:** I will start with the third of those questions, if that is okay. The evidence we have seen in Wales suggests that this is more about individuals committing fraud rather than organised crime. As mentioned before, that is not the evidence from NFI in certain parts of England, where it is quite clear that organised crime is involved. Having said that, I cannot rule out an element of organised crime in some of the things that take place in Wales. For example—and this is not something from the report—one of the matches we would like to do

is to match applications for blue badges across authorities. If it turns out that an individual has applied for a blue badge from five or six different authorities, it would suggest an element of organised crime.

[50] What happens with the blue badges is that one individual cannot make use of six blue badges, but they trade on the open market for significant sums of money. So, if that is happening, that would be an indication of organised crime. From what we have seen to date from the Welsh data, there has been no indication of organised crime.

9.30 a.m.

[51] **Jeff Cuthbert:** Do you have any feel as to why Wales might be different from those parts of England? It does not seem logical, really.

[52] **Mr Rees:** I would prefer not to speculate, as I do not know.

[53] **Jeff Cuthbert:** If you cannot, that is okay. Fair enough.

[54] **Ms Febry:** I will pick up on your first question in relation to the fees for participating in the NFI. That is split into three parts. The first part is the fees that are charged to participating organisations to participate in the NFI, and they relate to the costs of the work that the Audit Commission undertakes on our behalf, which covers the costs of the web tools on which the data are stored. There are a lot of security costs involved in those fees. Across Wales, with approximately 70 organisations participating, those fees are approximately £125,000. They go straight from the participating organisations to the Audit Commission.

[55] The second element is the fees that we incur for providing help and guidance to participating organisations. I would say that that costs around £30,000 to £40,000 an exercise, which covers a two-year period.

[56] The third element is the costs incurred by organisations in relation to their investigations of the NFI matches. Part of that work they would undertake anyway to ensure that claims made by claimants for benefits and payments and so on are valid. So, if they embed NFI as part of the standard work that they undertake in checking claims made against them for housing benefits and so on, those costs will be minimal, but they will take a significant amount of time to investigate some matches.

[57] We try to work with them to ensure that, when they investigate matches, they do so in a cost-effective way, if you like. We make sure that their time is spent looking at the high-risk matches, with minimal time spent on the lower risk matches.

[58] **Jeff Cuthbert:** Okay. From those figures you seem to be saying that the cost to the public purse of NFI is under £200,000, so is there a considerable saving made overall.

[59] **Ms Febry:** I would not like to try to quantify at all what the costs are for the organisations participating in the NFI, because we would be speculating, especially on the amount of time that they spend on matches. The costs that we can provide figures for are under £200,000. That is for a two-year exercise.

[60] **Mr Rees:** Perhaps I can add a little more to that. I would expect all public bodies in Wales to have robust counter-fraud arrangements in place. So, what they are doing on NFI should be integrated in their counter-fraud arrangements in any event.

[61] The figure of £4.5 million is an under-estimation, I have to say. Two elements are not included in that figure. For example, we refer to blue badges and to concessionary travel

passes. When individuals have died, their passes have been taken out of circulation, and we do not know whether the ones taken out of circulation would otherwise have been used fraudulently. Many of them would not have been. Therefore, we have not quantified how many of those would have been used fraudulently. If we could put a figure on that, it would push the figure identified in the report higher. So, that is the first thing.

[62] The second thing, which is unquantifiable but is very real, is what Gillian mentioned about a deterrent. Where these cases are publicised, it will stop people from committing the same frauds. We cannot put in the report how much that has saved, but the savings are very real.

[63] Coming to your third question on the follow-up, which is a very important point and one of which we are conscious, as well as identifying fraud and error, NFI highlights where there are control weaknesses and where public bodies need to improve their arrangements. Where that becomes clear from the work on NFI, we are very careful to report that back to our auditors working on site, to get them to follow those issues up with the individual bodies. For example, if NFI has identified large numbers of duplicate creditor payments from a certain body—and, to pick up on a point made earlier, you would not expect that to happen because it seems fairly basic—we would go back to the auditors and say that perhaps there needs to be far more scrutiny in that area. What are the control weaknesses that are allowing that to happen? Therefore, we are attempting to improve the counter-fraud control environment by following up on the points raised through the exercise. So, yes, it is done routinely.

[64] **Janet Ryder:** I want to follow up on the point about the bodies that take part. You started off with mandatory bodies and then you have moved on to bodies that are going to opt in. Like Jeff, I will ask a couple of questions. Presumably, it is quite an easy matter to extend the system to adapt to the slightly different requirements of new bodies that are opting in. You say in the report in paragraph 2.13,

[65] ‘Apart from one local authority, all mandatory participants in the NFI 2008-09 supplied most of the data sets requested for NFI matching.’

[66] First of all, I would be very interested to know which local authority that is. It also implies that not all authorities have handed over the data required. Is it the case that they do not have their own systems up to a state at which they can hand those data over, or is it that they just did not want to hand them over?

[67] I have another area of questioning. You have put a figure on the total amount of fraud that you have found, but the auditor general said in her introduction that some of the anomalies were down to error. I can tell you tales, as can many people around this table, probably, of constituents who have been the victims of such error, who they have done their best to have the correct data recorded on systems but who have still been in receipt of payments, which has led to problems. Sometimes, it has been very innocent, where they did not even realise that the system had changed but they had to pay it back. Of that overall figure, can you quantify how much of it is down to error? Within that, how much is a systems error where, despite recipients’ best efforts, the systems still have not registered that a payment should have been stopped? Presumably, the rest would be down to fraud in any case.

[68] I have just one last question. You talked about students, and you highlighted the issues in London of students claiming benefits from more than one borough. Are you still picking up problems with students in Wales and, if so, what is the nature of the issues that you are detecting?

[69] **Mr Rees:** Perhaps I will pick up the issue about the supply of data, and I will ask

Gillian about naming the one authority that did not supply.

[70] **Ms Body:** Just say the name of it.

[71] **Mr Rees:** Okay. The one authority that did not supply a number of the significant data sets was the Isle of Anglesey.

9.40 a.m.

[72] In relation to your question as to others that did not supply data, generally—and, perhaps completely—that was down to the systems that they had. So, in a number of instances, for things like travel, they may still have had paper-based systems and, therefore, supplying it within an electronic tool was simply not practical at that stage. However, they were not mandatory data sets and while we understand the difficulties they had, from our perspective, that meant speaking to them about ensuring that they were able to provide it for the next exercise. In all cases, it was not the major data sets or the very significant data sets that were not supplied for the exercise. However, it was a systems issue.

[73] In relation to tailoring the requirements for individual bodies, there is the option to do it and not all bodies currently provide exactly the same data sets. Obviously, it is tailored for local authorities. They do not supply the same data sets as the NHS, and so on. We would expect all participants at least to supply payroll data, creditor payment data and pension data so that those can be matched against all of the public sector payrolls. For bodies such as housing associations, if they were to participate, we would also want them to supply details of tenants, because the ability to cross-match against both council tenants and other housing association tenants and cross-match against housing benefit again would provide a number of very useful matches. So, yes, the way in which bodies participate is tailored.

[74] There is difficulty regarding the extent to which it is fraud or error. There is a question regarding whether you count it as fraud only when it has gone to trial and an individual has been found guilty of fraud. So, is it strictly in accordance with the Fraud Act 2006? Again, it depends on the definition of fraud. However, in the housing benefit matches, we were estimating, looking at the information supplied by bodies, that approximately half of that was down to fraud and approximately half was down to either claimant error or local authority error. It is difficult to give a global breakdown.

[75] The big issue that tends to exist in relation to students, not just in Wales but across the UK, is generally—and there are exceptions to it—that students are not entitled to claim housing benefit if they are in receipt of student loans. Across the UK, a large number of examples have been identified where students are claiming housing benefit when they were not entitled to do so. The numbers identified in Wales are lower as a percentage of students than in England, which again is quite interesting. So, it is not as big a problem in Wales as it is in England but it still remains a problem in Wales.

[76] I hope that I have picked up all the questions.

[77] **Janet Ryder:** I think that you have covered most of them. Going back to the housing benefit checks, you talked about the transfer of data about tenants. Jenny and I last week attended a conference about the way in which electronic systems will transform the way we do government. One of the big issues was about the security of data. At what point when that data is transferred do you breach any data protection rules? How much do those tenants know about the amount of data being handed over? Have they given permission for those data to be handed over? What kind of security can you give to those tenants that those data will not be misused in any way?

[78] **Mr Rees:** The first thing to say is that the exercise is run in compliance with the Data Protection Act 1998 and is controlled under the auditor general's code of data-matching practice. To comply with the Data Protection Act, there is a requirement to process the data in a way that ensures that fair processing notices are issued in relation to the individuals—the data subjects. That does not mean the individuals have to give consent, but it does mean that they have to be notified that their data may be used for specified lawful purposes. So, we require all participants to certify that they have issued all of the appropriate notices for all the systems data that they are providing.

[79] The data provided are uploaded by the participating bodies and are automatically encrypted on being uploaded. They are not then processed within our offices or by the Audit Commission, but by a company that is appointed under contract to do the data matching. Once the data has been matched, all data that are not matched—and there are many cases where matches do not come back—are automatically deleted. So, all that is left are the data matches that need to be investigated, and those data matches are provided electronically, again in encrypted form, back to the public bodies to investigate the matches. There are very strict controls over access. Every keystroke of anything anybody does on NFI is logged. So, the users are defined, their log-in is very carefully controlled and we can monitor every single keystroke that is made. Once the matches have been fully investigated, then even the matches themselves are deleted. They are not held indefinitely.

[80] Again, everything is done strictly in accordance with the Data Protection Act and we match only in those areas where there is an appreciable risk of fraud. So, while it is technically possible to match all sorts of different areas, under the code, we will match only where it can be demonstrated that there is an appreciable risk of fraud, which means that, before introducing a new match, it will always be piloted to see whether there is an appreciable risk of fraud in that area.

[81] **Jenny Randerson:** I will ask all my questions together, Chair, for the sake of speed. First of all, although I have from time to time read about people being picked up for fraud in the newspapers, I was unaware that this was a systematic exercise every two years. Do you feel that greater publicity about what happens might deter people? It is better to be deterred than to wait until it has happened and then detect it. There is a downside to that. One can look at it on the other side and say that you are just alerting people to ways around the system.

[82] One of the things I think that many of us will have noted in recent weeks is that there are a surprisingly large number of houses with no one registered to vote. I noticed that those houses could well be the sort of houses where, in some cases, people were deliberately avoiding public registration, although, in many cases, it will be just be that people have not bothered. It is, of course, an offence not to register to vote, but in many cases people just were not interested and had not bothered. However, I wondered whether in some cases it was a deliberate 'keep yourself under the radar' strategy because, when you think about it, it is a little bit silly to claim single person discount on your council tax and register two or more people at your house. It is a basic error if you are going in for fraud.

[83] **Jeff Cuthbert:** It is not organised then.

9.50 a.m.

[84] **Jenny Randerson:** No, definitely not organised. It happens every two years and it is clearly a major exercise. So, my second question is: do you think that every two years is often enough and, as systems get easier and more accessible and so on, do you think that there is a case for it happening more often?

[85] I also have a third question. You referred to the need for more organisations to be

involved and I think that further education and higher education coming in is of tremendous importance because there is clearly considerable scope for fraud given the very large numbers of individuals that they are dealing with. You have had this letter from the Permanent Secretary. Is it the case that, in your view, the Assembly Government should issue guidelines to all organisations in receipt of significant amounts of public money that they should participate in that exercise? Chair, maybe we should consider writing to the Minister about this. What are you going to do about Anglesey? I find that absolutely astonishing.

[86] **Jonathan Morgan:** Jenny, before you pursue this, I was going to suggest it at the end of the session. I think that you have made an extremely valuable suggestion. We are going to be doing an inquiry into the 'A Picture of Public Services' report that the auditor general published and we are going to do a wider inquiry, taking into account a number of reports that contribute to the way in which public money is being spent by organisations in Wales. We could probably use this report to tease out further what the Assembly Government is doing to make sure that organisations are participating in this. It strikes me that if there is the suggested fraud of some £7 billion across the UK within public sector expenditure, there are potentially considerable savings, even if you apply only a couple of per cent of that to what happens in Wales. So, there is certainly scope there and I think that you are absolutely right. In the meantime, we can certainly write to the Permanent Secretary or the First Minister, but I think that we can use this report as we do our inquiry.

[87] **Ms Body:** To run quickly through those issues, on whether there should be greater publicity, publicity is very good for deterring fraudsters so we welcome it in that respect. You are right that would-be fraudsters might move on to other areas where they think that there is scope to get benefits and services that they are not entitled to, which is one of the reasons why the exercise evolves over time. If part of the exercise says, 'We are not finding fraud in this area', we take credit for that as well, as there will have been an effective improvement in systems and arrangements to close off those particular avenues. On whether it should it be more frequent than every two years? Dave has indicated that—

[88] **Mr Rees:** Could I pick up on that point?

[89] **Ms Body:** It is a big exercise.

[90] **Mr Rees:** My personal plea is 'No, no'. [*Laughter.*]

[91] Essentially, because it is such a huge exercise and it can take two years to carry out the investigations on the matches, before publishing the report we are already working on the next two-year exercise. We have already started on it. So, within the timescale, there is not really a possibility of running it more frequently. It might be possible to introduce specific matches in an area that is considered a major risk and which has just come to light. It might be possible to do individual special modules in between. That would be possible, but the exercise as a whole would probably not be possible.

[92] **Ms Body:** There is a risk that if we did it more frequently, public bodies would just get weary and not participate to the extent that they do currently.

[93] On whether more organisations should be involved, that is very much the thrust of our thinking going forward. The Permanent Secretary has already indicated her significant support for that. I can certainly discuss the issue with her to see whether she could provide guidelines to the public bodies that the Government funds to make it more of a requirement that they participate. Of course, the Permanent Secretary is appearing before you in early July so that might be an opportunity to follow the issue up with her.

[94] **Jenny Randerson:** Do you have any leverage on Anglesey? [*Laughter.*]

[95] **Ms Body:** We continue to plug away, I think, at Anglesey. Of course, the Welsh Local Government Association is attending your next meeting and that might be something that you might like to raise with the director to see whether he has leverage. [*Laughter.*]

[96] **Jonathan Morgan:** We seem to have sparked additional questions. I call Janet Ryder and then Alun Davies.

[97] **Janet Ryder:** On that issue, if it is mandatory, it is mandatory. Is there no comeback if no-one takes part?

[98] **Mr Rees:** On Anglesey, it probably is important to put the timescale into perspective. It is not that Anglesey has not supplied the data now. The authorities were required to provide the data a while ago. Do we know on what date it should have been provided?

[99] **Ms Febry:** It would have been October, some 18 months ago.

[100] **Mr Rees:** They have not provided it and obviously an awful lot has happened on Anglesey in that intervening period. Once they have failed to meet the deadline for the supply of the data, we cannot add in the data six months later. So, they either provide it then or they do not provide it at all. Obviously, it is mandatory. The auditor general under the legislation can require them to supply the data. If they do not, of course, then it is a question of how heavily we come down on them at that stage.

[101] **Ms Febry:** Although the number of matches that were returned to Anglesey was limited by the sheer nature of the fact that not all the data sets had been submitted, they have investigated the matches that have been returned to them and they have had some success with those matches that they have investigated. In addition, one particular match—the match relating to the council tax exercise—is actually done at a later stage in the NFI process and they did provide the data sets that were necessary for that match. So, I think that, throughout the two-year exercise, we have seen progression and we would obviously be looking to ensure that that continues into the next exercise.

[102] **Alun Davies:** Reading through part 2, you argue that the NFI can be developed further to maximise its contribution. What seems to be missing for me from this section is the embedding of a lot of these concepts in day-to-day work. I understand the point that you made in reply to Jenny, and also the point you made about data protection in response to Janet, but it appears to me that many of the processes that are used on this two-year process should be applied on a day-to-day level by different public sector bodies in order to protect the public purse. There seems to be a gap between applying what is learned during this process and creating systems and structures that would prevent this fraud in the first place.

[103] **Mr Rees:** I was not going to say anything, but I agree.

[104] **Jonathan Morgan:** We can return to this when the Permanent Secretary comes to the committee. I call Nick Ramsay and then, finally, Irene James.

[105] **Nick Ramsay:** To go back, in defence of what you just said, I am looking at page 18 of the evidence and 1.43 says:

[106] ‘Anecdotal evidence has suggested that fraudsters target local authorities by submitting insurance claims for personal injuries to several local authorities.’

[107] They are multiple insurance claims, basically. In that case, I see that a system has been put in place to stop that happening. Has there been an evaluation of that? Has that

worked in that instance?

[108] **Mr Rees:** The interesting thing, and it goes back to the question as well—

[109] **Nick Ramsay:** It gives a new meaning to ‘breaking your leg in several places,’ does it not? [*Laughter.*]

[110] **Mr Rees:** It is interesting because it was perceived that this was a big issue and it goes back to the issue about organised crime as well because that could be an area of organised crime. When the matches came back in that area, they did not indicate that there was a problem across Wales on that at all. Whether that was because the controls and the systems had all been put in place or whether simply the anecdotal evidence was incorrect—

10.00 a.m.

[111] **Nick Ramsay:** What is the anecdotal evidence, then?

[112] **Mr Rees:** It is simply authorities telling us—and this is where most of the matches initially evolve from—‘We have loads of insurance claims coming through’, and the people who were dealing with them were convinced it was being done across the piece. When the matter was looked at, their conviction was not borne out and for that reason we are now questioning whether that match should be run in future, for that very reason.

[113] It is worth mentioning that we are always looking for ideas and options for what other matches could be run in areas where there is an appreciable risk of fraud. If there are areas that the Public Accounts Committee thinks NFI should extend into, we would be happy to take that away and have a look at that.

[114] **Irene James:** In part 2, you say that there is room to maximise the contribution that is made, that there is scope to improve the level and consistency of participation in NFI, and that you offer guidance and training. Do you have any figures for take-up of this guidance and training?

[115] **Ms Febry:** We have a series of guidance documents that are made available to all participants, and David and I are available to provide help, be it by phone or e-mail, or we will visit and provide one-on-one training, as will our auditors. The training that we offer in the exercise that we are talking about was actually online training. So, on the web tool, where the results are provided to participants, there are online training modules for a host of areas related to the NFI. We ask the participants, particularly new people in the exercise, to make sure that they review those online training modules to ensure that they are aware of the requirements that we make of them and what they need to do to fulfil the needs in the NFI. This year, in the next exercise, we will consider what training we are going to offer, particularly in relation to new participants and, indeed, to existing participants where new members of staff are becoming involved and using the NFI to investigate matches. So, I think that is an area that is important.

[116] **Jonathan Morgan:** I have a follow-on question on this interesting point. If the Assembly Government were to lay the law down, as Jenny mentioned earlier, and say, ‘You are in receipt of public money, and you are delivering Assembly schemes, in essence; therefore, there is a requirement that you participate in the next round of matching’, how quickly would that decision have to be taken for those organisations to be ready to participate?

[117] **Mr Rees:** They would need to provide the data in October of this year, so it would have to be taken very quickly.

[118] **Ms Febry:** They would need to take a number of steps before providing the data, and they are quite important because, as Dave mentioned before, it is the issuing of fair processing notices to anybody whose data will be matched and we want to make sure that new participants have sufficient time to do that.

[119] **Irene James:** For data to be consistent, training must be at the heart of it.

[120] **Mr Rees:** The other thing that I will mention on the training side, following on from what Kate said, is that, within the Wales Audit Office, we have a number of individuals, our own staff, who are fully au fait with and fully trained up in NFI, and they have been appointed as contacts for each individual public body in Wales. They go out to the public bodies in Wales and they sit down with their staff and provide whatever training is needed on site. That is an important addition to what we are actually providing for the public bodies.

[121] **Irene James:** That is optional, is it not?

[122] **Mr Rees:** It is quite difficult because some public bodies are very good at NFI and, if I am being frank, know more about the system than we do, so they do not really need a lot of training. Others do need to have their hand held.

[123] **Irene James:** I would just like to ask about data security. You say that very high standards have to be maintained and that you engage external consultants. In the cost figures that you gave to Jeff, would that be included or is it an additional cost?

[124] **Mr Rees:** No, that is not an additional cost. Kate mentioned the fees, which amount to a small amount per body, and the cost of carrying out those exercises is incorporated into that small fee. So, no, it is not an additional cost.

[125] **Irene James:** Thank you.

[126] **Jonathan Morgan:** As we mentioned earlier, we are able to return to this matter because we are going to conduct a review of the report, 'A Picture of Public Services'. We will be using a number of audit office reports to help with that inquiry, and this is one of them. However, it seems to me that it would be tricky for us to wait until July before taking some action, so I propose that we do as follows. I will write to the First Minister and to the Permanent Secretary, if you are content with this, suggesting—because it would appear that this requires some political leadership as well—that the Government takes action to ensure that organisations are signed up to participating in the next matching exercise and, in light of the urgency of this happening and the data being available by October this year, that a decision taken quickly by Government would allow those organisations to be prepared and to take those steps in order to participate. Does anybody have any objection to that course of action, because I do think that there is a sense of urgency with this? I see that there is no objection. Thank you.

[127] Thank you for your time, David and Katrina.

10.07 a.m.

**Cymad Cyf.: Gwybodaeth gan Archwilydd Cyffredinol Cymru**  
**Cymad Cyf.: Briefing from the Auditor General for Wales**

[128] **Jonathan Morgan:** The next item on the agenda is the briefing from the auditor general on the report that was published on 18 May into Cymad Cyf.. I understand that Alun Davies wants to make a declaration of interest.

[129] **Alun Davies:** When I was a director at S4C some years ago, I let a contract to Galw, a subsidiary company of Cymad, for the viewers' hotline.

[130] **Jonathan Morgan:** Thank you. Are there any other declarations of interest?

[131] **Jeff Cuthbert:** Yes, I should declare that I am chair of the programme monitoring committee for European structural funds. While this matter predates that, there are nevertheless implications for the Welsh European Funding Office.

[132] **Jonathan Morgan:** Thank you. I am grateful to you both for making those declarations this morning. The background to the report is that the audit office was seeking to answer two key questions: did Cymad misuse public funds, and did public bodies in Wales effectively manage public funds paid to Cymad in the period after 1 April 2003?

[133] I am delighted to welcome Ann-Marie Harkin and Ben Robertson who are supporting the auditor general this morning. As usual, we will have the briefing and then Members are free to ask questions.

[134] **Ms Body:** The report before you is a bit like Plas Madoc in that it originated in concerns that were raised with the Wales Audit Office about the misuse of public money. So, rather than being part of our planned programme of value for money work, it is a response that we have made to members of the public on issues that they have raised with us.

[135] We have investigated the use of public money by Cymad, which is an enterprise agency in Gwynedd that received substantial amounts of public funds. As the report makes clear, the company went into liquidation in August last year owing the Assembly Government over £300,000, of which some £259,000 was for European Union grants that have been claimed back from the company.

[136] We first received allegations about the company in 2006. They were fairly general in nature and we have received information about more issues over subsequent years. The allegations were primarily about general financial mismanagement and potential fraud, and it was evident that some of those allegations had also been referred to the police. So, potentially very serious matters were being raised.

[137] Our work has focused primarily on the use of public funding and the way in which that public funding is managed. As I am sure you will appreciate, we have no remit to audit the affairs of a private company more widely unless we happen to be appointed as the auditor, which in this case we were not.

[138] So, our focus was very much on the public moneys used by the company as well as the role of the funders in providing that money.

10.10 a.m.

[139] We have worked very closely with WEFO, the Welsh European Funding Office, to investigate the allegations because many of the problems stemmed from the EU grants that Cymad had received under the Objective 1 programme. As many of you will know, WEFO has a unit dedicated to inspecting the use of EU funding by grant recipients, but we also did a lot of additional work on the non-European funding that the company received.

[140] You may be wondering why the issues were first raised in 2006 and that it is only now that we have published the report. The reason is the extent of WEFO's investigations into the discrepancies in Cymad's claims for EU grants from 2006. The problems that it found

could have resulted in the company having to pay back a substantial amount of money, although the issues appear to be more about the company having a lack of adequate documentation rather than the money being used for improper purposes. As a consequence, WEFO worked closely with the company until the middle of last year, with the closure of the 2000-06 European structural funds programme, to confirm the eligibility of as much of the European funding as possible. Consequently, WEFO tried to minimise the adverse impacts of grant recovery on Cymad and on the structural funds more widely. It was only when WEFO completed its investigations in the middle of last year that we concluded our own work and published some material. We have published it because of the level of public concern about the report and because we wanted to be open and transparent in our findings and report back to those who raised issues with us.

[141] As the Chair has already said, the work has focused very much on two questions, which form the two parts of the report. The first was whether Cymad had misused public funds. Specifically, we focused on the allegations that were raised with us, which were about the use the company made of those funds. We concluded that Cymad did not adequately control much of the public funding that it received and could not account for some of the public funding that it was awarded. In some cases, there was evidence that the company had overcharged the public bodies that were funding it, but we did not find evidence that it was deliberately misusing public funds.

[142] The second question that we asked was whether the public bodies in Wales managed their funding of Cymad effectively. We concluded in general that they did, although there were clearly some weaknesses in the arrangements that they had, which meant that they were not aware of the problems at Cymad until the allegations first arose in 2006. However, they did respond well to the allegations once they were raised. As a consequence of the potential weaknesses in their arrangements, we have made eight recommendations in our report to strengthen their procedures, hopefully, to avoid the same issues arising again. As Members will be aware, the Assembly Government and local authorities distribute a lot of money each year to small organisations in the voluntary and private sectors—and the same problems arose with Plas Madoc—and this is a recurring theme in our work.

[143] Ben will now take you through some of the more detailed findings of the report.

[144] **Mr Robertson:** What I propose to do is spend just a little time explaining what Cymad was and what it did, and then take you through parts 1 and 2 of the report in a bit more detail.

[145] Cymad was an enterprise agency based in Porthmadog. Its aims were to promote sustainable development in the Meirionnydd and Dwyfor areas of Gwynedd. It mainly did that through community development projects, agri-food projects and business advice, and it had quite a wide range of activities. It relied for most of its income on public funding, and these were grants for specific projects. Grants and contracts are quite restrictive in terms of how funds can be used and are time limited, so it meant that the company did not really have a stable financial base and, as a result, began to diversify its affairs in 2002. It acquired commercial property using bank loans and mortgages and rented those properties out. It established a local Welsh-language call centre, Galw, which is still operating.

[146] We first received these allegations in May 2006. They originated from the company's finance officer, who had disclosed his concerns to the company and then to the press. We worked with WEFO to investigate those allegations, because there was a great deal of public concern, especially in that area, about what was happening at the company.

[147] Paragraph 1.6 has the list of allegations that we looked at. The first one was that the managing director had written false cheques of a subsidiary company. The second was misuse

of the company credit card. The third was the creation of a false invoice by a supplier enabling Cymad to claim money that it was not entitled to at that time. The other allegations were that there was improper accounting for VAT allowing them to claim back VAT twice, once from Her Majesty's Revenue and Customs and once again from WEFO, that there were costs for having claimed for staff time that had not been spent on a project, and, finally, that there was non-completion of some of the work on some of the projects and that, generally, there was lax management and poor financial management and control.

[148] We investigated these allegations. We reviewed the documents supporting each of the funding streams that the company had, from eight public bodies. We interviewed the senior staff there, and we reviewed board minutes and other reports. What we found was quite a stark division between European funding, which was about £900,000 of the £3.6 million that it had received in the five years to 2008, and non-European funding. The non-European funding was relatively straightforward, based on fixed prices or claiming actual costs for specific purposes. We found few errors there. There were some but they were not too serious and none of that money was recovered.

[149] On the European funding, however, which is subject to a more stringent and complicated regime, there were quite serious deficiencies. There simply was not the paperwork to support a lot of the claims. The documents were not there. Typical problems included not having timesheets to support staff time, where staff spent some of their time on one project and some on another; claiming for standard management fees when you can claim only for actual costs under European programmes; allocating corporate overheads to projects in a way that was not permitted by WEFO; not being able to prove that it tendered for products in line with European regulations; and using an advance for one of the main projects, which was to develop mini-hydroelectric schemes for other projects. That was a £1.2 million project and WEFO had said that it had to put that money aside in a separate bank account and use it only for the purposes of the project, but Cymad had used that for other projects. WEFO found out and asked Cymad to put the money back, which it did but then it used it again for other purposes because it did not have the money, WEFO having suspended payments, to meet essential costs.

[150] So, WEFO investigated the allegations when they were raised. It suspended payments to the company in 2006, but it wanted to try to give the company an opportunity to confirm the eligibility of its funding, because most of the problems appeared to relate to its not having the right papers and not being able to prove that it had spent the money, rather than to its having misused the money. It was able, as a result of that, to reduce the ineligible expenditure from about half the amount, £459,000, to 28 per cent, £259,000, but that was it. In 2009, WEFO invoiced the company for the remainder of those funds.

[151] Looking at the allegations all together, we see that the first allegation, which was the misuse of subsidiary company cheques, was investigated by the police and was proven by the conviction of the former managing director for false accounting. That money did not relate to public funding. It was a few hundred pounds for the cheques of a subsidiary company, Galw. We found no evidence to support the allegation that the company credit card had been misused. We did not find any evidence of false invoicing, although we did find one instance in which a supplier was paid more than the contracted sum without adequate explanation. The company had improperly accounted for VAT and had potentially claimed £13,000 too much, but the circumstances suggested that that was down to poor financial control rather than fraud.

10.20 a.m.

[152] There were instances where staff time was not proven by timesheets. The company had misused the advance for one of the projects. It did not complete work on two of the projects, but that was not due to a deliberate attempt to misuse funding; that was due to

reasons outside its control.

[153] Finally, there was lax management and poor financial control. It did not have a proper system for claiming money from the Welsh European Funding Office. The project managers each did their own thing without sufficient guidance. They did not really have the financial skills and expertise to follow the stringent requirements of European funding. The finance officer was replaced in 2006 and there were some improvements after that, but the problems were not due simply to the finance officer; there was a general lack of management control and oversight by the board of directors. No management accounts were prepared and no bank reconciliations were done. These are fairly basic things that all companies and businesses need to do and they were not done in the case of Cymad. So, there was clearly poor financial management and that was probably the main contributor to the problems that occurred.

[154] To put those problems into context, most of the projects and contracts were delivered to the satisfaction of the people who funded them. The biggest contract that they had was the Cyfrwng contract to provide and co-ordinate innovative approaches to Welsh-language tuition. That was delivered very successfully according to an evaluation. If you look at figure 2 on page 15, the company met most of its targets, and where it did not it was because it no longer had the money to do so. So, on the final and biggest project, to deliver hydroelectric power schemes, it could not really make much progress because payments had been suspended.

[155] Once payments had been suspended in October 2006, it lost most of its public sector business, which was the mainstay of its income. Without that business, the company was no longer viable and, in addition, it had an employment dispute and employment litigation costs. It made losses on its property investments, and these factors combined led to the company going into liquidation in June 2009.

[156] WEFO was aware that there would probably be a loss of funding and that it would have to recover money. So, WEFO allowed for that and recycled some of that money back into projects under the relevant programmes to minimise its losses. That is part of WEFO's general financial control to meet the European Union spending targets. The programmes have quite a good record of spending the money that is allocated to them and, in that sense, WEFO handled it successfully.

[157] Turning to part 2 of the report, which is about how the programmes were monitored and how the funding was managed by the funding bodies, I am going to look at that in two parts. The first part is about whether the funding criteria and contracts were robust, and the second part is about whether, once the projects and contracts had been approved, the funding bodies monitored them effectively.

[158] We found that the funding criteria and contracts were generally robust. Cymad met the eligibility criteria for all of the money that it had. The contracts were generally sound, although there were some weaknesses—a lack of clarity about its use for maternity cover, funding in advance and management expenses—but they were not too serious.

[159] Probably the most serious issue was that the managing director was charged, during the period that Cymad received funds, with false accounting and there were no means by which that information would be brought to the attention of the people who had been funding the company. WEFO now requires grant recipients to disclose to them if any of their senior officers—that is, the senior officers of recipient bodies who are involved in the administration of public funding—are suspected of fraud or fraudulent activity. We recommend that all other funding bodies do likewise. In this case, there was no evidence of irregular expenditure, but it does heighten the risk if a senior officer is convicted or suspected of an offence involving dishonesty. That does heighten the risk and public bodies need to be aware of that and take

appropriate measures. That might not mean cutting the company off entirely; it might simply mean monitoring it a bit more closely. However, the funding bodies need to know to be able to take appropriate steps.

[160] On the second part, on the monitoring of the funding once it had been approved, we found that weaknesses in the administration in some of the public bodies meant that they did not detect errors at Cymad until the allegations were made, although those errors and problems could have come to light earlier. First, all the public bodies did undertake financial appraisals—they looked at the company's finances—but those appraisals brought to light weaknesses in financial control, such as not having management accounts and not being able to provide financial information on a timely basis, and those weaknesses could have been reflected in closer monitoring of the company or by those bodies going in and helping the company a bit more, saying, 'This is what you need to do; these are the changes you need to make; this is what you need to put in place to ensure that you are able to claim these grants successfully and run this project successfully'.

[161] The other main control that WEFO in particular has, to ensure that money is spent correctly, is an annual audit certificate. An independent auditor is meant to certify expenditure on each project each year, and WEFO uses that audit certificate to confirm and gain assurance that money is being spent correctly. Unfortunately, in the case of Cymad, that did not work because the company had unqualified audit certificates every year for all of its projects, but those claims were seriously misstated because there were serious problems at the company. We cannot quite work out why that is, but it does indicate that the robustness of the audit is essential to the audit control working effectively.

[162] One thing that WEFO did was to go on an early project monitoring visit in 2004, to one of the projects, and officials did note problems. They gained written assurances from the company that those problems were being addressed, but they were not actually addressed. One of the problems that WEFO had in monitoring Cymad was that whenever it received assurances, those assurances tended not to be soundly based, in that Cymad did not actually do what it said it was going to do. We think it would have been appropriate to have followed up a bit more closely and a bit more quickly on the company and to undertake follow-up visits. WEFO's view of that is that it had unqualified audit certificates, that it is reasonable for it to rely on audit certificates as a control and that, if it cannot rely on that, it is not cost effective for it to visit every company very frequently.

[163] We found that there was a general lack of understanding in the company of the European funding rules, which are quite complex, but we were unable to determine whether that was due to a deliberate failure to comply or to a lack of understanding. Likewise with some of the allegations of fraudulent misuse, the paperwork or the audit trail just were not there to conclude one way or the other, but our conclusion overall is there is no prima facie evidence of fraud or malicious intent on the part of the company. It is more likely to be due to poor financial control than anything else.

[164] We found that WEFO did act quite quickly once it found problems at the company. It went in, it investigated, and it gave Cymad an opportunity to recover that money. Taking that time—it took almost three years to go through that process—allowed the company to wind down its projects in an orderly way, so that staff were not necessarily made redundant. The projects came to a natural end and, as a result, the damage was limited and kept to a minimum, so we think that it was right for WEFO to act in that way. The company finally went into liquidation in August 2009. It owes £556,000 to the taxpayer overall. Of that, £201,000 is for unpaid taxes and national insurance and the remaining £311,000 is money owed to the Welsh Assembly Government for rent on its premises and the recovery of European grants of about £259,000.

[165] Finally, one issue that we did pick up on, and which we have picked up on previously in similar cases of this nature, is that not so much WEFO, but the public bodies as a whole, do not share information or communicate information effectively. So, for example, in its project, the Welsh Language Board picked up problems in Cymad's monitoring. It raised them with the Assembly Government, suspended the company's advances and only funded expenditure in arrears and, as a result, it did not make any losses. That information was not communicated to all the other bodies that were funding Cymad at that time. There is no mechanism or system in place to enable the funding bodies to do that.

10.30 a.m.

[166] That is now being developed. The Assembly Government is looking at a grants-management project. It is essentially a database of grants to try to bring together this information, but, at present, the proposal is that it would cover only the Assembly Government departments and not other funding bodies and certainly not local authorities. So, it would have a fairly limited scope, at least initially. The outline business case is approved but the final business case is to be decided in July.

[167] Those were the key points, which I have run through fairly quickly. I am happy to take any questions on the report now.

[168] **Jonathan Morgan:** I have one particular observation on your last point about the ability of public bodies to share information. The paragraphs following paragraph 2.41 refer to the publication of previous audit reports into the way in which money has been spent by organisations and the recommendation of the committee that sat before this one, the Audit Committee, that there should be a way to share information. There is an issue as to how quickly the Assembly Government has responded to ensure that the recommendations, which were accepted at the time, were properly implemented. This raises the question of whether some of these problems might not have occurred had those recommendations been implemented. That is something there we may want to pursue with officials.

[169] **Jenny Randerson:** There are interesting parallels with the Plas Madoc comments that you made. One I picked up in particular was the weakness of the independent auditor system. In this report you say,

[170] 'The company's independent auditor certified grant claims which turned out to be seriously mis-stated.'

[171] In the Plas Madoc case, the issue was slightly different, but do you feel that there is a case for tightening up the way in which independent auditors are required to operate? It seems to me that, in both cases, the auditor should have been in a position to alert people to the problems long before they became public and any action was taken.

[172] The Chair has referred to the effective sharing of information. I find that lack of sharing really surprising, because this is Wales and people know each other. We are talking about very small organisations. I am surprised that the information does not get shared by accident rather than systematically. I accept entirely that it needs to be followed up systematically, but people do talk anecdotally and I am surprised that that information did not become public.

[173] The other point I wanted to ask you about was the recommendation that WEFO should extend training that is offered by the Assembly Government to organisations in receipt of EU funding. Given the amount of EU funding we have had over the years, I am really surprised that there is not a rigorous and comprehensive programme of training in place. I was also surprised by the comment in the report that WEFO did not follow up problems and

weaknesses it found during a visit. Is that a systematic weakness in WEFO or just a one-off error in this case? To what extent is this due to a deficit in training?

[174] **Ms Harkin:** I will respond to a couple of those points. With regard to the independent auditors and the fact that unqualified audit certificates were received, and the subsequent deficiencies in the documentation at Cymad, you are right to say that it is not the first time that we have seen this and, as an auditor who has worked in this field for some time, I can say that it does not happen frequently, but it does happen.

[175] However, under the new structural fund programmes, WEFO has identified the problems. Under the old programmes, the audit guidance that it issued was fairly generic. A lot was left to auditor judgment, which is not the case for the new programmes. The new audit instructions that WEFO has issued to auditors like us, but also to the auditors of the independent companies like Cymad, are much more prescriptive and very clearly set out what they expect from the auditors. That is a huge step forward, and I hope that will bear fruit and that we will have fewer problems going forward. I should also add that, for the new programmes, WEFO is aware that it needs to do some monitoring of the private sector auditors and will be undertaking sample visits to them to check on the reliability of the work and the audit certificates they provide.

[176] You are absolutely right on the training. Given the complex requirements of European funding, there is a need for WEFO to assist grant recipients when it can. That is something that it is doing. At the moment, that training is being delivered primarily for staff within the Assembly Government who are managing European projects. Most, if not all, project managers for European projects will go through that training. I am assured by WEFO that there is a proposal to extend that training more widely and we are certainly involved in helping them to do that. We offer training for any of our clients, whether local authorities, Welsh Assembly Government departments or Assembly Government sponsored bodies, we also provide training. It is obviously more of a problem in cases where we are not the auditors. I hope that WEFO will pick that up in its work.

[177] **Jeff Cuthbert:** I would like to make a point about the unqualified audit certificates. When you have clear evidence that, in this case, the certificates were not really justifiable, is that reported to the professional bodies that oversee the work of auditors?

[178] **Ms Harkin:** We have raised that issue with WEFO and that is something that it may be considering taking forward.

[179] **Janet Ryder:** As everyone has said, the similarities with Plas Madoc are really striking. It is not just the issues that have gone wrong, it is the underlying principle that, in Communities First and in the use of European funding, which is what this is, you had two huge Government policies, two huge pockets of Government money. If you look at what went wrong in Plas Madoc and what has gone wrong here, you could draw it all back to a lack of guidance from the Government at the beginning as to how that money should have been used, and a lack of a control system at the very beginning. Questions certainly need to be answered as to how it was subsequently misused by the bodies using it, but if the committee is going to look at these issues, one of the main concerns must be that large pockets of Government money have come out without real clear guidance, targets regarding what was expected to be achieved from that money, monitoring systems and report-back systems. There is a raft of questions that Government needs to answer for the early years of the operation of these projects, because many of these issues go back a number of years and were based on a possible lack of guidance at the very beginning.

[180] I share everyone's concern about the use of external auditors and the fact that the information regarding these audit certificates was not picked up. Why was this not picked up

by the external auditors and why was it not transferred? The other similarities with Plas Madoc are that issues were being picked up by other people. Issues were raised regarding senior members of the management team, whether they were founded or not, but that information could not be referred back to the funding body for further investigation.

[181] It is interesting that the majority of the issues that were discovered were to do with the European funding, and yet you said that European funding was structured and that there was guidance there. However, it was not monitored and it was not followed up. It would seem that it was not followed up on the ground, perhaps because they were not picking up on issues that were being reported due to the fact that, as WEFO said, it does not have the ability to follow up on each individual grant.

10.40 a.m.

[182] You can take this as a one-off or as a problem to do with the project itself, but I think that it is perhaps time for a committee such as this to stand back and ask how the Government handles large pockets of money and whether the monitoring systems are in place. The issues arising from this have huge implications for the Government's response to the Communities First report that we wrote and which we are going to come to later on, because, unfortunately, it would seem that the Government has not learned its lessons yet.

[183] I will just reiterate the question: what went wrong with the audit certificates? How was that able to happen? Looking at some of the issues that you have drawn up in the report, in point d on page 7 you state:

[184] 'In order to minimise the risk of fraudulent use of public funds, public bodies should include a standard clause in grant offer letters which requires a recipient to inform them immediately in writing if any of its officers involved in public funding are suspected of involvement in fraudulent activity.'

[185] I think that many members of the public reading this report would ask why that is not done now as a matter of course and why it was not written in. In the next paragraph, you state:

[186] 'If officials identify risks to financial viability or weak systems and controls at an organisation, they should take steps to mitigate the risks by, for example, monitoring the project more closely and providing assistance to the organisation concerned.'

[187] That is a pretty basic, obvious statement. Why is that not part of Government monitoring now? In point g, you state:

[188] 'Public bodies should establish clear guidance regarding follow up action where weaknesses in financial management arrangements are identified.'

[189] Why on earth was that not done? Why on earth is that not done to protect and safeguard the use of public money?

[190] **Jonathan Morgan:** There are a number of points there. I am not quite sure who would like to respond.

[191] **Ms Body:** Just to make some observations, there are parallels with Plas Madoc, but I suppose in this particular example the difference is that money was used for projects, the intended benefits were delivered, and we did not see evidence of deliberate misuse for personal benefit. So there is a significant difference there.

[192] It is also interesting that the problems were in relation to the EU grants, so although

there was guidance, what happened was something to do with the complexity of the rules and regulations around that type of funding stream, which are clearly difficult, particularly for small organisations that perhaps lack capacity and capability in applying those particular rules.

[193] There was a control to rely on the certificates of the external auditor, and it is not unreasonable to think that WEFO is quite entitled to place some reliance on that, so the fact that that control broke down is clearly very worrying indeed and I am sure that WEFO will be looking at that.

[194] **Janet Ryder:** Were the same auditors used throughout to provide those certificates, or is there a mechanism that states you use the same auditors for two or three years and then you have to change?

[195] **Ms Harkin:** There is a requirement to change your auditor. The company is able to select the auditor of its grant scheme, in this case European funding, and it is quite common to use as the auditor the same person who audits your financial accounts. That was the case in this case. My understanding is that it was the same auditor throughout the—

[196] **Mr Robertson:** Yes, it was. The same company did the accounts and the grant claims. I spoke to the auditor, who said that as far as he was concerned the claims were stated correctly. He did rely to some extent on oral assurances from the company that what had been provided in apportioning overheads was correct, and that was not the case.

[197] **Jonathan Morgan:** He relied on oral assurances, did he?

[198] **Mr Robertson:** Yes.

[199] **Jonathan Morgan:** Did he not seek evidence to allow him to make a judgment? Was it purely based on a conversation?

[200] **Mr Robertson:** On the specific issue that he spoke to me about, which was about apportioning corporate overheads to the project, the company had done it a certain way and he asked, 'Can you confirm to me that that is the way that WEFO has approved?' The company said, 'Yes, it is', and on that basis he certified the claims. There is guidance available and there was guidance available on that issue at the time, but, to be fair, that guidance did change, partly due to a European ruling, I think. The guidance on overhead apportionment did change during the period of these projects, and for a small company it is quite difficult to follow those rules because apportioning overheads is quite a technical issue.

[201] However, the robustness of the audit is a concern. I think that improvements have now been introduced to try to ensure that the audits are robust and that the guidance is better. WEFO looks at who the auditors are and has found that the same auditor is currently auditing a claim so it has ensured that it has visited that company to ensure that the funds are being used correctly, and it is satisfied with the results of that.

[202] So, I think that things have improved. Coming back to your other points about whether there is a systemic problem and why issues were not followed up by WEFO, in WEFO's view this was a fairly small project. It is not a tiny project, but, overall, in the context of the structural funds as a whole it was not a huge project, and WEFO says that it is reasonable to rely on the audit control and written assurances from the company. The company's written assurances were as valuable as its oral assurances; they did not really stand up to much scrutiny. It is a matter of judgment really as to how much work has to be done. I know that WEFO now has an inception meeting for every project. When the project starts, WEFO brings together a team of people to go into the company and check that all the key

things are in place. So it is a bit tighter now on that. Whether it follows up as much as it should I am not quite sure, but we are doing a study on European funds at the moment so we can look into that particular issue and see whether that is being done.

[203] **Alun Davies:** It is always easier to see these patterns in retrospect. I disagree with some of my colleagues about the issue of guidance. Certainly, there is no shortage of guidance from WEFO or other institutions on how money should be spent; sometimes there is far too much of it. It appears to me that the failures here are of control and management. On the issue that some of these guides can be quite technical and complex, well, yes, we know that; it is like a sailor complaining about the sea. The fact is that these companies, if they are established to use and administer funding from these sources, should have mechanisms by which they are able to understand the rules as they change, and when they change, on the usage and allocation of funding.

[204] I agree very much with what was said earlier about information sharing between different public bodies. We should certainly look at that further. However, perhaps a more fundamental issue here is that a relatively small enterprise company has been given a large number of projects to deliver on behalf of a wide number of public agencies without an understanding and without ensuring that it has the ability to administer those projects.

[205] The projects are listed in the report and the migration project in the Llŷn peninsula seems to me to be a good project, and the homework project is good. I do not know why the Welsh Development Agency is funding drama workshops, but I will not follow that up this morning. It seems quite curious and bizarre to me, but there we go. There appears to be a lack of any organisation or a body able to take a wider view of an agency or company in this position that has taken on all this work and of its ability to deliver on it. That is a key lesson that I take from this. Are there any processes or structures in place today so that if a Cymad 2 or Cymad Dau, for example, is established somewhere else, as it grows and develops—which is a good thing; I do not think we should try to prevent that from happening in future—there are controls in place to enable public bodies and the taxpayer to be assured that the organisation has the capacity to ensure that the funds for which it was applying were administered properly and to deliver both the projects in the field, and to ensure the correct and intelligent management to ensure that it is able to justify the use of public funding?

10.50 a.m.

[206] **Mr Robertson:** I would say ‘no’—nothing really has changed in that respect. It may have changed by default, in that funds are now more concentrated and we no longer have the enormous number of projects that there used to be in the European programmes. They have been consolidated into larger projects. In a sense, that might just push the problem down to the provider level: they become providers to the projects, which are, in turn, contracted to WEFO.

[207] One thing that we recommend is that the financial viability assessments, which WEFO already undertakes, should be broadened a bit so that they cover financial management, as well as whether organisations have the cash reserves, whether they have the financial capacity to do it, and whether they also have the management capacity to deliver. It would be a good idea to do that across the Assembly Government on a co-ordinated basis so that WEFO is sharing information and avoiding duplication. We recommend that in the report and that does need to be done. It is a valid concern that that assessment should be done at the outset. Also, where the company is at risk of changing, a small company that is growing quickly is at financial risk, and if the management capacity is for a much smaller operation and does not adjust to a bigger operation, that also is a risk. Where there is a risk of changing, WEFO should be following up those assessments, not just doing it once but perhaps two or three times just to see that things are in place and that they can deliver.

[208] In Cymad's case, the problem was financial management. It could and did deliver the projects. The problem was in the general management of the company. There were a lot of personal issues and undercurrents within the management team and the board, and the board itself—although not necessarily the volunteer directors—did not necessarily have the skills that were needed, and did not realise that it should see the accounts or the management letter from the auditor. To be fair to the auditor, he raised concerns about the way that the company was managed, not specifically on the claims, but on other issues, and, as I understand it, the board did not necessarily see that information.

[209] One thing that WEFO is interested in doing is providing training for some board members of these bodies. This needs to be addressed on a number of fronts, but it remains a valid concern, because I do not think that it has been addressed fully.

[210] **Jonathan Morgan:** Janet has a final point.

[211] **Janet Ryder:** My point is on the similarities between this report and the report that we discussed earlier. The national fraud initiative dealt with what would be classed as very small frauds, but when you bring them together you get rather a lot of public money. WEFO says that this was a small project, but you could say the same about it. This is a small project, but you need to look at it cumulatively and bring it all together.

[212] The national fraud initiative is working because of the sharing of information and ability to compare, and that is what has gone wrong with this, basically. What has just been said about Government needing to develop that kind of monitoring system across all its public funding initiatives to track that is crucial and, again, perhaps this committee might want to pick up on that.

[213] **Jonathan Morgan:** We will return to that in a minute after Nick has had a chance to ask his question.

[214] **Nick Ramsay:** It ties in with the point that was very well made by Alun Davies. On page 19, I was drawn to the bit about the contracts that were provided and their robustness. This is the paragraph about maternity leave. Is there a case for contracts not being able to be different in that respect across the board if public funding is involved, and why is that not being done already?

[215] **Ms Harkin:** That is being picked up now with the new grants management framework and, in particular, the establishment of the centre of excellence. I am assured that this is something that will be done.

[216] **Nick Ramsay:** It just seems pretty straightforward: that you have a standard contract, although you can make some changes to it for each individual situation.

[217] **Ms Harkin:** You are absolutely right. In this particular case it was not clear, but with regard to European funding it is very clear that you should not pay for somebody on maternity leave and their replacement. So, for European funding that was very clear; here it was not, and you are right that it should be.

[218] **Nick Ramsay:** It just seems that there is a huge amount of—not fraud, as has been said—but blurring and a huge scope for misunderstanding, which, I think, is what has happened here. That is across every area, which is interesting. As you said, Janet, it is similar to the last report in some ways.

[219] **Jonathan Morgan:** We will return to this matter because, as we embark on this

wider review of how public bodies are spending public money with a view to ensuring that we get better value for the money that we spend in the years ahead, we will be using this report in addition to the national fraud initiative report, 'Picture of Public Services', and one or two other reports that will help inform that wider inquiry. So, all of these issues about co-ordination, information sharing and why we seem to continuously encounter these problems will be picked up with the relevant officials as part of that inquiry.

[220] I thank Members for their questions. I apologise that we are running slightly over time, but the first two items were very substantial reports and required sufficient scrutiny from Members.

10.56 a.m.

**Absenoldeb Oherwydd Salwch yn y GIG: Cyngor gan Archwilydd Cyffredinol  
Cymru**  
**NHS Sickness Absence: Advice from the Auditor General for Wales**

[221] **Jonathan Morgan:** We have received advice from the Auditor General for Wales. I welcome Matthew Mortlock, who is supporting the auditor general this morning. The auditor general will brief the committee and then Members can ask questions about the progress and the advice that she has provided.

[222] **Ms Body:** Members may recall that the Government response to the committee's recommendations, which came to the committee last summer, while accepting the committee's recommendations did not actually provide any detail on how those recommendations were going to be implemented.

[223] This latest response from the Minister provides a very helpful and comprehensive update on progress to date against the committee's recommendations. The Minister has also provided some information on sickness absence trends, which shows a fairly positive picture in that the trend has reduced. She talks about 5.1 per cent as an average sickness rate between August 2008 and July 2009, which is a slight reduction on the figures reported in the committee's own report, which was between 5.3 per cent and 5.4 per cent in previous periods.

[224] It is also not at all evident that the stresses on the workforce as a result of the reorganisation of the national health service have had an impact on sickness absence, which is very welcome. There is a slight increase but, as you can see, the ambulance service accounts were quite a bit of that and it, of course, was not affected by the reorganisation. So, it is probably more to do with seasonal factors than it is to do with reorganisation, so that is very welcome.

[225] The Minister reports good progress on a number of the recommendations. For example, the targets set for sickness absence have been changed to focus much more on continuous improvement, which was very much a recommendation of the committee and of ours. The bodies are now working to a common all-Wales sickness absence policy, which is very welcome.

[226] Some issues are still in train—for example, the review of occupational health services—so there are some issues still to be taken forward. However, generally, this is a good response showing considerable progress on the committee's and our recommendations. At this point in time, the only outstanding issue seems to be around the publication of sickness absence trend data. The Minister indicated that the data will be published by April, but they have not yet been published. We understand from talking to officials that this is just a timing issue. They decided to defer publication until after the election, and so that is

something of a loose end. If the committee wishes to look to us to make sure that that is rectified—and, obviously, we will come back to it if there is any ongoing delay—we would be very pleased to do so.

[227] **Jonathan Morgan:** That would be very useful. Thank you.

[228] **Jenny Randerson:** It is that latter point that I want to home in on, because I am very concerned that a recommendation that was in the committee report in 2004 is still not being done yet. I was surprised to hear that there was a decision to defer it until after the general election, because the Government made significant policy and spending announcements in the few weeks prior to the general election, so it was not observing what used to be called 'purdah'. I do not know what it is called now, but it was not observing that period of political neutrality in which, normally, you do not have announcements.

[229] I am very worried about any kind of statistical information being withheld just because there is an election coming up. Are you aware whether this information has been prepared and is ready to be published, or is it the case that they have not yet got around to preparing it?

11.00 a.m.

[230] **Mr Mortlock:** My understanding is that the material was ready to go by the end of April target date, but it was a decision taken in the Assembly Government. I think that it is fair to say that officials in the health department are probably a bit frustrated. I am not sure, but perhaps that was a decision taken by officials working in the statistics department, on a protocol for publishing new information.

[231] That said, it is true to say that the Assembly Government did publish other statistical information. My understanding is that that was updates on statistical information that had been published previously on a regular basis, such as employment data or whatever. This was seen as a new publication in one sense: a new publication of a new type of information.

[232] I have to say that, in one sense, there is nothing to hide. The news story that underpins the information is a positive one. We are not looking at an upwards trend, at least not to the period reported in the response. My understanding is that, even more recently, it does not suggest that there was massive rocketing in sickness rates. There was a good news story about the fact that the reorganisation process, in the short term at least, had not had a negative impact on sickness rates. So, perhaps the committee will have to ask that question itself. However, as for when it is published, it was in a queue, but it has missed its slot in the queue, so I think that one of the issues is when it can make its way back to the front of the queue, given the order in which information is published.

[233] **Jonathan Morgan:** Are there any further questions? I see that there are not. I thank the auditor general for her advice. It was an extremely useful session. I do think that we need to ensure that the data are published, as it is important that we keep track of what is happening with sickness absence. So, we have to note and welcome the fact that there has been progress, but if you could chase that up with the Government, it would be extremely useful. Thank you.

11.02 a.m.

**Cymunedau yn Gyntaf: Cyngor gan Archwilydd Cyffredinol Cymru**  
**Communities First: Advice from the Auditor General for Wales**

[234] **Jonathan Morgan:** We move on to the final item on the agenda this morning. The

Assembly Government has responded to our committee report on Communities First, and Members will no doubt be aware that we have a debate in Plenary next Wednesday on the Communities First report.

[235] As we agreed in one of our previous sessions, I took the somewhat unusual step of laying the report for debate, because there was a significant amount of concern about what had been discovered in the Wales Audit Office report and in the report of this committee. It is an unusual step because reports from the Public Accounts Committee do not tend to get debated in Plenary, but I think that, from time to time, it is a useful way of engaging our colleagues who do not sit on this committee in a discussion about our work and some of our findings.

[236] I ask the auditor general to brief the committee now, and I am sure that Members will have a couple of points and questions to raise. I will certainly have a few remarks to make as Chair.

[237] **Ms Body:** Rather unusually, the Government's response criticises the committee's report a little bit, but it accepts all the recommendations that the committee has made. However, its response on how it will take forward those recommendations is somewhat vague in a number of places. It is not very informative on the detail of how the Assembly Government will be implementing the recommendations or, indeed, on the timescales that it is working to. We recognise that the Assembly Government needs time to consider the detail of how to change the programme, but I think that this response could have been more informative than it is.

[238] We are also a little concerned about the many references to an external evaluation that is to be undertaken in 2010-11. I am nervous that that could be taken as an excuse for deferring action that needs to be taken. However, the response does promise an update report in 12 months' time on the Assembly Government's progress in implementing the committee's recommendations, and that would give the committee an opportunity to follow it up at that time, if Members do not wish to do anything in the meantime.

[239] **Janet Ryder:** I share the concerns that the auditor general has just raised. I think that the Government's response is really disappointing. When you read it, you see that it has failed to put a deadline on anything, it has failed to give timescales for anything, and it has failed to say when it will report back on this firmly. I do not want to pre-empt next week's debate in Plenary, which may well reiterate all this, but the auditor general's response to the Government's response to our response to its report on Communities First says that the weaknesses in the programme are now well known and the Assembly Government needs to get to grips with tackling those weaknesses as a matter of urgency rather than await the results of another review.

[240] For me, the Government response is just a load of WAG waffle. It intends to kick it into the long grass, when we need to know how the Government will monitor the success of an almost 10-year-long programme that has taken millions of pounds of public funding. I know that, with Plas Madoc, there is another issue again on top, but the original report showed the lack of overall strategic aims identified at the beginning of the programme, and that links in to the previous discussion that we have just had.

[241] It is crucial that the Government does respond, that it does not take a long time to take these further reviews, and that, by Christmas, we push the Government for a concrete response on all the issues we have raised.

[242] **Alun Davies:** It is fair to ask the Government for a timeline for implementing the recommendations that it has accepted. All too often in these committees, we spend our time

berating the Government for not accepting our recommendations, but it shows a bit of bad faith if we berate it again for accepting them but not positively enough. There are elements of the auditor general's letter in which I think that a review could be used as an excuse to delay taking action, but—potentially taking the Government's stance and speculating a bit too far—we have no evidence of that. *[Interruption.]* We have not, Janet. If the Government is undertaking a review, that is fine. We should accept it at face value, ask for the Government's expectations, and ask when it expects it to be completed and when we can expect a response on this, rather than say that it is just an attempt to delay taking action. I do not know that and I have no evidence to sustain that kind of speculation. So, let us look at this, take it forward, and ask the Government for a timeline for implementing all the different recommendations that it has accepted. Then, on the basis of that timeline, we can hold the Government to account for meeting its own deadlines. If we do not believe that the deadlines are good enough—for example, if the Government is saying it will take two years and we believe that it should be six months—let us state that and ask to have a session with the Minister, to tell him that we believe that he should be doing this differently and more quickly.

[243] So, I think that there are broadly two ways in which we can approach this: first, a positive engagement with Government and, secondly, to sit back and accuse the Government of bad faith. The second approach would not achieve the results and the objectives that we want to achieve for the people who are working on these projects and benefiting from them. So, I would certainly support our sending a response to the Government asking for a more detailed explanation of how it intends to achieve its policy objectives and then, if necessary, we could ask the Minister to come to committee, so that we can discuss the timeline with him.

[244] **Jeff Cuthbert:** I just want to follow on from the points that Alun has made, as I agree with his analysis. I am keen to have the debate next week, because I have 10 wards and sub-wards in my constituency that have Community First partnerships and, as in any human organisation, some are better than others. However, a number of them have been quite stung by what happened with Plas Madoc and the implications of being tarred with the same brush, so they want clarity here.

11.10 a.m.

[245] When this came before us previously, I can remember saying that I wanted to make the point that when we have the full investigation into Communities First it is important that those partnerships that are working well and doing good things for their communities should be highlighted properly. It is important that we get that clear and that the good work done by Communities First partnerships—I am convinced that is the case for the great majority—is clear also. So, really, that is all I wanted to say, and to support Alun. I think that a timeline is reasonable, but I do not think that we should question the Government's faith in this.

[246] **Jonathan Morgan:** Thank you, Jeff. When you examine the response, it is important to consider both the cover letter and the report together. It would appear, from reading the cover letter and the report, that they were written by two separate individuals, because the cover letter from the Minister says:

[247] 'On behalf of the Cabinet, I would like to thank you and the Committee for the careful and considered way in which you undertook the investigation and produced the report.'

[248] The response to the report, sadly, states that the Government feels that

[249] 'The report does not give sufficient credit to the good work being undertaken by Communities First partnerships and co-ordinators at a local level'

[250] and that

[251] ‘Many Communities First partnerships feel disappointed that their work has not been sufficiently valued in the report.’

[252] I think that shows a shocking lack of understanding on the part of Government and officials as to what the report was about. We were not seeking to examine each and every Communities First partnership and provide a critique and, therefore, a judgment as to the success or otherwise of those individual partnerships. We all said throughout the inquiry that there were interesting areas of best practice and areas where perhaps work needed to be done to ensure that the projects were delivering, but the report was not an analysis of each and every project. That would not have been an acceptable way to proceed, because the Wales Audit Office had produced a report looking at the scheme in its entirety to see how public money was being spent.

[253] So, I think that in annex A the Government has misunderstood what our report was about. I am pleased and welcome the fact that the Government has accepted all of our recommendations, but my principal concern with the response—this echoes what the auditor general has said in her letter—is that the response, in essence, apart from accepting the recommendations, is a bit flimsy. The report and the report of the Wales Audit Office is robust, and I think that the Government has to show a sense of urgency in implementing recommendations, which would, hopefully, lead to the better use of public money in future and to delivering the sorts of outcomes that we all want to see from this particular scheme.

[254] I think that there is a lack of rigour, a lack of detail and a lack of timelines in the response, and Alun is absolutely right: we need to quiz the Government further as to what the timescales will be so that we can be certain that the Government response is robust enough. We have seen, and we saw this in the previous session on Cymad, occasions when reports have been published by this committee with recommendations where the Assembly Government has not implemented those recommendations, and then, a few years later, we see the same issues returning. We cannot afford, and the Government cannot afford, to accept recommendations and then do very little about them. So, it is important that we are able to quiz officials further.

[255] We have the Permanent Secretary and the director general coming to the committee on 8 July. That is specifically to answer questions on Plas Madoc. If there is an issue of sub judice, as we have discussed before, we could use that time to discuss the Government’s response to our Communities First report. Even if we pursue the issues that we want to pursue with them on Plas Madoc, there may well still be time to pursue the matters in relation to the Government’s response to the overall report. It is important that we return to this.

[256] My feeling, knowing that the Assembly Government is examining a number of other projects, is that there may well be other occasions when the findings of those investigations end up on our doorstep, so I suspect that our work in this particular area has not been concluded. Therefore, what I would recommend in the first instance is that we ask the Permanent Secretary and Dr Emyr Roberts to answer questions on the Government’s response when they visit us on 8 July and that, throughout the next few months, as more of these issues are taken up by the Government in its investigations, we keep a watching brief and perhaps return to this again, because I am not happy that we are where we are. Money is being spent daily. The projects have not been halted; they are still running and, hopefully, succeeding. We need to ensure that these projects are delivering, because when significant sums of public money are being spent we need to make sure that they are spent in the right way.

[257] **Alun Davies:** I think that your conclusion answers the question as to why paragraph 3 of the Government’s response is worded as it is. I do not necessarily disagree with what you

are saying, but I think that when a report talks about partnerships and projects and whether they are really delivering what the Government wants, there is an implication and a tone that leads the reader or the spectator to conclude that the person speaking does not believe that they are.

[258] I understand what you say, and I read the report in some detail at the time. Certainly, the way that it was reported and the debate around it suggested that Plas Madoc was seen as an example of a failing project. As Jeff was saying, that is not the case. Those of us who represent areas where there are substantial Communities First projects and partnerships in place, regularly visit projects that have succeeded and that are changing the lives that people lead in those communities. Both Jeff and I in our contributions were trying to say that we need to say that as well.

[259] That does not mean you brush the rest of it under the carpet and that you ignore what you do not like to see, but it means that you take a more balanced approach. I know that a lot of co-ordinators were very hurt and bruised, not so much by the report itself, but by the debate around it and certainly the coverage in the media. I do not see the difficulty and a contradiction between the covering letter and the response for that reason.

[260] **Jonathan Morgan:** The response from the Government suggested that we needed to give sufficient credit to the good work being undertaken by Communities First partnerships and co-ordinators at local level. On page 10 of our report, we state that:

[261] ‘The Auditor General found that most Communities First areas now have a functioning partnership and that many of these partnerships had achieved some local benefits.’

[262] Therefore, we point to the fact that benefits are being realised. However, what the Assembly Government seemed to suggest was that it was our job to start issuing gold stars and singling out lots of different partnerships. Our job was to look at the scheme in its entirety and that is what we have done, because it would not have been appropriate to have started x number of individual investigations.

[263] Jenny, you had a comment.

[264] **Alun Davies:** Sorry, I was going to—

[265] **Jonathan Morgan:** I will come back to you.

[266] **Jenny Randerson:** I find the beginning of this response very disturbing, because it reeks of a Government that is in denial about the impact of what has happened. It is so wedded to this policy, understandably so, that it is saying that you must not criticise it. We know that Plas Madoc may not be alone and that there are other investigations. It is much better for the Government to be upfront, say that there are faults, accept those faults and give us a rapid timescale for a response to that. It is heaps better for this really important project that that is faced up to now and that it is put back on track than that the Government should pretend that there is not a problem and that we have other failures and other problems in future. There has to be public confidence that this money is being well spent and there were such failings in the Plas Madoc case that it led people to question the general situation in relation to Communities First. I thought that the report made all the right comments and all the appropriate comments about Communities First. I have Communities First funding in my constituency and it is tremendously valuable, but when it is not spent properly that undermines the excellent work that has been done elsewhere.

[267] **Jonathan Morgan:** Alun, I said I would return to you.

[268] **Alun Davies:** Sorry, I was trying to make a point. I chose my words quite carefully in my contribution earlier. I talked about tone and the nature of debate and discussion around this. I recognise what is stated on page 10, but sometimes a report is used as a stick and I think that is a misuse of it, and so I am anxious that we move forward on this. You proposed a way forward; I accept that.

11.20 a.m.

[269] I think that a letter back to the Minister saying that we would like a timeline on this would be a reasonable response, and then we can debate what that is, so that we have a structured response from the Government. I agree with you that, in parts of this response, the Government makes some sweeping statements, and we need to go beyond that to look at what it will deliver and when, because only through having a more structured response in that way can we hold the Government to account. I am quite anxious to do that for the reasons that Jenny has given. We can move forward on this, but I would like to do it in a more positive tone, if possible.

[270] **Jonathan Morgan:** I will make a further suggestion in a moment.

[271] **Nick Ramsay:** I can see both sides of this, which is why the committee's decision to have a debate on this will be a good opportunity to flag up good practice while pointing out our real concerns.

[272] On the timeline, I am looking at point e continued over the page on page 6, on the response accepted, and there is reference to a one-day workshop to be held in May 2010. That is an obvious area to ask about: has it been held yet, what were the outcomes, what evaluation has been carried out of it, was it just people meeting in a workshop and ticking a box to say that they had done it? So, I would certainly like to ask about that, when we look at this further.

[273] **Jonathan Morgan:** In addition to asking the Permanent Secretary and the director general some questions when they come here on 8 July, I think that we should take up Alun's recommendation, which is to write to the Minister in the meantime to outline a couple of concerns that we have with the Government's response, and to say that it would be useful to have a timeline to know which specific actions are to be taken as a result of accepting the recommendations. That would give him the opportunity to respond to those concerns before the Permanent Secretary comes to the committee on 8 July. Is the committee happy with that course of action? I see that it is.

[274] Are there any other recommendations that you would like to make about how we handle this over the next few months? I see that there are none. As I say, we will be returning to it on more than one occasion, I suspect.

[275] Unless there are any further items, that concludes our business for today. Thank you all for your attendance.

*Daeth y cyfarfod i ben am 11.22 a.m.  
The meeting ended at 11.22 a.m.*