



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Iau, 8 May 2014
Thursday, 8 Mai 2014

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Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir
trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In
addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Peter Black

Democratiaid Rhyddfrydol Cymru
Welsh Liberal Democrats

Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

**Eraill yn bresennol
Others in attendance**

Isobel Garner	Cadeirydd Swyddfa Archwilio Cymru Chair of the Wales Audit Office
Steve O'Donoghue	Cyfarwyddwr Cyllid, Swyddfa Archwilio Cymru Director of Finance, Wales Audit Office
Kevin Thomas	Cyfarwyddwr Gwasanaethau Corfforaethol, Swyddfa Archwilio Cymru Director of Corporate Services, Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

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

Richard Bettley	Y Gwasanaeth Ymchwil Research Service
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Meriel Singleton	Ail Glerc Second Clerk

*Dechreuodd y cyfarfod am 09:01.
The meeting began at 09:01.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Jocelyn Davies:** I would like to welcome you all to the Finance Committee. We have received apologies this morning from Ann Jones, and we are expecting Julie Morgan to arrive shortly. I remind everybody to switch off any devices that might interfere with the broadcasting. We are not expecting a fire drill, so, if you hear the alarm, please follow the directions of the ushers.

**Papurau i'w Nodi
Papers to Note**

[2] **Jocelyn Davies:** While the witnesses are settling themselves, we have a paper to note,

which is the minutes of our last meeting. Is everybody agreed on that? I see that we are.

09:02

**Swyddfa Archwilio Cymru: Trafod y Cynllun Ffioedd, Graddfeydd Ffioedd, y
Cynllun Blynyddol a'r Cod Ymarfer
Wales Audit Office: Consideration of the Fee Scheme, Fee Scales, Annual Plan
and Code of Practice**

[3] **Jocelyn Davies:** I will move on to the first substantive item on our agenda. We have our witnesses before us. Before we move into the consideration of the fee scheme and scales, which I think, Isobel, you will be introducing for us, would you like to introduce yourselves for the Record?

[4] **Mr O'Donoghue:** I am Steve O'Donoghue, the director of finance.

[5] **Ms Garner:** I am Isobel Garner, the chair of the Wales Audit Office.

[6] **Mr H. Thomas:** I am Huw Vaughan Thomas, the auditor general.

[7] **Mr K. Thomas:** I am Kevin Thomas, the director of corporate services.

[8] **Jocelyn Davies:** Thanks very much. Isobel, would you like to introduce the fee schemes and scales, please?

[9] **Ms Garner:** Okay, thank you very much, Chair. I remind you all that the detail of the fee scheme formed a major part of the briefing that you had last week. So, in some ways, this is just a technical paper because it incorporates the fee scales that were set by the Auditor General for Wales and which he has duly consulted upon and which the WAO has chosen now to adopt. However, it also contains the fee scheme that I presented to you on 20 March. I would also like to report that audited bodies have now received communications outlining their indicative fee scales based on the fee scheme and the scales already talked about. Keeping it simple, we are formally seeking the committee's endorsement through its approval of this fee scheme too. Chair, I am going to keep it very short because we can answer questions as necessary.

[10] **Jocelyn Davies:** Well, I know that there are a number of questions. I thought that the briefing last week was very useful indeed and we were very grateful for that. Perhaps I will start. Can you tell us whether you have had any challenges from audited bodies in relation to the fees charged for your work in recent times?

[11] **Mr H. Thomas:** No, there were not any challenges, but, in terms of the consultation I carried out, there were three areas that were of concern to people. Looking at the smaller bodies, such as the town and community councils, as you will see, the scales for them start at about £30 and go upwards. What we have done, as part of the refunds of the local government reserve, which, as a result of the new legislation, we cannot keep any longer, is to refund all the town and community councils £30. So, town and community councils are cushioned for this year. That said, town and community councils actually give rise to quite a bit of work in terms of public interest reports, and a large number of them do not return their accounts on time and their accounts need to be qualified. So, there is a lot of work that needs to be done, which, in effect, we are subsidising out of the Wales consolidated fund in any case. So, that was one group.

[12] The other group relates to national parks. Again, it is a small body compared with

other local authorities, but what we have done to them is actually to apply two degrees of mitigation: first, the refunds, as with other local authorities, and secondly, with the agreement of the Welsh Government, we have angled the grant that we get from it in relation to the improvement work that the parks have to do, like local authorities, in such a way as to mitigate some of the increases with the parks. The parks do tend to look to England, but then the audit regimes in the various countries are now diverged to such a marked extent that it is almost impossible to do that kind of comparison.

[13] The third group that we have had particular comments from is the police and crime commissioners. Police and crime commissioners are new bodies, so last year we had two sets of accounts to audit for them. In a sense, we are settling down. We are reading across from England, and we are trying to keep our fees to a reasonable level, but, again, the divergence of the audit regimes is such that it is difficult to do a straight comparison.

[14] Those were the three groups that gave comments to us, which I have tried to reflect in setting the scales. The scales themselves were approved by Welsh Ministers before March.

[15] **Jocelyn Davies:** What sort of factors may result in fees being in the upper range—that is, above the median?

[16] **Mr H. Thomas:** If you were to look at a normal council, you would expect it to be around the median level. What gives rise to the fees being above that is, for example, the accounts not being ready on time—that is a classic. One particular authority has been particularly late. Then there are difficulties in terms of the approval of the accounts from previous years; for some bodies we have actually had to go in and do work to help to assemble the accounts. For them, we will be billing at a higher level this coming year, reflecting that work that we have done. At the lower end, of course, there is the perfect council—the council that actually delivers its accounts on time, gives us ample opportunity to meet our statutory deadlines, and where the accounts have been prepared in almost immaculate condition. Often, we find that those are the authorities where there is very effective internal audit work.

[17] **Jocelyn Davies:** You mentioned public interest reports earlier. How are they funded?

[18] **Mr H. Thomas:** If we have to give rise to public interest reports, they are funded by a separate fee on the authority in relation to the amount of work that needs to be done. So, for example, Caldicot and Wentlooge Internal Drainage Board had to pay an additional amount, and so do Carmarthenshire and Pembrokeshire in relation to the recent public interest reports that we have published. Each is calculated and billed separately using the scale that you approved last time.

[19] **Jocelyn Davies:** So, you have never been in a position where the resources available influenced whether you carried out work that you wanted to do.

[20] **Mr H. Thomas:** No, because I have taken the view that if there is a requirement to deliver a particular level of work, we will carry that out. If extra work is needed—we have mentioned the public interest reports, and the other one is when a statutory inspection of an authority is needed.

[21] **Jocelyn Davies:** Ffred, you have a specific question.

[22] **Alun Ffred Jones:** Wrth edrych trwy'r gwahanol sectorau, nid wyf yn gweld y byrddau iechyd yma o gwbl. Beth yw'r rheswm am hynny? Ydynt ar ryw fath o
Alun Ffred Jones: Looking through these various sectors, I do not see the health boards referred to at all. What is the reason for that? Are they on some sort of other scheme?

gynllun gwahanol?

[23] **Mr H. Thomas:** Maent ar gynllun gwahanol. Beth sydd yma yw'r hyn sy'n rhaid imi osod o dan y gyfraith. Mae'r byrddau iechyd yn rhan o'r Llywodraeth, ac felly rwy'n gosod eu ffioedd ar raddfa wahanol, ond rwy'n cymryd mewn i ystyriaeth yr union ffactorau sydd yma. Felly, nid ydych yn gweld yma'r ffi yr wyf yn codi ar y Llywodraeth am, er enghraifft, y cyngor celfyddydau ac ati. Nid oes rhaid i mi eu gosod o dan y cynlluniau hyn.

Mr H. Thomas: They are on a different scheme. What is included here is what I am required to do by law. The health boards are part of the Government, and therefore I set their fees on a different scale. I take into account exactly the same factors that are included here. So, what you do not see here is the fee that I charge to the Government, for example, for the arts council and so on. I do not have to include them under these schemes.

[24] **Alun Ffred Jones:** Felly, ni fydd ffioedd y cyrff hynny'n dod ger ein bron oherwydd nid oes rhaid iddynt o dan y Ddeddf.

Alun Ffred Jones: So, the fees of those bodies will not come before us because they do not have to under the Act.

[25] **Mr H. Thomas:** Mae hynny'n wir ar hyn o bryd, ond gallwch eu gweld ar ein gwefan. Yr hyn yr wyf yn ei wneud yw cymryd bron yn union yr un patrwm ag yr wyf wedi ei gymryd efo'r cynghorau lleol er mwyn penderfynu beth fydd y ffioedd ar gyfer y byrddau iechyd.

Mr H. Thomas: That is the case at present, but you can see them on our website. What I do is take almost exactly the same format as I have taken with the local authorities in order to demonstrate what the fees will be for the health boards.

[26] **Alun Ffred Jones:** Os caf ofyn un cwestiwn pellach, rwy'n sylwi o'r cymariaethau â'r llynedd yn rhai o'r tablau hyn bod y ffigur canolrif—rwy'n cymryd mai *median* yw hwnnw—wedi cynyddu o 15%, weithiau, i 25%. Beth sy'n gyfrifol am y codiad eithaf sylweddol hwnnw yn y ffioedd?

Alun Ffred Jones: If I could ask one further question, I note from the comparisons with last year in some of these tables that the median figure has increased from 15%, sometimes, to 25%. What is responsible for that relatively significant increase in the fees?

[27] **Mr H. Thomas:** Mae dau ffactor y gwnaethom dynnu sylw atynt pan ddaethom â'n hamcangyfrifon ger eich bron. Y peth cyntaf yw ein bod wedi colli ein had-daliad o dreth ar werth. Yn y ffigurau diweddaraf y byddwn yn cyflwyno ger eich bron, pan fyddwn yn gwneud yr adroddiad ar ein cyfrifon, byddwch yn gweld tua £1 miliwn wedi'i dynnu allan yr ydym wedi'i defnyddio yn y gorffennol. Un peth yr oeddem yn ei wneud oedd cadw'r ffioedd i lawr drwy ddefnyddio hynny.

Mr H. Thomas: There are two factors that we highlighted when we brought our estimates before you. The first factor is that we have lost our value added tax rebate. In the latest figures that we will present to you, when we make a report on our accounts, you will see that around £1 million has been withdrawn that we have used in the past. One thing that we did was to keep the fees down by using that source of funding.

[28] Yr ail ffactor yw'r ffaith, o dan y ddeddfwriaeth newydd, fod yn rhaid i mi sicrhau fy mod jest yn codi'r hyn sydd ei angen—y swm yr ydym wedi ei wario ar bob *audit*—felly, mae hynny'n gynydd o ryw 3% yn ein cyfrifon.

The second factor is the fact that, under the new legislation, I have to ensure that I only charge what is required and do not recover more than the full cost of carrying out the audit. Therefore, that is an increase of some 3% in our accounts.

[29] Y trydydd pwynt mae'n rhaid i mi ei wneud yw, oherwydd y sylwadau yr wyf wedi'u cael gan y Pwyllgor Cyfrifon Cyhoeddus, rwyf wedi edrych yn bennaf ar *audits* o'r cyrff bach i sicrhau ein bod yn gwneud eu *audits* nhw i'r safon gorau posibl. Hefyd, mae'n rhaid i mi dynnu sylw at y ffaith os yw'r Cynulliad yn gosod rhwymedigaethau arnaf o ran cynaliadwyedd, er enghraifft, i'w ystyried fel rhan o fy ngwaith *audit*, bydd hynny'n golygu y bydd cynnydd yn y ffioedd.

The third point that I should refer to is that, because of the comments that I have received from the Public Accounts Committee, I have looked particularly at the audits of the smaller bodies to ensure that we audit those to the highest possible standards. I also need to draw attention to the fact that if the Assembly places obligations on me in terms of sustainability, for example, and to consider that as part of my audit work, then that will mean that there will be an increase in fees.

[30] **Paul Davies:** Could I go back to the consultation process that you have had with public bodies? I want to understand a little more about that process. How wide is your consultation with public bodies?

[31] **Mr H. Thomas:** Under separate legislation, I had to consult with all the bodies on which I raise fees. So, every single audit body is consulted. I specify the fees that I am thinking of at the time. My consultation cannot start until the estimates have been agreed by you, so that I have a clear idea of how much has to be raised by fees as distinct from the consolidated fund. I then consult on how much that is going to be, indicating the factors. All the audited bodies and Welsh Ministers were consulted—under the old style, they were the consultees, but in future this committee and this Assembly will be—on the scheme and scales that you see there. Welsh Ministers were also consulted on that. We get comments back and I have indicated to you the three areas on which I received comments and where we took measures to try to mitigate the fees as a result.

[32] One of the most difficult bits that we now have, as we explained in the presentation to you, is that whereas in the past we were able to benchmark ourselves very widely—we saw the pattern in England and in Scotland and we held a particular position in relation to those or we looked at it very carefully if our fees went above theirs—we can really only look at Scotland now, but then we have to take into account different requirements in Scotland as compared with here.

[33] **Jocelyn Davies:** Mike, did you have a question?

[34] **Mike Hedges:** I have two questions, one of which was answered in private last week, but which I would like to be answered in public. Why do you not charge each authority the actual cost, based on the people doing the work, rather than having to have a set of fees?

09:15

[35] **Mr H. Thomas:** I think that the issue is complexity. Let us take the actual cost, for example. I set out a programme, which involves various grades of staff. Imagine if one of them were to go sick: if I do not replace them with a member of staff at exactly the same grade, the fees will go up and down. The requirement is to complete the work by certain statutory deadlines. It is better, therefore, to average out the costs that I have for each grade, and you saw how we did that.

[36] **Mike Hedges:** Yes.

[37] **Mr H. Thomas:** That way, we have to take the hit if there is, say, a particular problem, if we did not quite get the skill mix right, for example.

[38] **Mike Hedges:** I just wanted that to be on the record, as opposed to just in a briefing, because there will be people who will be asking that sort of question to either us or others. The other question is on auditing. A number of local authorities have outsourced huge amounts of the work that they do. One of the classic examples is Bridgend, with leisure, where the council has gone out to a leisure company, an arm's-length company, or whatever it is. What is the position of auditing them, or do you just audit the amount of money going out without actually getting any idea of how it is being spent?

[39] **Mr H. Thomas:** We do not drill down, as part of the audit of accounts, into the outsourced companies automatically. There may be issues that do arise where we need to actually explore that. It is in the same way that, when we look at the accounts, we take the overall view of what the accounts are showing. We look very much at the governance. We place a degree of reliance on what the internal audit work is. Sometimes, we do identify that there is a problem and we pursue that a bit further: for example, you will see that in the commentary that we place on the accounts, including the way in which individual authorities—I can think of one in particular—use their pension funds.

[40] **Jocelyn Davies:** So, you think that the way that you look at that is proportionate to the outcome that you would get from it.

[41] **Mr H. Thomas:** Taking all of my audit work, I really would like to aim for a proportionate approach. The area that has continued to give me concern is the requirements placed on me by the Local Government (Wales) Measure 2009, which, if you interpreted them to the letter, would require me to carry out a regular pattern of identical studies and identical length at every individual authority. I do not think that that is a sensible use of my time. The Government has agreed, for example, therefore, that I can move to a four-year cycle of corporate assessments instead of the annual cycle that is more or less implied by the legislation. That is important because otherwise I think that it is disproportionate. It is better to concentrate where there are risks identified.

[42] **Jocelyn Davies:** Peter, you had a question.

[43] **Peter Black:** Yes. What scope do you actually have to audit arm's-length companies, particularly ones that are partnerships such as the national pool, Liberty Stadium et cetera?

[44] **Mr H. Thomas:** There are various ways in which we could do that. One is, as you have outlined before, where we do not just use our own staff, but actually buy in expertise. So, for example, there is a particular piece of work going on in value for money where I am using the expertise of external auditors, particularly those who are used to company accounts. We do have a limited degree of expertise in company accounts, but it is not nearly as strong as elsewhere.

[45] **Peter Black:** I am thinking more in terms of the authority to go in and look at the accounts.

[46] **Mr H. Thomas:** In terms of the authority to go in and to look at the accounts, we do have the authority to follow the public pound.

[47] **Peter Black:** Right. Okay.

[48] **Jocelyn Davies:** Julie, you had a question.

[49] **Julie Morgan:** It was just to pick up a point about the local authorities: that you have moved to a four-year cycle, which I think you said. Are you still doing each local authority individually?

[50] **Mr H. Thomas:** Yes, we are. There are three types of work that we do with local authorities. Every year we check each authority for an improvement assessment, which is by way of a letter from me. Then, on a four-year cycle, we look in depth at the corporate assessment of each individual authority. Then there are studies that I carry out right across all authorities. So, for example, in the coming year, we will be looking at issues to do with leisure; we will be looking at issues to do with the way in which the authorities are working with the health service in terms of the care for the elderly. So, we take those as studies that we do right across the board and we publish a report on the whole. Last year, we produced a report showing how the individual authorities were preparing for austerity and the longer term financial decisions that they needed to take. We have also looked at the scrutiny functions within individual authorities.

[51] **Julie Morgan:** How do you decide which subjects you will look at?

[52] **Mr H. Thomas:** Again, that is part of the consultation process. There was a suggested list, if I recall, of five or six that I put out and we got comments back and we are down to the three that I have selected.

[53] **Julie Morgan:** In terms of the corporate assessment, do you find big differences between local authorities?

[54] **Mr H. Thomas:** We will shortly be publishing one on Ceredigion and one on Cardiff. Yes, we do find considerable differences between authorities.

[55] **Jocelyn Davies:** Are there any other questions on the fees? I see that there are not. Shall we move on to the annual plan? This will be presented by both of you. Who is going to start?

[56] **Mr H. Thomas** I am picking up on this one. The annual plan, as you know, is now a new requirement under the legislation. It is not binding, which is an interesting thought, but it is nevertheless indicative. In fact, what the annual plan does—the document you have in front of you—is bring together a lot of material that exists elsewhere. It is material that is in the estimates, in the annual report, in our existing three-year strategy, and also the various consultation documents that I have issued over the course of the year. What it did—because you might say after that, ‘Why do we need the annual plan?’—and what the annual plan was exceptionally useful for was that it provided the focus for discussions between myself and the incoming board in terms of, ‘Where are you heading? What is the role of the Wales Audit Office? What are your priorities?’ The annual plan provided the basis of that. It also led to a decision, which was again outlined to you, that it really makes better sense to absorb the annual plan into the three-year rolling business plan. That is how I plan my future work, not just on a yearly basis, but over a three-year cycle. Hopefully, we will have, next year, a business plan that will incorporate the annual plan, but it will look over three years and can therefore start to replace some of the other documentation that we have around the work of Wales Audit Office.

[57] **Ms Garner:** If I may add to that, Chair, Huw said that the board has been heavily engaged in trying to put its overlay onto this document. We see this year very much as a transition year, but our priorities as the Wales Audit Office continue to be to ensure that the auditor general has the appropriate resources to deliver the full work programme and to optimise the impact of that work programme. I have already mentioned that one of the priorities is to ensure that we are a well-run organisation and that we improve engagement with our stakeholders. Within the annual plan, some of the priorities are referenced. For instance, we want to review the staff mix and the staff skillset. We have to look at our framework contracts, where we purchase audit services to do some of the audits that we

would have otherwise done.

[58] We constantly want to simplify systems and processes and documents. There is a degree of change around financial management. We have further work to do on the estate. This document lists some of those priorities of the Wales Audit Office. Coming back to that simplification, we want, as a board, to have the right documents so that we can monitor and advise the work of the auditor general and some of the priorities themselves. But, we also think that you, as Finance Committee, could do with a bit of simplification. That is why we would like to move to that three-year business plan, because you need to hold us to account.

[59] As Huw has said, that three-year business plan will cover our strategic intent and also the operational matters and some metrics about how we will measure ourselves. It will, I can assure you, contain all the information that you currently acquire under the annual plan and that is in legislation. The business plan will be a tool that provides the context for when we come for the estimate as well. There will be a much closer link between our business plan and the estimate. So, we are happy to answer questions, but we lay before you the annual plan.

[60] **Jocelyn Davies:** As you mentioned your plan, and you are asking us to approve it but you are not bound by it, under what circumstances would you divert from this plan?

[61] **Mr H. Thomas:** The only circumstances I can think of would be if a major problem emerged—either that we are having to shift some of our work on value for money, or if there is a massive problem in terms of our own finances. This plan represents the feeding-in of various funds to us on the basis of which we have constructed our work. So, I think, for a year, it is actually quite stable. It is what underpins the estimates. It is what you would expect us to report on to you when the annual accounts come through. What I can say, because I am just seeing now the closure of the last year, is that obviously we do not have the hard figures as yet, and they remain unaudited, but accounts have come in on plan.

[62] **Jocelyn Davies:** So, you would only divert from this if there was something completely unforeseen and exceptional. In your plan, you mentioned things that are of particular significance: the future generations Bill, which I think you have mentioned already, and this concept of sustainable development. Of course, that idea has been around for a long time, and it has been the core organising principle for the Welsh Government for a number of years. What work will you be doing to prepare for the Bill?

[63] **Mr H. Thomas:** We have already allocated a specific member of staff to work with the Welsh Government, acting as an observer on various committees so that we are well-attuned as to what the Welsh Government is intending. We are talking to the Welsh Government in terms of the kind of provisions that need to be put into the legislation, when we eventually get it, in relation to our responsibilities, because the concept is not just internal in terms of what we need to do on sustainability, but, as part of every audit, we should be looking to see what the audited bodies are doing to discharge their sustainability duties. That is the area that I raised earlier. It is one of the factors that does lead to an increase in costs. There is another document that is not laid before you and which is my code of audit practice. It is what I issue to the auditors, whether they are internal staff or external staff, setting out the guidelines as to how I expect them to carry out their audits. We already have in that indications of what we want them to do by way of sustainability work.

[64] **Jocelyn Davies:** A number of Members have questions. Ffred, is your question on this point, and yours, Chris? We will go to Ffred and then to Chris.

[65] **Alun Ffred Jones:** Mae'r **Alun Ffred Jones:** This additional duty, as ddyletswydd ychwanegol hon yn mynd i you said, will lead to more work. Your work arwain, fel yr oeddech yn dweud, at fwy o will, to a great extent, be dependent upon the

waith. Bydd eich gwaith yn dibynnu i raddau helaeth ar y dehongliad yn y Bil, neu Filiau, o beth yw datblygu cynaliadwy.

definition within the Bill, or Bills, of what sustainable development is.

[66] **Mr H. Thomas:** Ydy.

Mr H. Thomas: Yes.

[67] **Alun Ffred Jones:** Mae datblygu cynaliadwy, ers dechrau'r Cynulliad, wedi cael ei ddehongli fel rhyw fath o stôl drithroed lle mae angen cydbwysio anghenion economaidd, cymdeithasol ac amgylcheddol, ond nid oes cyfeiriad at yr amgylchedd yn eich nodiadau. Rwy'n gwybod nad eich cyfrifoldeb chi yw dehongli 'datblygu cynaliadwy', ond a ydwyf yn iawn i ddweud bod ystyriaethau amgylcheddol fel petaent wedi diflannu o'ch ystyriaethau?

Alun Ffred Jones: Sustainable development, since the inception of this Assembly, has been defined as a tripartite approach where economic, social and environmental aspects need to be taken into account, but there is no reference to the environment in your papers. I know that it is not your responsibility to define 'sustainable development', but am I right to say that environmental considerations seem to have disappeared from your considerations?

[68] **Mr H. Thomas:** Yr hyn sy'n wir i'w ddweud yw nad ydym wedi cael eto y fersiwn derfynol o'r dehongliad o dan y ddeddfwriaeth. Dyna pam mae'r cynllun yn mynd yn y cyfeiriad y mae'n mynd iddo. Rwy'n deall bod posibilrwydd y bydd rhai amcanion pendant yn cael eu gosod yn y ddeddfwriaeth, ac, os hynny, bydd yn rhaid i ni eu hadlewyrchu yn y gwaith archwilio yr ydym yn ei wneud.

Mr H. Thomas: What is true to say is that we have not yet received the final draft of the definition under this legislation. That is why the plan moves in the direction it does. I understand that there is a possibility that there will be some definite requirements set out in the legislation, and, if so, they will have to be reflected in the audit work that we do.

[69] **Christine Chapman:** I just wonder what your assessment would be of how this plan communicates well to the general public. I know Isobel mentioned stakeholders, but they are not necessarily the general public. Obviously, this does fit in with the future generations Bill in terms of engagement with communities.

09:30

[70] **Ms Garner:** Engagement with the public is something that we discussed when we met as a board and as an executive. It is actually very difficult to find direct means of engaging with the public. A lot of that comes by proxy, if you like, through the media spotlight that is given to the auditor general's reports. However, if I may, I will talk a little bit about the engagement with stakeholders because we are in the process of finalising a very important survey to all of our stakeholders, of which you will be one, looking at how the relationship between the Wales Audit Office and the stakeholder is going—what they value about the work, any comments on the fees, the timeliness, the impact it has and what they find most valuable. That is going to be a vital bit of information for the board in assessing the future direction of that particular engagement. On behalf of the board, I am still struggling with, if you like, the direct relationship with the public, and I do not know whether I can be helped out here by Huw.

[71] **Mr H. Thomas:** As part of our assessment of how well we work and how well we are understood, we carry out a number of opinion polls—or we buy into them. Isobel has mentioned the one we are doing on stakeholders. We also buy in periodically—and I think that we intend to do it again this year because it coincides with this—to the MORI poll of the general public. If I may summarise the responses the last time we did it a couple of years back, it was this: first of all, they valued an external perspective on the part of the general

public of how public bodies work—they trusted an external perspective more than they trusted public bodies themselves to report on their performance—and they indicated that they understood that there is something called the Wales Audit Office, but we did not get very positive responses when they were then asked, ‘Can you define what the Wales Audit Office does?’

[72] So, I think that what we have is an understanding that there are external bodies—we have sufficient coverage to know that our name is there among them—but little understanding of what individual external bodies do in terms of holding public bodies to account. Clearly, we try to do this. Our reports are intended for the public. That is why, as the plan indicates, we are investing in things like social media. We find that that gets us a wider reach of people. I admit to being slightly nervous about some of the areas of social media that we are engaged in, but, nevertheless, it is quite extensive. We currently have somebody over visiting us from Australia to see how we work. One of the things they have commented on is the fact that the Wales Audit Office really does use social media more than they have encountered in other audit offices. I am not sure whether that is true in the UK, because I think that the National Audit Office operates very well and so does Scotland. However, it is the case that we are using other means than simply publishing reports to try to get our messages across.

[73] **Jocelyn Davies:** Well, we will be interested in your tweet after you have left the committee, no doubt. Mike is next and then Julie.

[74] **Mike Hedges:** I have two different points.

[75] **Jocelyn Davies:** Yes, that is fine.

[76] **Mike Hedges:** The first one is on sharing good practice. That is one of the things we have been less good at in Wales, dare I say it. I once said that, in the age of the jet engine, good practice seems to move at the speed of the stagecoach. What more can be done to share good practice? You have talked about the website and other things that are being done, but I think that you probably would agree that good practice moves very slowly and does not reach every part of Wales.

[77] **Mr H. Thomas:** I think I would agree with you that good practice travels best among those who are looking to participate in good practice. The trick that I do not think we have fully cracked yet is getting good practice to every part of the public sector. However, we will continue doing the work that we do. It is work that you gave us extra cash for. We are getting good responses, but I would like to see that, as Mike indicates, travel much faster.

[78] **Mike Hedges:** This is rather a plea, actually. You have as one of your actions for next year public sector workforce reduction and early departures as part of one of your value-for-money studies. Is there any possibility of that being done early during the procedure to help inform discussion regarding Williams and local government reorganisation?

[79] **Mr H. Thomas:** I will certainly see if we can advance that. The area that I am particularly looking at is the way that the Welsh Government let go of a large number of civil servants as part of its reduction programme a few years back, and the impact that that has had in terms of the delivery of the Welsh Government’s work.

[80] **Ms Garner:** If I may add a couple of comments, I was quite surprised when I saw the breakdown of the figures—I am looking at page 19 of the annual plan—just how little the good practice exchange is in terms of our overall budget. Bearing in mind the comments that we have heard today and the thoughts of the board, it is certainly worth asking what mechanisms we have to strengthen that good practice. After all, if we want public services to succeed, this is an absolutely critical part in directing and signposting them towards that good

practice.

[81] **Coming back to the final point about the value-for-money study, the board has talked about other ways in which the expertise held by Huw and within the audit office could be used. It strikes me that there may well be a future opportunity for WAO colleagues to sit alongside major change programmes to provide real-time advice. There has been one successful example whereby they have been used outside their formal audit capacity as a fount of expert knowledge and, should we be into major public services reform through the Williams commission, then that is certainly something that the Wales Audit Office would be able to provide.**

[82] **Jocelyn Davies:** Ffred, was your question on this particular point?

[83] **Alun Ffred Jones:** No, it is on a different point.

[84] **Jocelyn Davies:** Are there any other questions on Williams and the review of public services? Of course, the outcome is unknown at the moment, but how quickly can you be on your feet as an organisation to respond to the outcome of the Welsh Government's decisions?

[85] **Mr H. Thomas:** As a result of a slight internal reorganisation that we have done, one of the outcomes was to allocate a senior member of the management committee to look specifically after local government and criminal justice, and another to look after central Government and the NHS, not in terms of audit work but in terms of input into the policy work. We have to maintain a degree of audit independence but, nevertheless, we are possessing of a degree of knowledge and it is important that it is fed in and taken account of by those undertaking policy. Currently on an area of work that would be of interest to you, we are participating in the work that the Welsh Government is doing in preparation for a Welsh Treasury post Silk.

[86] **Jocelyn Davies:** Ffred, did you have a question on a different topic?

[87] **Alun Ffred Jones:** I fynd yn ôl at y pwynt a godais ynglŷn â datblygu cynaliadwy, mae'r ffaith eich bod wedi ei gynnwys yn eich adroddiad a'r ffaith eich bod wedi ei nodi hefyd fel rheswm pam mae costau ychwanegol arnoch chi yn awgrymu eich bod yn ystyried bod hwn yn faes pwysig iawn ac a fydd yn bwysig i'r dyfodol. Er mwyn cyflawni'ch gwaith yn effeithiol, beth fyddwch chi'n chwilio amdano? A fyddwch chi'n chwilio am ddiffiniad o datblygu cynaliadwy, neu y meincnodau neu'r deilliannau hynny mae'r Llywodraeth yn disgwyl i lywodraeth lleol a chyrff cyhoeddus eraill i'w cynhyrchu? Pwy fydd yn gosod y meincnodau hynny? Ai'r Llywodraeth ynteu chi fel yr archwilydd fydd yn penderfynu beth sydd yn profi bod corff yn cyflawni ei ddyletswyddau?

Alun Ffred Jones: Returning to the point I raised earlier on sustainable development, the fact that you have included it in your report and the fact that you have also identified it as a reason why there are additional costs facing you suggests that this is an area that you believe is a very important one and which will be important for the future. In order to carry out your functions effectively, what will you be seeking? Will you be seeking a definition of sustainable development, or those benchmarks or outcomes that the Government expects local government and other public bodies to deliver? Who will set those benchmarks? Will it be the Government or you as the auditor that decides how you will prove whether a body is achieving its functions?

[88] **Mr H. Thomas:** Yn gyntaf, byddwn yn dibynnu ar y diffiniad a fydd yn dod allan o'r ddeddfwriaeth. Mae'n rhaid i mi ddweud hynny yn eithaf clir. Y rheswm yr wyf wedi

Mr H. Thomas: First of all, we will be dependent upon the definition that emerges from the legislation. I need to make that clear. The reason that I have noted, which

ei nodi, yn deillio o rywbeth arall, yw bod yn rhaid i mi wrth baratoi *code of audit practice* sicrhau fy mod hefyd wedi trafod yr hyn yr wyf yn bwriadu ei wneud efo'r archwilwyr cyffredinol eraill ym Mhrydain, er mwyn sicrhau bod rhyw fath o gysondeb. Y pwynt yr oeddent yn dod yn ôl ato bob tro oedd nad oeddent yn gallu gweld beth oedd rôl archwilydd yng nghyswllt gwaith ar gynaliadwyedd.

emerges from another issue, is that I have had to ensure in preparing a code of audit practice that I also discussed what I intended to do with the other auditor generals within Britain, to ensure that there was some consistency. The point that came back consistently was that they could not see what the role of an auditor was in relation to work on sustainability.

[89] Felly, mae'r hyn yr ydym yn ei wneud yng Nghymru yn arloesol. Rwyf wedi'i gymryd fel rhan o'm dyletswyddau. Fodd bynnag, hoffwn drafod hyn ymhellach unwaith rwy'n gwybod beth mae'r ddeddfwriaeth yn bwriadu ei wneud o ran y diffiniad, yr amcanion a'r dyletswyddau y mae'n bwriadu gosod ar gyrf cyhoeddus. Byddaf yn eithaf hapus i ddychwelyd i'r pwyllgor i gael fwy o drafodaeth.

So, what we are doing in Wales is innovative. I have taken it on as part of my responsibilities. However, I would like to discuss this further once I know what the legislation intends in terms of a definition, objectives and the duties it will place on public bodies. I am more than happy to return to the committee to discuss this further.

[90] **Julie Morgan:** I wonder whether the Rights of Children and Young Persons (Wales) Measure 2011 impacted on your work. I know that the duty is on Welsh Ministers, but it is possible that that duty will be extended to other public bodies to give due regard to children's rights in any proposals that are put forward by the Government. Has this been any part of your thinking or planning ahead?

[91] **Mr H. Thomas:** Not at present, but, clearly, any duty laid on us we would have to reflect. That said, I meet regularly with the children's commissioner and the inspectorates in social services and health. We are up to speed on the issues that are there. However, at present, it does not impact.

[92] **Julie Morgan:** I was just thinking in terms of sustainability and the discussion we have just had and how that will perhaps influence your work with other bodies in the future. I think that there is the same situation, really, to do with children's rights.

[93] **Mr H. Thomas:** The difference with sustainability is that the discussion has been about how, as auditor general, I can regulate or police or monitor—whatever word will emerge—the work that all public bodies are doing in this area. That kind of discussion has not arisen in relation to children.

[94] **Julie Morgan:** It may, however.

[95] **Mr H. Thomas:** It may. If it does, clearly, a similar kind of discussion would take place.

[96] **Jocelyn Davies:** This will be the first year of the new NHS financial planning, now that we have gone to a three-year budget. How does that affect the way in which you are working with NHS bodies?

[97] **Mr H. Thomas:** You might like to return to look at that after we have written the accounts opinions. In giving the accounts opinion on the various health bodies, I will be reflecting in them where they are in relation to the three-year plans and how that relates against the various resource limits that they had.

[98] **Jocelyn Davies:** Okay. On page 11, you list specific attention to six local authorities in your plan. How were those local authorities selected?

[99] **Mr H. Thomas:** This is the four-year cycle I mentioned earlier in terms of corporate assessments. There is a degree of geographical coverage, and there is a degree to which I am trying to share them out among my managers in this area so that I am not overloading any single manager with two corporate assessments in a year. It is to do with that. Then, within the cluster that each has, I have taken account of risk factors. That largely underpinned those I selected last year. Who was first in the four-year cycle was very much governed by that. This is the second year of the four-year cycle.

[100] **Jocelyn Davies:** Okay, thank you. So, we are not to read anything specific into the names that appear in your pack. Are there any other questions from Members?

[101] **Mike Hedges:** Looking at the list there, why is the Isle of Anglesey not defined as either a county borough or a county council? It says: 'Flintshire County', 'City and County of Swansea', 'Merthyr...County Borough', 'Monmouthshire County', 'Neath Port Talbot County Borough', but the Isle of Anglesey is just down as a 'council'. I thought that every council in Wales was either a county council or a county borough council.

[102] **Mr H. Thomas:** I will check on that one, but I have a feeling it is to do with its preferred title.

[103] **Jocelyn Davies:** It is its choice, then. So, we are not to read anything into that either. *[Laughter.]*

[104] **Mr H. Thomas:** No, this does not advance any kind of reorganisation.

[105] **Mike Hedges:** It is defined as a county borough council, however, is it not, or a county council?

[106] **Mr H. Thomas:** It is indeed.

[107] **Jocelyn Davies:** Shall we move on to the code of practice, which, again, will be introduced by both of you, I think. Who is going to start us off? Isobel, shall we come to you?

09:45

[108] **Ms Garner:** Okay, I shall start. We refer to this colloquially as 'the relationship code' back at the Wales Audit Office, and we believe that this code is absolutely integral to the good governance that we all want to see. Just to give you a little bit about how we got here, the team took best practice from relevant sources to develop a draft code of practice. I think that it is fair to say that we have had a bit of a tussle over it. We have challenged it and we have added to it and taken away from it. However, most importantly, we have made it relevant to our unique and complex situation here at the WAO. Having had that tussle, the board and the executive has now formally approved this code. What I like about it is that the roles and responsibilities are clearly laid out and in simple language. It talks about how we are going to work together through the principles. It uses phrases such as that we will

[109] 'work in an open and constructive manner'.

[110] It is quite explicit. However, it also emphasises the code of conduct, the document that you are not going to see, which we all must sign up to and which covers such matters as hospitality, gifts, bringing the WAO into disrepute, et cetera.

[111] It is a real, live working document, and it is particularly useful to all board members so that they know what is expected of them in terms of their responsibilities. It also gives us a checklist of what we must be doing in order to ensure good governance. So, actually, I really commend this code to you for approval. Huw, do you want to add anything?

[112] **Mr H. Thomas:** I think that it is a prenuptial agreement. It is in the nature of things that we will need to review it as it goes along. I am comfortable that it preserves the areas that I have is my territory. It preserves the areas of the board. It sets out how we will actually try to approach the areas that we have in common and, where differences emerge, how we will try to solve those.

[113] **Jocelyn Davies:** On the staff, I sometimes make a mistake, I think, and refer to the staff in the wrong way. Who do they work for—is it the auditor general or the board? Of course, the board is called the Wales Audit Office.

[114] **Ms Garner:** Yes. The Wales Audit Office employs the staff. However, along with cash resources and staff, we give them to the auditor general in order for him to fulfil his work programme. So, the board has had to be very careful to ensure that all employment matters have been duly transferred to the Wales Audit Office. Obviously, Huw has a lot of delegated functions as chief executive to look after the staff, but they are employed by the Wales Audit Office.

[115] **Jocelyn Davies:** Okay. On conflict resolution, I notice that there is this very, very tiny little paragraph here. It is exceptionally brief. So, just to be clear, there can be no conflict or dispute between you in any matters relating to the auditor general's statutory functions.

[116] **Ms Garner:** That is the way I understand it.

[117] **Jocelyn Davies:** What is left, then?

[118] **Ms Garner:** Quite a lot.

[119] **Jocelyn Davies:** Does that mean that you can have a conflict about all of your functions but none of his?

[120] **Ms Garner:** Yes. It sounds a bit negative, but I think that there is a lot of scope for conflict. My aim, of course, is to ensure that there is no conflict—

[121] **Jocelyn Davies:** Yes, of course.

[122] **Ms Garner:** However, it is about preserving the independence of the auditor's judgment, which is why none of the board can talk about his audit programme once it has been consulted on or influence any of that. However, I will give you an example. One of the things that is within the remit of the board is what we call commissioned work, whereby the Wales Audit Office might be approached to do a bit of work for another audit body or something outside the usual run-of-the-mill. It is actually the board's decision whether we aim to do that work or not, but it must not compromise the auditor general's work programme. We have to consult with the auditor general about whether it is a good idea or not, and sometimes it can be, as it could grow our expertise or contribute to overheads. However, there could be something where the team says, 'We really, really want to do this' but the board says, 'Not sure; we've got to concentrate, we're a little behind'. So, those sorts of things could be a conflict. There could be a requirement for a different skillset going forward. Huw and I have already talked about forensic accounting being something that we need to think about over the coming years. Huw might say, 'I need five of those', and the

board might say, 'Where are you going to get them and how much are you going to pay them?', so that could throw things. We hold the assets, the people and the money, so there is quite a lot that could arise. However, I want to assure you that, by working to the principles in this and to our pre-nuptial and now post-nuptial arrangements, it is not our intention to go there, is it Huw?

[123] **Mr H. Thomas:** No.

[124] **Jocelyn Davies:** Well, I hope that you will be very happy together, as does the whole committee. [*Laughter.*] Are there any questions from the committee on the code of practice? There are not. Thank you very much for attending today and giving us evidence. We will send you a transcript, as normal, and you can check that for factual accuracy before it is published. We will formally let you know our decision on whether or not we approve these documents. Thank you.

9:51

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[125] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the remainder of the meeting and item 1 of the meeting on 14 May in accordance with Standing Order No. 17.42(ix).

[126] Does everyone agree? You do. Thank you.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 9:51.
The public part of the meeting ended at 9:51.*