

Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Public Accounts Committee Chair
National Assembly for Wales
Cardiff Bay
CF99 1NA

28 March 2018

Dear Mr Ramsay,

Public Accounts Committee: Scrutiny of Accounts 2016-17 Report

I attach my responses to the PAC report covering the Scrutiny of Accounts 2016-17, for the recommendations addressed to the Welsh Government for your attention.

Yours,


Shan Morgan
Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government



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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

Recommendation 1. We recommend that Welsh Government consider how to include information about its performance and adopt this practice for the preparation of next year's annual report and accounts before issuing further guidance to WGSB.

Through the annual accounts the Welsh Government reports on its stewardship of the Welsh Budget which has been approved by the National Assembly for Wales, and its performance in relation to the administration of the organisation.

Welsh Ministers, in accordance with their objectives and priorities, make decisions on spending priorities which they report on separately. Prior to 2016-17, the accounts cross-referenced performance reporting by linking to the annual report produced on the Programme for Government. In future, the performance reporting element will be cross-referenced to the new Well-being of Future Generations Report which will be produced in the summer of 2018.

Recommendation 2. The Committee recommends that the Welsh Government make clear the requirements with which it aims to comply when preparing its annual report and accounts and be clear about the Welsh requirements for Annual Reports, and ensure that all bodies comply with this guidance, including themselves. This will help to provide sufficient and appropriate information is disclosed enabling effective scrutiny.

In preparing the annual accounts the Welsh Government complies with the requirements in the Financial Reporting Manual (FReM). The only exceptions are items that are not material to the Welsh Government accounts, which are excluded in line with simplifying and streamlining the presentation of the accounts.

As a devolved Government, the Welsh Government is the relevant authority for defining what additional information should be contained within the annual report and accounts and those of its arms-length bodies. Therefore, we also consider relevant legislation in Wales; such as the Wellbeing of Future Generations Act, and the views of the users of the accounts.

The Welsh Government considers the main audience for the annual accounts to primarily be:

- Welsh citizens
- Assembly Members – including members of the Cabinet, Finance Committee and Public Accounts Committee
- Welsh Government Board and Audit and Risk Committee

By simplifying and streamlining the accounts over the last two years, the Welsh Government has sought to provide information which is accessible and relevant to this audience. We are happy to act on any feedback received about ways to improve the presentation of this information.

The Welsh Government communicates its annual accounts requirements to its sponsored bodies through Accounts Directions. Compliance with these requirements is assessed as part of the external audit of those organisations' accounts each year.

Recommendation 4. We recommend that the Welsh Government give consideration to the different approaches to reserves policies for its sponsored bodies particularly given the greater flexibility afforded to it by the new Wales Reserve from 2018-19.

The creation of a single Wales Reserve is both an enhancement and simplification of the previous Budget Exchange arrangements and is in place to enable the Welsh Government to carry forward unallocated resources and to manage any volatility in revenues from devolved taxes.

Budgets for external bodies are agreed with and allocated by the relevant Welsh Government sponsor division from within the division's budget. Sponsored bodies are able to agree to carry forward resource budgets from one year to the next provided the sponsor division can accommodate the additional expenditure within their overall budget. The current reserve limits refer to limited sums of cash that sponsored bodies retain at year end.

Recommendation 10. The Committee recommends that the Welsh Government provides the committee with an update on its internal Audit work before the Committee's scrutiny of the Welsh Government's 2017-18 accounts enabling us to give due consideration to progress prior to our detailed consideration of the accounts in September 2018.

Following a 2015-16 recommendation, it was agreed the Welsh Government's Internal Audit Service would schedule a review of the oversight arrangements for Welsh Government - funded schemes, administered by external organisations, as part of its work programme for the financial year 2017/18. This was to assess whether there are sufficient and proportionate safeguards in place to prevent fraud.

The terms of reference for the 2017/18 audit have been agreed and fieldwork started with the first phase of audit work covering the procedures relating to the oversight arrangements on a Welsh Government-wide basis. Two further phases will follow, to include a review of a sample of grants awarded, to study arrangements in greater depth and a review of where procurement has been used to identify a provider to deliver grants on our behalf.

At the planning stage for the phase one audit, it was necessary to identify what types of organisation were within the scope as bodies administering these types of grant schemes include Welsh Government Sponsored Bodies, the NHS, local authorities, the police, schools, third sector and private organisations. Our audit work, focusses on organisations where there is less assurance about arrangements.

We will provide a further update about this work when the annual accounts are published later this summer.

During 2017/18, other audit work undertaken by the Internal Audit Service and the Welsh Government's European Funds Audit Team. Reviews by the WAO have also contributed to the range of assurances available with respect to the management of grant schemes, both by the Welsh Government itself and by external organisations on its behalf.

Recommendation 11. The Committee recommends that the Welsh Government clearly demonstrates how its performance management systems are robust and produce tangible outputs.

The Welsh Government takes the management of its employees' performance very seriously. We closely follow the development and implementation of new approaches to performance management in other parts of the Civil Service and the wider public and private sectors. Based on evidence of what has worked well elsewhere, we will continue to align with good practice and adopt a new approach to performance management from 1 July 2018. This will link personal objectives closely to the delivery of Prosperity for All: the National Strategy and the themes of the Wellbeing of Future Generations Act, concentrating on an employee's strengths and involving regular coaching conversations between line managers and individuals.

A two-stage process for dealing with any performance issues, should they arise, will remain. This first stage uses specific and measurable performance improvement plans to address any identified issues in performance. These are reviewed on a monthly basis for up to six months with regular updates provided to senior managers. Where there has been limited or no improvement, formal underperformance procedures may be put in place at the second stage. These procedures operate in accordance with ACAS guidance.

Recommendation 12. The Committee recommends that information relating to the number of all Welsh Government staff earning over £100,000 within a year should be included in the Welsh Government's consolidated accounts as well as included in the separately published pay policy. We recommend this information is published at the same time as the audited accounts.

The table of Welsh Government staff earning over £100,000 will be included in the 2017-18 Annual Accounts and the pay policy statement, which will be published at the same time as the accounts.

Recommendation 13. The Committee recommends that disclosures in the financial statements on the Welsh Government's budget and outturn are clear and transparent

The Welsh Government already endeavours to provide clear and transparent reporting on outturn in the Statement of Reported Outturn which is a key component of the annual accounts. However, the current reporting can be complicated due to the requirement to manage within both Ambit and DEL budgets. Nevertheless, this issue will be pursued through the alignment of Accounts and budget work which is currently in progress.