

Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2023

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Submitted to the Finance Committee of the Senedd for consideration under Standing Order 20.35.

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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 Senedd. The responsible committee must examine that Estimate and lay it before the Senedd after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2022-23 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 8 March 2022 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £15.082 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £8.608 million of other resources in support of our expenditure plans for the year. Together, this £23.69 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 2023.

Reason for change

Changes to our travel and subsistence arrangements

- 5 On 21 January 2022, the Finance Committee considered a Supplementary Estimate for 2021-22 to fund an upfront payment associated with the removal of a contractual entitlement to Travel Allowance for staff who had been required to travel across Wales to undertake their work.
- 6 Additional resource funding of £1.48 million was approved which allowed for all eligible staff to receive an upfront payment of £7,000 (pro rata) in return for relinquishing their entitlement to an annual Travel Allowance of £3,350 (pro rata) from April 2022. Staff had alternative options of continuing to receive the allowance until March 2024 or, for our trainees and apprentices, the option to move to a new, benchmarked, salary scale with no allowance.
- 7 In the event, 67% of eligible staff took up the option of an upfront payment at a total cost of £1.086 million of which Audit Wales was able to contribute £314,000 from savings in other budget areas. As a result, £708,000 of the agreed additional funding was utilised in the year.
- 8 The Wales Audit Office Board proposes to reduce its call on Welsh Consolidated Fund (WCF) resource funding by £354,000 in 2022-23 and 2023-24 to offset the additional funding utilised in the 2021-22 Supplementary Estimate. Ongoing savings, estimated at £200,000 per year from 2024-25, will be reflected in future Estimates and Fee Schemes.

IFRS 16 implementation 2022

- 9 A new accounting standard, International Financial Reporting Standard 16 – Leases (IFRS 16), had been due to take effect from the financial year 2020-21. A decision was made by HM Treasury and the Financial Reporting Advisory Board (FRAB) to defer the implementation of IFRS 16 until 1 April 2021. A further delay was announced in November 2020, deferring the implementation until 1 April 2022.
- 10 IFRS 16 requires all leases to be accounted for on a consistent basis. Previously, leases classified as ‘operating leases’ were not recognised and were reported ‘off-balance sheet’. This change primarily affects the treatment of the leases of our three offices at Cathedral Road, Cardiff, Penllergaer and Abergele, which are not currently classified as assets and depreciated.
- 11 From 1 April 2022, the offices will need to be recognised as right-of-use assets and depreciated over the future lease period. This change results in an increase to the depreciation and interest finance charges in our budget – offset by a reduction in the budget for lease payments. There will be no change in the amount of rent paid to the landlords, however, the accounting presentation will be different. These changes are for accounting purposes only and will not increase the cash requirement from the Welsh Consolidated Fund.
- 12 Given the short amount of time remaining on our office leases, the net resource impact for Audit Wales is negligible, requiring no adjustment to our overall resource or cash budgets. For reporting purposes, the following adjustments will be made to our asset-related budgets for the year.

Exhibit 1 – changes to budgets to reflect IFRS 16 requirements

	Approved Estimate 2022-23 £'000	IFRS 16 Adjustments £'000	Supplementary Estimate 2022-23 £'000
Lease rental payments	424	(424)	–
Depreciation	280	420	700
Interest charges	–	4	4
Total	704	–	704
Net cash requirement	424	–	424

Adjustments to resource budgets

- 13 As explained above, the Wales Audit Office is seeking to reduce its revenue resources for 2022-23 by £354,000 and its net cash requirement by £394,000.

14 The associated budget changes for 2022-23 are set out in **Exhibit 2**.

Exhibit 2: budget changes 2022-23

	Approved Estimate 2022-23 £'000	Supplementary Estimate 2022-23 £'000	Revised Estimate 2022-23 £'000
Revenue resource	8,298	(354)	7,944
Capital resource	310	–	310
Accruing resources	15,082	–	15,082
Total expenditure	23,690	(354)	23,336
Net cash requirement	9,078	(394)	8,684

Appendix 1

Summary of the 2022-23 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 2023, 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 **Tables 1 and 2** below.

Table 1: summary of the estimated 2022-23 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:	
• Revenue	7,944
• Capital	310
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.	15,082
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,684

Table 2: reconciliation of resource requirement to cash drawing requirement from the WCF

	Approved Estimate 2022-23 £'000	Supplementary Estimate 2022-23 £'000	Net change £'000
Net request for resources – revenue and capital	8,608	8,254	(354)
Non-cash adjustment – depreciation and interest charges	(280)	(704)	(424)
Lease rental payments	–	424	424
Non-cash adjustment – movements in working capital	750	710	(40)
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	9,078	8,684	(394)



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.