



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

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

**Dydd Mawrth, 27 Medi 2011**  
**Tuesday, 27 September 2011**

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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**

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Gwyn R. Price	Llafur Labour
David Rees	Llafur (yn dirprwyo ar ran Jenny Rathbone) Labour (substitute for Jenny Rathbone)
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Kenneth Skates	Llafur (yn dirprwyo ar ran Julie Morgan) Labour (substitute for Julie Morgan)
Leanne Wood	Plaid Cymru The Party of Wales

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

Russell A.J. Frith	Archwilydd Cyffredinol Cynorthwyol, Audit Scotland Assistant Auditor General, Audit Scotland
Terry Jones	Rheolwr Technegol, Swyddfa Archwilio Cymru Technical Manager, Wales Audit Office
Mark Taylor	Cyfarwyddwr Cynorthwyol, Audit Scotland Assistant Director, Audit Scotland
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Kevin Thomas	Archwilydd Cyffredinol Cynorthwyol, Swyddfa Archwilio Cymru Assistant Auditor General, Wales Audit Office

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

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Bethan Webber	Clerc Clerk

*Dechreuodd y cyfarfod am 9.19 a.m.*  
*The meeting began at 9.19 a.m.*

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

[1] **Darren Millar:** I welcome everyone. I encourage speakers to use either Welsh or English, as they choose. Headsets are available; channel 0 is for amplification and translation is on channel 1. I ask all Members and witnesses to switch off their mobiles phones, BlackBerrys and pagers as they can interfere with the broadcasting equipment. If the fire alarm sounds, the ushers will tell us what to do, so that we do not panic.

[2] I have received apologies from Julie Morgan and Jenny Rathbone, but I am delighted to welcome Ken Skates and David Rees as substitutes to the committee. Welcome, gentlemen.

### **Adroddiad a Chyfrifon Blynyddol Archwilydd Cyffredinol Cymru 2010-11 Auditor General for Wales's Annual Report and Accounts 2010-11**

[3] **Darren Millar:** The Auditor General for Wales has circulated a copy of his annual report and accounts, and we have also received a copy of Audit Scotland's report on the audit of the Auditor General for Wales for 2010-11. I welcome the auditor general, Huw Vaughan Thomas, to the table, as well as Kevin Thomas, the assistant auditor general, and Terry Jones, the technical manager. Auditor general, do you want to introduce your accounts?

[4] **Mr H. Thomas:** Yes. First, to inform Members about the structure of the organisation, Kevin is the third of my assistant auditor generals; you met the other two last week. That creates, if you like, the top team at the Wales Audit Office.

[5] **Darren Millar:** He is also one of my constituents, so he gets a particularly warm welcome today.

[6] **Mr H. Thomas:** At the last meeting, I gave Members a brief flavour of the annual report and accounts, so you already know that it is not the *Have I Got Old News For You* story that appeared in the *Western Mail* today. I do not intend just to repeat the introduction that I gave last time, but I would like to briefly reflect on the key themes of my first year in office as auditor general.

[7] As no-one on this committee was present when I first appeared before the committee on 7 October last year, I would like to put my actions in the context of what I said then. I said that our obligation was to the people of Wales in ensuring that public bodies are spending the public pound wisely and well, and that I saw it as my role to ensure that you, as the people's representatives, could be satisfied of that.

[8] During the period covered in the annual reports, we introduced more consistent assessments in health and local government, which, in my view, gives the committee and those charged with the governance of local public bodies a better understanding of performance and a better overview across Wales.

[9] At a national level, the major value-for-money reviews that we have conducted and our work in examining matters of public concern, taken together with the work of this committee, have had a clear and positive impact. As you know, there is a steady stream of major reports awaiting your consideration as we go forward. Next week, we will publish the latest 'A Picture of Public Services' report.

[10] I also said that it was important for the Wales Audit Office to ensure that it was properly accountable for the work that it discharged and its expenditure; basically, the two essential prongs, namely my independence with regard to being able to determine the pattern of work, and my accountability as an accounting officer to the National Assembly for Wales. I told the committee back in October last year that I considered that the governance arrangements that I inherited needed to be improved, and that as part of strengthening them, I was looking to bring an external set of eyes into some key areas. As you will be aware, I have now established two new non-executive committees, one for resources and the other for remuneration, to work alongside the audit and risk management committee. I am very grateful to Mike Hedges for taking part in the appointment process for the chairs of those committees. This is a major step forward.

[11] At my first appearance before committee, back in October, there was much discussion about the financial management of the Wales Audit Office. There were undoubtedly issues about the way in which accounts had been presented to the committee. As you know, I felt that there was a need subsequently to obtain the National Audit Office's views on how the accounts had been presented to the National Assembly for Wales during the preceding five years. I hope that the unqualified audit opinion of the Auditor General for Scotland and his confirmation that all the committee's recommendations on the accounts, which it issued just before the Assembly elections, had been acted on, mean that the turnaround in the financial position figures speak for themselves. As the Auditor General for Scotland stressed, the turnaround has been achieved through a combination of cost reduction, efficiency and deferred expenditure, and I believe that it demonstrates the degree of importance that I place on stewardship of public funds.

[12] I will not pretend that this has been an easy year; it was not the kind of first year that I had anticipated as auditor general. However, I think that it has been a productive one. I recognise that there are issues still to be resolved, particularly in reshaping the organisation to be more effective and accountable. There will inevitably be some hurdles, and we must still work through some issues of pay and staffing structures. However, overall, I believe that the Wales Audit Office is now in much better shape and I am confident that we can look to create and develop a stronger and even more effective public audit function as we go forward. I look forward to reporting progress on this to you when I present next year's annual report and accounts. I await your questions.

[13] **Darren Millar:** Thank you, auditor general. We have received a helpful informal briefing from Audit Scotland on the accounts, which has given us a few areas that we might want to explore. Who wants to start off the questioning this morning? I will kick off then, if that is okay.

[14] One of the issues identified by Audit Scotland is the way that you apportion costs. Against the chargeable sources of income and the Welsh consolidated fund income that you received from the National Assembly for Wales, it said that the way that you apportion those costs was not very transparent or clear, given that you must return to the Welsh consolidated fund anything that you do not spend, whereas you can retain the fee income surplus that you might receive from local government and elsewhere. Is there any particular reason why it is unclear as to how those costs are apportioned?

[15] **Mr H. Thomas:** Can I first say that this is one of the flaws in the way in which the Wales Audit Office was put together in terms of legislation, and I hope that we can take advantage of the Wales Audit Office Bill that the Government intends to introduce to try to tidy this up. It is unsatisfactory to have to operate a clear dividing line on the fees coming from local government on one side and the rest of my money on the other. You will see that next time when we come to look at the estimates. I am accounting, you are presenting estimates for one part of my work, and then, behind the scenes, I have to show that there are funds coming from local government, which you, as a committee, cannot look at. We need to get rid of this divide. It would be much easier to have one accounting pot.

[16] I think that Audit Scotland is right in that, if you are getting funds from one source and the other, then, yes, there will be areas where it is quite clear that the funds are being spent on particular audits in local government or on particular audits in the public sector. However, what happens with the common areas? Let us take, for example, the issue of the good practice exchange. It is fundamental to a public audit office that it is able to receive, develop and publicise instances of good practice, but how do I then apportion the costs of that good practice exchange to the estimates pot and to the local government pots? It is a matter of judgment. The same thing occurs in terms of the central costs of the organisation. You can

arrive at a formula and say that there is x amount on that, but, particularly given the illustration of the good practice exchange that I have used, that will not be a formal, rigid formula over a period—it will have to change. The easiest way is not to proceed down a road on which you must make these judgments, but simply to allow the whole of our income to be treated the same and accounted the same. I will then not have to make such judgments. However, as Audit Scotland has indicated in its report, this is an area that we continue to look at to try to tidy it up, because we must make the best of the structures that we have inherited.

[17] **Darren Millar:** There are some suggested areas of questioning that Members have received in their brief, as well as some of those other issues that we touched on earlier, but I will allow people to come in as and when they want to. Mike, I see that you want to come in on this.

[18] **Mike Hedges:** I want to start off by saying that I acknowledge the substantial progress that you have made, and that anything that I say needs to be taken in that context. I agree with you that having a split in your accounting arrangements, rather than treating the accounts as one, is probably not the best way to take it forward. However, that is where we are at the moment. Should local government not have its surpluses returned to it? Local government is under substantial financial pressures. If a surplus is made from local government, should that not be passed back to local government?

9.30 a.m.

[19] **Mr H. Thomas:** In effect, it is. That is why the fees are being reduced. They were reduced last year and they are going to be reduced again next year; I am about to consult on those. I take account of how much I have in the pot from local government as I set the fees for the next year. It was a very careful building up, for which I put my hand up and say that, perhaps on the other side, I was partly responsible. However, when we merged the National Audit Office component and the Audit Commission into the WAO, I have to say that local government was extremely suspicious of what was happening and tried to lay down very clear guidelines for how its money should be used and how its money could not cross over—a whole lot of accounting bits were put in. However, the reality, Mike, is that we will reflect that as we set the fees for the year. As you see in the annual report, the fees are heading on a downward slope.

[20] **Darren Millar:** What was the major area of efficiency savings this year? I know that there is a page in the report that refers to some of these, but are there any particular areas that you want to highlight?

[21] **Mr K. Thomas:** We have said in the report that it is a combination of cost reduction, efficiency and deferred expenditure. One of the key areas in which we have achieved that is in reductions in staff costs. You will see that there is reference to a voluntary severance scheme in the report. In addition to that, we have had something of a freeze on recruitment, so some staff have left outside of the voluntary severance scheme and have not been replaced. We have deferred a fair amount of expenditure on training over the course of the year. That is only a temporary postponement, and it is something that we are picking up in the current year. We have also either cancelled or deferred a fair range of expenditure on IT—again, the deferred expenditure is something we are picking up in the current year. We have also made efficiencies and savings in areas such as accommodation and related costs such as heat and light. We have also made reductions on things like communications and publishing, with a move towards using more electronic publication rather than hard copies.

[22] **Darren Millar:** I will touch on this issue of premises costs, because a number of years ago, when the two audit bodies in Wales merged and the headquarters of the Wales Audit Office was created, there was a suggestion that there would be a pretty substantial

premises cost reduction. Has that been achieved to the extent that was expected?

[23] **Mr K. Thomas:** There have been substantial savings. As you are probably aware, we did have two offices in Cardiff previously; we have now merged into one. That has yielded savings in terms of lease and running costs. That single building is a more efficient building. Having said that, we continually keep our estates under review and we have recently looked at a range of areas, not just in Cardiff, but at some of the offices outside Cardiff, as two areas where we could make further savings.

[24] **Darren Millar:** Aled, did you want to come in on that point?

[25] **Aled Roberts:** The question was: were the identified savings at the time achieved?

[26] **Mr K. Thomas:** I would need to come back to the committee and confirm whether the exact projected savings have been achieved.

[27] **Leanne Wood:** I want to come to this issue of a prior period adjustment of £1.336 million and the previous failure to include the full cost of early severance packages at the time they were agreed. Can you give us some idea as to why those figures were not transparent?

[28] **Mr H. Thomas:** Right; how long do you have? This is the area that we spent a considerable amount of time on in the previous Public Accounts Committee. The fact is that the accounts were not prepared in the correct manner, particularly when it came to the issue of severance packages. They should have been accounted for up front and the accounts should have been adjusted, in a sense. In fact, what happened was that the payment was made as you went. So, let us say that someone retired—I will take these theoretical figures—with a £100,000 package, £10,000 of that was attributed to every year over a period, rather than being accounted for as £100,000 in the year that the person left. So, there needed to be an adjustment to correct that, and the most significant bit of adjustment involved the package relating to Anthony Snow. Indeed, it was the size of his package that threw up the fact that there was a question mark about the way in which the funds had been accounted for. There were one or two other aspects that needed to be changed in order to put this on to correct resource accounting methods. However, as the Auditor General for Scotland says in his report, the deficit for March 2010 should have stood at £1.246 million, and instead the accounts showed a surplus of £0.117 million. That is almost entirely due to the different way in which severance packages were accounted for.

[29] **Leanne Wood:** Can you give us some understanding as to why they were accounted for in the way that they were?

[30] **Mr H. Thomas:** According to the then external auditors, this was the correct method of doing it. Apparently the external auditors had agreed this process for the previous five years. It is not something that came in during one year; this had built up as the practice. There was also—again, referring to the recommendations from the committee's last report—the fact that there was no current Treasury direction, which we needed to obtain, on how we should present our fees. So, a number of things had gone wrong with the accounts over a period, but as I said, the key bit had apparently been endorsed by the external auditors at the time.

[31] **Darren Millar:** These were some of the issues that were picked up by the previous Public Accounts Committee in its report, which made some clear recommendations on the way that the accounts ought to be prepared in the future, in accordance with the usual financial reporting standards and practices. Are there any other questions on this particular issue before I move on to David? I see that there are not.

[32] **David Rees:** If I can go back to the answer to the question before Leanne's, you

mentioned deferred expenditure as part of the savings. Deferred expenditure means that you are not paying this year, but you are paying next year. There is obviously a knock-on effect. Have you anticipated the knock-on effect of such deferred expenditure when looking at savings and the impact that it will have down the line?

[33] **Mr H. Thomas:** Yes, I have. This year was a wholly exceptional one. I knew that I had to put the brakes on; there is no other description for it. I had to put the brakes on expenditure within the Wales Audit Office. We knew that we had to adjust our accounts and, therefore, we had to find the necessary money to do that. The deferred expenditure is clear by definition, as you say—it flows into next year; in fact, it has flowed into this year. We have already started to pick up the training elements and some elements of IT, although some of those will actually be knocked again so that they are spread over this year and next year. It is not the case that we have done them and forgotten about them. We did them in a considered manner.

[34] **Darren Millar:** Mike, did you want to ask the specific question on local government carry-over that is in the briefing?

[35] **Mike Hedges:** Not particularly, but I can do so. It could be argued that the Wales Audit Office should no longer be able to build up surplus from its local government activity, which would be consistent with the accounting arrangements for Audit Scotland. What is Audit Scotland's view on this?

[36] **Darren Millar:** Should local government surplus be carried over or not? We are looking at governance arrangements and so on.

[37] **Mr Frith:** It is an interesting one because ever since Audit Scotland was created in 2000, we have been subject to a single budget and a single set of accounts covering all our activity and, in many ways, it is cleaner, more straightforward and, as the Auditor General for Wales said, you do not have quite as many apportionment issues, although you still have some in order to identify the full cost of a particular piece of activity, particularly when you are trying to recover fees. For example, we also have a statutory duty to break even, taking one year with another on our fee-generating activity, and, for that, we have to identify the full cost of the activity. It would be a cleaner approach; in some ways, it gives the audit office slightly less flexibility than it might have had in the past, but it would be cleaner and more transparent.

[38] **Mike Hedges:** I have a different question for the auditor general. You talked about IT; I know how expensive IT can be and how it needs to be changed fairly regularly. Do you treat IT purchases as capital or revenue?

[39] **Mr K. Thomas:** It depends on the size of expenditure. We have set out in the accounting policies the threshold at which we would identify certain items of IT expenditure as capital. For example, you will see in our accounts that software license expenditure is classified as intangible capital, and that is a change in approach this year. So, that is probably one of the most substantial areas of expenditure in our accounts on capital.

[40] **Darren Millar:** Gwyn, do you want to keep on with the theme of capital?

[41] **Gwyn R. Price:** Not really, Chair. I want to go back and ask about voluntary and compulsory severance, about which I asked the auditor general last time, you will remember. Your colleagues said that your sites are being looked at all the time and, hopefully, everyone will go down the voluntary road. However, the last time that I spoke to you, you were not quite clear whether you would have to touch on the compulsory option. Are matters clearer now?

[42] **Mr H. Thomas:** Yes, they are. The voluntary severance that we are talking about this year represents the first stage of a process of adjusting the skill mix and staffing that I have to what I see is needed for the future. We will be shortly looking at a supplementary estimates request, which, to me, provides the second year of that adjustment. I cannot see, at present, any need to go down the compulsory redundancy road. To relate it back to premises, which you mentioned, we are trying to achieve efficiency in premises rather than close premises and make any staff redundant as a result. Equally, in terms of Cardiff, through people working at home and at remote stations, we increasingly do not need as much space for everyone to be sitting there at any given time. So, we have identified that there is surplus space in our Cardiff office that we are seeking to sublet. Again, that would produce some efficiency in the way that we use our office accommodation.

[43] **Darren Millar:** May I pick up again on the capital expenditure side that Mike introduced when he was talking about the IT issues? One of the other issues that were identified by Audit Scotland was the fact that Wales Audit Office estimates had not included capital expenditure at all in the past when they were presented to the committee. Why was that? Is there a particular reason for why that was done in that way? Was it just custom and practice?

[44] **Mr H. Thomas:** It seems to have been custom and practice and it is another one of the things that were wrong in the previous accounts. They have been restated, and you will see them as we work our way through to the next paper, in which we correct the estimates for this year. That is not to say that they were not identified, because they were—asterisks showed that they were capital expenditure—it is just that they were not accounted for properly.

[45] **Darren Millar:** Ken, will you ask the question on governance and accountability?

[46] **Kenneth Skates:** Absolutely. Will you outline what steps you are taking to further improve accountability in governance?

[47] **Mr H. Thomas:** First, I see governance and accountability as integral parts of management and non-executive functions, so they are two strands and I will talk about them in turn.

9.45 a.m.

[48] Internally, I am seeking to achieve a much clearer line management structure with line managers being accountable for their work, so that it is very clear that they are accountable for staffing and the finance associated with that work. I think that that is essential for any well-run organisation.

[49] Externally, as you know, I revisited the audit and risk management committee structure. The work of that audit and risk management committee had grown, so that it had lost, in my view, its focus on audit and risk. We have refocused it on that. We have appointed two new committees. I would have liked to have done it earlier, but there were problems in finding a member of the Public Accounts Committee before the elections to participate in that process, so it took place after the elections. I now have committees with chairs that are ready to run and, in about a week's time, they will start their work. These committees will be essential. One will look at remuneration because the current constitution allows me a degree of freedom in terms of setting salaries, which is useful in one way, although I do not think that that is necessarily right. I think that you need to be reassured that it is being looked at by other sets of eyes. So, one committee will look at remuneration. The other committee will look at the whole area of resources. Combined with an audit and risk management committee,

that will strengthen the governance.

[50] The chairs of those three bodies will join me and the executive committee at regular intervals in order to form an overview of what is happening in the Wales Audit Office. I have in mind that the Government is proposing legislation in that area, and I hope that the arrangements that I have introduced will act almost as a shadow arrangement, leading through to whatever is introduced by the new audit Bill.

[51] **Darren Millar:** Another area of concern is the potential for value added tax liability in the future. We heard from Audit Scotland that it is doubtful that there would be such a liability, but there could be in the future, and I know that you have been keen to try to resolve the VAT implications for some aspects of your work with Her Majesty's Revenue and Customs for some time. Will you give an update on where you are in that process and when we are likely to see some light at the end of the tunnel?

[52] **Mr H. Thomas:** I would like to see a light at the end of the tunnel as well. Kevin, do you want to expand on this?

[53] **Mr K. Thomas:** As the committee will be aware, this has been a long-running issue that dates back to around 2003 when it was first looked at. The WAO inherited VAT treatment from its predecessor bodies, namely the National Audit Office and the Audit Commission in Wales. We have continued to apply those treatments with the full knowledge of HMRC since then. During that time, we have liaised with HMRC to answer key questions, such as the VAT status of the work that the WAO supplies and whether there are any exemptions. Those matters are being considered by HMRC's policy division, and the issue has been running for some time. We feel quite optimistic because there has been a change in arrangements, and we have developed a good working relationship with the new local public sector office, and we are jointly committed to resolving this issue.

[54] As you will see in our current accounts, and in previous accounts and estimates, we have been flagging up this matter for a number of years, in that there is a potential liability, but that we are not in a position to quantify that. So, we have not sought any funding for it because we do not know what, if any, the impact might be, but we think that it is right to flag up that matter for information in the estimate and the accounts.

[55] **Mr H. Thomas:** We hope that we are a degree nearer to reaching a solution, not least because Audit Scotland has settled its VAT position. So, with one down, we hope that HMRC will sort out the Wales position.

[56] **Mohammad Asghar:** You mention in your statement that you are going to reduce the fees, which, I hope, will not compromise the quality of your work. What further plans do you have to improve your costing system?

[57] **Mr H. Thomas:** I will talk about the fees. If you wish to go on to our website, you will find a presentation; if you are a particular body of a particular size, this is roughly where your fee rate will fall. The range is determined partly by size, but also by things like the risk factors that have to be applied. If we are fairly confident that we can rely on their own internal processes, self-assessments and so on, we can reduce our fees. However, if, on the other hand, there are difficulties, the fees rise up towards the upper end of a particular scale. So, these things are taken into account. I am very conscious of the fact that fees are a charge on the public bodies, but, on the other hand, my office is a charge on the consolidated fund, so there is an element of the money coming from public funds either way, to some extent. I am anxious to ensure that the fees are appropriate to the work that I carry out; that, in a sense, is my driver. We reduced them by an average of about 5 to 7 per cent last year. It looks, going forward, as if it will be around the 5 per cent mark for next year, but I am about to start the

consultation process on that, particularly with local government.

[58] **Mohammad Asghar:** I asked you what plans you have to improve the costing system.

[59] **Mr H. Thomas:** We continually work at it, basically. As I said, it is about complexity. On actual costs, we work out how many days we are likely to take, who we are going to involve and the cost of those individuals. That is what builds up the fee rate that we charge for an organisation. So, it is not a figure plucked out of the air; it is one based on the number of days that we are required to spend, and the level at which we are required to work with that organisation.

[60] **Aled Roberts:** A yw'n bosibl inni fynd yn ôl at dreth ar werth? Mae'n anodd credu ein bod wedi bod yn trafod hyn ers 2003. Yr oeddech yn dweud yn gynharach bod y gwahanol wledydd yn cael eu trin yn wahanol gan Gyllid a Thollau Ei Mawrhydi. Ai Cymru yw'r unig wlad sy'n cael ei thrin yn wahanol, gan fod yr Alban wedi setlo'i thrafodaeth gyda HMRC?

**Aled Roberts:** Can we go back to VAT? It is hard to believe that we have been discussing this since 2003. You said earlier that different countries are treated differently by Her Majesty's Revenue and Customs. Is Wales the only country that is being treated differently, given that Scotland settled its discussions with HMRC?

[61] **Mr H. Thomas:** Na, mae problem hefyd gyda'r Comisiwn Archwilio. Yr wyf yn siŵr mai un o'r rhesymau pam na chafwyd setliad yng Nghymru hyd yma yw y bydd hynny'n effeithio ar y Comisiwn Archwilio, a bydd y gost llawer iawn yn fwy i'r trethdalwr.

**Mr H. Thomas:** No, there is also a problem with the Audit Commission. I am sure that one of the reasons why we have not seen a settlement in Wales is that it would impact upon the Audit Commission, and the cost will be much greater for the taxpayer.

[62] **David Rees:** I am sorry to take you back and forth a little, but the question of fees was mentioned. You talked about reducing the fees, possibly as a result of the surplus on old Government fees. The auditor for Scotland identified transparency as being a problem. I know that you have said that an audit Bill could resolve that, but, in the meantime, how can you improve transparency, so that we can see clearly the apportionment of the fees compared with central funding?

[63] **Mr H. Thomas:** If you look at the accounts this year, you will find that they are infinitely more transparent than they have been in the past. They show where the surpluses are and where the funds are. This has been one of the things that I have wanted to do—to be able to say to the local government sector, or indeed the health sector, 'Here are our funds; this is how we take it into account'. In the case of both local government and health, I have, this year, authorised repayments—they are not in this particular set of accounts—to some local government bodies, where it is clear that we have been able to do the work at a much cheaper rate than was originally costed. In the case of two police authorities, it was agreed eventually that the work was not needed. In that sense, there have been repayments. So, it is not just a question of taking money and then keeping it, but of ensuring that I am looking at the funding pot for the sectors and ensuring that the fees that I raise are proportionate to that funding pot.

[64] **Darren Millar:** I want to ask a question on absence and attendance management. On page 41 of your report, you refer to the average number of working days that have been lost per member of staff as a result of absence. There was a sharp increase in that figure in the Wales Audit Office between 2009-10 and 2010-11, and your average number of days lost per member of staff is now significantly higher than the public sector average. Can you give us an

overview as to why that is the case, and what you are doing to resolve it for the future?

[65] **Mr H. Thomas:** I draw your attention to the distinction in the table between short-term absences and long-term absences. You will notice that the number of short-term absences has fallen. One frustration that I have experienced over the last six months has been the fact that Capita had been subcontracted by the Department for Work and Pensions, which is responsible for all the Government's pension arrangements, to handle cases of sickness and requests for early retirement. In the cases of three people, it was clear that they were unable to work: the unions felt that, we felt that, and the medics felt that. However, trying to get them through the Capita system has been a nightmare. We eventually succeeded, I am glad to say. However, behind that has been the fact that, because they are on our books, they have built up exceptionally long sickness absences. So, that is the key and the main factor in the differences between us and the rest.

[66] **Darren Millar:** What role did Capita perform? You are the employer, are you not?

[67] **Mr H. Thomas:** Yes, but because people are paid through the principal civil service pension scheme once they have retired, I cannot, of my own volition, make people retired on the grounds of ill health. You have to work through the process that is laid down by central Government, which involves the Department for Work and Pensions, which, in turn, is subcontracted to Capita. I have been grateful, because we had to make representations to the Permanent Secretary, as did the unions, and we eventually achieved an outcome. However, that outcome would have been much more sympathetic to the individuals concerned if it had been handled in a manner that was not like that of an insurance company that says, 'The answer is 'no'' and then waits for you to go back each time to argue the case.

[68] **Darren Millar:** What proportion of the blue segment on the graph relates to those three individuals to whom you have referred?

[69] **Mr H. Thomas:** It is a significant proportion—

[70] **Mr K. Thomas:** We do not have the exact figures, again, because—

[71] **Mr H. Thomas:** I would be happy to write to you with the details.

[72] **Darren Millar:** That would be helpful.

[73] **Gwyn R. Price:** On the same subject, I have past experience of that and have sympathy with you, auditor general, because one person who is absent in the long term can cloud the issue and make things look bad for the others. Are you putting procedures in place whereby you will be happier that things are rolling along to a sensible conclusion? As you said, those people are there, and they want to go out, but things are put in your way. So, are you putting those procedures in place?

[74] **Mr H. Thomas:** We have now reached satisfactory conclusions in the cases that have involved me. I hope that, by raising the matter in the way that we have, more sympathetic procedures will be in place nationally. I also hope that I will not have many members of staff who will be medically retired in future, but it will happen, and it is appropriate that we take advantage of the lessons that we have learned to make sure they are better handled in future.

10.00 a.m.

[75] **Gwyn R. Price:** I think that that is the way. Sometimes, you have to bring in specialists who say that procedures must be cut in half. You want to be sympathetic but, on the other hand, you cannot go on and on, paying these things out. I am looking forward to a

sympathetic approach.

[76] **Darren Millar:** Is it not the case, auditor general, that Capita would have to do some work on long-term absences in other parts of the Welsh public sector?

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

[78] **Darren Millar:** I find it a little disconcerting that you, as the watchdog for Wales and public sector organisations, are above the average.

[79] **Mr H.Thomas:** I do not think I have been alone in raising issues with Capita. Given that you are looking at a smaller unit, it may be that they have a more significant impact than if they were spread in a large organisation.

[80] **Darren Millar:** That is fair enough.

[81] **Aled Roberts:** A yw'r un problemau i'w gweld ar draws y sector cyhoeddus, oherwydd eu bod yn cael eu cofnodi yn y golofn goch? **Aled Roberts:** Are the same problems seen across the public sector, given that they are recorded in the red column?

[82] **Mr H. Thomas:** Ydynt, yr wyf yn siŵr. Ond, fel y dywedais, yr ydym wedi codi'r mater ac yr wyf yn sicr bod yr Adran Waith a Phensiynau wedi gwrandao ar yr hyn oedd gennym i'w ddweud. **Mr H. Thomas:** Yes, I am sure. However, as I said, we have raised the issue and I am certain that the Department for Work and Pensions has listened to what we had to say.

[83] **Darren Millar:** Are there any other questions to the auditor general on his accounts and annual report?

[84] **Mohammad Asghar:** On page 60 of your report, you refer to the audit and risk management committee. There are wonderful people who are members of the committee. You say that you are reducing the fees, but you are increasing the fees of most members—with two exceptions. I need to read the report in more depth to understand the role of the committee members and what help they are giving you.

[85] **Mr H. Thomas:** The fees set out there are those that I inherited when I arrived. I have not increased the fee for those bodies. However, the arrangement is that the individuals receive £5,000 and the chair receives £7,500. The fact that the chair received more, in the case of the two years in question, relates, to a significant extent, to Mr Colman's departure, when work over and above what might normally have been expected was required.

[86] **Darren Millar:** These are parts of the governance arrangements, of course, Oscar. Are there any more questions on the auditor general's accounts? I see that there are not. Thank you auditor general, Kevin and Terry for your time.  
10:03 a.m.

**Trafodaeth am yr Amcangyfrif o Incwm a Gwariant Swyddfa Archwilio  
Cymru ar gyfer y Flwyddyn a Ddaw i Ben 31 Mawrth 2012  
Consideration of the Estimate of Income and Expenditure of the WAO for  
the Year Ending 31 March 2012**

[87] **Darren Millar:** There is a supplementary paper, prepared by the auditor general which Members should have received. Auditor general, will you introduce the paper, please?

[88] **Mr H. Thomas:** I will introduce it briefly and leave it to Kevin to go into the detail. This is part of correcting the way in which the accounts have been dealt with in the past. You mentioned earlier, Chair, that there was an issue about capital, and you will see that part of the supplementary budget motion recommendation is to adjust the capital. The other bit relates to the fact that we have drawn down more money than we need for the year in question. We are seeking to retain a significant element of that, about £550,000, to help finance the second year of the voluntary severance scheme. I am seeking it for that specific purpose; I am not seeking it for a general purpose. If we did not achieve voluntary severances, there would be funds returned to you. However, I am looking at this as part of funding the voluntary severance arrangements. We would then be able to save, on a running basis, I hope, something in the order of £200,000 a year.

[89] **Darren Millar:** In terms of the severance scheme, how many employees are you expecting it to involve? You have mentioned potential savings. For clarity, are you saying that, if the money is not spent on the voluntary scheme you will return it via the usual arrangements?

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

[91] **Darren Millar:** Okay. So it will be ring-fenced specifically for that.

[92] **Mr H. Thomas:** I am seeking to retain it specifically for this purpose, and it will be in addition to some funds that we have of about £250,000 in the current year. That allows me a pot of about £800,000. That is about seven or eight staff, is it not?

[93] **Mr K. Thomas:** Yes, up to about seven or eight. It depends on the member of staff's length of service and their current salary.

[94] **Darren Millar:** The cynic inside me looks at the figures for the potential that could be returned and the fact that the request is for almost the same amount as the amount that could be returned to the Wales consolidated fund. However, you have obviously done some estimates based on those individuals who you feel may be the ones who will accept a voluntary severance package. How many individuals are we talking about?

[95] **Mr H. Thomas:** We are talking about seven or eight, as I said. We have a feel for that because we sought applications on a previous occasion, and we were able to fund certain of them for leaving then. We are looking ahead now. Last time, incorrectly, £714,000 was retained by the Wales Audit Office to fund the first year. That should have been surrendered and someone else should have been sitting here arguing the case to retain this degree of funding.

[96] **Darren Millar:** Okay, thank you. Ken, will you pick up on the second question?

[97] **Kenneth Skates:** Are you concerned about staff reductions and your ability, with those reductions and those under the previous scheme, to carry out your statutory functions?

[98] **Mr H. Thomas:** We carried out a workforce planning exercise, so I have an idea of the range of staff I need. Strangely enough, talking about voluntary severance, I need to move to a slight increase in staff, particularly on performance audit. However, I need to adjust the grade mix and the skills mix behind it, so this allows that kind of manoeuvre to take place. I am not talking about massive shifts; I am talking about an adjustment within the organisation.

[99] **Kenneth Skates:** So it is more about achieving the flexibility required.

[100] **Mr H. Thomas:** Yes, it is about achieving the right mix so that I have the right level of staff engaged in work. I need to recover my costs. You need to ensure that I am running the organisation as efficiently as possible. That means that I need to ensure that the staff engaged on audit work are at the appropriate grade and no more. That leads on to the fees being held at a reasonable level. So, there is an inter-relationship between all of these.

[101] **Mohammad Asghar:** Auditor general, are the full costs of the scheme to be funded during 2011-12 or will there be financial costs in other years?

[102] **Mr K. Thomas:** We would look to fund the full cost of the scheme in 2011-12, in the way that we have done with our accounts this year. If there were ongoing costs, we would make provision. The expectation is that there would be one-off payments incurred in 2011-12.

[103] **Darren Millar:** Thank you for that. David, do you want to come in on this?

[104] **David Rees:** Yes. I take it that it is not expected that this scheme will go beyond 2011-12.

[105] **Mr H. Thomas:** No, in order to generate savings it needs to take place during 2011-12. The savings will come in in following years. As you saw from the accounts, the previous scheme has already covered its costs.

[106] **Darren Millar:** You say that you want to get the skills mix right within the Wales Audit Office, but, of course, this is a voluntary scheme that, in a sense, anyone in the organisation can apply for. How can you be sure that the right people are going to come forward?

[107] **Mr H. Thomas:** I cannot be 100 per cent sure, but, equally, this is not a scheme in which someone who comes forward will automatically get a severance package.

[108] **Darren Millar:** So you will consider the individuals who come forward and the skills they have within your organisation.

[109] **Mr H. Thomas:** Absolutely. As you will recall, I have commented on other organisations that have opened up a very wide scheme, leaving the organisation having to recruit people to fill gaps left by those whom they have just paid off. I do not think that that is a sensible use of public money.

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

[111] **Aled Roberts:** Ynghylch y £0.25 miliwn o arbedion, a ydych wedi diffinio pa fath o arbedion sydd i'w gwneud yn y flwyddyn hon neu yn y flwyddyn sydd i ddod?  
**Aled Roberts:** In relation to the £0.25 million of savings, have you defined what savings are to be made in this year or in the coming year?

[112] **Mr H. Thomas:** Pa arbedion yn union?  
**Mr H. Thomas:** Which savings exactly?

[113] **Aled Roberts:** Dywedwch eich bod eisiau diffinio tua £0.25 miliwn o'r £800,000 o fewn eich cyllideb bresennol.  
**Aled Roberts:** You say that you want to define about £0.25 million from the £800,000 within your current budget.

[114] **Mr H. Thomas:** Yr ydym eisoes wedi clustnodi £0.25 miliwn o fewn ein  
**Mr H. Thomas:** We have already earmarked £0.25 million from within our budget this

cyllideb eleni, ac felly yr ydym yn chwilio am swm ychwanegol i ddod â'r ffigur hwnnw i fyny at £800,000. Mae'r £0.25 miliwn wedi'i gael yn rhannol trwy arbedion, ond hefyd oherwydd ein bod yn bwriadu rhedeg y cynllun hwn.

[115] **Aled Roberts:** Oes modd i gael mwy o arbedion na'r £0.25 miliwn yn y gyllideb bresennol er mwyn osgoi cael hyd i'r £0.5 miliwn ychwanegol?

[116] **Mr H. Thomas:** Bydd yn rhaid i mi edrych ar un flwyddyn gyda'r llall cyn gwthio i gael mwy o arbedion eleni. Fel y soniais yn gynharach, yr ydym eisoes wedi symud rhan o'r gost o hyfforddi staff o un flwyddyn i'r llall, ond nid wyf yn barod i wneud hynny am ail flwyddyn. Mae'r un peth yn wir o ran technoleg gwybodaeth. Felly, rhaid inni ddod ag ef i mewn eleni. Credaf fod y ffigur o £0.25 miliwn yr wyf yn edrych arno yn un rhesymol. Fodd bynnag, fel y dywedais, os nad yw'r staff yn cymryd rhan yn y cynllun hwn, gan olygu na fydd angen y £550,000, yr wyf yn barod i'w roi yn ôl i'r gronfa gyfunol.

[117] **Darren Millar:** You indicated earlier on that you hope to reduce the fee levels for local government in the current financial year, as you have done in the previous financial year. Is that wise given that you could effectively be using the fee opportunity to help fund the cost of this severance package? Why do you need to come to us for it, rather than freezing your fees?

[118] **Mr H. Thomas:** Part of that takes account of the sums that we have within local government and takes us back to the apportionment argument that we had earlier. So, it is not that it is all coming from one pot and not another—it is spread out. With regard to continuing to reduce the fees, I feel that there will not be a straight-line reduction year on year; we are reaching a plateau. Some of the risk factors that will arise, particularly as we move to issues of collaboration in local government and as the health service, in particular, struggles to achieve a significant reduction in expenditure this year, and taken with the Government's general plans, suggest that I cannot continue to attenuate my resources. I spoke earlier about the need to strengthen some aspects of the performance of our work to deliver that. So, there are reductions this year, but I do not foresee them for future years. That will, of course, be the subject matter when you get my estimates in just over two weeks' time.

[119] **Darren Millar:** I am looking forward to receiving them.

[120] **Mike Hedges:** I want to question you about two points regarding the criteria for severance. First, you talk about people leaving and maybe I missed it, but I could not see the split that you expect to see between early retirement and voluntary redundancy. If people leave early, will there be an actuarial reduction in what they get, or will there be ongoing costs and will you have to pay money into their pension schemes as if they were continuing to a certain date? Does that have something to do with the fact that, in some cases, you think that you can get the money back—some over one year, some over two years and some over three

year, and so we are looking for an additional sum to bring that figure up to £800,000. The £0.25 million has partly been gained through savings, but also because we are planning to run this scheme.

**Aled Roberts:** Is there a means of achieving further savings than the £0.25 million in the current budget to avoid having to find that additional £0.5 million?

**Mr H. Thomas:** I will have to compare one year with the other before pushing for further savings this year. As I mentioned earlier, we have already moved part of the cost of training new staff from one year to the next, but I am not prepared to do that for a second year. The same applies to information technology. So, we need to bring it in this year. I believe that the figure of £0.25 million that I am looking at is reasonable. However, as I said, if the staff do not take up this scheme, which means that the £550,000 is not needed, then I am prepared to give it back to the consolidated fund.

years?

[121] **Mr K. Thomas:** With regard to the estimates included within this paper, we are looking at a voluntary severance scheme that would involve a one-off payment to the individual. With regard to any actuarial reduction to their pension, that is something that they would need to decide upon and liaise with the Department for Work and Pensions about. They might choose to take their pension now or to take it at the age of 60. If they are below the age of 60, they will take some form of actuarial reduction, but it would not have an impact on the Wales Audit Office itself. That is a personal matter for that individual.

10.15 a.m.

[122] **Mike Hedges:** The point is that you are not making it up. Under past pension schemes, which were very good, people left at 55, but the money would continue to be paid in as if they had worked until the age of 60—if they were entitled to 35 80ths at that age, they would still get it and it would not be reduced. Is that not the case with this scheme?

[123] **Mr H. Thomas:** The public sector is now much more tightly controlled by central Government. The first stage in our operating a voluntary severance scheme is that it has to go to the Cabinet Office for its agreement. Therefore, the rules are laid down, in a sense, from central Government. So, voluntary severance schemes are now much more tightly controlled to avoid, no doubt, some of the issues that you referred to.

[124] **Mike Hedges:** What about timescales? They can be one year, two years, three years, and so on.

[125] **Mr K. Thomas:** The maximum pay-back period is two years according to the current Department for Work and Pensions rules. There is a maximum of 21 plus three months of salary that can be paid under the scheme.

[126] **Darren Millar:** I think that the question was relating to the time period over which you expect to recover the costs from savings in future years. So, for example, you are saying that you are expecting to recover the cost of the new scheme over three or four years with your £200,000 per year. However, you have suggested that the cost of the scheme in 2010-11 is being recovered by the end of 2011-12, which is obviously a much shorter timescale. Why is there a difference?

[127] **Mr K. Thomas:** The difference is primarily due to the fact that, when we did our first round of workforce planning, we identified that there were some staff who would not need to be replaced if they left under the voluntary severance scheme. So, the pay-back period for that payment was relatively short. As the auditor general mentioned, in this latest phase of workforce planning, there is a need to reskill and possibly to increase the number of staff, but at more junior grades, and, as a result, it extends the pay-back period.

[128] **Darren Millar:** David, do you want to pick up on the next question?

[129] **David Rees:** Yes. Following on from that, it is estimated that by the end of 2011-12 there will be £797,000 recovered to put in your supplementary budget. Was a consideration of those savings included in a previous budget?

[130] **Mr H. Thomas:** Estimates and budgets were presented wrongly in the past. Nevertheless, the idea of the cost of a voluntary severance scheme was included. We are now separating it out and ensuring that it is properly handled through the public finance arrangements. I am assuming and building in to my forward estimates the savings that I am looking at. So, the £200,000 that we are referring to is being built in.

[131] **David Rees:** Are there any other efficiencies that you are looking for beyond the voluntary severance scheme?

[132] **Mr H. Thomas:** Yes. We have talked about some of the others, such as making better use of the accommodation as well as the whole range of the various savings that we managed this year. However, as I said earlier, you must recognise that this year has been an exception. I do not expect to be able to deliver savings at the level that we did—in a sense, they were almost £2 million—next year; that is a tall order to deliver.

[133] **David Rees:** Will the deferred expenses have a serious impact on some of those savings down the line?

[134] **Mr H. Thomas:** We have taken quite a marked reduction this year. Next year, yes, some of those savings are coming back into our budgets, and therefore will affect the level of the estimates. I can tell you, as a bit of a curtain raiser, that I will be seeking slightly less from the consolidated fund next year than I did this year.

[135] **Darren Millar:** We will certainly look forward to exploring that one with you, auditor general. Have Members got any more questions on this issue? I see that you have not. I will ask one final question, if I may. The supplementary budget motion has to be tabled by a Welsh Minister rather than any member of this committee or anyone else. What discussions have you had with the Welsh Government about your supplementary estimate?

[136] **Mr H. Thomas:** We have had discussions, and they are content to receive it if the Public Accounts Committee recommends it.

[137] **Darren Millar:** Do you have another question, Mike?

[138] **Mike Hedges:** It is on IT infrastructure, which is very expensive, as it is for all organisations. Do you have an IT strategy in place? I assume that the answer will be 'yes', so the next question is whether a copy is available.

[139] **Mr K. Thomas:** Yes, we have a three-year IT strategy.

[140] **Mr H. Thomas:** I am happy to supply a copy.

[141] **Darren Millar:** I am sure that you will bring it along to our next meeting. Thank you, auditor general.

10.20 a.m.

### **Cynnig Gweithdrefnol Procedural Motion**

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

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).*

[143] I see that there are no objections.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.21 a.m.*  
*The public part of the meeting ended at 10.21 a.m.*