

Mr Darren Millar AM  
Chair of the Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

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Dear Darren

## WALES LIFE SCIENCES INVESTMENT FUND

Thank you for your letter of 24 November 2015, in which you enquired about the current position regarding my ongoing study into the establishment and oversight of the Wales Life Sciences Investment Fund (the Fund). In your letter, you asked for an update on the current position with this study, together with '*explanations for the delays to date, details of the work which still needs to be concluded and any concerns... [that I]...may have regarding the clearance processes*'.

I should begin by stating that I entirely share your concern over the very significant length of time that this study has taken. As you note in your letter I have however endeavoured to keep you and your Committee abreast of progress via oral and written updates, and I trust that these have indeed been helpful to the PAC. In responding to your letter, I would therefore like to take the opportunity to set out in some detail the background to the study, the issues that my study team have encountered, and also my intentions on the way forward.

### Commencement of my study

You will recall that you originally wrote to me in September 2013, forwarding information that you had received from a member of the public regarding the Fund's investment in a company called ReNeuron. You asked that I should review the decisions and operations of the Fund so that the public could be satisfied that there were no propriety issues in relation to the ReNeuron investment.

On initial investigation into your concerns, which had also attracted some media attention, my staff found that the Permanent Secretary of the Welsh Government had already instigated a review of this matter by his own Internal Audit Service. In order to avoid duplication of audit effort, I therefore decided to await the preliminary findings of the internal auditors before deciding what further action I might take. Within a couple of

weeks, it became apparent that there were some wider issues of potential concern regarding aspects of the operation and oversight of the Fund. In October 2013, I therefore determined that I should commit Wales Audit Office resources to undertaking a more broadly-based examination into the establishment and oversight of the Fund by the Welsh Government and Finance Wales PLC.

### **Conduct of the study fieldwork and production of my draft report**

In order to continue to avoid any duplication of audit effort, my staff agreed with the Welsh Government's Director of Governance that the Internal Audit Service and Wales Audit Office teams should work in parallel, liaising closely from the outset and sharing their emerging findings with each other. (Such joint working is by no means unprecedented, having been used in the past to good effect on audit examinations of topics such as the Plas Madoc Communities First project.)

Altogether, the Internal Audit Service and staff of the Wales Audit Office reviewed the actions of Welsh Government officials and certain actions of Finance Wales, including the process to appoint the 'Fund Manager' – a private sector company. In connection with that review, staff of the Wales Audit Office staff also considered relevant actions of the Fund Manager. To support this work the Wales Audit Office engaged Grant Thornton to provide specialist capital markets advice.

My study team drew on the work of the Internal Audit Service, including their final report which I received on 1 July 2014, and also on the findings of Grant Thornton in compiling my own draft report. That was sent on 22 August 2014 to the relevant Welsh Government Accounting Officers to commence the usual process of checking for factual accuracy and providing the opportunity to comment.

As is my standard practice where my draft reports make reference to named third parties the fact-checking and opportunity to comment process would be in two stages: firstly with the Welsh Government and Finance Wales, and then with the third parties. Even allowing for the additional time required for that third party clearance, at that point I fully expected to be able to finalise my report shortly before the end of 2014.

### **Discussion of my draft report with the Welsh Government and Finance Wales**

Members of the study team met with Welsh Government and Finance Wales officials on several occasions over the next couple of months. On 3 December 2014, Finance Wales confirmed that it was now content with the factual accuracy and fairness of the draft report, but on 19 December 2014 the relevant Director General stated that he did not agree with it.



Given that nearly four months of discussions with the Welsh Government had elapsed, I decided in these exceptional circumstances to commission an internal peer review of the report. This was undertaken by two senior staff within my office, neither of whom had been personally involved in the study to that point.

The peer reviewers completed their work in January 2015 and recommended that further audit evidence should be obtained on some areas from the Welsh Government. This further audit fieldwork was completed in February 2015, and on 18 March 2015 I wrote personally to the Director General enclosing a revised draft text and requesting his confirmation by 2 April 2015 that he was now content with the factual accuracy of the report.

#### **Discussion of my draft report with named third parties**

On 7 April 2015, the Director General replied that he thought that the draft report still required *'further comments from my team and further engagement with your auditors'*, but also stated that *'I do not think that this need slow up your process for third party clearance'*. On that basis, my study team sent a redacted version of the draft report to the Fund Manager on 22 April 2015, requesting their confirmation by 16 May 2015 as to the factual accuracy etc of the references to them in the report. Following an initial exchange of correspondence, in which the Fund Manager said that it had very significant concerns regarding much of the draft report but provided few particular details, a revised deadline of 3 June 2015 was offered, thereby providing the Fund Manager with six weeks in which to consider the factual accuracy etc of 26 pages of material.

On 13 May 2015, the legal advisers to the Fund Manager wrote to the Wales Audit Office querying the statutory basis under which my draft report had been prepared and under which it was to be laid before the National Assembly. Although my study team's letter of 22 April 2015 to the Fund Manager had already set this out, the position was re-confirmed to their legal advisers on 14 May 2015 as being section 135 of the Government of Wales Act 2006 and section 145A of the Government of Wales Act 1998.

On 15 May 2015, the Wales Audit Office received a further lengthy letter from the legal advisers to the Fund Manager which continued to challenge the legal basis of my report and my power to lay before the National Assembly and requested a further extension *'until 2 October 2015, at the earliest, to collate and review the necessary information and to provide comprehensive submissions on the salient points'*. The letter also raised the prospect of commencing legal proceedings, via an application for Judicial Review to restrain any further activity in connection with the draft report, and to lodge a claim for costs in this regard.



In reply, my study Director set out once again on 22 May 2015 the legal basis for my study and my statutory power to lay my reports before the National Assembly. He also questioned the rationale for the proposed 2 October 2015 response date, noting that to that point the Fund Manager had provided no substantive indication as to the nature of its specific concerns with the factual accuracy of the draft report. On the same day, my Director wrote separately to the Chief Executive of the Fund Manager, drawing his attention to this exchange of correspondence and requesting a meeting: *'to discuss the draft report, identify the precise concerns that ...[the Fund Manager]... may have about it and to explore how those concerns might be resolved'*.

Following two constructive meetings in June and July, both my study team and the Chief Executive agreed that Grant Thornton should be asked to revisit their initial findings in light of some additional information that the Fund Manager had now undertaken to provide to the Wales Audit Office.

In parallel with these third-party discussions, I met with the Director General on 4 June 2015 to discuss his specific remaining concerns. Where appropriate, my study team were then able to incorporate their consideration of those concerns into the ongoing text amendment process with the third parties.

At a third meeting with the Fund Manager, held on 4 August 2015, the draft report was again discussed in detail and some further amendments for factual accuracy were agreed.

Following the earlier request to Grant Thornton that they should revisit their initial findings, further issues were identified by them which needed to be explored with the Fund Manager relating to the oversight arrangements for the Fund. My study Director forwarded these questions to the Chief Executive of the Fund Manager, and at a meeting held on 4 December 2015 the Fund Manager provided all necessary explanations and relevant supporting papers to enable the study team to resolve the outstanding issues satisfactorily. My study team are therefore now currently processing some consequential final amendments to the draft report text.

### **My intentions regarding finalisation and publication of my report**

As I am sure both you and your Committee already appreciate, I remain determined to publish my report at the earliest opportunity despite the many obstacles that this particular study has encountered. There is, in my view, a clear public interest in enabling the Committee to take evidence on the matters contained in my report before the end of the current National Assembly.

Accordingly, I intend to draw a line under the report clearance process in the next few weeks, and to move swiftly to publication following a formal exchange of letters with the Permanent Secretary (in his capacity as Principal Accounting Officer for the Welsh Government), on the final draft text of my report. I therefore currently expect to publish my report in the first quarter of 2016.



**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**