



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Explanatory Memorandum

Explanatory Memorandum to the Finance Committee Regarding the Variation of the Budget of the Wales Audit Office for the Year Ending 31 March 2015

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

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Overview

- 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 responsible 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 2014-15 was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 10 December 2013, following scrutiny by the Finance Committee.
- 3 Further to evidence provided to the Finance Committee on 6 November 2014, the Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2015.

Purpose of this Explanatory Memorandum

Introduction

- 4 The budget motion authorised the Wales Audit Office to retain £17.639 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £5.974 million of other resources. Together, this £23.613 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 5 Our Estimate for 2014-15 explained that a variety of legacy IT systems are in use by the Wales Audit Office to plan, manage, record and store audit work across our two audit practices (financial audit and performance audit). These legacy systems were inherited by the Wales Audit Office on its creation. The Finance Committee was advised that a project had been initiated to identify whether there was a common audit platform that could undertake these various functions and help improve the way in which audit work is carried out. It was highlighted to the Committee that additional capital funding may be required through a Supplementary Budget, should the project identify a viable solution.
- 6 In testing the market, we found that our aspirations could not be achieved in the short term without significant resource input and pioneering software that was untested in the external audit sector. The Board concluded that the risks of implementation were too high, yet also, business continuity risks were too significant to justify a 'do nothing' continuation. A letter from the Chair of the Wales Audit Office to the Chair of the Finance Committee on 29 October 2014, set out the Board's decision to procure a new audit management system for our financial audit practice. The system will also rationalise and simplify supporting systems, as it will replace our current time-recording and resource-management systems. The capital cost is £216,000, along with initial revenue costs of £46,000 in 2014-15. It will lead to reduced system running costs and improved workforce efficiency, releasing resources following full implementation (effective from 2016-17). The Board retains its aspiration for a common audit platform across the two practices, which we anticipate may be achievable in the medium term, particularly as we continue to work closely with the other UK external audit bodies.
- 7 As explained to the Finance Committee on 6 November, through careful management of our resources, these additional costs can be met internally, without the need to seek increased funding. The Supplementary Budget mechanism is therefore being used to make a technical adjustment to the Estimate of the Wales Audit Office in order to move revenue funds to capital. The Committee noted the need for a supplementary budget to effect this transfer and welcomed that we could meet the additional spend through existing resources rather than seeking a budget increase. This Explanatory Memorandum sets out the technical adjustments required.

Adjustments to revenue and capital budgets

- 8 As explained above, the Wales Audit Office has identified savings and efficiencies within its 2014-15 revenue budget which will allow it to fund the purchase and initial implementation costs of the new audit management system. The technical budgetary changes required are set out in [Table 1](#).

Table 1

	Approved Estimate 2014-15	Supplementary Estimate 2014-15	Revised Estimate 2014-15
	£'000	£'000	£'000
Revenue resource	5,876	(200)	5,676
Capital resource	98	200	298
Accruing resources	17,639	–	17,639
Total expenditure	23,613	–	23,613

Net cash requirement

- 9 No change is required to the approved net cash requirement of £5.974 million.

Summary

- 10 [Table 2](#) provides a summary of the revised capital and revenue resources and net cash requirement on approval of this supplementary estimate.

Table 2 – Summary of revenue resource and cash requests

	Resource request	Net cash requirement
	£'000	£'000
Revenue resource	5,676	5,676
Capital resource	298	298
Total	5,974	5,974

Appendix 1

Summary of the 2014-15 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 2015, 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 2014-15 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	5,676
• Capital	298
Accruing resources from fees and charges for audit and related services (excluding for local government audit, assessment and inspection work); other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative and professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; and interest received on working balances for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	17,639
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	5,974

Table 2 provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2015.

Table 2 – Reconciliation of resource requirement to cash drawing requirement from the Consolidated Fund

	£'000
Net request for resources – revenue and capital	5,974
Net working capital adjustments	–
Net cash requirement	5,974

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