

**National Assembly for Wales**  
Public Accounts Committee

# Grants Management in Wales – Final Report

June 2013



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

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## Public Accounts Committee

The Public Accounts Committee was established on 22 June 2011.

### Powers

The Committee's powers are set out in the National Assembly for Wales' Standing Orders, with its specific functions of the Committee are set out in Standing Order 18 (available at [www.assemblywales.org](http://www.assemblywales.org)). In particular, the Committee may consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

The Committee also has specific statutory powers under the Government of Wales Act 2006 relating to the appointment of the Auditor General, his or her budget and the auditors of that office.

### Current Committee membership



**Darren Millar (Chair)**  
Welsh Conservatives  
Clwyd West



**Mohammad Asghar (Oscar)**  
Welsh Conservatives  
South Wales East



**Jocelyn Davies**  
Plaid Cymru  
South Wales East



**Mike Hedges**  
Welsh Labour  
Swansea East



**Sandy Mewies**  
Welsh Labour  
Delyn



**Julie Morgan**  
Welsh Labour  
Cardiff North



**Jenny Rathbone**  
Welsh Labour  
Cardiff Central



**Aled Roberts**  
Welsh Liberal Democrats  
North Wales

The following Members were also members of the Committee during this inquiry:



**Gwyn R Price**  
Welsh Labour  
Islwyn



**Lindsay Whittle**  
Plaid Cymru  
South Wales East



**Leanne Wood**  
Plaid Cymru  
South Wales Central

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## Chair's foreword

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In a time of economic hardship, it is vital that Wales gets the best from every pound of public money spent. In this context, the Auditor General's November 2011 report *Grants Management in Wales* provided a very timely insight into Wales' use of grants as a funding stream.

Wales uses grants more extensively than the rest of the UK. However, the Auditor General's report identified that many grants schemes are too complex, and that both funders and recipients rarely learn lessons from problems which have arisen with past schemes. The Auditor General concluded that the Welsh Government's Grants Management Project has the potential to cut costs and make the grants process more efficient, but he also found that while some local authorities have improved their grants management processes, others are failing to follow suit.

Following the publication of the Auditor General's 2011 report, concerns arose in relation to the management of grants provided by the Welsh Government to the All Wales Ethnic Minority Association (AWEMA).

In August 2012, we published an interim report of our consideration of the concerns raised by the Auditor General's 2011 report. We are pleased that the Welsh Government responded positively to the 15 recommendations we made in that report, which we considered would improve grants management in Wales. We believed it was timely for the Welsh Government to begin considering those recommendations in 2012, rather than to await our final report on Grants Management.

In this, our final report on Grants Management, we have reflected on issues arising from the Welsh Government response to our interim report and further evidence provided to us by the Wales Council for Voluntary Action. We have also considered evidence arising from the Wales Audit Office's October 2012 report on *The Welsh Government's Relationship with the All Wales Minority Ethnic Association*. Many of the issues raised in that Wales Audit Office report reflected weaknesses in grants management of the sort identified in our interim report, and in the Auditor General's November 2011 report before it.

We have made a further fourteen recommendations in this report which we believe will improve the Welsh Government's grants management processes.

However, one of the biggest things that the Welsh Government can do is to itself prioritise the importance of getting on top of its grant management processes. People outside the Welsh Government may think of it as a single entity: 'the Welsh Government.' But in managing its grants, the Welsh Government currently appears to operate as a collection of different departments, which don't necessarily know what each other is doing, or what they have done in the past. This means an organisation can potentially receive a wide range of grants from different departments, without those different departments necessarily being aware of such. It is vital that the Welsh Government undergoes a cultural change, so that its staff work for 'the Welsh Government' first, and their individual departments second. We believe that the introduction of a customer management system will assist in this process, but that it will also require transformational leadership from all managers within the Welsh Government.

We are delighted that in his first appearance before the Public Accounts Committee, the Welsh Government's Permanent Secretary gave every impression that he is committed to seeing through such change. It is for the Welsh Government to now deliver on such promise, and to fundamentally re-model the landscape of grants management in Wales.



## The Committee's Recommendations

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The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

**Recommendation 1.** We recommend that the Welsh Government publicly sets out in an annual grants report:

- how individual grants were reviewed in its Grants Management Review;
- which alternative funding options were considered;
- what rationale was used to determine the most effective funding options in each case;
- how it will continue to monitor the progress of each Department in implementing the recommendations of its review; and
- how it evaluates the effectiveness of external organisations (whether they are an umbrella body representing a sector, or distributing funds as the lead sponsor of a project) in managing the distribution of funds to other organisations (Page 17)

**Recommendation 2.** We recommend that the Welsh Government engages in dialogue with the Wales Audit Office, WCVA and WLGA in its development of clear guidance for local authorities, to ensure that they consider a wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes. (Page 19)

**Recommendation 3.** We recommend that the Welsh Government proactively investigates whether there have been breaches in the Code of Practice for funding the third Sector, and details such instances in its annual grants management report. We expect that the Welsh Government would publish its first such annual report by December 2013 at the latest. (Page 24)

**Recommendation 4.** We recommend that the Welsh Government ensures that any problems associated with its payment-in-advance-template are reported in its annual grant report and also to the Funding and Compliance Committee. (Page 26)

**Recommendation 5.** We recommend that the Welsh Government takes action to enhance and publicise the role of the Grants Centre of Excellence as a single point of contact for advice on applications for funding. We expect this to include development of its public website. (Page 31)

**Recommendation 6.** We recommend that the Welsh Government sets out timescales for the introduction of a central grant management IT system, and the implementation of a Customer Relationship Management system. (Page 35)

**Recommendation 7.** We recommend that the Welsh Government details in its annual grants management report an update on its progress in:

- implementing the recommendations of this report, our interim report and the Wales Audit Office's Grants Management 2011 report.
- changing its cultural approach to managing grants, to ensure that the Welsh Government acts as a single organisation in its relationships with external recipients of public funding. (Page 38)

**Recommendation 8.** We recommend that the Welsh Government makes progress toward concluding its dialogue with the Big Lottery Fund, Charity Commission, WCVA and other appropriate bodies to develop, produce and implement terms of engagement for contact between different providers of publicly funded grants. (Page 39)

**Recommendation 9.** We recommend that in conjunction with its development of a customer relationship management system the Welsh Government develops a clear, proportionate framework with which to determine the risks involved in providing public funding to individual external bodies. (Page 41)

**Recommendation 10.** We recommend that the Welsh Government develops a mechanism for escalating its monitoring arrangements, in response to specific concerns arising around financial irregularities or governance issues, including when an organisation is given 'the benefit of the doubt.' (Page 51)

**Recommendation 11.** We recommend that, as a condition of a grant award, the Welsh Government requires all recipients of grant funding

to notify the Welsh Government of any significant changes in their trustees (for example the resignation of a Chair or a third or more of trustees), a significant lapse of constitutionally required meetings, or a resignation of external auditors, with a proportionate explanation for such changes. (Page 54)

**Recommendation 12.** We recommend that the Welsh Government proportionately considers the implications of potential warning signs in grants management- such as significant changes in an organisations' trustees, a lapse in constitutionally required meetings or a resignation of external auditors- gathering further information as required (for example, using exit interviews). (Page 55)

**Recommendation 13.** We recommend that, as a condition of a grant award, the Welsh Government requires all recipients of grant funding to notify the Welsh Government of any instances where there is a breach of that organisation's governing document regarding meetings of trustees, with a proportionate explanation for such. (Page 55)

**Recommendation 14.** We recommend that the Welsh Government includes in its requirements of external funding (including grant funding), detail on the proportionate accountability and responsibility of trustees. We expect this to include detail on:

- the particular circumstances in which a concern about an organisation's governance should be brought to the Welsh Government's attention;
- the appropriate mechanism for expressing concern about an organisation's governance to the Welsh Government. (Page 59)

**Recommendation 15.** We recommend that the Welsh Government recognise that- while using umbrella body can offer benefits- any aspect of poor-management in one of them will lead to increased risks and potentially serious repercussions for other organisations that rely on support (financial or otherwise) from these organisations. When using an umbrella body the Welsh Government should clearly and publicly state the rationale for using it. (Page 65)

**Recommendation 16.** We recommend that the Welsh Government evaluate the effectiveness of the training it has introduced for Grant Managers. (Page 68)

**Recommendation 17.** We recommend that as a system of good practice, the Welsh Government should give serious consideration to disclosing the narrative of a report to external parties, so that it can be checked for factual accuracies, should it be required to undertake a similar review. (Page 77)

**Recommendation 18.** We recommend that the Welsh Government clearly and explicitly articulates its rationale for termination of- or a substantial cut in- funding to any organisation which has a grant, prior to that organisation's funding being terminated (or substantially cut). We anticipate that this rationale would normally only be provided to the organisation concerned. (Page 80)

## Background

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### Who are we?

1. The Public Accounts Committee is a cross party committee of the National Assembly for Wales, made up of 8 Members from all 4 political parties represented at the Assembly.
2. The Public Accounts Committee is not part of the Welsh Government. Rather, the role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to the Welsh Government's expenditure.
3. In particular, we can consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.
4. We are advised by, and receive briefings from, the Auditor General and the Wales Audit Office. However, we are also independent from that office, and are supported by our own small team of officials.

### Why did we do this inquiry?

5. The Auditor General published his report *Grants Management in Wales 2011* on 29 November 2011. In his report, the Auditor General commented that grants' administration costs are relatively high and that many grants are poorly managed, with funders and recipients failing to learn from past mistakes. However, he also found clear evidence of a desire by some funders to improve.
6. We considered that it would be highly appropriate for us to conduct an inquiry into the issues raised by his report.

### ***Our interim report on Grants Management***

7. We published an interim report on Grants Management in Wales in August 2012, detailing our consideration of these issues. This was an 'interim' rather than 'final' report, because we anticipated that we would take further evidence on the issue of Grants Management after the publication of our report, in light of the ongoing Wales Audit Office review of the Welsh Government's relationship with the All Wales Ethnic Minority Association.

8. Following the publication of our report, the Welsh Government welcomed its findings, and published a response to our recommendations.<sup>1</sup>

9. This report considers the Welsh Government's response to our original recommendations. It is also informed by evidence from the Big Lottery Fund, and the Northern Ireland Local Government Association, the Wales Audit Office and the WCVA on general issues associated with grants management.

***The Welsh Government's relationship with the All Wales Ethnic Minority Association (AWEMA)***

10. During the course of our grants management investigation, specific concerns arose in relation to the management of grants provided by the Welsh Government to AWEMA. In particular, a joint investigation between the Internal Audit Services of the Welsh Government and Big Lottery Fund stated that it could not:

“...provide any assurance that there are appropriate arrangements in place to safeguard and make proper use of the Welsh Government, WEFO and the Big Lottery Funds entrusted to AWEMA.”<sup>2</sup>

11. The Wales Audit Office subsequently published a report on *The Welsh Government's relationship with the All Wales Ethnic Minority Association* on 18 October 2012. This report concluded that the Welsh Government's management and coordination of its grant funding to AWEMA between July 2000 and December 2011 – which comprised payments worth, in total, £7.15 million – had often been weak. However, the report found no evidence of inappropriate political influence in funding decisions. The report also concluded that the Welsh Government responded robustly to the concerns that emerged about AWEMA in December 2011, but that dealing with the consequences had been time-consuming and that the outcome for the public purse was not yet clear.

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<sup>1</sup> Welsh Government, Welsh Government Response to the Public Accounts Committee Report: Grants Management – Interim Report

<sup>2</sup> A joint internal report by Internal Audit Services of the Welsh Government and the Big Lottery Fund: A Review of the Effectiveness of Governance and Financial Management within the All Wales Ethnic Minority Association (AWEMA), Para 17.

12. We considered it important to consider the Wales Audit Office's report as part of our wider inquiry into Grants Management in Wales. Consequently, we resolved to take further evidence from the Welsh Government and the former Chair of AWEMA (Dr Rita Austin) on issues arising from the Wales Audit Office's report which were also relevant to our wider consideration of grants management. We are very grateful to all our witnesses for giving evidence to us.

13. In making a decision to consider this report in the context of our Grants Management inquiry, we were aware of two issues.

14. First it is important to recognise that we have focussed on what the example of the Welsh Government's relationship with AWEMA highlights about broader weaknesses in the Welsh Government's grant management processes.

15. Consequently, we have not conducted an investigation into AWEMA's work and history. We did not consider it appropriate for the Public Accounts Committee to investigate AWEMA itself, and we were also aware that- at the time of this report's publication- the police and Charity Commission investigations in response to the concerns that emerged in late 2011 were ongoing. We recognise that AWEMA delivered many notable achievements, and also accept Dr Rita Austin's comments to us that "in reality... the negative bits of AWEMA went hand in hand with the positive bits of AWEMA."<sup>3</sup> Indeed, the Welsh Government's Permanent Secretary concurred that:

"In AWEMA's case, most of the deliverables that were to be achieved through its funding method, for example, from the European structural funds, were successfully delivered... although a large sum of money—£7 million and more—was funded over a number of years, the majority of the outputs from that funding were delivered and were sound."<sup>4</sup>

16. However, we consider it to be appropriate, in the wider public interest, for us to focus on what lessons can be learnt from the Welsh Government's management of its relationship with AWEMA.

17. Secondly, we recognise that some may suggest it is unfair or unwise to overtly focus on the Welsh Government's relationship with

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<sup>3</sup> National Assembly for Wales Record of Proceedings (RoP), Public Accounts Committee, 3 December 2012, Para 465

<sup>4</sup> RoP, Public Accounts Committee, 3 December 2012, Paras 54 and 161

AWEMA, if the grants it has provided to other bodies have been managed effectively. As one Welsh Government official observed:

“I know that a lot of public money has been put at risk and that mistakes were made, but we are just about to receive the annual audit report on European projects, and that will, for a second year running, show that there is an error rate of less than 1%. That reflects a lot of hard work by organisations across Wales in trying to make sure that they meet the compliance requirements of the European Commission.”<sup>5</sup>

18. However, we believe that many of the issues picked up in the Wales Audit Office’s report on ‘The Welsh Government’s relationship with AWEMA’ are illustrative of more fundamental, underlying weaknesses in the Welsh Government’s approach to grants management.

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<sup>5</sup> RoP, Public Accounts Committee, 3 December 2012, Para 162



# 1. The scale, complexity and costs of grant funding in Wales

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## The scale of grant funding in Wales

19. The Auditor General's report on *Grants Management in Wales 2011* states that the Welsh Government and other statutory funders in Wales use specific grant funding more heavily than other parts of the UK. The report notes that grants are a powerful lever for achieving their policy objectives but that the relatively high number of schemes leads to high administration costs.<sup>6</sup>

20. The Auditor General's 2011 report found that the Welsh Government operated around 480 separate existing grant schemes in 2009-2010.<sup>7</sup> We understand that these are predominantly grant schemes to the public and private sectors. The exact number of grants (as opposed to grant schemes) currently in existence in Wales is not clear.<sup>8</sup>

21. The Welsh Government advised us that grants were seen as having a number of advantages over other mechanisms of funding external bodies in exchange for services or delivering outcomes. For example, grants were seen as a particularly effective instrument for enabling exploratory approaches, and ensuring greater certainty of outcomes. Officials commented that:

“Welsh Ministers... see grants as an important policy tool that allows them to say what they want achieved and know pretty directly whether the grant has achieved those things.”<sup>9</sup>

22. In our interim report, we commented that in our opinion, the number of grants in Wales fundamentally needs to be reduced. However, we also recognised the value of grants, and considered them to be a valuable mechanism for delivering Ministerial objectives.

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<sup>6</sup> Wales Audit Office, *Grants Management in Wales 2011*, Summary, Para 1 and 2

<sup>7</sup> Wales Audit Office, *Grants Management in Wales 2011*, Paras 1.5 to 1.9 and exhibits 1 and 2. Notably, following the publication of our interim report, the WCVA commented to us that “these are predominantly grants to the public and the private sectors and only a small proportion fund third sector activity. However, much of the activity and attention post-AWEMA seems to have concentrated disproportionately on grants to the third sector.

<sup>8</sup> PricewaterhouseCoopers LLP, ‘Review of the cost of administering the education system in Wales – Phase 1.’ Commissioned by the Welsh Government, April 2010, Page 36.

<sup>9</sup> RoP, Public Accounts Committee, 31 January 2012, Para 66-67

23. Rather than suggest the Welsh Government should or should not use grants, we considered that the Welsh Government should review its grant schemes, and determine whether they were- individually- the most appropriate and proportionate method of procurement for delivering Ministerial objectives. We commented that procurement methods these were not limited to ‘grants’ or ‘commissioning.’ Instead we suggested that a wide spectrum of funding options were available, including:

- grants which organisations are assumed to be ‘entitled’ to (without need for bids);
- competitive grants (i.e. with need for bids);
- conditional grants;
- grants with limited conditions;
- collaborative commissioning;
- competitive tendering;
- loans; and
- other investment forms

24. Consequently, in our interim report we recommended that:

- the Welsh Government ensures that all grants have been reviewed as part of the Grants Management Programme, to ensure that they are the most effective means of delivering Ministerial objectives by 31 December 2013.
- the Welsh Government considers the wide spectrum of funding options when reviewing the effectiveness of existing grants.
- the Welsh Government should provide guidance to local authorities, to ensure they consider this wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes.

25. We were pleased that the Welsh Government has subsequently accepted these recommendations, with Welsh Government officials advising us that:

“all grants have been reviewed. We have issued reports to each department on them with recommendations for things that needed to be strengthened or introduced. We have followed up

each of those recommendations, and very few of the actions that we recommended are outstanding.<sup>10</sup>

### ***Findings and recommendations of the Welsh Government's review of grants***

26. We noted that all grants have now been reviewed. However, we would be grateful for clarity on the findings and recommendations of its review. We concur with the WCVA's comments that they would:

“wish to see a transparent process which demonstrates how different options are considered and the criteria used to make decisions.”<sup>11</sup>

27. We would also seek clarity on how the Welsh Government will continue to monitor the progress of each Department in implementing the recommendations of its reviews.

**We recommend that the Welsh Government publicly sets out in an annual grants report:**

- **how individual grants were reviewed in its Grants Management Review;**
- **which alternative funding options were considered;**
- **what rationale was used to determine the most effective funding options in each case;**
- **how it will continue to monitor the progress of each Department in implementing the recommendations of its review; and**
- **how it evaluates the effectiveness of external organisations (whether they are an umbrella body representing a sector, or distributing funds as the lead sponsor of a project) in managing the distribution of funds to other organisations**

### ***Future reviews of the Welsh Government's use of grants***

28. Going forward, the Welsh Government has indicated an intention to ensure that all grant funding is evaluated at regular intervals at the

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<sup>10</sup> RoP, Public Accounts Committee, 3 December 2012, Para 196

<sup>11</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pg 1

individual project monitoring stage prior to payment of claims, and at programme level at three year intervals.<sup>12</sup>

29. We consider that a three year-interval will often be an appropriate regularity for such reviews, though in some cases a different frequency may be more appropriate. We consider that review cycles might usefully be tailored to the nature of a particular scheme, rather than automatically set as being on a three year cycle. We note the WCVA's comments that reviews should not be year-on-year in order that "stability is regained so that total concentration can be on delivery not review."<sup>13</sup>

### ***The provision of guidance to local authorities***

30. We were pleased that the Welsh Government has accepted our recommendation that it provide guidance to local authorities, to ensure they consider this wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes.

31. We were keen to hear about the extent to which the Welsh Government's engagement with external stakeholders was allaying their concerns about any moves away from funding via grants. We are therefore concerned that the WCVA advised us that:

"As yet there has been no involvement of WCVA in this process and we are not aware of any activity in this area, we would like to see evidence of action to take this forward... There is now some urgency to this as we are aware of organisations whose core funding has ceased and in future services are likely to be procured. This is happening with both local government and Welsh Government funding and we would like to see this important discussion about appropriate use of funding mechanisms take place as soon as possible and include WAO, WLGA, Welsh Government and ourselves."<sup>14</sup>

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<sup>12</sup> Welsh Government, Welsh Government Response to the Public Accounts Committee Report: Grants Management in Wales, Pg 8

<sup>13</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pg 1

<sup>14</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pg 3

**We recommend that the Welsh Government engages in dialogue with the Wales Audit Office, WCVA and WLGA in its development of clear guidance for local authorities, to ensure that they consider a wide spectrum of funding mechanisms (including grants and collaborative commissioning) for procuring the delivery of desired outcomes.**

### ***The complexity of grants in Wales***

32. In our interim report, we commented that the range and complexity of grant schemes in Wales made it difficult for applicants to navigate their way through the various conditions of funding.<sup>15</sup>

33. In support of the 2004-05 local government revenue funding settlement, the Welsh Government and the Welsh Local Government Association (WLGA) agreed a 'Protocol' for specific grants. A mutual objective was to keep the number, value and duration of specific grants to a minimum.<sup>16</sup>

34. Since the Protocol was developed, the Welsh Government has continued to consider annually which of its specific grants might transfer into the general revenue support settlement for each local authority. However, between 2005-06 and 2009-10, only a modest (and decreasing) number of relatively small grant schemes were actually transferred.<sup>17</sup>

35. In our interim report on grants management, we welcomed the Welsh Government's intention to develop a pilot project:

“with a series of local authorities, so that we can understand, from what they are trying to achieve with their local government protocol and the make-up of our overall grant profile, how we can have better consolidation.”<sup>18</sup>

36. In our interim report, we indicated that we were interested in two possible solutions to overcome potential problems with transfers of funding from grants to the general revenue support settlement. These were:

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<sup>15</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.1

<sup>16</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 1.13

<sup>17</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 1.15 and Exhibit 4

<sup>18</sup> RoP, Public Accounts Committee, 31 January 2012, Para 73

- moving to budgets equal to previous funding levels; and
- introducing clear and robust outcome agreements based on new funding levels.

37. We specifically recommended that the Welsh Government consider good practice elsewhere in the UK in addressing practical challenges over the transfer of specific grants into the general revenue support settlement.

38. We are pleased that the Welsh Government has accepted this recommendation. We understand that it has also made some progress on its Protocol commitment to reduce the number of specific grants to local government. We are also encouraged that the Welsh Government has undertaken to review the 'exit strategies' of all its current hypothecated grants, so that Ministers will have collective advice on how grants can support the wider public service reform agenda ahead of the next local government settlement for 2014-15.

## **The administration of grants**

### ***Administrative costs***

39. The Auditor General's 2011 report on grants management stated that grants' administration costs represented at least 10 per cent of the total funds awarded on some schemes. The Auditor General's report suggested that it was reasonable that the Welsh Government should seek to identify efficiencies on a larger scale.<sup>19</sup>

40. In our interim report on Grants Management, we considered that there would be value in the Welsh Government adopting an initial target of no more than 5% of total grant funding going towards administration. We considered that more ambitious targets could then be adopted once the Welsh Government's grants had a collective administration cost of below 5%.

41. We therefore recommended that the Welsh Government should:

- adopt a target of no more than 5% of its overall grant funding going towards administration of grants.
- report progress towards that target in an annual grants management report.

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<sup>19</sup> Wales Audit Office, *Grants Management in Wales 2011*, Paras 1.22 to 1.27 and Exhibit 6

42. We are pleased that the Welsh Government has accepted these recommendations. In its response, the Welsh Government commented that it would seek to determine:

“a clear definition of administration costs. This will take account of the findings and conclusions of a review commissioned by HM Treasury on grant administration costs. The actual cost of administration of grants will be base-lined in line with this definition and the GMP will work with the grant managers to minimise these costs across the organisation.”<sup>20</sup>

43. We consider that it is sensible to determine a clear definition of administration costs. The Big Lottery Fund noted to us that it excluded certain ‘value added’ activities from its definition of administration costs. They commented that

“At the Big Lottery Fund, we have a capital support unit made up of quantity surveyors and project managers who are able to give the applicant assistance with questioning costs or, if they are facing cost challenges, with looking at where cost savings might be made. That is of real value to the applicant and, ultimately, should help to manage the risk of not achieving the outcomes of those projects. That is a good example of where it adds value.”<sup>21</sup>

44. Evidence from the Big Lottery Fund also supported our recommendation that the **total** administrative costs of grant funding be limited to 5%, rather than each individual grant having a target of 5% administration costs. The Big Lottery Fund commented that:

“It is not about setting yourself an absolute limit in that way and being alive to that. There may be certain projects with which it makes sense to have slightly higher administration costs to ensure that the outcomes are achieved and that the risk is managed appropriately.”<sup>22</sup>

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<sup>20</sup> Welsh Government, Welsh Government Response to the Public Accounts Committee Report: Grants Management in Wales, Pg 3

<sup>21</sup> RoP, Public Accounts Committee, 3 December 2012, Para 295

<sup>22</sup> RoP, Public Accounts Committee, 3 December 2012, Para 305

### ***Compliance with the Welsh Government's Code of Practice for funding the Third Sector***

45. In our interim report on grants management we noted that some organisations receiving grants have sometimes reached the end of a financial year without knowing if such funding will continue. We considered it imperative that organisations should have a clear understanding at least three months in advance of the end of their grant whether such funding would continue. We were aware that guidance on such issues is available through the Welsh Government's Code of Practice for funding the Third Sector,<sup>23</sup> but were concerned that this was not always strictly applied.

46. We therefore recommended in our interim report that the Welsh Government:

- ensures that managers make timely decisions on continuing or ending grant funding, and must abide by its Code of Practice for funding the third Sector.
- publishes an annual grants management report, including progress towards the Welsh Government's target for administration costs and details of any non-compliance with its Code of Practice for funding the third Sector.

47. We were pleased that the Welsh Government accepted these recommendations. The Welsh Government said that it understood the need:

“to make more timely decisions on continuing or ending grant funding. This requirement will be included in guidance and in the mandatory training being implemented for grant managers across the organisation. The Welsh Government will ensure that grant managers abide by its Code of Practice for funding the Third Sector. The importance of the Code of Practice has been recently highlighted by intranet communications to all staff. The GMP will ensure that the Code of Practice will be observed in all decisions relating to the development, amendment and completion of grant funding. We are engaging with the sector on the operation of the Code of Practice

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<sup>23</sup> Welsh Government, Code of Practice for funding the 3<sup>rd</sup> Sector, January 2009.



through the Finance and Compliance Sub Committee of the Third Sector Partnership Council (TSPC).”<sup>24</sup>

48. We note that the implication of this statement is that there should actually be no breaches. We also noted that the Welsh Government’s response did not explicitly acknowledge our wish that the annual grants management report should detail any instances of non-compliance. This is an important issue in light of the WCVA’s comments to us that:

“Many organisations are reluctant to report breaches of the code to the Funding and Compliance Committee. We therefore need the Grants Management Project to evidence that Welsh Government is complying and report any breaches it finds to the National Assembly once a year.”<sup>25</sup>

49. The WCVA also expressed surprise that:

“the Code has not figured more highly in the work of the Grants Management Project which seems to concentrate purely on applicant compliance rather than customer service.”<sup>26</sup>

50. We understand that the Wales Audit Office is liaising with the Welsh Government to ensure that the annual report details instances of non-compliance with the Code.<sup>27</sup> We also understand that the Welsh Government has stated that it plans to update several documents, including the Third Sector Scheme and Code of Practice for Funding the Sector<sup>28</sup> However, we consider it important to emphasise, for the sake of clarity, the need for the Welsh Government to proactively investigate whether there have been breaches in the Code of Practice for funding the third sector. We do not consider it appropriate for the Welsh Government to simply wait for external organisations to report

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<sup>24</sup> Welsh Government, Welsh Government Response to the Public Accounts Committee Report: Grants Management in Wales, Pg 3-4

<sup>25</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pg 2

<sup>26</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pg 2

<sup>27</sup> Wales Audit Office, Grants Management in Wales- Advice on the Welsh Government’s response to the Committee’s interim report. Notably, the Wales Audit Office report on the Welsh Government’s relationship with the All Wales Ethnic Minority Association, notes that one official involved in the process of awarding funding from the Advancing Equality Fund 2010-13 monies stated that they were unaware of the timing requirement set out in the code of practice. Para 2.66

<sup>28</sup> Welsh Government to reshape its funding of the charity sector, Civilsociety.co.uk, 4 February 2013.

breaches of the code, given that they may fear their funding could be cut as a result.

**We recommend that the Welsh Government proactively investigates whether there have been breaches in the Code of Practice for funding the third Sector, and details such instances in its annual grants management report. We expect that the Welsh Government would publish its first such annual report by December 2013 at the latest.**

### *Advance payments of grants*

51. In our interim report on Grants Management in Wales we noted that there was currently a need for a business case to be made for external organisations to receive advance payments on a grant. We heard evidence from the WCVA that the degree of this test should be proportionate, which commented that:

“as this ‘business case’ will be identical for most organisations, it should be possible to apply a simple universal test which would ensure consistency and fairness, and avoid increasing administrative burdens on both Welsh Government officials and grant recipients. The following straightforward test can therefore be used. If payment of a grant in arrears would reduce an organisation’s freely available reserves to less than six months normal running costs (based on recent accounts), grants will be paid in advance.”<sup>29</sup>

52. Similar comments were made during our informal evidence gathering on grants management arrangements in Scotland, where it was suggested that there was a balance to be struck between public money sitting for months in a voluntary organisation’s bank account generating interest, and being paid three months in arrears (and therefore requiring voluntary sectors to divert income from other funding areas to make up the shortfall, or lose staff).<sup>30</sup>

53. We therefore recommended in our interim report on grants management that the Welsh Government should develop a transparent, proportionate and consistent business test for

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<sup>29</sup> RoP, Public Accounts Committee, 29 May 2012, Para 67

<sup>30</sup> Note of informal evidence gathering on grants management arrangements in Scotland, Para 12

determining whether to make advance payments of grants to organisations.

54. We are pleased that the Welsh Government has accepted this recommendation. We believe that the Wales Audit Office report on *The Welsh Government's relationship with the All Wales Ethnic Minority Association* exemplifies the importance of this recommendation.

55. In its report on *The Welsh Government's relationship with the All Wales Ethnic Minority Association*, the Wales Audit Office commented that:

“Cash flow issues have featured at various points in communications from AWEMA to the Welsh Government, where AWEMA has sought quicker, more regular, or advance payments from the Welsh Government. We have identified some instances where the Welsh Government, in particular during the early years of the funding from its equalities unit, had been slow to review relevant project documentation and process claims, resulting in delayed payments. However, we have also seen examples where, because of AWEMA's own failures to submit claims on a timely basis or to comply promptly with the Welsh Government's monitoring requirements, payments have been delayed.”<sup>31</sup>

56. The report also detailed that:

“In response to the difficulties experienced with AWEMA, WEFO has undertaken a wider review of its use of advance payments for third sector organisations. That work demonstrated that some organisations were being paid in advance even though there was no clear financial need for advance payment. The Welsh Government's 'Code of Practice for Funding the Third Sector' supports the principle of advance payment, but only 'where a clear financial need is established'. WEFO had been working on the assumption that third sector organisations would, by default, be in need of advance payment.”<sup>32</sup>

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<sup>31</sup> Wales Audit Office, *The Welsh Government's relationship with the All Wales Ethnic Minority Association*, Para 1.22

<sup>32</sup> Wales Audit Office, *The Welsh Government's relationship with the All Wales Ethnic Minority Association*, Para 3.49

57. In our interim report on grants management, we sought to draw a distinction between ‘advance payments’ and ‘payments in advance of need.’

58. We consider that the ‘payments in advance of need’ are not acceptable, and are disappointed that WEFO made an assumption that third sector organisations (including AWEMA) would automatically be in need of advance payment. We note that WEFO has subsequently strengthened its controls around advance payments.<sup>33</sup>

59. We believe that a transparent, proportionate and consistent business test can enable decisions to be taken on whether advance payments are appropriate. It is, however, important that such a test is ‘proportionate,’ recognising that for a very small grant-funded organisation, such a test could be very light touch. As noted above, the WCVA provided a simple test for determining whether to make advance payments: only make them if payment of a grant in arrears would reduce an organisation’s freely available reserves to less than six months normal running costs (based on recent accounts).

60. We note that the Welsh Government has now developed and begun using a payment-in-advance-template for third sector organisations.<sup>34</sup> We concur with the WCVA’s suggestion that any problems associated with this template:

“should be reported by either the Grants Management Project or the third sector to the Funding and Compliance Committee and adjustments made based upon practical experience.”<sup>35</sup>

**We recommend that the Welsh Government ensures that any problems associated with its payment-in-advance-template are reported in its annual grant report and also to the Funding and Compliance Committee.**

61. The Wales Audit Office’s report also highlighted issues around advance payments not being passed on, by AWEMA, to AWEMA’s project partners.

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<sup>33</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Figure 9

<sup>34</sup> Welsh Government, Welsh Government Response to the Public Accounts Committee Report: Grants Management in Wales, Pg 4.

<sup>35</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, pg 2. The Funding and Compliance Committee is a subcommittee of the Third Sector Partnership Council.

62. The report details that WEFO had expected that AWEMA would share its advance payments with project partners to assist with their own cash flow.<sup>36</sup> However, WEFO did not appear to have been aware that this had not been happening and, instead, payments to partners were significantly in arrears. Moreover, we note that there appear to have been similar issues on a WEFO funded project between 2005-2008.<sup>37</sup>

63. Welsh Government officials acknowledged to us that:

“We were under the impression that funding was being passed on to joint sponsors. That has now become a more explicit requirement in our grant agreements, but given that more than 65% of the business was being taken forward through joint sponsors, we had anticipated that AWEMA would be passing on that advance to the Valleys Regional Equality Council and other organisations that were involved in delivery. It materialised that it was not passing it on, or at least not in its entirety, and clearly that is a lesson that we have learned.”<sup>38</sup>

64. The Permanent Secretary commented to us that the Welsh Government needed to recognise that:

“that level of passing things on represents a level of risk that we really need to attend to, rather than just assuming that it is giving us the benefits, particularly in the case of advance payments.”<sup>39</sup>

65. As the former Chair of AWEMA, we found Rita Austin’s evidence on this issue particularly striking. She commented that

“It seemed to me absolutely wrong that we should not be passing on advance payments if we had received them. We were a bit stymied on that occasion because our auditors took the view that, if an advance payment was paid out to a partner, and if, when the expenditure of that partner in terms of claims was assessed, some of that expenditure was ineligible, or deemed to be ineligible by WEFO, then AWEMA would stand to

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<sup>36</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 3.11

<sup>37</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 3.11 and Appendix 3 case study 5.

<sup>38</sup> RoP, Public Accounts Committee, 3 December 2012, Para 228

<sup>39</sup> RoP, Public Accounts Committee, 3 December 2012, Para 239

lose out, because we would have paid it out. So, there was that technical point.”<sup>40</sup>

66. Effectively AWEMA did not pass on its advance payments because it was concerned about the potential of clawback from WEFO, and ultimately used WEFO advance payments to help fund its core operating costs.<sup>41</sup> The Wales Audit Office’s report notes that that following the receipt of advance WEFO payments worth some £529,000 in December 2011, AWEMA paid out some £268,000 to its project partners for claims covering their retrospective activity through only to the end of August 2011.”<sup>42</sup>

67. We note that WEFO advised us that it has now “tightened up procedures on that [advance payments], so that there is now an explicit requirement in the grant agreement to pass this on.”<sup>43</sup>

### ***Standard sets of terms and conditions***

68. In our interim report on grants management, we commented that the Welsh Government should take action to ensure that its administration processes in managing grants (including both initial application and monitoring) were proportionate to the monetary value of such grants (and any other associated risks).

69. We anticipated that this would include the introduction of proportionate mechanisms for applying for grants, such as the use - where appropriate - of a two stage process in applying for larger grants. The WLGA told us that the Welsh Government had developed:

“...standard terms and conditions for specific grants projects, and if you have a more consistent and standardised approach, you are certainly well on the way to better value for money and more efficiency in grants administration.”<sup>44</sup>

70. However, we were concerned that a ‘one-size-fits-all approach’ could be inappropriate when some grants were worth millions of pounds, and other were of modest size. We considered that there was

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<sup>40</sup> RoP, Public Accounts Committee, 3 December 2012, Para 437

<sup>41</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 2.117

<sup>42</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 3.9-3.11

<sup>43</sup> RoP, Public Accounts Committee, 3 December 2012, Para 228

<sup>44</sup> RoP, Public Accounts Committee, 8 May 2012, Para 102

a middle road between having a unique set of terms and conditions for every grant or other procurement, and a single set of terms and conditions.

71. We therefore welcomed the Welsh Government's development of standard terms and conditions for specific projects as an initial starting point. We considered that a range of standardised terms and conditions should usefully be developed, to ensure that they were appropriate and proportionate to the type of procurement undertaken. We recommended that the Welsh Government accelerate its development of a range of standardised terms and conditions to particular types of procurement processes.

72. We note that in response to our recommendation, the Welsh Government advised us that it had:

“introduced standard offer letters and templates for terms and conditions, and a grants centre of excellence has been established.”<sup>45</sup>

73. We also noted that the Big Lottery Fund advised us that it had:

“shared with the Welsh Government grant management school of excellence our standard terms and conditions and we have talked through our approach to both assessment and grant management. So, we have been very keen to share our experience, materials and information with the Welsh Government.”<sup>46</sup>

74. We concur with the WCVA's remarks that it is “unlikely that complete standardisation can be achieved,”<sup>47</sup> but believe efforts can reasonably be undertaken to enable the majority of grant terms and conditions to be based on suitable templates, rather than each being uniquely designed from scratch.

75. The WCVA also commented to us that:

“More rigorous accountability requirements should be costed with a view to taking out other conditions and therefore revitalising costs. Current practice will lead to a diversion of

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<sup>45</sup> RoP, Public Accounts Committee, 3 December 2012, Para 196

<sup>46</sup> RoP, Public Accounts Committee, 3 December 2012, Para 290

<sup>47</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pgs 2-3

resources from the front line to reporting and accounting tasks. Again it should be reviewed by the Funding and Compliance Committee in light of experience. Clauses which undermine the independence of the sector should be removed.”<sup>48</sup>

76. We note these remarks, but do not believe that the principle of a set of standardised terms and conditions should automatically entail greater weight on reporting and accounting tasks for all organisations. Rather, it is appropriate that the degree of monitoring and accounting involved for a particular organisation is proportionate to the size of funding it receives (and any other risks associated with the funding arrangement).

### ***A single point of contact for advice on funding applications***

77. In our interim report on grants management, we recommended that the Welsh Government provide a single point of contact for advice on applications for funding (including- but not limited to- grants). We considered that this could help to resolve some of the complexities around the process of applying for grants in Wales.

78. We were pleased that the Welsh Government accepted this recommendation, indicating that it intended that its Grants Centre of Excellence would become a single point of contact on grants for external enquiries, as well as for its own staff. The WCVA commented that they would:

“welcome a more external facing role for the Grants Centre of Excellence. This will require some publicity, a willingness to attend external events and meetings and a web presence.”<sup>49</sup>

79. The Auditor General for Wales likewise suggested that to complement the Grants Centre of Excellence performing this role:

“the Welsh Government should develop its public website, which would surely be one of the first places where enquiries would look for information.”<sup>50</sup>

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<sup>48</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pgs 2-3

<sup>49</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA, January 2013, Pg 3



80. We concur with these remarks.

**We recommend that the Welsh Government takes action to enhance and publicise the role of the Grants Centre of Excellence as a single point of contact for advice on applications for funding. We expect this to include development of its public website.**

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<sup>50</sup> Wales Audit Office, Grants Management in Wales- Advice on the Welsh Government's Response to the Committee's Interim Report, Pg 4

## 2. Weaknesses in the Welsh Government's approach to Grants Management

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81. The Auditor General's 2011 report on Grants Management noted that since 2005 he had published 18 national reports<sup>51</sup> on schemes, programmes or projects where significant public investments have been made through specific grants. All of these reports highlighted the damaging consequences of poor grants management, which include wasted funding, missed opportunities and damaged reputations.<sup>52</sup>

82. Many of the issues highlighted in these reports also featured in the Wales Audit Office report on *The Welsh Government's relationship with the All Wales Ethnic Minority Association*. Effectively, it was the nineteenth such report.

83. We noted the new Permanent Secretary's emphasis of the importance of Grants Management in his oral evidence to us. He commented that:

“the big issues that have been in my mind—and I have been thinking about this more or less since the first day I arrived—are about grants management in general. I know that there is a good deal of good work being done by my teams on that and I know that the Wales Audit Office is helping to develop that with us. However, in the seven or so weeks that I have been in the job, I have not yet fully satisfied myself about that programme of work, so I will want to test it in terms of its scope, pace and impact.”<sup>53</sup>

84. In this section of our report we have therefore considered both what we see as weaknesses in the Welsh Government's approach to Grants Management; and the action that the Welsh Government is undertaking to address these weaknesses.

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<sup>51</sup> Wales Audit Office, *Grants Management in Wales 2011*, Appendix 2

<sup>52</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.9, and the five Case Studies on pages 20 – 22

<sup>53</sup> RoP, Public Accounts Committee, 3 December 2012, Para 16

## **The lack of a collective approach to Grants Management**

85. At the beginning of this report, we commented that the Welsh Government operated around 480 separate existing grant schemes in 2009-2010.<sup>54</sup>

86. These different grant schemes are operated by different departments within the Welsh Government. This means that a single external organisation can potentially apply for different grants, interact with different Welsh Government officials, and be asked to provide different sets of information in order to receive such.

87. In itself, this system is not necessarily problematic, as long as those different departments of the Welsh Government communicate effectively with one another. In our report on ‘The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen,’ we commented that it was important that:

“the Welsh Government needs to be collectively aware of the different grants that an individual organisation is applying for from it. This will enable it to make more strategic assessments of the risks and benefits involved in providing multiple grants to one organisation.”<sup>55</sup>

88. Without effective internal communications, it is also possible that different Welsh Government grants could unwittingly be used for purposes that contradict the objectives that the Welsh Government is collectively attempting to achieve. In our interim report on grants management, we expressed concern that:

“Given that a wide range of different grants are provided by the Welsh Government... it is particularly important that they are consistently aligned with its overarching strategic objectives.”<sup>56</sup>

89. The Wales Audit Office’s report on the Welsh Government’s relationship with AWEMA details a catalogue of occasions when

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<sup>54</sup> Wales Audit Office, *Grants Management in Wales 2011*, Paras 1.5 to 1.9 and exhibits 1 and 2. Notably, following the publication of our interim report, the WCVA commented to us that “these are predominantly grants to the public and the private sectors and only a small proportion fund third sector activity. However, much of the activity and attention post-AWEMA seems to have concentrated disproportionately on grants to the third sector.

<sup>55</sup> Public Accounts Committee, *The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen*.

<sup>56</sup> Public Accounts Committee, *Grants Management in Wales- Interim Report*.

concerns about the Welsh Government's relationship with AWEMA were not internally communicated.

90. For example, in 2002, the Welsh Government's housing department, social care policy unit and communities directorate each entered into new funding arrangements with AWEMA.<sup>57</sup> However, the Wales Audit Office report notes that there appears to have been a lack of communication with these departments about the concerns that were being raised with the Welsh Government about AWEMA and about action that the Welsh Government was considering taking in response, leading in time to the review by the finance department.<sup>58</sup>

91. When we asked Welsh Government officials why grants were provided to AWEMA at the time of the finance department undertaking a review, they responded that:

“that should not have happened. We were not as good then at sharing information across grants as we are now, and we will be better at sharing information in the future across grants, across the board, as we are now. However, having a part of the organisation that needed the information but was not aware of it is a situation that should not have happened. The only thing I can offer in mitigation is that, at the time, as now, there is a lot of grants activity and information going around, and that is not an area that is always picked up.”<sup>59</sup>

92. However, we did not see evidence that the Welsh Government had improved its sharing of grants management information since 2002. For example, the Wales Audit Office's report noted that in 2005 the findings of:

“the IMANI review do not appear to have been shared with the Welsh Government's Communities Directorate, despite its ongoing funding to AWEMA as part of the Communities First programme. In addition, the findings of the review do not

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<sup>57</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, Appendix 1.

<sup>58</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, Paras 2.129 and 2.150

<sup>59</sup> RoP, Public Accounts Committee, 3 December 2012, Para 66

appear to have informed WEFO's appraisal of AWEMA's 'Curiad Calon Cymru' project."<sup>60</sup>

93. More recently, the Wales Audit Office report noted that officials who had taken on responsibilities for monitoring the equalities unit's funding to AWEMA were clearly aware of the connection with AWEMA's WEFO-funded projects. However, the report detailed that there had been no contact in between WEFO and the equalities unit about AWEMA during 2011-12. When we held Welsh Government officials to account for this, they acknowledged that:

"the comparing of notes between the equalities unit and WEFO was not happening during that last year. We have to put our hands up to that and, again, that is one of the key themes of the report, and indeed of other grants reports. We have to move out of that silo approach to grants management... The communications that took place were essentially around match funding. Clearly, that is inadequate."<sup>61</sup>

94. We note that in responding to our recent interim report on Grants Management, the Welsh Government has stated that:

"a central grant management IT system is planned as part of the GMP [Grants Management Programme]. The implementation of this Customer Relationship Management (CRM) system will provide the Welsh Government with... necessary management information."<sup>62</sup>

95. We would welcome clarity on the timescales for the introduction of this system. It is important that the introduction of this system is given appropriate priority, because it will underpin the wider cultural changes required of the Welsh Government in its management of grants.

**We recommend that the Welsh Government sets out timescales for the introduction of a central grant management IT system, and the implementation of a Customer Relationship Management system.**

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<sup>60</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, Para 18

<sup>61</sup> RoP, Public Accounts Committee, 3 December 2012, Para 96

<sup>62</sup> Welsh Government, Response to Public Accounts Committee 'Grants Management-Interim Report.'

96. However, it is imperative that this system is not merely ‘an IT system’ but also involves a *change in culture* within the Welsh Government to actively encourage a co-ordinated approach across its varied departments and officials. Rather than represent their different departments in discussions with external organisations, officials need to understand that they should be representing the Welsh Government as a whole.

97. Notably, in our interim report we recommended that:

- the Welsh Government ensures that funding provided by its grants is used to support outcomes consistent with its strategic policy objectives.

98. The Welsh Government accepted this recommendation, and stated that it has:

“developed a policy gateway which ensures that any policy developed has clear outcomes and objectives. The policy gateway means that the implementation of the policy is considered at an early stage and, where grant funding is deemed appropriate, that funding is used to support appropriate outcomes and this is clearly set out in grant offer letters.”<sup>63</sup>

99. While we are pleased that the Welsh Government’s accepted our interim report’s recommendation, we are concerned that its response appears to suggest that it considers that little more needs to change in this regard. It is not simply a matter of individual policies or grants having clear outcomes and objectives, but about those outcomes and objectives being consistent across the Welsh Government.

100. As a theoretical example, two different Welsh Government departments could potentially provide:

- one grant scheme with the intention of encouraging people to walk to work; and
- another grant scheme to facilitate people in working from home.

101. While there would be many similarities between these two fictitious grant schemes, they would fundamentally be encouraging

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<sup>63</sup> Welsh Government, Response to Public Accounts Committee ‘Grants Management-Interim Report.’, Pg 8

people to do different things. We believe the Welsh Government needs to take a collective grasp on what it is using its various grant schemes to achieve. In our inquiry into the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen, one of our witnesses notably commented that:

“there did not at the time seem to be any central control or compilation, if you like, of the applications for grants. There were many streams of grant that you could apply for, but it seemed that people were able to apply for all sorts, but none of the people administering those grants talked to one another and said, ‘Oh yes, I’ve had a grant application as well’. I found it odd that there did not seem to be any joined-up thinking, and I was quite disappointed about that.”<sup>64</sup>

102. We therefore very much welcomed the Permanent Secretary's comments that change on the Welsh Government's management of grants must not be limited to the development of technology, but is also:

“about a cultural understanding of the importance, when it comes to grants management, of different parts of the organisation realising that they have the same client. I do not think that that awareness was strong in the organisation in the past. It will be, once we have completed our improvements to the grants management system as a whole.”<sup>65</sup>

103. We noted this commitment to changing the Welsh Government's cultural relationship with grants. We consider it vitally important that all Welsh Government grant managers take forward the Permanent Secretary's commitments on this issue. Given that cultural change is rarely rapid, but can take years to achieve, we consider it important that this issue remains a priority for the Welsh Government in the years to come.

**We recommend that the Welsh Government details in its annual grants management report an update on its progress in:**

- implementing the recommendations of this report, our interim report and the Wales Audit Office's Grants Management 2011 report.**

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<sup>64</sup> RoP, Public Accounts Committee, 19 November 2012, Para 157

<sup>65</sup> RoP, Public Accounts Committee, 3 December 2012, Para 102

- **changing its cultural approach to managing grants, to ensure that the Welsh Government acts as a single organisation in its relationships with external recipients of public funding.**

### *Communications with other grant providers*

104. On a related matter, it should be noted that the Welsh Government is far from the only organisation which uses public money to fund grant schemes in Wales. We were therefore concerned that the Welsh Government's communications (or lack thereof) with other providers of grants in Wales, represents another potential area of weakness in its approach to grants management.

105. We asked the Big Lottery Fund whether it regularly had dialogue with other grant providers, in relation to specific projects. The Big Lottery Fund responded:

“No, it is unlikely unless we have specific concerns. That is not to say that it could never happen if there were concerns or if, for example, we were looking at the likelihood of significant match funding being made available.”<sup>66</sup>

106. We consider it to be important that if public funding is being used in a variety of grants to support a particular project, that if specific concerns arise about that project with one organisation, these should be relayed to other grant providers.

107. We do not consider it necessary for general information on a particular project to be routinely shared between different grant providers. But we do consider it appropriate for specific concerns to be shared. We concur with the Big Lottery Fund's comments that:

“in sharing that information we must also be aware that some of the comments that we hear are rumour. There is an issue there to make sure that we look at these things sensibly and proportionately. We are already looking to see how we can work more closely together to share that type of intelligence.”<sup>67</sup>

108. We note that the Welsh Government has discussed with the Big Lottery Fund and the Charity Commission arrangements for a

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<sup>66</sup> RoP, Public Accounts Committee, 3 December 2012, Para 276

<sup>67</sup> RoP, Public Accounts Committee, 3 December 2012, Para 324



coordinated response to concerns that may arise in relation to grant-funded organisations. The Welsh Government has already established a working group with these partners (and the WCVA) to provide support and guidance on standards of governance for funded organisations.<sup>68</sup>

**We recommend that the Welsh Government makes progress toward concluding its dialogue with the Big Lottery Fund, Charity Commission, WCVA and other appropriate bodies to develop, produce and implement terms of engagement for contact between different providers of publicly funded grants.**

### **Failure to adequately assess and mitigate risk**

109. In our interim report on grants management, we commented that common weaknesses in the Welsh Government's management of grants included:

- "failures to consider adequately the financial viability, capacity and capability of recipients;
- clarity of criteria and objectives have been lacking;
- failures to adequately assess and mitigate risks."<sup>69</sup>

110. These failures are also illustrated by the evidence we have subsequently received in our ongoing inquiry. For example, in oral evidence in February 2012, the then Permanent Secretary of the Welsh Government notably commented that:

"We know that the processes over recent years have been fine, but we have to go back much longer than that to answer questions and to get some answers about our long-term management of an organisation (AWEMA) that, if you look at the history, we should have graded as a high-risk organisation."

111. However, the evidence we have received strongly suggests that the Welsh Government has historically had no consistent process with which to assess the viability of grant recipients. It has therefore had no formal mechanism with which to assess the risk involved in forming a

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<sup>68</sup> Welsh Government, Response to Public Accounts Committee 'Grants Management- Interim Report, Pg 16

<sup>69</sup> Public Accounts Committee, Grants Management in Wales- Interim Report, August 2012, Para 85

relationship with organisations. This point was made by the former Chair of AWEMA, who commented that:

“There was a clear declaration by the then most senior official of the Welsh Government, the Permanent Secretary... that AWEMA should historically have been graded a high-risk organisation, whereas the transcript of your last meeting states that she had no substantiating evidence.”<sup>70</sup>

112. The Big Lottery Fund notably suggested a number of risk factors which could be taken into account in determining whether to provide a grant to an organisation. For example, it detailed that it was itself:

“developing a new customer relationship management system, which we expect to roll out next year. That will look at a number of inherent risks, such as the age of an organisation, the amount of money being looked for, what its corporate status is, and how much it is asking for. It will help us to ascribe a risk status based on those factors and the quality of the application that we receive.”<sup>71</sup>

113. The Big Lottery Fund detailed that depending on the level of risk identified:

“if the risk is considered too severe, we would reject the application—we would not support the organisation. In other instances, we might put in additional controls. That would typically be more frequent monitoring activity—for instance, the monitoring step might be a telephone call, or we might insist on a visit. So, it is frequently about more intense activity, or it could be that we have a higher sampling rate, for example in looking at the costs or invoices on a high-risk award.”<sup>72</sup>

114. We note that the Wales Audit Office November 2011 report on *Grants Management in Wales*, stated that funders should ensure that risks relating to bidders’ viability, capacity and capability are considered at the bidding stage, mitigated by additional support where this would be cost effective and monitored carefully during project delivery.

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<sup>70</sup> RoP, Public Accounts Committee, 3 December 2012, Para 343

<sup>71</sup> RoP, Public Accounts Committee, 3 December 2012, Para 264

<sup>72</sup> RoP, Public Accounts Committee, 3 December 2012, Para 309

115. Similarly, its report on *The Welsh Government's relationship with the All Wales Ethnic Minority Association* has urged the Welsh Government to establish clear protocols for due diligence work proportionate to the scale of funding and the type of recipient body that would consider risks in relation to financial viability and contribute to a clear risk assessment process to underpin decisions on the nature and frequency of the Welsh Government's monitoring activity.

**We recommend that in conjunction with its development of a customer relationship management system the Welsh Government develops a clear, proportionate framework with which to determine the risks involved in providing public funding to individual external bodies.**

### **Monitoring of grants**

116. It is entirely appropriate that the Welsh Government appropriately monitors the expenditure of public funding through external projects. As the former Chair of AWEMA has observed:

“public money needs to be carefully scrutinised, however small the organisation; governance needs to be good, regardless of what the organisation is, if it is handling public money; and the Welsh Government is there to see that that happens.”<sup>73</sup>

117. In oral evidence to us, the former Chair of AWEMA has commented that a range of different people were accountable for weaknesses in AWEMA's financial control and governance, including the Welsh Government for not monitoring AWEMA more effectively. She commented that:

- “the blame lies essentially with the finance director for not doing the accounts.”<sup>74</sup>
- “the blame lies with the chief executive for not supervising the accounts and ensuring that the accounts were done.”<sup>75</sup>

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<sup>73</sup> RoP, Public Accounts Committee, 3 December 2012, Para 407

<sup>74</sup> RoP, Public Accounts Committee, 3 December 2012, Para 490

<sup>75</sup> RoP, Public Accounts Committee, 3 December 2012, Para 491

- “the blame lies with the trustees because they, all too eagerly, allowed themselves to accept what the finance director was saying without demanding written evidence.”<sup>76</sup>
- “the blame also lies with the funders who, through their performance in monitoring, should have been able to pick up where the accounts were or were not.”<sup>77</sup>

118. We concur with this analysis. Weaknesses in the Welsh Government’s monitoring arrangements certainly do not absolve other parties of blame or responsibility for AWEMA’s weak financial controls and governance. But we believe that a lack of robust monitoring arrangements was a factor in the failure of AWEMA’s financial controls and governance arrangements.

119. The Wales Audit Office’s recent report on *the Welsh Government’s relationship with the All Wales Ethnic Association* illustrates a number of weaknesses in the Welsh Government’s monitoring arrangements. For example, it identified that a review of AWEMA in December 2011 (in response to concerns raised with WEFO by the North Wales Regional Equality Network) did not pick up issues related to:

“financial recording- the review confirmed that a process was in place to codify transactions into AWEMA’s financial ledgers but did not identify that the ledger records were significantly out of date; [or] ineligible expenditure- the review did identify some ineligible expenditure but did not to the extent that is now apparent.”<sup>78</sup>

120. More generally, the visit of the Project Inspection and Verification (PIV) visit did not identify general concerns about AWEMA’s financial situation mainly because of its limited scope. The Wales Audit Office report notes that WEFO will now be ensuring that PIV visits pick up issues similar to those considered at the project approval stage in relation to financial appraisal.

121. The Wales Audit Office found no evidence of AWEMA providing WEFO with an audit trail of the allocation of match funding across

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<sup>76</sup> RoP, Public Accounts Committee, 3 December 2012, Para 492

<sup>77</sup> RoP, Public Accounts Committee, 3 December 2012, Para 492

<sup>78</sup> Wales Audit Office, *The Welsh Government’s relationship with the All Wales Ethnic Minority Association*, 18 October 2012, Para 2.115

three WEFO-funded projects (a 'match funding allocation account').<sup>79</sup> This was despite WEFO expecting AWEMA to provide such, and despite this issue having been flagged both by WEFO Project Inspection and Verification Team and AWEMA's external auditors.

122. There have previously been more general concerns about the quality and rigour of WEFO's Project Inspection and Verification arrangements, although WEFO made changes in 2010 to address various audit recommendations. In oral evidence, the Welsh Government advised us that WEFO's Project Inspection and Verification (PIV) team was also currently:

“going through a process of professionalisation whereby all of the staff in the PIV team will, in future, either be qualified accountants or qualified auditors.”<sup>80</sup>

123. The Welsh Government advised us that it had “developed a whole raft of new guidance on grants management.”<sup>81</sup>

124. We note the Welsh Government's efforts to professionalise its PIV team, and to produce guidance for its staff on grants management.

125. However, we are cautious about assuming that the lesson of the Wales Audit Office's report on *The Welsh Government's relationship with the All Wales Ethnic Minority Association* is simply that there needs to be 'more monitoring.' We believe a more sophisticated response is required. The Auditor General's *Grants Management in Wales 2011* report detailed that recipients have repeatedly sought simpler, less ambiguous and more consistent requests for information.<sup>82</sup> The WLGA has also described a concern to us that currently:

“all the bureaucracy in the monitoring and evaluation of specific grants... will tend to concentrate on... how much you have done, how much money you have ploughed in... a concentration on outputs, which does not tell you much about what you are trying to achieve with citizens.”<sup>83</sup>

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<sup>79</sup> Wales Audit Office, *The Welsh Government's relationship with the All Wales Ethnic Minority Association*, 18 October 2012,, Para 2.109

<sup>80</sup> RoP, Public Accounts Committee, 3 December 2012, Para 175

<sup>81</sup> RoP, Public Accounts Committee, 3 December 2012, Para 196

<sup>82</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.3 to 2.8

<sup>83</sup> RoP, Public Accounts Committee, 5 May 2012, Para 27

126. We believe that the monitoring of grant-enabled expenditure and outcomes should be proportionate to the levels of finance involved, and other risks such as reputational damage. As an illustrative example, we do not consider it appropriate, that small voluntary sector organisations- which may consist of a handful of staff working part time- should be routinely required to complete half hourly timesheets.<sup>84</sup>

127. We concur with the Permanent Secretary's comments that just as it is important to look at the:

“risks of getting poor value for money, or losing public money to no good effect, and new procedures and processes will be introduced. The risk at the other end of the spectrum is that we do not add so much process to procedure that we lose a sense of the proportionality of the risk and become an organisation that provides a bad service to small, voluntary organisations, to entrepreneurs, and to organisations that are doing good work and that need us to be reasonably agile and efficient in how we administer—and also that we do not accumulate cost in the organisation, unnecessarily, given that this is a large programme of work.”<sup>85</sup>

128. Rather than suggest that more ‘routine monitoring’ is required, we believe that greater monitoring is required in relation to some specific areas, namely:

- More effective monitoring of the delivery of outcomes by public-funded projects;
- Heightened general monitoring in response to previously erroneous claims; financial irregularities or governance issues

129. We have considered these areas in the following sub-chapters.

### **Monitoring of grants' outcomes**

130. In our interim report on Grants Management, we stated that we were:

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<sup>84</sup> A situation described in the National Assembly for Wales' Finance Committee December 2012 report on 'The Effectiveness of European Structural Funds,' Para 200.

<sup>85</sup> RoP, Public Accounts Committee, 3 December 2012, Para 251

“concerned that in the current economic climate, it is more important than ever to effectively and proportionately monitor the delivery of outcomes resulting from public funding. We anticipate that we will take further evidence on the issue of monitoring grant funding in due course, and will make specific recommendations on this issue in a final Grants Management report.”<sup>86</sup>

131. In its report on *The Welsh Government’s Relationship with the All Wales Ethnic Minority Association*, the Wales Audit Office’s report notably identified that although:

“WEFO had not expressed any particular concerns about the progress of AWEMA’s EU-funded projects against their objectives...WEFO’s arrangements for appraising and monitoring these projects lacked sufficient rigour”<sup>87</sup>

132. The report details how at December 2011, the delivery of two of AWEMA’s three WEFO-funded projects was significantly behind profile (in terms of both claimed expenditure and project performance). The report notes that the reported position did not reflect all of the activity delivered by AWEMA’s partners and, overall, WEFO was satisfied with progress. The report notes that, compared with other projects across the Structural Funds programmes, the situation with AWEMA’s projects was by no means unique.<sup>88</sup>

133. The report recommended that WEFO should ensure that all project officers were aware that a key part of their role in monitoring projects was to establish whether they were “delivering intended outcomes.”<sup>89</sup>

134. We asked the Welsh Government why it had not picked up on the lack of a service being provided in North Wales, after AWEMA had ceased funding to the North Wales Race Equality Network. We were told that:

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<sup>86</sup> Public Accounts Committee, Interim Report on Grants Management in Wales, August 2012, Para 94

<sup>87</sup> Wales Audit Office, *The Welsh Government’s relationship with the All Wales Ethnic Minority Association*, Summary, Para 20

<sup>88</sup> Wales Audit Office, *The Welsh Government’s relationship with the All Wales Ethnic Minority Association*, Paras 2.122-2.125, supported by Figure 13 on page 101.

<sup>89</sup> Wales Audit Office, *The Welsh Government’s relationship with the All Wales Ethnic Minority Association*, Summary, Recommendation 2a

“There was no service being provided. That was not satisfactory and it is something that should have been raised in the monitoring... the monitoring was less than it could have been. One of the projects had been operating for quite some time—it was the one that was underperforming—in north Wales. The regular monitoring that was supposed to take place was not taking place...

“One of the lessons that we have to learn is that the monitoring in this case was not as robust as it needed to be. I am satisfied that this is an exception, because I have reviewed the evidence of other monitoring. I have also written to all staff in the organisation to underline the importance of regular monitoring of projects, but, in this case, it was not undertaken as it should have been.”<sup>90</sup>

135. We consider that a key issue in effectively monitoring the delivery of outcomes is ensuring that there is comprehensive clarity on what is required to be delivered.

136. Notably, following the cessation of funding to AWEMA, WEFO established a dedicated helpline to provide support and advice to participants in the WEFO-funded projects. We note with some concern that WEFO did not receive any calls to the helpline from project participants, as this could be interpreted as suggesting that participants were not actually very ‘engaged’ by these projects. An alternative explanation of this lack of calls was provided by WEFO, which has attributed this lack of calls to the continued delivery of project activity through the partner organisations.<sup>91</sup>

137. The Big Lottery Fund detailed to us the importance of establishing clear intended outcomes from the beginning of a process, describing that:

“We look at the outcomes that the applicant is proposing, to see how good they are and what they are trying to achieve. We also then look at how capable they are of delivering those outcomes.”<sup>92</sup>

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<sup>90</sup> RoP, Public Accounts Committee, 3 December 2012, Paras 111, 113 and 115

<sup>91</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 3.41

<sup>92</sup> RoP, Public Accounts Committee, 3 December 2012, Para 260



138. The Welsh Government has advised us that it already seeks to agree objectives at the beginning of its funding relationships, and then monitors the delivery of such outcomes. Welsh Government officials described that:

“at the start of a relationship between the Welsh Government and a funder, we agree what outcomes we are looking for and on an award letter. Part of the award letter should include the performance that we expect from the organisation. So, that is built into the original dialogue, before we get into a funding situation, and we will talk through what the objectives are and what we expect to see. Once the money starts to go through, we will expect that dialogue to continue and for some metrics to come back about the performance of that organisation against the award letter, and we will monitor that over the period of the award to ensure that we are achieving the objectives and the outcomes originally intended when we set up the arrangement.”<sup>93</sup>

139. We noted that in responding to the Wales Audit Office’s report, the Welsh Government has stated that WEFO has been reviewing the application of its monitoring procedures across the ERDF and ESF programmes. We also note that in responding to the Finance Committee’s December 2012 report on the Effectiveness of European Structural Funding, the Welsh Government stated that:

“For the current programmes, WEFO uses a mixed method approach to evaluate impact, pioneering more rigorous techniques which includes estimates of what would have happened without the EU funded intervention (i.e. the counterfactual) to produce more sophisticated and balanced results. This approach has been applied to various fund-type evaluation studies including three large-scale surveys of individuals who have benefited from ESF support and a survey of businesses who have benefited from ERDF support. As well as providing information on the overall effectiveness of Structural Funds support for individuals and businesses, the survey datasets have also been used in project level evaluations.

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<sup>93</sup> RoP, Public Accounts Committee, 24 April 2012, Para 211

“On the ESF side, using ESF and Annual Population Survey data, WEFO has been able to compare the extent to which ESF participants and non-participants move into employment over a 12-month period. On the ERDF side, this kind of analysis has been hampered by the timeliness of nationally available datasets. As a result, WEFO will undertake a survey later this year to establish the impact of ERDF funding in the early part of the Programme period.”<sup>94</sup>

140. We note this action, and consider that the monitoring of projects’ outcomes needs to be an integral part of all Welsh Government monitoring arrangements.

### **Heightened monitoring**

141. We consider that one of the major areas that the Welsh Government can take action on, in the light of this report, is to heighten its monitoring systems in relation to:

- grant applications or organisations which are initially identified as being of higher risk;
- responding to the identification of erroneous claims or financial irregularities;
- responding to concerns about governance.

142. We consider this to be basic common sense. It is reasonable for the Welsh Government to maintain a level of routine monitoring of its grants, which is proportionate to the total size of the grants provided to an external organisation, the size of the organisation itself, and other risk factors. It is also reasonable that if concerns arise about a particular grant or organisation, that (even if an organisation is initially ‘given the benefit of the doubt’) monitoring is then stepped up.

143. We consider that evidence from the Big Lottery Fund supported this concept of tailoring monitoring to be proportionate to the level of risk involved. The Big Lottery Fund described that:

“We have made four awards to AWEMA during its time, three of which were very small grants of up to £5,000. In those circumstances, we certainly would not look to go into the same

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<sup>94</sup> Written Response by Welsh Assembly Government to the report of the Finance Committee entitled “The Effectiveness of European Structural Funds in Wales,” February 2013, Pages 12-13.

level of due diligence checks as we did with the major award that we made of £518,000.”<sup>95</sup>

144. The Auditor General’s *Grants Management in Wales 2011* report stated that a key cause of an apparent complacency, on the part of some of the grant recipients, is that grant funders in Wales often fail to follow up erroneous claims. The 2011 report warned that public funds may be being misdirected, with a consequent weakening of their intended impact. It also highlighted that public confidence in the way taxpayers’ money is being spent could be weakened by further high-profile cases.<sup>96</sup> The report stated that even when there have been long-standing failings in monitoring, or when auditors and other third parties have raised concerns (for example, in relation to *Plas Madoc*, or the *Ffynone and Cilgwyn woodlands*), monitoring information has been very weak.<sup>97</sup>

145. These concerns are echoed in a litany of instances across the Wales Audit Office’s report on *The Welsh Government’s relationship with the All Wales Minority Ethnic Association*. It details for example, that in 2002:

“officials from the Welsh Government’s Finance Department undertook a review of AWEMA... we have concluded that... the Welsh Government [did not] conduct any follow-up work to satisfy itself as to the adequacy of the actions taken by AWEMA to address the report’s recommendations.”<sup>98</sup>

146. Similarly, in December 2003, the Welsh Government commissioned a review of AWEMA’s equalities unit-funded projects from IMANI Consultancy Services. This review questioned AWEMA’s performance across the three equalities unit-funded projects.<sup>99</sup> However, when we asked the former Chair of AWEMA whether- following the publication of the IMANI report- there was any monitoring of the implementation of its recommendations, she told us

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<sup>95</sup> RoP, Public Accounts Committee, 3 December 2012, Para 262

<sup>96</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.32 to 2.35 and Exhibit 9

<sup>97</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.22 to 2.25 and case studies 3 and 5

<sup>98</sup> Wales Audit Office, *The Welsh Government’s relationship with the All Wales Ethnic Minority Association*, Para 2.10

<sup>99</sup> Wales Audit Office, *The Welsh Government’s relationship with the All Wales Ethnic Minority Association*, Para 2.25

that: “there was no greater monitoring.”<sup>100</sup> Indeed, she commented that:

“Our feet were never held to the fire to respond to an action plan on development.”<sup>101</sup>

147. The Wales Audit Office’s report also details that the Welsh Government’s equalities unit had concerns about the development of AWEMA’s work plan for 2007-08 and temporarily withheld funding. However, the Wales Audit Office did not see any records to confirm exactly how the concerns regarding the work plan for 2007-08 were resolved and concluded that the Welsh Government failed to adequately consider the specific allegations about AWEMA’s governance arrangements.<sup>102</sup>

148. The report also states that:

“During 2010-11, the equalities unit failed to follow up sufficiently some further concerns about AWEMA’s delivery and the unit had only limited contact with WEFO between April 2010 and December 2011 despite the clear connection between the unit’s funding and AWEMA’s WEFO-funded projects.”<sup>103</sup>

149. We are very concerned that despite there being repeated concerns registered, through reviews and reports, these do not appear to have ever been adequately followed up. As one of our Members commented, AWEMA’s

“feet should have been held to the fire about implementing the recommendations in other reports that had been drawn together based on the experiences there”<sup>104</sup>

150. There does not appear to have been any mechanism by which the Welsh Government could heighten its monitoring arrangements associated with AWEMA, to take into account previously identified concerns. In no way does this absolve AWEMA of its responsibility to implement the Welsh Government’s various recommendations.

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<sup>100</sup> RoP, Public Accounts Committee, 3 December 2012, Para 390

<sup>101</sup> RoP, Public Accounts Committee, 3 December 2012, Paras 390 and 485

<sup>102</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 2.49

<sup>103</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 2.69

<sup>104</sup> RoP, Public Accounts Committee, 3 December 2012, Para 488

Nevertheless, it is imperative that the Welsh Government is able to monitor the implementation of such recommendations.

**We recommend that the Welsh Government develops a mechanism for escalating its monitoring arrangements, in response to specific concerns arising around financial irregularities or governance issues, including when an organisation is given ‘the benefit of the doubt.’**

### *Record-keeping and corporate memory*

151. Welsh Government officials suggested to us that weaknesses in the Welsh Government’s monitoring of grants were exacerbated as a result of poor record-keeping when its equalities unit was originally being established. One official commented to us that:

“the office would have been in a weak position to hold AWEMA to account on that, because of some inadequacy in record keeping during the early years in which it was set up, and that the underspend related to. Therefore, I must agree with you that there were real shortcomings in that process, which the report quite accurately highlights.”<sup>105</sup>

152. However, the evidence of our inquiry did not appear to indicate any significant improvement in record keeping over the years since the unit was first established, because the Welsh Government also told us that in late 2011:

“Staff were in touch with AWEMA, asking where its progress reports were. What they did not always do on every occasion, I am afraid to say, is record those conversations on file. Therefore, when colleagues in the WAO came to produce their report, not all of those conversations could be evidenced. So, the staff did not take this lightly, but we cannot evidence every occasion on which they raised this with AWEMA.”<sup>106</sup>

153. In our opinion, the impact of poor record-keeping is compounded by the fact that staff can move around quickly within the Welsh Government, and that Ministers are sometimes not adequately informed of historical information. For example, the Wales Audit

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<sup>105</sup> RoP, Public Accounts Committee, 3 December 2012, Para 50

<sup>106</sup> RoP, Public Accounts Committee, 3 December 2012, Para 94

Office's report notes that in July 2010, the equalities unit prepared briefing for a meeting between the Minister then responsible for equalities (Carl Sargeant) and the former Assembly Member, Dr Dai Lloyd. Notably, the briefing made "no mention of any previous concerns about AWEMA's delivery and governance arrangements."<sup>107</sup>

154. The Wales Audit Office's report has also found little evidence of the Welsh Government having put in place any formal handover arrangements between Ministers or officials to ensure the transfer of knowledge about the grant funding relationship with AWEMA, or any other organisations that the equalities unit was funding. The report urged the Welsh Government to establish clear protocols for the handover of responsibilities to include articulation of relevant departmental and wider Welsh Government funding relationships with external organisations and, in particular, the history of any particular concerns about those organisations.

155. In our recent report on *The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen*, we commented that the collective impact of high staff turnover, Ministers not having access to their predecessors' papers, and limited handover arrangements between Ministers was that the Welsh Government could be left with the corporate memory of a goldfish. To this list we can now add poor record keeping.

156. We believe that this was a major issue in the Welsh Government's relationship with the All Wales Minority Ethnic Association: for Welsh Government officials and Ministers, each set of concerns about AWEMA appeared to be happening for 'the first time' rather than being part of a series of concerns.

157. Welsh Government officials acknowledged that a lack of corporate memory in relation to AWEMA was a major factor in it not being subjected to heightened monitoring arrangements. The head of the equalities unit informed us that part of the reason why allegations around AWEMA were treated more robustly in December 2011 was that:

"I had previously been in equality and I had a memory of the allegations that were made in 2006, not in relation to equalities

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<sup>107</sup> Wales Audit Office, *The Welsh Government's relationship with the All Wales Ethnic Minority Association*, Para 2.72

funding at that stage, but in relation to WEFO funding. That was another factor in my mind that made me feel that the allegations needed to be given proper treatment.”<sup>108</sup>

158. Notably, the corporate memory in this instance appears to have been based on sheer fortune, rather than any deliberate design.

159. Had there been a formal mechanism within the Welsh Government to identify that concerns had previously been repeatedly registered around a particular organisation, and that greater monitoring arrangements were appropriate, we believe that allegations around AWEMA would have been addressed more promptly.

### ***Heightened monitoring in relation to governance issues***

160. We recognise that the Welsh Government cannot micro-manage or be responsible for the governance of every external organisation to which it provides funding (through grants or other mechanisms). Welsh Government officials noted, for example, that:

“it is very difficult, given the number of organisations that the Welsh Government funds, for us to be aware of and to be checking the appropriateness of every promotional salary increase in those organisations, and, even if we were to do so, that would take us into a wholly inappropriate relationship with them.”<sup>109</sup>

161. However, we believe it is entirely reasonable for the Welsh Government to respond to concerns about the governance of organisations which it provides funding to. More specifically, it is reasonable for the Welsh Government to be actively alert for concerns about governance in relation to an organisation which has previously had concerns expressed about its governance.

162. A significant source of concerns about an organisation’s governance is an organisation’s own board of trustees. In our interim report on Grants Management, we noted that the WCVA offered a means by which the Welsh Government could determine when its relationship with organisations needed to be more closely monitored. The WCVA commented that:

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<sup>108</sup> RoP, Public Accounts Committee, 3 December 2012, Para 28

<sup>109</sup> RoP, Public Accounts Committee, 3 December 2012, Para 117

“A sign of problems is when you have a significant number of trustees resigning; that is a warning sign... There is quite a lot of evidence that, when people express their concerns, particularly if they are trustees, their concerns are not taken as seriously as they should be.”<sup>110</sup>

163. In our interim report, we noted that:

“currently there is no requirement for recipients of grant funding to notify the Welsh Government of changes in their trustees. We consider that it may be appropriate for the Welsh Government to develop a proportionate requirement for recipients of such funding to notify it of changes to their trustees. We anticipate that we will take further evidence on this issue, and make any appropriate recommendations in our final Grants Management report.”<sup>111</sup>

164. We consider that the value of the Welsh Government being aware of changes in trustees- as a potential warning sign to governance issues- is illustrated by the Wales Audit Office’s report on the Welsh Government’s relationship with the All Wales Ethnic Minority Association. The report details for example that:

“Following the January 2010 AWEMA Board meeting, the then Chair of AWEMA (Professor George Karani) notified Mr Malik that he wished to stand-down as Chair with immediate effect. Professor Karani, who had not been present at the January 2010 AWEMA Board meeting, told us that he took this decision for a variety of reasons. These reasons included him being increasingly uncomfortable with the principle of AWEMA employing other members of Mr Malik’s family... Professor Karani did not, however, raise any concerns with the Welsh Government.”

**We recommend that, as a condition of a grant award, the Welsh Government requires all recipients of grant funding to notify the Welsh Government of any significant changes in their trustees (for example the resignation of a Chair or a third or more of trustees), a significant lapse of constitutionally required meetings, or a**

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<sup>110</sup> RoP, Public Accounts Committee, 29 May 2012, Para 84

<sup>111</sup> Public Accounts Committee, Interim Report on Grants Management in Wales, August 2012, Para 120



**resignation of external auditors, with a proportionate explanation for such changes.**

**We recommend that the Welsh Government proportionately considers the implications of potential warning signs in grants management- such as significant changes in an organisations' trustees, a lapse in constitutionally required meetings or a resignation of external auditors- gathering further information as required (for example, using exit interviews).**

165. The Wales Audit Office's report on the Welsh Government's relationship with the All Wales Ethnic Minority Association also suggests that a warning sign can be non-meetings of trustees. It details that:

“Prior to the AWEMA Board meeting in February 2009, there had been an Annual General Meeting in July 2008 and board meetings in May 2008 and January 2008. The equalities unit's description of its meeting with AWEMA on 28 July 2009 indicates that officials had been told that the next AWEMA Board meeting would be at some point after the Annual General Meeting on 14 August 2009. The next recorded AWEMA Board meeting did not take place until January 2010. AWEMA's governing document states that AWEMA's trustees should meet at least four times a year and that AWEMA's Council of Members should meet at least twice a year. These meetings of the wider Council appear to have only been taking place, since 2008 at least, on a once-a-year basis in the form of the Annual General Meeting.”<sup>112</sup>

**We recommend that, as a condition of a grant award, the Welsh Government requires all recipients of grant funding to notify the Welsh Government of any instances where there is a breach of that organisation's governing document regarding meetings of trustees, with a proportionate explanation for such.**

### **Communications with trustees**

166. The report also suggests that while the Welsh Government clearly had communications with AWEMA, it had apparently very limited

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<sup>112</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, Para 2.59

communication with Trustees. The importance of trustees is illustrated by the title of the WCVA's guide to good governance in the third sector: "Faith and Hope don't run charities (trustees do)."<sup>113</sup>

167. The report notes for example that concerns were raised in 2007 by the then Acting Chair and Acting Vice-Chair of AWEMA. Those concerns related, in part, to salary increases and bonus payments. However, the Wales Audit Office found little evidence of WEFO taking any active interest in those matters at the time.

168. We believe this lack of interaction between the Welsh Government and trustees had an influence on events between November 2011 and December 2011.

169. The Wales Audit Office report describes that Dr Austin only agreed to accept nomination to become Chair of AWEMA in December 2011 on condition that the Chief Executive of AWEMA would bring to the attention of WEFO the allegations against him. The minutes of AWEMA's Board meeting on 16 December 2011 record Dr Austin's understanding that WEFO had been kept informed of developments by AWEMA's Chief Executive.

170. The report notes that the exact details of a conversation between AWEMA's Chief Executive and the Head of WEFO's European Social Funds branch on 29 November 2011 are not clear, although certain financial matters were mentioned and AWEMA's Chief Executive provided his assurance that there were no financial irregularities in relation to the WEFO-funded projects.<sup>114</sup>

171. However, these allegations were not communicated more widely within the Welsh Government. The Permanent Secretary acknowledged to us that although:

"There was a disclosure from the chief executive of AWEMA to a WEFO official on 29 November... there was no contact with any other Government official."<sup>115</sup>

172. The Permanent Secretary commented that:

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<sup>113</sup> RoP, Public Accounts Committee, 29 May 2012, Para 73

<sup>114</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, Paras 3.2-3.4

<sup>115</sup> RoP, Public Accounts Committee, 3 December 2012, Para 184

“the nature of the conversation was really quite glancing and I do not think necessarily that I or anyone else would have felt it necessary to take action differently from that taken by the head of the ESF unit, although, crikey, I wish he had.”<sup>116</sup>

173. The Wales Audit Office report details that concerns were only communicated more widely within the Welsh Government when AWEMA’s Finance Director and Chief Executive made contact with WEFO and the Welsh Government’s equalities unit on 19 December 2011.<sup>117</sup> The former Chair of AWEMA commented to us that:

“what the official knew on 29 November was no more and no less than what was disclosed by the finance director on 19 December, and rapidly afterwards by the chief officer on that date, except, of course, the finance director used far more colourful language.”<sup>118</sup>

174. We asked the former Chair of AWEMA why she asked the Chief Executive of AWEMA to take responsibility for communicating allegations about himself to the Welsh Government, rather than ask someone else, or to do so herself. From our perspective, it did not appear logical for such serious allegations to be communicated in this way, and for it not to be done through a more formal channel. One of our Members asked:

“Why do you need to know someone in the Welsh Assembly Government or WEFO in order to inform them of something? Why do you need to know them? Why are these things done on an informal basis, without e-mails, without letters, without your being copied in? At that point, when you were saying that the condition on which you would come back as chair was that this was sorted, you were not even being copied in and you had to take someone’s word that they had had a chat on the periphery of a meeting with the person concerned, and then that person is blamed for not having perfect recall of that.”<sup>119</sup>

175. The former Chair of AWEMA responded to our concerns by asking:

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<sup>116</sup> RoP, Public Accounts Committee, 3 December 2012, Para 187

<sup>117</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Paras 3.2-3.7

<sup>118</sup> RoP, Public Accounts Committee, 3 December 2012, Para 352

<sup>119</sup> RoP, Public Accounts Committee, 3 December 2012, Para 451

“who else could I have asked to have this conversation with the head of the ESF branch, who does not know me from a bar of soap and who would not have known any of the other trustees?... WEFO has no relationship with members, ever.”<sup>120</sup>

176. We remain unconvinced that communicating such serious concerns in this fashion was the most appropriate means possible. Indeed, the former Chair of AWEMA acknowledged to us that:

“In retrospect, I should have insisted that the chief officer of AWEMA keep a file note himself, and I did not. By that time, I was not fully in, if you follow me—I was not in the office.”<sup>121</sup>

177. We concur with this observation. However, it is not the purpose of this report to hold the former Chair, or trustees, of AWEMA to account. What this episode does illustrate- in our opinion- is the impact of limited communication taking place between the Welsh Government and AWEMA’s Trustees. We consider that this needs to be addressed in similar situations.

178. We note that there is currently support available to trustees and staff in terms of good governance and how to run a charity, with the WCVA detailing that:

“All of that help and support is available through us and through the county voluntary councils... We provide project and business planning courses, particularly in relation to European projects, which are often the bigger resourced projects. There are well-established accredited courses available on project planning and project management.”<sup>122</sup>

179. We also recognise that Trustees are normally volunteers, and that the Welsh Government must not drown them in red tape. We recognise the WCVA’s concern that:

“we could make life too complicated for trustees - remember that, at the end of the day, trustees are people like you and me and are volunteers.”<sup>123</sup>

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<sup>120</sup> RoP, Public Accounts Committee, 3 December 2012, Paras 430 and Para 445

<sup>121</sup> RoP, Public Accounts Committee, 3 December 2012, Para 425

<sup>122</sup> RoP, Public Accounts Committee, 29 May 2012, Para 60 & 63

<sup>123</sup> RoP, Public Accounts Committee, 29 May 2012, Para 75

180. However, we consider that there would be merit in the Welsh Government making clear what it sees as Trustees' responsibilities, and the means by which Trustees can express concerns around an organisation's governance.

**We recommend that the Welsh Government includes in its requirements of external funding (including grant funding), detail on the proportionate accountability and responsibility of trustees. We expect this to include detail on:**

- **the particular circumstances in which a concern about an organisation's governance should be brought to the Welsh Government's attention;**
- **the appropriate mechanism for expressing concern about an organisation's governance to the Welsh Government.**

181. We believe that had the Welsh Government been more actively alert to historical concerns about AWEMA's governance, then action to address these concerns would have been taken before December 2011. The Permanent Secretary acknowledged to us that:

“perhaps it would have been better if more intensive inquiries had been made on those earlier occasions; they were not. That was partly because of a reluctance to pursue the governance of an organisation. I think that that is one of the major lessons that we have learnt, that public money needs to be followed to the governance of an organisation where necessary—not to run an organisation or to live in its pocket, but, where necessary, to follow the money to the governance.”<sup>124</sup>

182. The Director of Strategic Planning and Equality likewise considered that the Welsh Government had learned over time the importance of focussing on governance. He commented that:

“on many previous occasions the focus was on the performance management of the business plan or the contract with AWEMA, rather than on matters of its corporate governance. There are a whole number of occasions listed in the report where that was the case. In many ways, that reflected where we were as an organisation at the time: there was not the same clarity of understanding about where lines could be drawn about what matters were appropriate to the internal governance of an

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<sup>124</sup> RoP, Public Accounts Committee, 3 December 2012, Para 24

organisation and what was the legitimate interest of the Welsh Government... After the issues in Communities First with Plas Madoc and so on, there has been a developing understanding in the office that has gradually changed the assumptions. Therefore, when the allegations were made in December 2011—which, as you quite rightly say, were not in themselves fantastically different in nature or level from the allegations made in the summer of 2007—the approach that we took was quite different, because we regarded the corporate governance of the organisation as quite a legitimate area for us to be interested in.”<sup>125</sup>

183. We are pleased that the Welsh Government has recognised the corporate governance of external organisations to be a legitimate area for it to be interested in, and ultimately responded robustly to concerns raised about AWEMA’s corporate governance. However, we are not convinced that events in November-December 2011 clearly demonstrate that this lesson has been embedded throughout the core of the Welsh Governments’ operating practices.

184. The Wales Audit Office report comments that had the matters raised by AWEMA’s Chief Executive on 29 November 2011 been looked into more promptly by the Welsh Government, it is possible that payments (totalling £529 000) would not have been authorised.<sup>126</sup>

185. The former Chair of AWEMA suggested in oral evidence to us that the Welsh Government failure to react to these allegations on 29 November 2011, rather than 19 December 2011, also made a significant difference to AWEMA itself. She commented in written evidence that had the allegations raised on 29 November been more actively looked into:

“what was owed to the 4 partners, a bit over half, could have been directly reimbursed to them by WEFO... [a] review instituted a month to six weeks earlier than it was would have established earlier the considerable deficiencies in statutory and management accounting. And this earlier intervention could have provided opportunity for remedy – for the Finance Director to finalise the 2011 statutory accounts in time to

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<sup>125</sup> RoP, Public Accounts Committee, 3 December 2012, Para 26

<sup>126</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Summary, Para 26

comply with the statutory date for submissions to Companies House and Charity Commission, and to establish proper management accounts... the then serving trustees would have been in place to take responsibility for and to account for their actions in permitting such deficiencies of financial control and governance... Not escalating the chief officer's disclosures of 29 November has had serious reputational consequences for all associated with AWEMA and done them and it much hurt and harm, all of which could possibly have been avoided with earlier WG and WEFO intervention, and this includes termination of funding which led to its demise."<sup>127</sup>

186. By contrast, the Wales Audit Office's report comments that:

"if the Welsh Government had been able to hold back the payments made on 20 December 2011 then this would have made AWEMA's financial position, or that of its partners, even more precarious. WEFO had expected that AWEMA would share its advance payments with partners to assist with their own cash flow but does not appear to have been aware that this had not been happening. Issues relating to the distribution of advance payments had, in 2006, been part of concerns that WEFO identified and looked into on the Curiad Calon Cymru project. Having received the December 2011 advance payments, AWEMA subsequently paid out some £268,000 to its partners for claims covering retrospective activity through only to the end of August 2011. This situation reinforces the May 2012 conclusion of WEFO's Project Inspection and Verification Team that AWEMA had been using WEFO advances to fund its core operating costs."<sup>128</sup>

187. We do not believe that it is possible to accurately predict whether the Welsh Government would have terminated its funding of AWEMA had action been taken by the Welsh Government in response to the allegations of 29 November rather than 19 December. We find it implausible to think that there would have been no reputational damage to AWEMA. We also note that WEFO would have expected AWEMA to have already passed on the moneys which AWEMA paid out

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<sup>127</sup> Notes prepared by Rita Austin former Chair AWEMA for her witness session before the Public Accounts Committee on 3 December 2012, pages 5-6.

<sup>128</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, Para 3.11

to its funding partners in December 2011 (as these were for activity to the end of August 2011). Consequently, even if the Welsh Government had responded to the allegations of 29 November, it seems implausible that WEFO would have readily paid funding across to AWEMA's funding partners instead of AWEMA.

188. It can equally be said that if there had not been serious deficiencies in AWEMA's statutory and management accounting in the first place, then they would not have been identified in the Welsh Government's review.

189. Nevertheless, we consider that action should have been taken by the Welsh Government before 19 December 2011. But we believe that this failure was not indebted to any one official, but rather to the lack of a system for identifying risk, and then heightening monitoring as a result. Had such a system been in place, we believe it more likely that appropriate action would have been taken in relation to the concerns raised on 29 November 2011, if not before.

### **Monitoring in relation to umbrella bodies**

190. The Wales Audit Office report details that the creation and early development of AWEMA reflected a policy emphasis on equality and diversity and the Welsh Government's desire to channel its external engagement on race equality issues through a single body.<sup>129</sup> In the early years of the National Assembly, AWEMA was promoted by the Welsh Government's equalities unit to other departments as a route through which to engage on policy issues relating to black and minority ethnic communities. In September 2000, the then head of the equalities unit also offered general endorsement to AWEMA's bid for Home Office funding.<sup>130</sup>

191. The report notes that the early support given to AWEMA by the Welsh Government does not appear to have been universally accepted<sup>131</sup> and that there were difficulties within AWEMA's structures<sup>132</sup> and various concerns expressed about AWEMA's

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<sup>129</sup> The Welsh Government's relationship with the All Wales Minority Ethnic Association, Para 2.3-2.10

<sup>130</sup> *Appendix 4* of the Wales Audit Office report describes that Home Office funding was worth £345,735 to AWEMA between 2000-01 and 2003-04.

<sup>131</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Minority Ethnic Association, Para 2.8-2.10

<sup>132</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Minority Ethnic Association Appendix 3, Case Study 1, Page 117



governance and financial management arrangements. The former Chair of AWEMA commented that:

“AWEMA had precious few friends at its inception, because people were extremely jealous of the funding that was being given to what they regarded as the new kid on the block and wondered why the funding was not going to them. So, we never had any friends, not among Ministers, AMs or anybody.”<sup>133</sup>

192. The report identifies that, by 2005, it seemed that the Welsh Government no longer regarded AWEMA as the primary vehicle for its engagement and consultation with black and minority ethnic communities in the manner that gave rise to the creation of AWEMA.<sup>134</sup>

193. We were concerned whether particular scrutiny needed to be given to umbrella bodies receiving grants, because the Welsh Government was effectively relying on an intermediary to equitably treat a range of different bodies. The former Chair of AWEMA noted that:

“There are deep philosophical problems with umbrella organisations and mostly so in the race equality field. They do work, and when I was a paid official of the Race Equality Council, which was a membership organisation and an umbrella organisation, I made it work, but it takes an enormous effort of will to get them to work... I think that the Welsh Government chickened out in the election after that first Assembly, for whatever reason. It abrogated its own responsibilities with regard to equality across the field—and what I say about race equality I mean also across the equality field. It abrogated the responsibilities that it should itself have formed in each of its departments in the pursuit of race equality, to an organisation, which, with the best will in the world—never mind all the petty in-fighting that regrettably goes on among ethnic minority groups—could not perform what it wanted to.”<sup>135</sup>

194. We concurred with the former Chair of AWEMA’s comments. However, the Welsh Government indicated that it remained supportive

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<sup>133</sup> RoP, Public Accounts Committee, 3 December 2012, Para 367

<sup>134</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Minority Ethnic Association, Para 2.32

<sup>135</sup> RoP, Public Accounts Committee, 3 December 2012, Para 375 and 392

of the concepts of supporting various bodies via an intermediary, commenting that:

“You get clear value for money advantages if you have effectively one representative stakeholder group acting as a channel for this. So, there are lots of good reasons for going for it. In many areas, it works very well; you can make better informed strategic choices, which are informed by the people on the ground, who know about it and who can advise you where to go, and you can manage conflicting priorities. So, it is a good policy aim. It was difficult in this case to bring together the parts and get a kind of cohesive umbrella organisation that we could use.”<sup>136</sup>

195. While we appreciated this logic, we were concerned that umbrella organisations of the type being described would not always exist, or be the most effective intermediary. As one of our Members observed, while Welsh Government officials:

“talked about value for money by giving it to an organisation such as AWEMA and then letting it pass it on. I would argue that it is far better value for money to use local authorities or councils for voluntary action.”<sup>137</sup>

196. The Permanent Secretary concurred that in this instance, the issue was not the use of an umbrella organisation per se, but rather the fact that:

“the Welsh Government clearly got itself into a position here where there was not just a lead organisation, but a dominant one, as it were, and, as I said, too much was done through it for safety.”<sup>138</sup>

197. We asked whether similar issues could not arise elsewhere- for example amongst disability groups. However, the Welsh Government advised us that:

“It is rather different in terms of how our funding works. We are at the moment consulting about the future of our grants programme on equality. One of the key questions we are

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<sup>136</sup> RoP, Public Accounts Committee, 3 December 2012, Para 33

<sup>137</sup> RoP, Public Accounts Committee, 3 December 2012, Para 39

<sup>138</sup> RoP, Public Accounts Committee, 3 December 2012, Para 54

asking there is how far should we actually be linking that funding to the objectives set in this strategic equality plan; what should be the balance between core funding and project funding.”<sup>139</sup>

198. We consider that- going forward- the Welsh Government should not seek to provide ‘All-Wales’ funding through an intermediate body, if that body does not itself have strong links with the whole of Wales’ geographic make-up. It is also important that an organisation distributing ‘All-Wales’ funding can demonstrate that it is truly representative of the community that it is acting to represent. In making these comments, we note that although AWEMA passed on WEFO and Communities First funding to other named partners in the projects supported by that funding, it did not have a role in distributing grants to other bodies in Wales.

199. We also note that the Welsh Government has now established a new ‘Wales Race Forum’ which will bring together various organisations with an interest in race equality matters. The forum met for the first time on 22 February 2012, shortly after the Welsh Government announced that it was terminating its funding of AWEMA.<sup>140</sup> We anticipate that such a forum will be a more equitable mechanism for taking forward the Welsh Government’s responsibilities in relation to race equality matters.

**We recommend that the Welsh Government recognise that- while using umbrella body can offer benefits- any aspect of poor-management in one of them will lead to increased risks and potentially serious repercussions for other organisations that rely on support (financial or otherwise) from these organisations. When using an umbrella body the Welsh Government should clearly and publicly state the rationale for using it.**

### **Training to enable improved monitoring**

200. For any form of monitoring to be effective, Welsh Government officials will naturally require adequate training. The Big Lottery Fund advised us that:

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<sup>139</sup> RoP, Public Accounts Committee, 3 December 2012, Para 39

<sup>140</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Minority Ethnic Association, Para 2.86

“All of our funding officers, when they join the organisation, undertake a detailed induction, which takes them through the application process and the assessment process. They are then required to have the support of a funding manager. We have a situation where the funding manager would be allocated a sample of that individual’s work, right the way through the lifetime of their work, as a quality check. They also have the ability to be able to refer their work upwards. So, a general induction takes place, and there are also mandatory elements of training that are undertaken by all staff across the organisation, such as fraud awareness training, which is on an ongoing basis. I am aware that, currently, our human resources department is in discussion with the University of Derby about an accredited grant-making course, so that the staff who work for us will be able gain formal credits to support their career development.”

201. In our interim report, we noted that the Welsh Government detailed that the Grants Management project would provide training to its grant managers and other internal staff. The Welsh Government advised us that this training would provide a better understanding of objectives, targets, and effective initial arrangements. The Welsh Government stated that it wanted:

“...to make sure that grants managers understand what clear objectives and targets look like, that there is clarity around terms and conditions, and that we have effective and regular monitoring within the Welsh Government to ensure that, over time, the reasons why we gave the money were still translating into making a difference.”<sup>141</sup>

202. However, the Welsh Government also recognised that such training would need to be ongoing, stating that:

“There is no quick silver bullet to this; it is about continuously training and educating 2,000 people, which is a big undertaking to keep people up to the levels and the standards.”<sup>142</sup>

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<sup>141</sup> RoP, Public Accounts Committee, 24 April 2012, Para 195

<sup>142</sup> RoP, Public Accounts Committee, 24 April 2012, Para 202

203. We noted the Welsh Government’s intention to enable the provision of on-going accredited training to grants managers. We considered that the Grants Management Project should also monitor how effectively such training is put into practice. We recommended that the Welsh Government enable the ongoing provision of accredited training for grants managers. As part of this, we recommended that the Welsh Government monitors the effectiveness with which such training will be put into practice by grants managers.

204. We are pleased that the Welsh Government accepted this recommendation and is progressing the training of its grant managers, “including some elements of certification.”<sup>143</sup> The Permanent Secretary advised us that:

“the process that we will be taking forward for improving grants management generally will include training for everybody involved to improve their sensitivity to what might appear at the time to be light-touch or almost casual information, but which, in the context of a grant-giving relationship, could be crucial.”<sup>144</sup>

205. We were also advised that:

“There is a suite of training—we have a new computer-based training module, two lots have been developed and we are starting to introduce that training. We have also introduced and are currently building up a central repository of due diligence information and intelligence, which will be available across the Government so that everyone will be able to access them.”<sup>145</sup>

206. We note the introduction of such training by the Welsh Government. Going forward, it is important that new grant managers are able to access such training, and that existing managers are able to refresh their training appropriately. It is vital that training is not something which is rolled out and then forgotten about.

207. We note that following the completion of the training, the Grants Management Programme’s Centre of Excellence will undertake spot checking of grant programmes to ensure that training has had a

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<sup>143</sup> Welsh Government Response to the Public Accounts Committee Report: Grants Management in Wales, Page 8.

<sup>144</sup> RoP, Public Accounts Committee, 3 December 2012, Para 187

<sup>145</sup> RoP, Public Accounts Committee, 3 December 2012, Para 196

positive impact on the management of grants. The Permanent Secretary advised us that:

“There is also a system of spot checks being run by the grants centre of excellence, which is running at a rate of about 10 a month.”<sup>146</sup>

208. We are hopeful that this training will have the desired impact. However, in the event that the Centre of Excellence’s spot checks indicate that training has had insufficient impact, it may be appropriate to revise such training. For example, we note that while on-line training can sometimes be rolled out quickly, it does not always have the lasting impact of face-to-face training. Likewise, it remains to be seen whether it will be sufficiently effective in the long term for the Welsh Government to embed its grants management training in “an induction training programme for all staff joining the organisation”<sup>147</sup> and “an ongoing training programme on project appraisal and management.”<sup>148</sup> We anticipate that the Welsh Government will adapt its grant management training programming in the light of information from the Centre of Excellence’s sport checks.

209. We also note that the WCVA has stated that it would:

“like to be assured that training in, understanding of, and compliance with the third Sector Funding Code of Practice is central to this training for any officers working with the third sector.”<sup>149</sup>

210. We would invite the Welsh Government to clarify whether its grants management training will include understanding of and compliance with the third Sector Funding Code of Practice.

**We recommend that the Welsh Government evaluate the effectiveness of the training it has introduced for Grant Managers.**

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<sup>146</sup> RoP, Public Accounts Committee, 3 December 2012, Para 197

<sup>147</sup> RoP, Public Accounts Committee, 3 December 2012, Para 191

<sup>148</sup> RoP, Public Accounts Committee, 3 December 2012, Para 191

<sup>149</sup> Grants Management in Wales, Further comments to Public Accounts Committee, WCVA.

## Qualification of grant claims from local authorities

211. The Auditor General's *Grants Management in Wales 2011* report showed that there has been a steady increase since 2005-06 in the percentage of grant claims that are qualified by auditors and / or adjusted.<sup>150</sup>

212. In our interim report, we noted that there is also very considerable variation in the levels of grant claims that are qualified or adjusted across the 22 Welsh unitary authorities. Over half of councils had more than a quarter of their grant claims for 2009-10 qualified and / or adjusted, with one council having 60 per cent of its claims adjusted or qualified. In contrast, at four councils the qualification rate was less than 10 per cent, with one council having a perfect record for 2009-10.<sup>151</sup>

213. In our interim report, we expressed disappointment that action had not been taken to address poor performance by local authorities in terms of qualified claims and returns. We recommended that the Welsh Government holds to account local authorities which have had high rates of grants claims being qualified or adjusted. As part of this, we commented that the Welsh Government might consider withholding funding from local authorities if the frequency of qualifications on grant claims does not improve. We also recommended that the Welsh Government engage in dialogue with the WLGA towards enabling a reduction in the frequency of grant claims by local authorities being qualified.

214. We are pleased that the Welsh Government accepted these recommendations. We understand that in dialogue with the WLGA, Wales Audit Office and individual local authorities that Welsh Government will track the incidence of qualified or adjusted claims. We understand that the Welsh Government will also track patterns of grant certificate qualifications and ensure that appropriate corrective action is taken. We note that the Welsh Government has encouraged regional collaboration amongst local authorities in relation to grant certification. We consider that this is an opportunity to promote good practice, and that such collaboration should be led by local authorities with a strong track record in this area.

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<sup>150</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.28 to 2.29 and Exhibit 7

<sup>151</sup> Wales Audit Office, *Grants Management in Wales 2011*, Para 2.30 and Exhibit 8

## Addressing Fraud

215. In our interim report on grants management, we noted that the Welsh Government was already undertaking a range of work- in collaboration with the WCVA- to improve organisations' governance arrangements.

216. We considered that another measure that could be undertaken would be to encourage more organisations to participate in the National Fraud Initiative (NFI) - recognising that such participation does include some financial costs. While participation in the NFI, and follow up of identified concerns, is clearly not a panacea to ensuring probity and good governance we believed that it could help to highlight matters relevant to good governance in relation to the management of public funding.

217. We recognised that a requirement for organisations to participate in the NFI would also need to be proportionate to circumstances, considering:

- the size of the organisation;
- the size of the funding it would receive;
- issues around the timing and duration of the funding (bearing in mind that the NFI is run once every two years)

218. We therefore recommended that- taking into account the need for proportionality and proper procurement processes- the Welsh Government should include in its terms and conditions for grants and other forms of funding, a requirement that recipient organisations participate in the National Fraud Initiative.

219. We are pleased that the Welsh Government accepted this recommendation, and agreed to include a reserve power to require data to be submitted. We note that that Auditor General has commented that while:

“there would be little benefit in many grant recipients participating in the general exercise... a new reserve power to require participation in a specific relevant future NFI exercise is most welcome. I am also pleased to note the Welsh



Government's commitment to work with me to extend NFI participation to other organisations in Wales."<sup>152</sup>

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<sup>152</sup> Wales Audit Office, Grants Management in Wales- The Welsh Government's response to the Committee's interim report, 26 November 2012.

### 3. Taking action in response to the identification of issues

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220. Clearly, when issues are identified in the course of monitoring grants- or other funding mechanism- it is vital that appropriate action is taken in response. The identification of such issues provides a critical opportunity for organisations to improve- whether it be in terms of addressing weaknesses in specific projects for which they are applying for grant funding, managing risks, or improving governance frameworks.

#### Fears about taking action

221. We were concerned whether Welsh Government officials might have been afraid to take earlier action in response to issues identified around AWEMA, because they were wary of public criticism. We were conscious that civil servants are often stereotyped as being risk averse, and we were keen to explore whether fears of being publically criticised had led to concerns going unaided.

222. We asked Welsh Government officials, at some length, whether:

“there may have been some reluctance [amongst civil servants] to get involved in making some of the tough decisions that needed to be made at that time to stop the funding for that organisation?”<sup>153</sup>

223. We noted that, in response to our questions, Welsh Government officials were robust in responding that:

“If the question is whether I [the Welsh Government’s Director of Governance] was aware of any inappropriate reluctance or interference to hold back that report, the answer is ‘no’.”<sup>154</sup>

224. The Wales Audit Office report notes that in 2005, following completion of the IMANI Consultancy Services review, a submission to the Minister then responsible for equalities (Jane Hutt) and the then First Minister (Rhodri Morgan) referred to:

“a reputational risk to the Welsh Government were the equalities unit to cease its funding”<sup>155</sup>

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<sup>153</sup> RoP, Public Accounts Committee, 3 December 2012, Para 79

<sup>154</sup> RoP, Public Accounts Committee, 3 December 2012, Para 80

225. We understand that this concern was presented in the context of the fact that the Welsh Government was about to embark on its second race equality scheme. Welsh Government officials commented that:

“the submission from January 2005 that noted that terminating funding for AWEMA would represent ‘a reputational risk’; I think that that was the phrase used. However, having now read that submission in preparation for this committee, I and colleagues in the office read that as a reflection of the reputational risk to the Welsh Government if funding for AWEMA was withdrawn, because of the race equality plan.”<sup>156</sup>

226. The Wales Audit Office’s report also states that the Welsh Government had previously faced external criticism, including from AWEMA, in respect of the quality and legal compliance of its original draft of the second race equality scheme.<sup>157</sup> The report details that since its creation in 1999, the Welsh Government’s equalities unit had been beset by problems of poor performance and a lack of stability in its staffing, structures and Ministerial reporting lines. The report highlights some particular problems that were reported by the Welsh Government’s Internal Audit Services in September 2003 and February 2005.<sup>158</sup>

227. The Wales Audit Office report also details that the Wales Co-operative Centre was accused of being “institutionally racist” by the Chief Executive of AWEMA in 2006, when a bid for funding was rejected.<sup>159</sup>

228. The former Chair of AWEMA stated that she herself had:

“learned never to use [the words] ‘racism’ or ‘racist’, because it closes conversations down and dissolves too easily into attitudes of self-righteousness and defensiveness... I have not charged racism against anyone in this whole sorry saga. The BBC made that direct attribution to me in its published online

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<sup>155</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Minority Ethnic Association, Para 2.28

<sup>156</sup> RoP, Public Accounts Committee, 3 December 2012, Para 81

<sup>157</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Minority Ethnic Association, Para Note 2 to Figure 6

<sup>158</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Minority Ethnic Association, Para Para 2.77-2.86

<sup>159</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Minority Ethnic Association, Para Figure 4 on Page 33

comment and it used quotation marks around those words. I challenged it and was able to demonstrate that I had never used those words. <sup>160</sup>

229. In response to these remarks, the Chair of our Committee commented that:

“people respond to... remarks when they are attributed to someone and we do not see anyone challenging those remarks. I was not aware that you had challenged any of those remarks. However, a charge of institutional racism has been made in the past by AWEMA, has there not, in respect of the Communities@One programme, which it applied to, which is owned by the Wales Co-operative Centre.”<sup>161</sup>

230. The former Chair of AWEMA stated that:

“I was not aware that that charge had been made until I read what I read in the Wales Audit Office report. I simply was not aware of it. I am aware of what institutional racism is, and I am not surprised to see that it occurs. I do not think that any of us should be.”<sup>162</sup>

231. We believe that providing feedback to organisations in response to issues identified in monitoring must not be a cause for concern for the Welsh Government. Indeed, the Big Lottery Fund commented that far from getting criticised:

“I am not aware that we ever received any particularly negative feedback at all. It is not unusual for us to reject projects. We consider probably upwards of 2,000 applications a year and approximately 50% do not go further. I am personally not aware of any direct feedback from AWEMA in relation to rejected applications, although it is highly likely that there would have been telephone calls afterwards had AWEMA asked for feedback additional to the information that we would have given it in any reject letter.”<sup>163</sup>

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<sup>160</sup> RoP, Public Accounts Committee, 3 December 2012, Para 336 and 337

<sup>161</sup> RoP, Public Accounts Committee, 3 December 2012, Para 360

<sup>162</sup> RoP, Public Accounts Committee, 3 December 2012, Para 365

<sup>163</sup> RoP, Public Accounts Committee, 3 December 2012, Para 278

## The impact of ‘political interference’ in an investigation

232. The former Chair of AWEMA expressed particular concern during her oral evidence that in determining what action should be taken in response to identified issues, civil servants would inevitably be influenced by political discussion. In relation to the concerns that emerged in December 2011, she commented that:

“officials, precisely because they do not work in an ivory tower, but in the real world, are open to all its influences, and so cannot avoid being influenced by the politics that go on around them. Of course they are influenced by what is in the ether; it would be foolish to suggest otherwise, hence it is important for politicians to avoid, or at least to carefully temper, public comment that may unduly influence, or be seen to influence, officials’ decisions.”<sup>164</sup>

233. She noted, for example, that the Chair of our Committee:

“at a Plenary session... rhetorically asked whether the end of the road had come for AWEMA. These prejudicial comments followed 20 days, at least, of constant, strident, partial and often ill-informed interventions by AMs of all opposition parties, including their leaders, against AWEMA, which fed into, and legitimated, an unremitting negative media. All of that was at a time when radio silence should have been observed by all politicians in order to avoid influence during the conduct of that review.”<sup>165</sup>

234. The former Chair of AWEMA stated to us that in mind of these concerns she herself had “not spoken to the media on these matters,<sup>166</sup> with the exception of one occasion when she “did appear on *Dragon’s Eye*.”<sup>167</sup>

235. Welsh Government officials acknowledged that political and media attention did create an impression that there was an urgent need for a response to the allegations raised around AWEMA. One official commented to us that:

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<sup>164</sup> RoP, Public Accounts Committee, 3 December 2012, Para 342

<sup>165</sup> RoP, Public Accounts Committee, 3 December 2012, Para 344

<sup>166</sup> RoP, Public Accounts Committee, 3 December 2012, Para 333

<sup>167</sup> RoP, Public Accounts Committee, 3 December 2012, Para 359

“in terms of the urgency of getting the advice in to the policy people, we were under a great deal of scrutiny: we attended a PAC meeting on 31 January, just about a week before, and there was also a lot of media attention—two *Dragon’s Eye* programmes were run at that same time.”<sup>168</sup>

236. As a result of this urgency, Welsh Government officials did not share a draft copy of their report on the allegations with the Chief Executive of AWEMA, for factual accuracy. The lead official told us that he:

“challenged my staff who had undertaken the audit to give me evidence for every statement that was in there and I took a conscious decision that to have shared it with the chief executive of AWEMA at that time ran the risk of delaying the process of finalisation.”<sup>169</sup>

237. The former Chair of AWEMA advised us that:

“after your Public Accounts Committee meeting at the end of January and the Permanent Secretary’s remarks, I rang the senior manager. I can tell you that, during the course of that review, I must have rung either the senior manager or the head of internal audit every other day, or sent them even more memoranda about what I had discovered with regard to the accounts, including, for example, the whole gym membership bit. They did not discover all of that; we discovered all of that, as we were looking through the cheque-book stubs and so on, and we sent that information in. Of course it was going to be a critical report; we had contributed most of the criticism ourselves. So, we should have been asked to correct the report for factual accuracy and, if he did not agree with that, then he could have said so in his final report.”<sup>170</sup>

238. We consider that it is unrealistic to think that civil servants will be completely unaware of discussion of an issue in the media and in the political sphere. However, we also consider it unrealistic to believe that discussion and comment will not take place once an issue has publicly aired. A key role of opposition parties- and indeed a Government’s

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<sup>168</sup> RoP, Public Accounts Committee, 3 December 2012, Para 211

<sup>169</sup> RoP, Public Accounts Committee, 3 December 2012, Para 211

<sup>170</sup> RoP, Public Accounts Committee, 3 December 2012, Para 478

own Assembly Members- is to hold Ministers to account. Consequently, it could have been seen as a dereliction of their responsibilities had they not raised a clear matter of public concern with Ministers.

239. We consider that a key part of the role of civil servants is to ensure that the work is based on fact, rather than speculation. As we commented in our report on ‘The Welsh Government’s acquisition and action to dispose of the former River Lodge Hotel, Llangollen,’ a critical function of civil servants responsibilities is to ‘speak truth to power.’ While it is unrealistic to think that civil servants will be entirely unaware by discussion of an issue, it is reasonable to believe that civil servants can form judgements independent from such discussion, and then be able to inform Ministers so that they can respond to such discussion. As part of this, we consider that it would have been reasonable for the Internal Audit Services review to have sought to reach agreement with the former Chair of AWEMA, at least on factual accuracies, prior to finalising the report.<sup>171</sup>

**We recommend that as a system of good practice, the Welsh Government should give serious consideration to disclosing the narrative of a report to external parties, so that it can be checked for factual accuracies, should it be required to undertake a similar review.**

240. Indeed, far from being an unreasonable question, we believe it entirely appropriate that the Welsh Government was asked whether ‘the end of the road had come for AWEMA.’ In the following subsection, we have considered whether the Welsh Government could have been more transparent in ultimately responding to this question.

### **Termination of funding**

241. The Wales Audit Office report concludes that the Welsh Government responded “robustly” to the concerns that emerged about AWEMA in December 2011.<sup>172</sup>

242. On 9 February 2012, the Welsh Government published the joint Internal Audit Services report, *A Review of the Effectiveness of*

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<sup>171</sup> A similar observation is made in the Wales Audit Office report on The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Para 3.18

<sup>172</sup> Part 3 of the Wales Audit Office report on The Welsh Government’s relationship with the All Wales Ethnic Minority Association.

*Governance and Financial Management within the All Wales Ethnic Minority Association.* The report identified what it described as ‘significant and fundamental failures in the control and governance framework within AWEMA.’ Based on the report’s findings and conclusions, the Minister for Finance and Leader of the House (Jane Hutt) announced on 9 February 2012 that the Welsh Government was terminating all of its funding to AWEMA. The Big Lottery Fund also announced that it was terminating its funding.

243. The Wales Audit Office report concludes that while the commissioning of the Internal Audit Services review was reasonable in the circumstances, the Welsh Government could have better managed expectations about the scope of its work.<sup>173</sup>

244. The report notes the former Chair of AWEMA’s views about the content and handling of the final Internal Audit Services report and her perception that the Welsh Government’s decision to terminate AWEMA’s funding had been pre-determined without consideration being given to action that could be taken to turn around the situation at AWEMA. We understand the former Chair of AWEMA has also disputed the view of Welsh Government officials that there were continuing corporate failures of governance at AWEMA during the period of the Internal Audit review.

245. We asked Welsh Government officials whether a decision to terminate AWEMA’s funding had been pre-determined. They told us that in:

“the days prior to 9 February when the report was published, neither Huw nor Damien [the respective heads of the Equalities Unit and WEFO] had seen the report, so there were no preconceptions about the action to be taken before the report was published. All options were open in terms of what might be decided in terms of any future funding. My report does not determine whether or not there should be future funding; it just comments on how suitable or fit the organisation was at that time to receive public money.”<sup>174</sup>

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<sup>173</sup> Wales Audit Office report on The Welsh Government’s relationship with the All Wales Ethnic Minority Association, Paras 3.13-3.20

<sup>174</sup> RoP, Public Accounts Committee, 3 December 2012, Para 208



246. However, other Welsh Government officials considered that following the publication of the report:

“the findings that Arwel had produced gave us no option; we deemed that the situation was effectively irremediable and that the shortcomings were such that we had no option.”<sup>175</sup>

247. The former Chair of AWEMA asked us:

“Did I hear him correctly that he only gave that report to the funding department on 9 February, the day it was published? How can that be? This is the date of its letters to me that terminate the funding. So, at the very least, the funding department must have had the report a few days earlier in order to make up its mind to terminate our funding, but with absolutely no notice whatsoever.”<sup>176</sup>

248. The former Chair of AWEMA commented that:

“if it was not the job of the internal audit service to make that evaluation, as the Wales Audit Office report believes, it should have asked the funding department explicitly to consider whether AWEMA could remedy the deficiencies. That is what I call transparent decision making. We do not have that in the case of the IAS report or in the funding departments’ decisions. I heard Huw Brodie assert yet again this afternoon that AWEMA could not be capable of remedy. I think that that needs to be demonstrated, because there is no corporate evidence—you have heard it yourself all afternoon—of AWEMA being a failing organisation... the decision making by the funding departments, which underpinned a decision to terminate funding, should have been made transparent. We should have been able to see it. The decision at the end may have been the same. I have no idea whether it would have been the same. However, at the time of the funding departments making that decision, knowing what they knew of all the previous history, knowing that much of the blame must have lain with them for not attending to these matters ahead of time and knowing that, in the immediate previous years, accounts had always been done and so forth, we should have had an explicit analysis of

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<sup>175</sup> RoP, Public Accounts Committee, 3 December 2012, Para 209

<sup>176</sup> RoP, Public Accounts Committee, 3 December 2012, Para 479

why AWEMA, under its new chair—me—and under its new leadership, given the evidence that I had submitted to the IAS team, against all of the improvements that I was trying to effect in governance, was not going to be up to the job. All I am asking for is the transparency of that decision making.<sup>177</sup>

249. For example, the former Chair of AWEMA commented that a condition of future funding for the organisation could have been a complete change of senior management.<sup>178</sup>

250. We note that the Welsh Government published its Internal Audit Services report, enabling its conclusion that there were ‘significant and fundamental failures in the control and governance framework within AWEMA’ to be considered in a transparent fashion.

251. What we are not clear on is the precise rationale behind the Welsh Government’s assessment that “the situation was effectively irremediable.”<sup>179</sup> We consider that it would have been reasonable for the Welsh Government to have transparently articulated the rationale behind its decision to terminate funding to AWEMA (rather than- for example- to take action to try to address the failures in AWEMA’s governance framework). We consider that articulating the rationale behind terminating funding would also have reduced a risk that such a decision could be perceived as rushed, given that this decision was apparently taken on the same day as the Internal Audit Service report was published.

252. Notably, the former Chair of AWEMA considered that there was sufficient transparency around the Big Lottery’s decision to withdraw funding from AWEMA, commenting that:

“a withdrawal letter was sent with a whole set of reasons as to why it was being withdrawn, and it was up to us to demonstrate why it should not be... That is a much better way of doing it; it is much more explicit.”<sup>180</sup>

**We recommend that the Welsh Government clearly and explicitly articulates its rationale for termination of- or a substantial cut in- funding to any organisation which has a grant, prior to that**

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<sup>177</sup> RoP, Public Accounts Committee, 3 December 2012, Para 494

<sup>178</sup> RoP, Public Accounts Committee, 3 December 2012, Para 483

<sup>179</sup> RoP, Public Accounts Committee, 3 December 2012, Para 209

<sup>180</sup> RoP, Public Accounts Committee, 3 December 2012, Para 497

**organisation's funding being terminated (or substantially cut). We anticipate that this rationale would normally only be provided to the organisation concerned.**

*The need for clarity during a liquidation process*

253. The Wales Audit Office report notes that Welsh Government officials recognised that despite certain previous experience they were also, to an extent, operating in uncharted territory regarding their efforts to secure the return of the greatest amount of public funds possible from AWEMA. For that reason, the Welsh Government bought in the services of a lawyer specialising in commercial services to support to join the membership of the Task and Finish Group that the then Permanent Secretary had established in February 2012 to coordinate the Welsh Government's action.<sup>181</sup>

254. The report commented that while- at the time of its publication- the outcome of the liquidation process is not yet known, it was clear that the Welsh Government will not recover most of the £545,966 it now believes it is owed by AWEMA. This was because the Welsh Government's claims far exceeded the amounts available to reimburse creditors and, even then, there would be preferential creditors who will have first call on AWEMA's assets. We have asked the Welsh Government to provide us with an update on the funds it has recouped, when such is available.

255. The report noted that the sum of the debt was disputed by AWEMA and that AWEMA had made counterclaims for payments from the Welsh Government's equalities unit worth, in total, £70,065. Part of the debt that the Welsh Government believed it is owed relates to ineligible expenditure that WEFO had identified following further work by its Project Inspection and Verification Team.<sup>182</sup>

256. The report comments that there was, initially, both a lack of clarity and some inaccuracy in the Welsh Government's communications with AWEMA regarding the sums the Welsh Government believed were owing to it.

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<sup>181</sup> Wales Audit Office report on The Welsh Government's relationship with the All Wales Ethnic Minority Association, Paras 3.21-3.23

<sup>182</sup> Wales Audit Office report on The Welsh Government's relationship with the All Wales Ethnic Minority Association, Paras 3.26-3.39

257. There were also conflicting views (between the Welsh Government and AWEMA) with regard to the Welsh Government's claims on funds in AWEMA's bank account.<sup>183</sup> The report notes that it took until early May 2012 for the Welsh Government to resolve that it would assume the position of an unsecured creditor, following legal advice about the changes of successfully arguing in court that WEFO monies could be said to have been held on the trust. In reaching this decision the Welsh Government also took into account the likely costs of any legal proceedings both for itself and AWEMA.

258. The report encourages the Welsh Government to undertake a lessons learned exercise relating to its handling of the situation around AWEMA's insolvency to support the development of internal guidance.<sup>184</sup> We are pleased that in written evidence, the Welsh Government indicated to us that it would be capturing the lessons learned for the future and that the Grants Management Project will develop guidance to indicate to officials what actions should be undertaken when financial concerns are raised about a partner organisations.

259. The former Chair of AWEMA noted that in her opinion it was the liquidator's advice, rather than clarity from the Welsh Government which enabled her to see through the final days of the organisation:

"I was left in a very difficult position, because I had no idea what to do. The first letter tells you that you cannot spend any money, and only the second letter on the tenth—which I got on whatever that Monday was, the thirteenth I suppose, although he did e-mail it to me as well—suggested that he was not going to stand in the way of 'normal running costs', which is what I think he said. However, to be frank, for most of my advice about what we should or could spend, I relied on the liquidators, the insolvency practitioners, once they were appointed. They were absolutely clear as to what could be spent and what could not be spent, and I followed their advice to the letter."<sup>185</sup>

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<sup>183</sup> Wales Audit Office report on The Welsh Government's relationship with the All Wales Ethnic Minority Association, Paras 3.26-3.39

<sup>184</sup> Wales Audit Office report on The Welsh Government's relationship with the All Wales Ethnic Minority Association, Recommendation 3

<sup>185</sup> RoP, Public Accounts Committee, 3 December 2012, Para 506

260. We concur with the Wales Audit Office's recommendation that the Welsh Government undertake a lessons learned exercise relating to its handling of the situation around AWEMA's insolvency to support the development of internal guidance.<sup>186</sup> We consider that this should include learning from both the civil servants involved in handling the situation, but also learning from other appropriate parties.

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<sup>186</sup> Wales Audit Office report on The Welsh Government's relationship with the All Wales Ethnic Minority Association, Recommendation 3

## Witnesses

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

[www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=2455](http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=2455)

### *3 December 2012*

Dr Rita Austin	Former Chair of Awema
Derek Jones	Permanent Secretary, Welsh Government
Damien O'Brien	Welsh Government, Chief Executive, WEFO
Huw Brodie	Welsh Government, Director of Strategic Planning & Equality
David Richards	Welsh Government, Director of Governance
Arwel Thomas	Welsh Government, Deputy Director Corporate Governance and Assurance
John Rose	Director Wales, Big Lottery Fund

### *31 January 2012*

#### *Welsh Government*

Dame Gillian Morgan	Permanent Secretary to the Welsh Government
Michael Hearty	Director General for strategic planning for Finance and Performance
Arwel Thomas	Head of Corporate Governance

### *24 April 2012*

#### *Welsh Government*

Dame Gillian Morgan	Permanent Secretary to the Welsh Government
Michael Hearty	Director General for strategic planning for Finance and Performance
Arwel Thomas	Head of Corporate Governance

### *8 May 2012*

#### *Welsh Local Government Association*

Jon Rae	Director of Resources
Mari Thomas	Policy Officer

29 May 2012

*Welsh Council for Voluntary Action*

Graham Benfield

Chief Executive

Phil Jarrold

Deputy Chief Executive

## List of written evidence

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The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at

[www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?lId=2455](http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?lId=2455)

<b>Organisation</b>	<b>Reference</b>
Welsh Local Government Association	PAC(4) 07-12 Paper 1
Welsh Council for Voluntary Action	PAC(4) 09-12 Paper 1
Welsh Government	PAC(4) 28-12 Paper 1
Big Lottery Fund	PAC(4) 28-12 Paper 2