



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

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

**Dydd Iau, 7 Hydref 2010  
Thursday, 7 October 2010**

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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**

Lorraine Barrett	Llafur Labour
Peter Black	Democratiaid Rhyddfrydol Cymreig Welsh Liberal Democrats
Angela Burns	Ceidwadwyr Cymreig Welsh Conservatives
Jeff Cuthbert	Llafur Labour
Bethan Jenkins	Plaid Cymru The Party of Wales
Jonathan Morgan	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee)
Janet Ryder	Plaid Cymru The Party of Wales

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

Anthony Barrett	Swyddfa Archwilio Cymru Wales Audit Office
Gillian Body	Swyddfa Archwilio Cymru Wales Audit Office
Simon Edge	Swyddfa Archwilio Cymru Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Kevin Thomas	Swyddfa Archwilio Cymru Wales Audit Office

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

Alun Davidson	Clerc Clerk
Joanest Jackson	Uwch-gynhorydd Cyfreithiol Senior Legal Adviser
Andrew Minnis	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 1.35 p.m.*  
*The meeting began at 1.35 p.m.*

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

[1] **Jonathan Morgan:** Good afternoon. I welcome everybody to this meeting of the National Assembly's Public Accounts Committee. I remind participants that we are a bilingual institution, therefore please feel free to speak in Welsh or English; headsets are available for translation or amplification. I also remind everybody to switch off their mobile phones, BlackBerrys and pagers. If the fire alarms sound, please follow the advice of the ushers.

[2] I have received apologies from Alun Davies, Nick Ramsay, Irene James and Sandy Mewies. Angela Burns is substituting for Nick Ramsay, so I extend a very warm welcome to her.

[3] Before we move on to the first substantive item on the agenda, I welcome, on behalf of the Public Accounts Committee, the new Auditor General for Wales to his first meeting of this committee. I am very pleased to welcome him in his first week of office, and I wish him well as he meets the challenges that he will face. We look forward to working with him to address the big issues that we face in Wales, particularly financial and performance issues in the Welsh public sector over the coming years. We also look forward to maintaining a close scrutiny of how public money is being spent in Wales. I extend a warm welcome to him and also to Gillian Body and colleagues from the Wales Audit Office.

1.37 p.m.

**Y Wybodaeth Ddiweddaraf am yr Adolygiad gan Gymheiriaid o Swyddfa  
Archwilio Cymru: Sesiwn Frifffio gan Archwilydd Cyffredinol Cymru  
Update on the Wales Audit Office Peer Review: Briefing from the Auditor  
General for Wales**

[4] **Jonathan Morgan:** We have received a paper copy of the briefing. I ask the auditor general to brief the committee, and I am sure that Members will have questions to put to him afterwards.

[5] **Mr H. Thomas:** Hoffwn fanteisio ar y ffaith mai hwn yw fy nghyfarfod cyntaf â chi i ddweud ei bod yn bleser bod yma, er na fydd y cyfarfod hwn y math o gyfarfod yr oeddwn wedi'i ddychmygu ar adeg fy mhenodiad, efallai, gan fod pethau eithaf difrifol i'w trafod heddiw. Serch hynny, yr wyf yn edrych ymlaen at gydweithio gyda'r pwyllgor.

**Mr H. Thomas:** I would like to take advantage of the fact that this is my first meeting with you to say that it is a pleasure to be here, although this meeting may not be the kind of meeting that I had in mind when I was appointed, as there are rather serious issues to be discussed today. Despite that, I look forward to collaborating with the committee.

[6] As you indicated, Chair, we need to ensure that the Wales Audit Office is delivering a quality service to the people of Wales and ensure that we always remember that our obligation is to the people of Wales in ensuring that the public bodies that we audit are spending the public pound wisely and well, and that you—the people's representatives, in a sense—can be satisfied of that. By the same token, I think that it is fair to say that the Wales Audit Office needs to ensure that it delivers and is properly accountable in the work that it discharges and in its expenditure.

[7] We start with a number of items that go to the heart of how the Wales Audit Office has functioned: first, with the peer review, and, secondly, with other items, including my view of the existing management of governance arrangements at the Wales Audit Office. With regard to the peer review, I endorse the work that the executive committee and Gillian Body have done since the departure of the former auditor general, and I invite Gillian to introduce the paper to you.

[8] **Ms Body:** Many Members will be aware that the Wales Audit Office was subject to a review by a panel of international peers in 2009. Although we are the youngest public audit body in the United Kingdom, we are the only one to invite peer reviewers to look at us; however, this approach has been used in Europe and further afield. In October of last year,

two of the five members of the peer panel—Caroline Gardner, who is chair of the peer review and the Deputy Auditor General of Audit Scotland, along with Sir Alistair Graham, who was previously chair of the Committee on Standards in Public Life—gave evidence to this committee. We are now a year on and are very pleased to have an opportunity to provide the committee with an update on the progress that we have made over the past year in responding to the recommendations of the peer review.

1.40 p.m.

[9] Immediately after the peer review had been published, we undertook a series of workshops attended by the then auditor general and all the partners—that is, the senior managers—within the Wales Audit Office. A key outcome of the organisational design work of those workshops was the restructuring of the top management of the Wales Audit Office and, in particular, the establishment of a new executive committee. The executive committee comprised the auditor general and three managing partners, namely Kevin, Anthony and I, who are before you here this afternoon. Kevin's role, as managing partner for planning and resources, involves leading a fundamental change programme, which includes addressing the recommendations of the peer review. It also goes wider than that; it also addresses other issues that arose from the partners' workshops, as well as the recommendations from some internal reviews.

[10] Members may recall that, in the peer review, there was praise for what the Wales Audit Office had achieved within the first four years of its life. Nevertheless, it also pointed to a number of important changes that it felt that we needed to make in order to be fit for the future, given the number of fundamental changes that were happening in the external environment and, of course, the financial constraints that were looming. It made 19 recommendations, which are set out in the table on pages 9 and 10 of our report. We have used a traffic-light system to give you a feel for where we think we are in terms of our progress on implementing those recommendations. We have used green where we have taken the actions that we planned to take in response to the peer review's recommendations. However, as prudent auditors, we expect to remain vigilant, because we need to make sure that the changes have been well-embedded. We have used amber where there is already work under way to address a particular recommendation, but where we realise that more work is needed to complete and embed the change. Finally, we have used red where substantial work still needs to be undertaken to address the recommendation.

[11] In our assessment of our progress over the past year, we have assessed progress on eight of the 19 recommendations as green, eight as amber and three as red. I do not intend to go through every recommendation in turn, because that is set out pretty fully in the update report, but I would like to highlight a few points. I believe that we have achieved a lot in the past year. Given the circumstances surrounding the departure of the then auditor general at the beginning of the year, the easiest thing might have been just to keep things ticking over until a new, permanent auditor general was in place. However, my colleagues on the executive committee and I were of the view that we wanted to do more than that. We wanted to grapple with a number of the thorny issues thrown up by the peer review and by our own internal reviews, and to drive through changes that would put the audit office in a stronger position when the new auditor general was appointed. You will see that there are reds, and so there is clearly still more work to do. I do not want to apologise for that, because the way that we have approached the change programme is to identify what we saw as the priorities and focus on those and get to grips with them, rather than trying to bite off too much and not managing to embed change.

[12] In terms of our achievements over the past year, one of the areas that the peer review focused on was the design and content of our work programmes. We have looked carefully at that to try to provide a better coverage of policy areas. I recall that, at the time of the peer

review, which, I think, Chair, was about the time that you took up your role as Chair of this committee, there was a heavy coverage of health topics. Clearly, health is a significant area of spend and it is right that it is a focus of our work. However, I hope that over the past year the committee will have seen a broader coverage and a better spread of the work that we do that supports your scrutiny function across the Welsh public sector.

[13] We have also exploited our cross-cutting reach to produce material that is relevant to the whole of the Welsh public sector. Particular examples that come to mind are 'A Picture of Public Services', which is underpinning a very wide-ranging review by this committee, as well as the national fraud initiative and a summary of buildings management across the public sector.

[14] With regard to enhancing stakeholder engagement, Members may be aware that, earlier this year, we launched a public consultation seeking views on study topics for our future work programme. That consultation has influenced our thinking about our priorities, and we will be bringing that back to this committee next month when we talk to you about our forward work programme.

[15] You will also see from the report that we have done a great deal of work over the year in co-ordination with other audit and inspection bodies, particularly on developing the new Local Government (Wales) Measure 2009. In collaboration with Estyn, the Care and Social Services Inspectorate Wales and the Healthcare Inspectorate Wales, we have also appointed a joint project manager to assist the four of us in aligning our planning, encouraging joint working, sharing information and avoiding duplication. We have still logged that as amber because, although we have done a great deal of work, we still need to ensure that audit bodies can see the impact of that improved co-ordination and collaboration.

[16] Turning to the management of the Wales Audit Office, there have been significant changes in the organisation's structure. As well as the establishment of the executive committee, we have developed an operating guide, which clarifies responsibilities and accountability within the Wales Audit Office. It sets out how we should work together in terms of the values that underpin everything we do as well as our styles and behaviours. As an executive team, we have worked really hard to be more open and accessible, not only to the staff of the new organisation, but more widely. We have launched an openness and transparency page on our external website, which includes information that is likely to be in the public interest. For example, it includes information about our expenses as an executive committee, as well as information that we have provided under freedom of information requests. We have also recently undertaken a staff survey, and the results of that are also on our website.

[17] Human resources and people management have also been priorities for us, and we have taken action to implement the peer review recommendations on resolving outstanding issues on pay and progression, developing a workforce plan and developing a human resources strategy. There is more work to do in this area, particularly on meeting the objectives in the human resources strategy.

[18] We have also improved our business planning, through developing an annual operational plan, which provides clarity about exactly what it is we need to do during the year. It gives staff a very clear understanding of how their work contributes to that wider goal. We have also developed a zero-based fees model to inform our external fee-setting with regard to the work we do with local government and health. We have benchmarked that fees model with the Audit Commission and Audit Scotland to give us some comfort that what we propose is proportionate and reasonable.

[19] Those are the areas where I think we have achieved a great deal this year. You are

probably waiting for the areas that we have marked as red; we have identified three areas where there is substantial work still to be done. One relates to the governance of the Wales Audit Office. As our incoming auditor general, Huw has determined that one of his first priorities will be to strengthen our governance arrangements, particularly by establishing greater external scrutiny and challenge of the auditor general's management of the Wales Audit Office and his responsibilities as accounting officer, while, of course, maintaining his complete independence to decide what work we do and what audit judgements we reach without interference. Huw's proposals are set out in a separate paper under the next agenda item, so I do not propose to say any more about that at this point.

[20] The other areas marked as red relate to the need to improve our corporate performance management systems. As you might imagine, we collect a great deal of information on what we do, but we recognise that there is a real need to better collect information on the impact that our work is having. We do not exist only to do work, but to make a difference to the people of Wales, and we need to get a better handle on that.

1.50 p.m.

[21] The other area is programme management and the resourcing of our work. This area has been a perennial challenge for the Wales Audit Office. We need to improve the processes and systems that underpin our staff deployment to ensure that we make the best use of staff. The latter two areas will be the priorities for the change programme for the remainder of this calendar year. I will not say any more, you will be pleased to hear. I hope that that gives you a feel for what we have managed to do over the past year, what still remains to be done, and how we plan to go about that.

[22] **Jonathan Morgan:** Before I open it up to the members of the committee, under the section on the design and content of the work programme to support improvement in the Welsh public service, one of the issues that was raised with me by the peer review was that, when the auditor general consulted the Public Accounts Committee on the programme of work within the field of value for money studies, it would be presented to us, we would have a look at that report and we would then give a view. I was asked whether we ever received a rationale as to why particular studies were being suggested. That might be a useful thing to come out of this review in the future. Perhaps we could have more of an understanding as to why you have chosen particular areas of work. It follows on from the shift from working principally on health matters to other things. It would help us to understand why a particular topic has been picked. If an issue has been raised with you about the way in which public money is being spent, about concerns over governance and the use of that money, I can understand why you would then choose to take on a study. However, having some rationale to underpin the topics would be of use to the committee.

[23] **Ms Body:** Hopefully, we will meet that challenge in the paper that we will present to you in November. That will set out part of our planned programme and the themes and strategic aims that we have that have driven the selection of those particular topics. We will always be responsive to things that happen outside our planned work. As you say, over the past year we have responded to issues that have been raised with us as matters of public concern and we would always want to retain that flexibility.

[24] **Lorraine Barrett:** I just want to enforce the point that, over the years that I was on the former Audit Committee, we seemed to be receiving reports on all sorts of issues, mainly relating to health. I also sat on the health committee, and therefore I could see that there seemed to be a lot of duplication. I know that the Wales Audit Office would be looking at specific aspects of a certain area, but we would be undertaking a review as well. There seemed to be no co-ordination. I do not know whether this is appropriate, but would there be any opportunity to consider what committees are looking at? We have a forward work

programme. I do not know whether it would be helpful at any point for the audit office to be keeping an eye on what our scrutiny committees are looking at. I just wanted to make that point.

[25] **Ms Body:** We do look at what the scrutiny committees are planning to do and we also have an arrangement where there is a liaison point between a member of the Wales Audit Office and the clerk of the scrutiny committees to encourage that information sharing on what we are doing. The only constraint for us is that the timescales that we are working to are probably rather different from those in the scrutiny committees. You can imagine going away and drilling down into detailed documents, and interviewing people, and all the work that underpins a comprehensive audit office report is very extensive. We are always vigilant about what the scrutiny committees are planning to do.

[26] **Jeff Cuthbert:** I just want to get this clear in my own mind. It is a good thing that you take an active interest in what the scrutiny committees are doing, but if, for example, a committee had a short review into an issue relating to education, for example, and you wanted to have an input, then it could be the case that, when you have finished drilling down into details, you come back with findings after the committee has concluded its report that might, had we known about them, have affected our report. Is there any way of having a system of traffic lights, if you like, saying 'hang on a minute, we think we might have something here', so that the report is indeed completed properly at the end of it?

[27] **Ms Body:** The risk that you indicate has actually happened. I think that the health committee planned to do some work on adult mental health just at the time when we were doing some comprehensive follow-up work. We faced exactly that scenario: if the committee had hung on just a tad, it could have had a lot of audit evidence to underpin its scrutiny work. That was the trigger for setting up these liaison points between the clerks and individuals in the Wales Audit Office. We wanted to try to avoid that problem.

[28] **Jonathan Morgan:** Are there any further points? I had three points to raise very briefly, but I will call on Bethan first.

[29] **Bethan Jenkins:** I just wanted to ask a question on human resources and people management. I note in 3.17 that the implementation of a new pay and progression plan has been put in place with the unions. Will this be covered later on in the governance, or could you expand on how you plan to progress relationships with the trade union representatives for staff at the Wales Audit Office? Would they have any input into the workforce plan that is currently under way?

[30] **Ms Body:** I might just ask Kev to say something about pay and progression. However, I think that it is fair to say that our relationship with our trade union partners has changed beyond recognition over the past few months. They have been incredibly constructive and helpful to us, as an executive team, in resolving some of the staffing issues that have dogged us for a while. We certainly would involve them, as we have done, on any matters that relate to staff. Perhaps Kev can come in on how we worked with them on this particular issue.

[31] **Mr K. Thomas:** As Gillian says, I think that our relationship with the trade unions has improved significantly over the past 12 months or so. We have actively engaged far more effectively with them. I meet the unions on a monthly basis to discuss a range of issues, and there are also regular partnership forum meetings. This has been a good way of improving relationships, and I think that we have all benefited from that.

[32] In terms of pay and progression, we completed that exercise towards the beginning of this year. It was something that both unions—PCS and Prospect—signed up to. They



supported the proposals when their members were considering whether to vote for the new arrangement. That arrangement itself takes us only so far, and we will need to keep that under review. Again, we looked to engage with the unions in doing that.

[33] You briefly mentioned the issue of workforce planning and how we were looking to engage with the unions on that. Over the past year we have taken a two-pronged approach to workforce planning. First, we looked at the delivery side of the business and, more recently, we have just finished the enabling side of the business—corporate support services. We have discussed the initial outcomes of that exercise with the unions, and they have been very supportive of the approach that we have taken. In terms of working through the finer detail of that, again, we have agreed that we will work closely with them to implement any changes that we need to make.

[34] I have one final point that I wish to make in terms of engagement with the unions. Gillian mentioned in her opening address that we had a staff survey this year, and we had very active involvement from the unions in designing the staff survey. So, it was essentially a jointly or a triply badged survey with both Prospect and PCS.

[35] **Bethan Jenkins:** I would like to refer to the peer review with regard to appendix 1 and financial management. I know that much of what is discussed in the peer review relates to value for money in external relations, and we have had recent discussions over severance payments; therefore, do you believe that the peer review looks sufficiently into the accounts of the Wales Audit Office, or is that something that you believe another peer review would need to look into, or something that you would consider doing internally?

[36] **Mr H. Thomas:** I am happy to answer those questions now, but on the other hand, they do go to the heart of a number of things that I would like to answer later.

2.00 p.m.

[37] **Bethan Jenkins:** It is just that they relate to the peer review, which clearly did not look that in-depth into the financial management of the Wales Audit Office.

[38] **Jonathan Morgan:** Bethan, appendix 1 of the peer review document includes a reference to financial management, the setting of the monitoring of audit fees and the use of resources. So, in essence, there was an angle that allowed the peer review team to examine some aspect of financial management. However, with regard to other matters that we will be coming onto later, I suspect that that was not part of it. You are right in the sense that there is a reference to it in the appendix of the peer review report. I am more than happy, auditor general, to leave that point until later, when we come to discuss the accounts.

[39] **Mr H. Thomas:** I want to indicate at this stage that it is my intention to commission work to look at our accounting and financial management arrangements. I will happily expand on that shortly.

[40] **Jonathan Morgan:** We will return to that. I have some further points. The report refers to local government performance audit and corporate assessments. Could we have a paper on that at some point, because it would be quite useful for the committee to understand that work a bit further? Could we also ask for details on the ex-post quality review, once completed? That is mentioned on page 13 of the update paper.

[41] **Ms Body:** Do you mean the pilot scheme?

[42] **Jonathan Morgan:** Yes. That would be useful.

[43] In concluding this session, I compliment the Wales Audit Office on the work done to date. Significant progress has been made in recent months, part of which will be covered by the next item on our agenda. It is certainly encouraging to see that there has been significant progress in eight areas. There are amber areas that are still being addressed and there are two or three red areas that still need to be resolved. Therefore, I am grateful to you for that update.

2.02 p.m.

**Llywodraethu Swyddfa Archwilio Cymru: Sesiwn Frifffio gan Archwilydd  
Cyffredinol Cymru**  
**Governance of the Wales Audit Office: Briefing from the Auditor General for  
Wales**

[44] **Jonathan Morgan:** The Auditor General for Wales is supported this afternoon by Simon Edge, who is the engagement partner responsible for compliance, as well as by Gillian Body and Kevin Thomas. As indicated earlier, the auditor general proposes to tackle some issues relating to governance, and I know that he wants to use this opportunity to outline to the committee what some of those changes might be. I now ask the auditor general to brief the committee, before moving on to the questions that I suspect that Members will want to ask.

[45] **Mr H. Thomas:** As I mentioned in my introductory remarks, there are aspects of the Wales Audit Office's work that, in my view, need considerable attention, one of which is the governance arrangements. There are two prongs, as Gillian mentioned, to the role of the auditor general. One is my independence with regard to being able to determine the pattern of our work. However, that should not be confused with the fact that, as an accounting officer, I am accountable for the money that the Wales Audit Office spends and for the processes used by the office with regard to its managerial and other arrangements. That accountability needs to be exercised to the National Assembly.

[46] I consider the current governance arrangements flawed. I looked at this carefully, not just—as you can imagine—in the last few days, when I have been in post, but also in the run-up to my appointment and in the briefings that I had at the time. I looked for the kind of balances that I would expect in the executive of any organisation, particularly with regard to the issues that originally led to the Cadbury recommendations on running large private sector organisations, let alone the kind of recommendations that exist for a public body.

[47] The improvement of non-executive independent oversight is desperately needed, to challenge me, as auditor general, to account for why it is I wish to do certain things. You would expect that there should be justification—which we will come to again—but I have failed to find it. I do not think that it is any longer a part of our constitution that individuals can say 'We shall do this because it seems right to me', when they need to say 'It seems right to me because of this', and to be challenged on that.

[48] I will make two qualifications. First, had these arrangements existed and had the former auditor general observed them, I doubt very much whether you would be asking the questions that you will ask in a short period of time about the departure of the former chief operating officer. I am looking to bring an external set of eyes into some key areas: how staff are paid and remunerated and the structures that exist in the organisation. They need to be challenged and there needs to be confidence in that process. It is not as if I am adopting a structure that exists elsewhere and saying 'We'll apply this to the audit office'. We have our own arrangements, but they need to be properly scrutinised and market-tested. A remuneration committee should and must endorse any proposed changes of structure, particularly if they involve packages for individuals who are arriving or departing. That is the role of a remuneration committee. Equally, finance and the other aspects of our corporate

activity should be exposed to such testing, to give the kind of confidence that you are looking for.

[49] It is fair to say that we have an audit and risk management committee and to ask why it did not apply here. For whatever reason—this, again, touches on another item—it was not consulted on certain things. The agenda of the audit and risk management committee and its files show that it has widened its remit away from the focus that it ought to have, purely on the audit and risk challenges. So, my proposals represent the splitting of some of the responsibilities of the audit and risk management committee and the introduction of arrangements to scrutinise properly the remuneration of staff engaged in the Wales Audit Office. It will mean a slight increase in the number of non-executives, but that is right. It is equally right that the Chair of the Public Accounts Committee, on your behalf, should take part in the selection process of those non-executives. It should not be left in my hands to choose; you might feel that I was not sufficiently objective, and, with the best will in the world, you would be right. More people are needed to be certain. In addition, we will, of course, apply the Office of the Commissioner for Public Appointments rules.

[50] It is important not to keep the chairs of these committees and the committees operating in isolation from each other, but to bring them together at periodic intervals, as you will see from the paper, to meet with me and the executive committee to provide a broader, more strategic oversight of what we are doing, and to participate with others in an annual governance conference that will result in a report to you on how the governance arrangements of the Wales Audit Office are working. If you like, it will be a mini peer review, operated on an annual basis.

[51] Taken together, I am confident that these steps will increase independent oversight and ensure that you are not faced again with answers such as that something was done because the auditor general decided that it should be done. The answer should be that the auditor general, in the use of his funds, as accounting officer, proposed this, it was considered, and, after such consideration, the decision was made. That challenge must exist. What I am asking you to agree to is to allow me to proceed on a fairly rapid basis in introducing such arrangements.

2.10 p.m.

[52] **Jonathan Morgan:** Are there any questions?

[53] **Angela Burns:** May I ask two brief questions? Were these arrangements put into place but that they fell into abeyance, or were they never introduced? Secondly, have you found in your review any evidence or suggestion that senior people, who would have known of the procedures with which you would normally govern large organisations like this, raised concerns that some of those procedures were not in place?

[54] **Mr H. Thomas:** The arrangements that you have before you stemmed from a recommendation at my arrival about creating a committee on human resources. However, that would have been a sub-committee of the audit and risk management committee, and that, to me, immediately confused the responsibilities of the audit and risk management committee, with that of a more executive role. The papers in front of you emerged from that consideration, outlining a different approach that I would like to introduce.

[55] As to your other comment, it goes to the heart of the style adopted by my predecessor. That is as far as I am prepared to go in public session.

[56] **Jonathan Morgan:** Are there any further comments or questions? I have a few observations, as Chair. The former auditor general established the audit and risk management

committee, as I understand it, and the chair of that committee had a direct link to me in the event of a problem that he might want to raise with me. He also had the ability to report annually to me as Chair of the Public Accounts Committee. Are you suggesting that that role continue, or do you see that being altered?

[57] **Mr H. Thomas:** I see that continuing for the chair of the audit and risk management committee, but I also think that the other chairs should have direct access to you if they are concerned about matters that fall within their bailiwick.

[58] **Jonathan Morgan:** Are there any further comments? My suggested action would be for us to consider the recommendation that the auditor general has put to us, particularly my involvement as Chair in the final selection process. I think that we should consider that and then write formally to the auditor general with our response. I am content, as Chair, to be part of that, provided that the committee is happy for me to fulfil that role.

[59] **Janet Ryder:** Auditor general, will you be inviting people to apply for membership of that committee, or will it be done through open application?

[60] **Mr H. Thomas:** It will be done through open application.

[61] **Jonathan Morgan:** Thank you; we will move on.

2.13 p.m.

**Diddymu'r Comisiwn Archwilio—Goblygiadau i Swyddfa Archwilio Cymru:  
Sesiwn Friffio gan Archwilydd Cyffredinol Cymru  
Abolition of the Audit Commission—Implications for the Wales Audit Office:  
Briefing from the Auditor General for Wales**

[62] **Jonathan Morgan:** This item is a briefing from the auditor general.

[63] **Mr H. Thomas:** I think that it is fair to say that, while some post-election reorganisation might have been expected, the demise of the Audit Commission came as a surprise to all, not least to the Audit Commission itself. The discussions on what will replace it are fluid—I think that that is the best word. There is little certainty at present, but there is an indication that legislation to create the new arrangements, whatever they may be, will be sought before the 2011 summer recess at Parliament. That means a short timescale to develop answers to a range of questions. In one sense we can say that the strategic risks to us are small; England was the only nation of the UK that had two audit bodies; Scotland, Wales and Northern Ireland operated with one. England could be seen to be following suit. I am concerned about the potential impact of what might be hastily drafted legislation on, for example, legislation with regard to the Home Office bodies, such as the police and probation services, and grant certification claims. A number of things are related that do not directly impinge on our legislation, but they do impact indirectly on our roles.

[64] There are some issues on which we have worked jointly with the Audit Commission, for example on shared procurement and the national fraud initiative. We need to ensure that they are protected during any kind of change.

[65] There are, therefore, issues that may affect us and, given the departure of the Audit Commission, unless they are taken on board by the NAO or by some other body in England, they might lead to an increase in our costs. Even though we might share our residual costs, for example those on the national fraud initiative are shared with Audit Scotland, our share of such expenditure will inevitably rise.

[66] I am anxious to leave you with the message that, in one sense, we can watch, but we need to watch with a guarded arrangement. I already have staff liaising with the National Audit Office and the Audit Commission to ensure that we are kept in the picture. Equally, we are keen to work with Assembly officials to ensure that, if there are legislative consequences, we identify them at an early point.

[67] **Janet Ryder:** To what extent do you expect to be consulted, especially on those bodies that are within your domain? To what extent do you have any evidence that you will be consulted?

[68] **Mr H. Thomas:** At present, the discussions are at such an exploratory stage that it appears as though not even the National Audit Office has been fully consulted on some of the thoughts and processes. We are anxious to play a proactive part in that consultation, rather than just to sit back and wait for somebody to write to us. That is why I have staff trying to identify the issues and ensure that we are involved; otherwise, there is a risk that we will be dealing with the consequences as opposed to influencing events beforehand.

[69] **Jonathan Morgan:** I call on Jeff Cuthbert.

[70] **Jeff Cuthbert:** I was going to ask the same question, Chair.

[71] **Peter Black:** I agree that we have the same concerns as Scotland and Northern Ireland. Are you considering a joint approach involving the three devolved administration audit bodies to assess what you think the future could hold with regard to replacing the Audit Commission?

[72] **Mr H. Thomas:** I intend to write to the Comptroller and Auditor General and to my counterparts to suggest a meeting to look at some of the consequences.

[73] **Jonathan Morgan:** I suppose that one could argue, auditor general, that we could blow our own trumpet on this, because the Wales Audit Office could say that it is doing this already and that the NAO should not be too concerned if it ends up with the responsibility of auditing local government and health. They seem like the obvious things for it to acquire.

[74] Are there any further questions? There is one thing that we could do as a committee at some point in the future, although it may not be relevant now, because, as the auditor general says, we seem to be in a time of explorative talks as opposed to concrete proposals. However, it would be wise for us to keep an eye on the legislation, just in case any particular issue should arise, particularly to do with the way in which joint work is undertaken between the Wales Audit Office and bodies based in England.

[75] **Janet Ryder:** On the legislation, I ask that you keep the Constitutional Affairs Committee informed—and I declare an interest as Chair of that committee—because we have the ability to scrutinise legislation passing through Westminster. We are perhaps the only Welsh committee that might be able to scrutinise things that go through Westminster. They might otherwise escape any Welsh scrutiny.

[76] **Jonathan Morgan:** We will certainly ensure that that happens.

2.19 p.m.

**Cwestiynau i'r Archwilydd Cyffredinol am Ymadawiad Cyn-brif Swyddog  
Gweithredu Swyddfa Archwilio Cymru, ac Adroddiad Blynyddol a Chyfrifon yr  
Archwilydd Cyffredinol ar gyfer 2009-10**

**Questions to the Auditor General on the Departure of the Former Chief  
Operating Officer from the Wales Audit Office, and the Auditor General's  
Annual Report and Accounts 2009-10**

[77] **Jonathan Morgan:** Members will note that items 5 and 6 on the agenda are the same, the difference being that, with Members' permission, item 5 will be dealt with in public session and item 6, which follows on from item 5, will be held in private session.

2.20 p.m.

[78] I wish to put this into some context first. This is Members' opportunity to question the auditor general on the departure of the former chief operating officer from the Wales Audit Office, and also to raise questions with him in his capacity as accounting officer for the annual reports and accounts. As Members will know, on 22 September, the Wales Audit Office responded to a request under the Freedom of Information Act 2000 for details of the total value of the severance package agreed for Anthony Snow, the former chief operating officer. The audit office's response outlined a package worth in excess of £750,000. As a committee, we indicated in our meeting of 23 September that we wished to put questions to the auditor general as the accounting officer in relation to the severance package. In investigating the severance package, an issue with the Wales Audit Office's accounts has also emerged, and we have asked the auditor general to come prepared to answer questions in relation to the accounting treatment of the early severance package and of early severance packages generally.

[79] Before we move to questioning, I remind Members that the auditor general is the accounting officer for the Wales Audit Office, and that is an incredibly important distinction. That is set out in paragraph 16(1) of Schedule 8 to the Government of Wales Act 2006. He or she is required to sign the accounts of the Wales Audit Office and to take personal responsibility for their accuracy and for the financial management of the Wales Audit Office, to ensure that transactions are regular and that full regard is given to the need for propriety and value for money. The Wales Audit Office and the auditor general, as the accounting officer in particular, are accountable to the Public Accounts Committee in exactly the same way as other public bodies that are audited by the auditor general. That is made clear in the letter of designation that I issue as Chair of the Public Accounts Committee when an auditor general takes up post. The primary responsibility for the accuracy and transparency of the Wales Audit Office's accounts and for ensuring that financial transactions are regular and proper rests with the auditor general as the accounting officer of the organisation.

[80] We will now move straight to questions, and the first is from me as Chair. Could you please, for the record, provide a breakdown of the various elements of the total severance package that was given to Mr Snow on his departure?

[81] **Mr H. Thomas:** The figure consists of four elements. Before I go on, I wish to indicate that the package as agreed was less than that to which Anthony Snow was contractually entitled. A lesser package, of something like £100,000 less, was agreed. That package consisted of four items: a lump sum of roughly £100,000 for forgoing the redundancy benefits to which he was entitled, plus a portion of payments in lieu of notice and some holidays that were not taken; additional payments in lieu of notice and in relation to confidentiality considerations; pension contributions based on annual contributions of around £63,700 for a total of just short of 10 years; and a payment to his legal advisers of some £3,000, which was part of the agreement reached at the time. That gives a maximum cost to the Wales Audit Office of £750,838.66.

[82] **Janet Ryder:** You may have outlined a number of the things that I wanted to ask

about. I just want to clarify Mr Snow's entitlement under the civil service compensation scheme, extant at that time or, if different, his entitlement as a result of his service previous to joining the audit office. You have detailed what that may have been, but is there anything else that you would like to add to that?

[83] **Mr H. Thomas:** Although this arose before I took office, I was nevertheless closely concerned with the action that has been taken by Wales Audit Office staff in following up this arrangement. One of those was to consult our lawyers about the legalities of the payment, and lawyers have confirmed the legalities of the payment. The pension contributions were not set by the Wales Audit Office. They represent the requirement on the Wales Audit Office to repay the paying body, which, in this case, is the Department for Work and Pensions, his proportion of the civil service pension under the approved early retirement arrangements. As I indicated, Mr Snow had formerly been a member of staff of the Audit Commission and had certain contractual entitlements as a result. The lump sum of about £100,000 was paid on the basis of his forgoing the full extent of that entitlement.

[84] **Janet Ryder:** Was it a commensurate amount of money? Is that what would be expected?

[85] **Mr H. Thomas:** He would have been entitled to another £100,000 under that, roughly speaking. I look to my colleagues for information on the total package.

[86] **Mr K. Thomas:** He was entitled to about £850,000. It was £750,000.

[87] **Mr H. Thomas:** So, it was about £100,000 less than he was contractually entitled to.

[88] **Mr K. Thomas:** The exact figure was £864,287.77.

[89] **Jonathan Morgan:** So, that is what it would have been had he insisted on his full contractual entitlement because of his employment by the Audit Commission beforehand. Is that right?

[90] **Mr H. Thomas:** Yes.

[91] **Bethan Jenkins:** I know that you have said that the pension contributions were not set by the Wales Audit Office, but what amounts would have been payable to the pension scheme in each year, from 2009-10 until Mr Snow's normal retirement date?

[92] **Mr H. Thomas:** The total would have been £618,654.42. That hinges on a question that I am sure you will ask about the accounts, but do you want me to move on to that now?

[93] **Jonathan Morgan:** We will come to that shortly, because there are a couple of questions left about the determination.

[94] **Angela Burns:** What were the main conditions of Mr Snow's termination package? Obviously, there was a confidentiality element. Was it a compromise agreement?

[95] **Mr Edge:** It was.

[96] **Angela Burns:** What were the terms?

[97] **Mr Edge:** I will get my other file. This might be better dealt with in the private session, because the nature of the confidentiality agreement is that the confidentiality is binding on the auditor general as it is on Mr Snow. I can give you some headlines, however. There are various matters of legal interpretation regarding copies and who receives which

copies of the documents. It covers the termination date, the payments that the auditor general has just outlined, the employee's obligations and warranties, including maintaining confidentiality after leaving the Wales Audit Office, and a waiver of any claims or further warranties on the part of the former employee so that no further actions or claims will be taken against the Wales Audit Office for funds. There is the statement on confidentiality itself, arrangements about the announcement, such as how Mr Snow's departure was to be announced to Wales Audit Office staff and more widely, elements on repayment for breach of the agreement; matters of reference that will be provided, and then we get into various other third-party, governing law and jurisdiction-type arrangements.

[98] **Angela Burns:** I have a further question on that, but I think that it would be better to reserve it for the private session.

2.30 p.m.

[99] **Jeff Cuthbert:** I have two questions. I am going to combine them and ask them in two different parts. The first one is about reasonableness. Do you think that that total value of the package and the conditions of the termination agreement are reasonable? The second one is regarding the issue of potential clawback. The biggest single item in the package is the pension contributions. I know that, if someone leaves a job early on the grounds of ill health and gets an enhanced pension, the presumption is that they will not return to that type of work. This is not quite the case here, where a substantial amount of money has been paid in lieu of pension contributions and, in this case, if the person gets another job, normally the contributions from the first job would have stopped and it is the new job that would start contributing to a pension fund. Is that happening here? If it is, are there provisions for a clawback, particularly on the pension contributions? Has any attempt been made, perhaps even on a voluntary basis, to claw some money back?

[100] **Mr H. Thomas:** I am in some difficulty in trying to answer this question in open session. All that I can say in open session is that that was one of the questions that I asked our legal advisers. I am prepared to share that advice, but it goes to the heart of some of the other issues that I would rather discuss in closed session.

[101] **Jonathan Morgan:** I am content to deal with it in private session, but I think that the general principle is about the way in which a public body—forgive me for calling you a public body, but it is the best description that I can think of—behaves with regard to the loss of a member of staff who is then re-engaged in a similar part of the profession. Would the circumstances in this case be reflected in other public bodies—for example, if we were looking at a senior member of a health board or a senior member of staff in local government? Part of the principle of this is whether one would see the rules and practices being applied elsewhere in the public sector.

[102] **Mr H. Thomas:** I will tell you what advice I received from our lawyers. First, clawback arrangement would conflict with the rules of the principal civil service pension scheme. A clawback clause should or could have been put into the compromise agreement, but it was not.

[103] **Jonathan Morgan:** I want to move on to some questions around the accounting treatment of the severance packages. After we have concluded our session, we will go into private session to return to some of those issues relating to the compromise agreement. Jeff, we will take your question first.

[104] **Jeff Cuthbert:** If you had charged the total estimated cost of severance packages to the accounts in the year that they were agreed, rather than the present practice of when the actual amounts fall due to be paid, what would be the total for each of the financial years from



2005-06 to 2009-10? How does this compare with the actual amounts charged?

[105] **Mr H. Thomas:** The accounts that have been prepared from 2005 onwards by the Wales Audit Office have adopted a convention whereby pension contributions paid to people who leave are not brought into account or shown as a future liability. That is the issue; they were not shown. This year, we have to regularise the position on our accounts. We need to produce accounts that adhere to the accepted international and public sector accounting standards. There can be no question of that. I mentioned earlier, in response to Bethan Jenkins, that I was concerned with this area. We are carrying out an internal review. I also intend to invite the Comptroller and Auditor General, on a one-off basis, to review all accounts produced by the Wales Audit Office since 2005, to identify any other shortcomings that may need addressing. Subject to the outcome of his examination, we may need to request an updated Treasury direction on how our accounts should be presented. That might need to include, for example, how you account for my salary and pension contributions—it is one of the issues that I noticed were part of the Presiding Officer's briefing. I am not paid by the Wales Audit Office, but by the Assembly, and you will find my details in the Assembly accounts. The briefing given to the Presiding Officer raises the question of whether that should properly be shown as a footnote in the Wales Audit Office accounts. That is perfectly fine and we are able to do that, but we need first to have a consistent convention across all Assembly-funded bodies and also to ensure that the Treasury direction reflects that that should be the practice.

[106] I now turn to the issue of liabilities. Given that the practice concerned has been going on for some years, to regularise our accounts means that I have a total of just over £1 million—£1,049,000—that needs to be brought into account this year to address the ongoing pension liability. It is my aim—I am sure that the Public Accounts Committee will share my view on this—to avoid any supplementary estimate, which would have considerable knock-on effects for the Assembly as a whole. Therefore, with my executive committee, I am reviewing the full range of our budget provisions. I am looking to reduce or defer expenditure into the next financial year, to delay, where appropriate, capital expenditure and to utilise all our reserves. We will be left with no reserves at the end of this year. There are knock-on effects—it may mean that it will reduce our ability to respond in short order to conducting studies.

[107] If we do all of that, my intention is that we will present our accounts in deficit in 2010-11. There is precedence for this. In 2005-06, the Wales Audit Office had to deal with a pension transfer out of the existing bodies. The agreement of the auditors at the time was that, because the body would regularise the payment in the next financial year, the accounts were not qualified. The intention is that I will fully recover the deficit and bring our accounts back to balance in the next financial year, 2011-12. Clearly, I will be able to report more fully to you when I submit my estimates by the end of October—you will be looking at these in some detail at your session at the beginning of November. If we do this, yes, it will be embarrassing that the Wales Audit Office is in deficit, but better than go through the procedures of a supplementary estimate, which involve not only one body but a knock-on effect for the whole of the Assembly and the consolidated fund.

[108] As to the amounts that would have been payable in the course of each particular year—sorry, can you help me on that? We will find the details of the intervening financial years for you in a minute, but the total that needs to be addressed is £1.049 million.

2.40 p.m.

[109] **Mr K. Thomas:** It is roughly £200,000 per annum.

[110] **Mr H. Thomas:** It is roughly £200,000 per annum. Anthony Snow's package, when taken into account, pushes us over to the figure of £1,049,000.

[111] **Jonathan Morgan:** I will pursue that, because there is an additional issue. If the Wales Audit Office had charged the total estimated cost of the severance packages to its accounts in the year in which they were agreed, could you tell us what the resource outturn would have been for each financial year from 2007-08—the year in which Part 5 of the Government of Wales Act 2006 came into effect—to 2009-10?

[112] **Mr H. Thomas:** Could we write to you with that information?

[113] **Jonathan Morgan:** It would be very useful if you could do so.

[114] **Mr H. Thomas:** The £200,000 can, in a sense, be accommodated in reserves that existed at the time, but it is the large severance package paid to Anthony Snow that not only highlights past practices but throws our accounts into a difficult position. There is also the fact that none of those liabilities have been footnoted in the accounts.

[115] **Jonathan Morgan:** On that particular point, as I understand it, there is a requirement under international accounting standard 19 to properly account for such severance packages. Do I take it, therefore, that international accounting standard 19, which I understand was formerly financial reporting standard 12, has not been complied with?

[116] **Mr H. Thomas:** There appears to have been a different interpretation of how that accounting standard should have been complied with. Our view—those of us at the table now—was that we would expect the Wales Audit Office to have accounted for this in exactly the same way as any other public body. The view from our external auditors was that the range of variables was such that there was no need for specific provision. Basically, that advice was seemingly based on the fact that there was a range of possible permutations as to how long Mr Snow might live. Be that as it may, we would have expected other public bodies to have applied actuarial tables and, therefore, to have arrived at a figure. One can, indeed, apply a figure to Mr Snow's package of pension entitlements and arrive at such a figure, which should have been in the accounts.

[117] **Jonathan Morgan:** I am no actuary but I understand that your chances of living to the age of 60, if you reach the age of 50, are roughly 98 per cent.

[118] **Mr H. Thomas:** It is somewhere around 98 per cent.

[119] **Jonathan Morgan:** I am not entirely sure why the external auditors would have suggested that there was some sort of variable factor that one could build in. Ultimately—for clarification, from your reading of the situation—you seem to suggest that the Wales Audit Office has not complied with the auditing and accounting standards that you would ask other public bodies to comply with. I think that that is quite a serious matter that needs to be addressed.

[120] **Mr H. Thomas:** Regrettably, I have to answer 'yes' to that.

[121] **Jonathan Morgan:** Janet Ryder, we move on to your question.

[122] **Janet Ryder:** My question may well have been covered in what has already been said.

[123] **Jonathan Morgan:** I therefore call Angela Burns.

[124] **Angela Burns:** I am trying to pick my way very carefully through what we say in public and what we say in private. I am not a permanent member of this committee, but, as an

Assembly Member, I am quite staggered that the Wales Audit Office, which is full, in my opinion, of financial people and auditors, did not comply, for whatever reasons, and that no-one picked it up. As someone who ran businesses for years before I came into this game, even I know, and I am not an accountant, how you have to treat things in accounts. It is absolutely staggering. Can you confirm that the Wales Audit Office will comply in full with the financial reporting manual for 2010-11 onwards? I am sure that it will, with you at the helm.

[125] **Mr H. Thomas:** The short answer to that is 'yes'; our intention is to comply. I am anxious to ensure that we do not just pick up the particular issue that has been thrown into sharp relief, which is the extent of future liabilities being understated. Rather, we are looking at whether there are any other aspects of those accounts that need to be revisited. That is why, in a sense, I am asking for the comptroller and auditor general to look at this, which I realise may seem odd. Why ask the National Audit Office to look at the work of the Wales Audit Office? We have carried out our own internal review, and we think that we are satisfied that we are just looking at this particular item, along with the issue of the treatment of my salary. That said, I think that the committee would want to have more assurance, regrettably, than just my say so. That is why having the comptroller and auditor general would provide you with that degree of assurance.

[126] **Angela Burns:** Chair, may I put on record my surprise that the external advisers to the Wales Audit Office were not more forthright in picking this up and more stringent in applying what are standard financial practices.

[127] **Jonathan Morgan:** As you are aware, I have been holding discussions with the external auditors appointed by the National Assembly to verify and confirm the accuracy of the Wales Audit Office accounts and ascertain why the accounts have been presented in this way. I am afraid that those discussions have not reached a satisfactory conclusion as yet. However, it begs the question why the international accounting standards, which seem to apply right across the public sector and demanded by the Wales Audit Office and auditor general of public bodies, have not been applied in these circumstances, and why our external auditors have been happy to sign off the accounts. I suspect that that will require further discussion beyond this meeting.

[128] Bethan, I am afraid that I did tread rather forcibly into the question that you were going to ask. Do you want to pursue any of the points around the accounts?

[129] **Bethan Jenkins:** No, I think the subject has been discussed already. I am happy with that.

[130] **Jonathan Morgan:** Okay.

[131] **Jeff Cuthbert:** Are the Wales Audit Office's accounts considered by your audit and risk management committee before they are signed off? Does the audit and risk management committee contain anyone who has sufficient experience and authority to examine the accounts and ask questions, and has that committee ever questioned the Wales Audit Office accounting policy for earlier severance packages?

[132] **Mr H. Thomas:** I think that I am right in saying that a number of those severance packages were arranged before the audit and risk management committee was established. Therefore, the main one would have been that of Anthony Snow, which did not go before the audit and risk management committee. That committee had a session with the external auditor, and apparently received assurance from the external auditor with regard to the accuracy of the accounts.

2.50 p.m.

[133] With regard to the current structure, we have people who have been appointed relatively recently and they include people who serve on other audit bodies; therefore, we have a group of people who ought to be able to examine the accounts.

[134] **Jonathan Morgan:** I have a question following Jeff's point, because there is an issue about the point in the process at which it would have been reasonable for others to have been aware of the details of the severance package and how that would be accounted for. While I do not want Simon to go into detail as to what is in the compromise agreement, can you confirm whether the details of the severance package are laid out in the compromise agreement in the same way that they were explained in the response to the FOI request?

[135] **Mr Edge:** Without the benefit of being able to take legal advice on whether or not I can answer that question—

[136] **Jonathan Morgan:** Before you go any further, there is a reason for my asking this. This committee and I need to understand at what point others within the Wales Audit Office would have become aware of the value of the severance package and at what point the external auditors, whom we appoint, would have known about its value. It is right to ask, if others knew about the value of the package, why questions were not asked as to why that value had not been included in the proper way that these things are accounted for in the accounts.

[137] **Mr Edge:** I believe that the external auditors were—

[138] **Mr H. Thomas:** I would like to help the committee, but I am very conscious of the fact that some of my comments would be better made in the closed session.

[139] **Jonathan Morgan:** Before you proceed, auditor general, perhaps I can state for the record why we will go into private session shortly. It is for one reason only, and that is because of the possibility of the Public Accounts Committee, in public session, breaking the sub judice rules with regard to any discussion that may involve the activities of the former auditor general. We are conscious of our responsibility as the Public Accounts Committee and as Assembly Members not to do anything that puts us in that position. So, I will not allow any discussion on the activities of the former auditor general unless we are in private session, but if there is information regarding the way in which information was presented and whether or not there were others within the organisation or external to the organisation who knew about the value of this package, that is a matter for public session, because it discusses the activities of people other than the former auditor general.

[140] **Ms Body:** We have already disclosed that the executive committee was not aware of the size of the package at the time, so it is not a huge leap to say that we realised the size of the package in late July or early August this year.

[141] **Jonathan Morgan:** After the accounts were signed.

[142] **Ms Body:** After the accounts had been signed, yes.

[143] **Jonathan Morgan:** Would it have been reasonable for an organisation full of auditors who knew that Mr Snow was leaving to have asked what the value of the package would be and how that would be accounted for?

[144] **Mr H. Thomas:** It would be, but, again, I have difficulty answering that in open session. I apologise, Chairman, but I really do. However, given your earlier guidance, I can say that the external auditors were notified of the severance package in June 2009 and that the

business case was also discussed with them over the telephone at that stage. I am advised that the figures were discussed with the auditors as well as the principles of how any liability should be treated. However, there is no written record of that. I am told—and you have already had the answer from me—that the argument for not providing for the liability was consistent with the approach taken in previous years, which had also been endorsed by the external auditor.

[145] We raised the matter again with the external auditors in the period March to May 2010, during the audit of the accounts for 2009-10—the year when these payments should have been footnoted. They had received all the working papers, including the business case and the compromise agreement, before the accounts were signed off. The business case, as you would imagine, sets out the rationale for the agreement, which in this case indicated a payback in 3.6 years for the Wales Audit Office, because making a person redundant means that you look at savings over a period. That is where my £1.2 million comes in—the Wales Audit Office would save that over a 10-year period because of the departure of Anthony Snow.

[146] The whole rationale was before the auditors. They have repeated, since the completion of the audit, that they stand by and endorse the approach to the provisions adopted in the accounts. You have already heard that I disagree. The expectation that I would have of any public body is that the liabilities would be stated. Angela Burns talked about private sector organisations; part of the reason for that is that you need to know what the going-concern value of an organisation is, and if you understate the future liabilities, then you overstate the value of the organisation. That, in a sense, answers the question about the knowledge outside the organisation of Mr Snow's departure and how the accounts would have been treated. Both the WAO and Mr Snow were advised by their own lawyers at the time.

[147] **Jonathan Morgan:** Jeff, as this was your question, do you want to pursue anything further?

[148] **Jeff Cuthbert:** Not at this point.

[149] **Lorraine Barrett:** On what basis did the interim auditor general sign the 2009-10 accounts?

[150] **Ms Body:** I signed the accounts in good faith, based on the professional advice that I had from my finance staff. As the accounting officer, I do not audit my own accounts, so I took assurance from the fact that the external auditors had audited them and confirmed that there were no matters that I needed to be aware of. The accounts were also considered by the audit and risk management committee, who questioned the head of finance and the external auditors, and on the basis of those checks and assurances, I signed the accounts. Subsequently, further information about the size of the package came to light through the investigations that Simon was leading on the due diligence review. I identified that there was an issue with our accounting treatment, and we need to regularise that in our current set of accounts.

[151] **Peter Black:** For the record, can you confirm that you were not aware that the accounting policy for severance packages was at variance with generally accepted practice at the time that you signed the accounts?

[152] **Ms Body:** I can confirm that I was not aware of the accounting treatment that we were applying and had applied since 2005 for early severances.

[153] **Angela Burns:** I just would like to make a statement. If I was watching this as a

member of the Welsh public, wondering where my money was going, I would be extremely surprised to find that an organisation that is awash with financial individuals, accountants and auditors did not pick any of this up. I appreciate that we will be going into private session shortly, but on the record we should comment that it surely took more than one individual to run the Wales Audit Office. I am surprised that none of this was brought to anybody's attention by any of the other extremely well qualified staff within that organisation.

3.00 p.m.

[154] I would also say for the record, Chair, that in my previous life, I had to sign off accounts. I am not an accountant, but as the director of a company, I would have to sign off accounts before they were lodged with Companies House. I went through those accounts and asked all the relevant questions. There are clearly some major issues here. I shall stop there, because I do not know what I am and am not allowed to say on public record. I think that if I were watching these proceedings somewhere other than this room, I would be filled with enormous disquiet.

[155] **Mr H. Thomas:** The point that has to be stressed is that nothing was disclosed in the accounts. That is one issue. The second—I think that it is appropriate that we state this in open session—is that people at the Wales Audit Office were told that there was no severance package. Therefore, in a sense, you have located the missing bit of the jigsaw. If you were not aware that there was a package, how would you know when you asked a question of those preparing the accounts and the auditors that there was anything else that you needed to know? That is a normal question that you ask of your auditors as a director of a company: 'Is there any other aspect that we need to be aware of?' That question was asked, and the answer was 'no'.

[156] **Janet Ryder:** Going back to what you said about the non-accounting of future liabilities in the way in which the accounts were presented, was that never pointed out by anybody in the audit office? Was it never pointed out, prior to this issue arising, that that future liability should be there? Was that never picked up?

[157] **Mr H. Thomas:** May I answer that question in closed session?

[158] **Janet Ryder:** I seek your guidance on this, Chair.

[159] **Jonathan Morgan:** I am content for it to be answered in private session, if that is okay with you.

[160] **Janet Ryder:** Given that you have said that you were not told that there was a future liability, what prompted the Wales Audit Office to question or reconsider the accounting policy after the 2009-10 accounts were signed off?

[161] **Ms Body:** It was when information about the size of the package emerged. As accountants, we realised that we had not disclosed it properly in our accounts. It is not our intention not to be open. We want to be open, which is why, when the FOI request came in, we put it on our website. We want to be open and transparent about this. It was our own investigations that identified the issue, which then led us to realise that there was an issue with our accounts and our accounting treatment. We then realised that it was an accounting treatment that we had consistently applied since the start of the Wales Audit Office.

[162] **Bethan Jenkins:** If the external auditors were aware of it in June 2009, does that bring their position as your external auditors into question? Did you have any notification of how much they were paid to carry out the work in relation to this particular issue?

[163] **Mr H. Thomas:** That is a matter for the Assembly.

[164] **Jonathan Morgan:** The contract was awarded, as you will recall, by the Assembly in Plenary session. Payment for the contract, however, comes out of the resources available to the Wales Audit Office so that, although we appoint the auditors, they are paid for by the audit office. I am not entirely sure off the top of my head what the cost of auditing the Wales Audit Office's accounts is.

[165] **Mr H. Thomas:** It is £16,875.

[166] **Jonathan Morgan:** Per annum?

[167] **Ms Body:** Yes.

[168] **Jonathan Morgan:** Thank you.

[169] **Bethan Jenkins:** I do not know whether this is pertinent to this particular issue, but what I am trying to ask is, if there was divergence of opinion, or if the auditors were party to such information, whether you believe that the role of the external body in auditing you in this way should be reassessed.

[170] **Jonathan Morgan:** The contract was awarded by the Assembly, and therefore if there is an issue with the contract and the way in which the duties have been discharged by the external auditors under that contract, the Assembly—through us as the Public Accounts Committee and me as the Chair of that committee—would have to follow that up. There are several issues that I want to discuss with the external auditors. I have spoken to them once already about the level of detail of which they are aware. I must say at this point, in public session, that I am dissatisfied with the information that I have received. Information that I have received today and in preceding weeks is contradictory to the information I have received from the external auditors. That being the case, I need to establish some of the background and context. However, at this point, I must say that I am extremely concerned. I do not think that I can say any more than that at this stage, but there are further issues that I need to pursue on your behalf with the external auditors.

[171] There are a couple of final issues relating to the accounting treatment to which I would like to refer. I understand that two further accounting issues have emerged. The Wales Audit Office accounts do not conform to the 2009-10 reporting manual in two other respects. The first is that the remuneration report does not disclose the cash equivalent transfer value of the auditor general's accrued pension entitlement. Secondly, the cash received in-year from the Welsh consolidated fund is treated as income in the WAO's accounts, rather than as financing, contrary to paragraph 3.3.7 of the financial reporting manual. Do you share my concern about these anomalies? Have you discovered these anomalies yourself? Are there other areas of the accounts that you are now looking at with regard to compliance with the financial reporting manual?

[172] **Mr H. Thomas:** That is why I have asked the Comptroller and Auditor General to have a look at this and, if possible, to seek a different Treasury direction. I have already referred to the fact that the reason the accounts do not show this is that, from the start of the Wales Audit Office, because the salary and pension contributions for the auditor general have been paid directly by the Assembly from Assembly funds, it has not been shown as a WAO element. There is clearly no difficulty at all in footnoting this in the Wales Audit Office accounts, so that you are fully aware of the total cost. However, we need to ensure that a consistent treatment is applied across Assembly bodies. It may be that, in future, our accounts need to be presented in that way, and that is no problem. With regard to the other item, I will take advice on how the Comptroller and Auditor General and the Treasury consider our

accounts should be presented.

[173] **Jonathan Morgan:** Thank you. Do Members wish to pursue any further points before I propose that we move into private session?

[174] **Janet Ryder:** I would like to be satisfied what, if any other, contracts this particular firm is auditing for us.

[175] **Jonathan Morgan:** As Chair of this committee, that is not information I am privy to. Our responsibility as the Public Accounts Committee was to award a contract.

[176] **Janet Ryder:** Is it something that you could write to the business manager or the manager for budgets or finance about?

[177] **Jonathan Morgan:** I could raise the matter with the Welsh Assembly Government, but there are issues that we need to consider further to this meeting, bearing in mind that the auditor general has announced that he has asked the Comptroller and Auditor General to review the accounts for the past five years. There are issues that we now need to consider with regard to how this is taken forward to ensure that we get the accounts into an accurate position, externally audited and presented to the Assembly. So, there are several issues that we need to consider.

[178] **Bethan Jenkins:** I want to clarify what the process is now. We are about to go into private session, but we have had these announcements, so when will it come back to us as a committee to decide on future action?

[179] **Jonathan Morgan:** Bearing in mind what the committee has heard in public session today, it is highly likely that the committee will wish to report. I understand from what the auditor general said earlier that he does not anticipate that there will be a need to bring forward a supplementary budget estimate, because he will have found a way of accommodating those costs within the reserves and of making efficiencies and delaying capital expenditure, which is quite a significant step. Originally, when we were looking at this matter, we could see the possibility of the auditor general being in a position where he would have to bring a supplementary estimate forward, which does not now seem to be the case. However, we will need to report on our inquiry this afternoon, and we will need to write to the external auditors.

3.10 p.m.

### **Cynnig Trefniadol Procedural Motion**

[180] **Jonathan Morgan:** If the committee is in agreement, we shall now move to a private session to pursue the matters in relation to the accounting treatment and the processes that were undertaken by the Wales Audit Office with regard to accounting for Mr Snow's departure. A Record of the private session will be taken and released at an appropriate time. Therefore, I move that:

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

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

*Derbyniwyd y cynnig.*



*Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 3.11 p.m.*  
*The public part of the meeting ended at 3.11 p.m.*