

**General Report of the Audit Committee: European Structural Funds:
Maximising the Benefits for Wales. Committee Report 08-02**

The Cabinet of the National Assembly for Wales's response to the recommendations of the Audit Committee, following the presentation of their report in December 2002.

The Cabinet of the National Assembly is grateful for the report. We welcome the findings and offer the following response to the recommendations in the Report.

Recommendation i.

For future programmes, the basic management arrangements are settled well in advance of the programme's launch, and that comprehensive guidance for partnerships and applicants be issued in good time;

Assembly Government Response

We are already making an important contribution to the dialogue on the future role of the Structural Funds beyond 2006. Once we know what support systems will be available to Wales when the present Programmes come to an end, we can decide what management arrangements need to be in place to make the very best of them. This will be informed by the effectiveness of past and current programmes and the related management arrangements and the lessons learned from those will be applied.

Recommendation ii.

WEFO monitors rigorously the geographical distribution of programme expenditure and benefits, to identify areas of common concern, and to take a proactive role in assisting partnerships to develop solutions;

Assembly Government Response

WEFO will monitor expenditure as well as outputs by local partnership area, though the former will be subject to possible inconsistencies in the way expenditure is apportioned by project applicants. It is the outputs rather than the inputs that matter, i.e. it is the way that the grant is invested and the impact that this will have in the area that is important. WEFO already works with and advises both local and regional partnerships in their development of projects. A series of workshops is also being organised by WEFO and the strategy partnerships to disseminate best practice and good ideas.

Recommendation iii.

WEFO and the Assembly take all necessary steps to ensure that WEFO is sufficiently resourced to carry out the full range of its work;

Assembly Government Response

WEFO will continue to be resourced to carry out its work effectively and vacancies will be filled as quickly as possible.

Recommendation iv.

WEFO takes all reasonable steps to ensure the timely completion of the remaining phases of the required IT improvements and urge it to do everything possible to keep the costs of achieving this to a minimum, new computer systems being notorious for time delays and cost escalation;

Assembly Government Response

The project to enhance the functionality of WEFO's IT system was completed as forecast in September 2002 within budget. We agree with the Committee that any further enhancements should be achieved at minimum cost.

Recommendation v.

WEFO seeks to be as proactive as possible in monitoring the availability and take-up of match funding so that problems – and possible solutions – can be identified by those who have the necessary influence to deliver improvements;

Assembly Government Response

The Welsh Assembly Government remain committed to ensure that '...no good project will fail for lack of either match funding or public expenditure survey cover..' The Assembly's budget lines which are specifically allocated for match funding are used where necessary, after other public and private sources have been considered. There has been a significant contribution from the Public and Private sectors and this in turn has affected the demand for match funding from these budget lines. To date we are not aware of any eligible project that has been turned away or failed for lack of match funding.

In addition, WEFO has published a series of factsheets providing information on the management and implementation of the Structural Funds in Wales. The factsheet on match funding explains the different types and sources of match funding and how they can be accessed by the voluntary, community and other sectors.

Recommendation vi.

All remaining posts for the private sector facilitators are filled without further delay and that WEFO puts every effort into ensuring the success of the “blueprint projects”;

Assembly Government Response

An application for technical assistance has been received from the North Wales Chamber of Commerce and Industry, who if successful will manage the project to deliver the 6 posts, and is in the final stages of approval. Job descriptions and people specifications have been drawn up and the posts have been advertised. Training for facilitators will be arranged by WEFO Private Sector Unit and is planned to take place in February 2003.

The process for “Blueprint projects” is currently being piloted with an ICT project for a Data Management Service for SMEs. WEFO is looking to develop between 6 and 12 such projects with an average value of £5 million over the next two years.

Recommendation vii.

WEFO keeps under review the project development and assessment process, with a view to removing or amending those elements which become superfluous. We agree with WEFO’s intention of dispensing with the second phase of consultation with partnerships, provided that the first phase is working well, and urge that this be done at the earliest opportunity;

Assembly Government Response

WEFO is conscious of the need to ensure that the project development and appraisal process operates in an effective and efficient way and, with partners, keeps it constantly under review. There is no second phase of consultation with local and regional partnerships which could add to the timescale; but the project reports that go to the strategy partnerships are copied at the same time to the local and regional partnerships.

Recommendation viii.

WEFO uses its new information system to monitor appraisal times systematically, so that any problems or delays can be identified quickly;

Assembly Government Response

The information system can provide an analysis of the time taken to process an application within WEFO. WEFO will remain alert to problems or delays that arise and is also considering the scope for analysing the progress of projects during the development, i.e. pro-forma stage, but ultimately the quality of the projects that are approved is more important than the time taken.

Recommendation ix.

WEFO continues to develop proposals for key funds and project commissioning, while monitoring closely the effect that they have on the rate of spend;

Assembly Government Response

A number of key funds have already been approved, mainly in Priority 3 and in the rural economic development measures of Priority 5; the Welsh Council for Voluntary Action are also managing the Social Risk Capital Fund. WEFO will continue to work with applicants to help them develop proposals where these will enable easier access to the Programme.

The identification of specific projects or specific needs has taken place in the infrastructure measures dealing with transport and strategic sites and premises. Work is currently underway to identify energy projects which would be a priority for support under the programme. Project commissioning is also occurring in the case of "Blueprint projects".

The rate of spend is closely monitored for all types of projects.

Recommendation x.

WEFO takes early action to strengthen its guidance and develop a framework for assessing added value. We expect this to lead to greater clarity and a wider understanding of what is needed, and a rigorous risk-based assessment of added value at the appraisal stage;

Recommendation xi.

WEFO ensures that a suitably detailed assessment of project need is carried out for all projects, incorporating the work of partnerships where possible, and that in future this is properly documented on WEFO files;

Recommendation xii.

WEFO develops a more consistent and robust system for assessing the value for money of project costs and outputs;

Assembly Government Response

WEFO's guidance on project appraisal has already been strengthened in each of these areas. On the issue of value for money of project costs and outputs, unit costs are already taken into account in the appraisal of ESF projects and the scoring criteria for ERDF/EAGGF/FIFG are being reviewed to ensure that the weighting given to unit costs is appropriate. Capital project costs are also benchmarked by professional advisers.

Recommendation xiii.

WEFO, perhaps through its financial control visits, takes steps to confirm early in the life of each project that good systems and record keeping arrangements are in place and that there are no serious problems in delivery;

Assembly Government Response

WEFO procedures, which include a risk based approach to audit, already contain a range of checks to try to ensure that project sponsors have appropriate systems in place. WEFO will consider whether its project appraisal and financial control procedures require further development.

Recommendation xiv.

WEFO undertakes a review of the current arrangements for audit and financial control, with a view to improving the clarity and co-ordination of the roles of the external project auditors and its own financial control team;

Assembly Government Response

WEFO has already introduced new arrangements for ESF interim and final claim audit. WEFO will be working with the National Audit Office to make improvements on other the other Structural Funds and intends to publish a statement outlining the respective roles of external project auditors and financial control teams.

Recommendation xv.

WEFO considers adopting a policy of visiting all project sponsors at least once to review general progress and verify output information;

Assembly Government Response

WEFO is currently reviewing the scope for monitoring the programmes at project level and will consider the Committee's recommendation.

Recommendation xvi.

WEFO takes all possible steps to minimise the risk of decommitment particularly on EAGGF and FIFG where those risk currently appear greatest;

Assembly Government Response

The spend target for EAGGF and FIFG for 2002 has now been achieved and this has ensured that there will be no decommitment of funds this year. WEFO will in future years continue to monitor spend across the Funds and Programmes and will work with partners to avoid any decommitment.

Recommendation xvii.

We recommend that WEFO pays particular attention to developing its forecasting procedures - and the capability of project sponsors in the same area - to ensure that modest overcommitment, whilst tightly controlled and in line with recent trends, is sufficient to fully utilise the available structural funds;

Assembly Government Response

WEFO continues to monitor commitment carefully and work is in hand both to develop forecasting models which will better relate commitment to spend and to develop reports which can identify problem projects. We do not exclude the possibility, in the light of this work, of some modest overcommitment at an appropriate stage.

Recommendation xviii.

WEFO and the Assembly Government together consider how the exchange rate risk can be managed in the final stages of the programmes when the scope for altering expenditure within the programming round will be progressively reduced.

Assembly Government Response

The Assembly Government and WEFO will keep the exchange rate under review. It is too early to speculate on the position in 2009 but there is scope to adjust through amending approvals or issuing new ones right up to the final payment date if necessary in order to achieve the maximum possible from the programmes.