



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2020

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Explanatory memorandum

Submitted to the Finance Committee of the National Assembly for Wales for consideration under Standing Order 20.35.

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Auditor General for Wales

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Chair, on behalf of the **Wales Audit Office**

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Purpose of this explanatory memorandum

Introduction

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the National Assembly. The Committee must examine that estimate and lay it before the National Assembly after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2019-20 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 15 January 2019 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £14.475 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £7.146 million of other resources in support of our expenditure plans for the year. Together, this £21.621 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 4 The Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2020.

Reason for change

- 5 Our [Estimate for 2019-20](#) referred to an expected increase in employer's pension contributions due to a valuation of the Civil Service Pension Scheme which was being carried out, but which had not been completed at the time our Estimate was laid.
- 6 Our expectation was for an increase to our costs of around £750,000 which, as explained at that time, could not be absorbed within our budget for the year. We explained to the [Finance Committee](#) that our options would be either to come back to the Committee to increase our call on the Welsh Consolidated Fund (WCF) or look to pass it on through our fee charges in which case we would need to come back to the Committee to agree a revised fee scheme as well as a revised Estimate.
- 7 On 7 February 2019, the Cabinet Office announced rates from 1 April 2019 based on the draft valuation results and plans to revise these from 1 April 2020 once the valuation has been completed. Now that the rates from 1 April 2019 have been confirmed, we can quantify the increased cost to the Wales Audit Office as £732,000 for the financial year 2019-20.

- 8 We have been advised that the Treasury has provided funding to departments to meet these increased costs in 2019-20¹. And, on 8 March, Rebecca Evans AM, Minister for Finance and Trefnydd, announced that the 'Welsh Government will provide additional funding to public sector organisations in 2019-20 to meet the additional costs associated with the UK Government pension changes'.
- 9 We have reviewed the scope to absorb a proportion of these additional costs within our existing Estimate for the year and have concluded that the financial risks in doing so would be too high. This is in the context of our Estimate requiring in-year staff vacancy savings of circa £800,000 plus an additional £574,000 to be found in-year through other savings and efficiencies.
- 10 We also considered increasing our fee rates and therefore the fees we charge public bodies for our audit work, to meet the additional costs. We concluded this would carry significant reputational damage for the Wales Audit Office, particularly with the Minister having protected public services from the direct costs of the increase. For these reasons, we seek the Finance Committee's support to increase our call on the WCF. This Explanatory Memorandum sets out the adjustments required to the Wales Audit Office Estimate for 2019-20.

Adjustments to revenue and capital resources

- 11 As explained above, the Wales Audit Office is seeking to increase its requirement for revenue resources by £732,000 for 2019-20 to fund the increase in employer's pension costs. Further detail is provided in [Appendix 1](#).
- 12 The budget changes required are set out in [Exhibit 1](#).

Exhibit 1: budget changes 2019-20

	Approved Estimate 2019-20 £'000	Supplementary Estimate 2019-20 £'000	Revised Estimate 2019-20 £'000
Revenue resource	6,936	732	7,668
Capital resource	210	–	210
Accruing resources	14,475	–	14,475
Total expenditure	21,621	732	22,353

¹ [Pensions: Written statement – HCWS1286](#) '... the Treasury is in the process of allocating funding to departments to help with these costs'.

Net cash requirement – explanation of changes

- 13 Along with increasing our net cash requirement to reflect the increase in employers' pension contributions, we need to make a further technical adjustment to reflect our cash position for the year just ended.
- 14 In previous years, at the year-end we have returned only the element of underspend which specifically relates to the budget for 'resources, other than accruing resources', in our approved budget ambit (as adjusted for any movements in working capital and non-cash transactions such as depreciation). In other words, we only returned the element of cash that related to WCF-funded activities.
- 15 This reflected the fact that our cash balances are largely in respect of fee income from audited bodies which had been received in advance of audit work being carried out. Most of our fees are charged in monthly instalments through the year, with the phasing of audit work continuing across financial years.
- 16 In other words, when we receive income before having undertaken the work to which it relates, we need to carry forward that income to match our costs when we do actually undertake the work. Throughout the financial year it is a non-issue, but at the year-end, it becomes an issue for WCF accounting as we move from one financial year to another. Income received by March for work undertaken from April onwards needs to be carried forward from one financial year to the next.
- 17 Our Director of Finance has agreed a revised accounting approach with Welsh Government Finance officials and our external auditors which, from 2018-19 onwards, notionally returns our full cash balance to the WCF at the year-end (31 March) then re-draws it the following year (1 April). This is a notional return and re-draw rather than a physical transfer of cash and is in line with HM Treasury's Financial Reporting Manual. Our draft accounts for 2018-19 include a year-end cash balance of £1,776,000.
- 18 Under this revised accounting approach, we will notionally return our **full cash balance** at the year-end (£1,776,000 for 2018-19) and seek an adjustment to the WCF cash funding Estimate in the new financial year (2019-20) to reflect the year-end position.
- 19 To carry forward this balance for the new financial year and reflect the increased cash required to meet additional pension costs, we need to increase our net cash requirement for 2019-20 by £2,640,000 as represented in **Exhibit 2**.

Exhibit 2: changes to net cash requirement 2019-20

	Approved Estimate 2019-20 £'000	Supplementary Estimate 2019-20 £'000	Revised Estimate 2019-20 £'000
Net request for resources – revenue and capital	7,146	732	7,878
Non-cash adjustment	(200)	–	(200)
Adjustment for working capital 2018-19 (per Exhibit 3)		1,908	1,908
Net cash requirement from the WCF	6,946	2,640	9,586

20 The adjustments for working capital per our draft Annual Report and Accounts 2018-19 are as set out in [Exhibit 3](#).

Exhibit 3: adjustment for working capital 2018-19

	£'000
Trade receivables and work in progress at 31 March 2019	(2,259)
Other receivables at 31 March 2019	(339)
Trade and other payables at 31 March 2019	1,538
Deferred income at 31 March 2019	2,371
Provisions for liabilities and charges due in 2019-20 at 31 March 2019	597
Adjustment to cash balances 2018- 19	1,908

Summary

21 Exhibit 4 provides a summary of the revised capital and revenue resources and net cash requirement on approval of this supplementary estimate.

Exhibit 4: summary of revised resources and cash requirements 2019-20

	Resource request £'000	Net cash requirement £'000
Revenue resource	7,668	9,376
Capital resource	210	210
Total	7,878	9,586

Appendix 1

Wales Audit Office Income and Expenses 2019-20 (revised)

Exhibit 5: Wales Audit Office Income and Expenses 2019-20 (revised)

		Estimate, year to 31 March 2020 (Revised) £'000	Estimate, year to 31 March 2020 £'000
Expenses	Staff costs	15,917	15,185
	Short-term contracted staff	737	737
	Travel and subsistence	1,216	1,216
	Accommodation	993	993
	Private sector firms (including VAT)	905	905
	Balance of irrecoverable VAT	500	500
	ICT	480	480
	Wales Audit Office Governance Arrangements	300	300
	External training	289	289
	Translation of documents	165	165
	Legal and professional fees	162	162
	Other supplies and services	479	479
	EXPENSES TOTAL	22,143	21,411
	Income	Audit fees	13,277
Grant certification fees		1,198	1,198
INCOME TOTAL		14,475	14,475
	Total revenue budget to be funded by the WCF	7,668	6,936

Appendix 2

Summary of the 2019-20 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 ('the 2006 Act'), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending 31 March 2020, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#) below.

Table 1: summary of the estimated 2019-20 budget requirements

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office: <ul style="list-style-type: none">• Revenue• Capital	7,668 210
Accruing resources from fees and charges for audit and related services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences and provision of administrative and professional and technical services; for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	14,475
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	9,586

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