

Welsh European Funding Office Annual Accounts 2001-02

WELSH EUROPEAN FUNDING OFFICE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

FOREWORD TO THE ACCOUNTS

1. Form of Accounts

The accounts have been prepared in accordance with a direction given by Treasury in pursuance of Section 97 of the Government of Wales Act 1998. The Direction is shown in full at the end of the Financial Statements.

2. Background and Principal Activities of the Welsh European Funding Office

The Welsh European Funding Office (WEFO) is an Executive Agency of the National Assembly for Wales. It was created on 1 April 2000 taking over functions previously conducted by Welsh European Programme Executive Ltd and the former European Affairs and Urban Regeneration Divisions of the National Assembly for Wales. The Agency is responsible for the administration, management, awarding and monitoring of European Structural funds in Wales.

3. Executive Management Board

The names of persons who served on the Management Board during the financial year are disclosed in the Annual Report.

4. Disabled Persons

The Agency follows the Civil Service Code of Practice on Employment of Disabled People. Its policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

5. Employee Consultation

The Agency operates within the arrangements established by the National Assembly for Wales for employee consultation, which has established Whitley Committees, with employee representatives, to discuss matters of concern. Staff are also consulted over the planning process and regular consultation meetings are held between senior and junior staff.

6. Creditors' Payment Policy

The Agency follows the principles of the CBI Prompt Payers Code and is committed to paying all valid invoices within 30 days of receipts. The National Assembly for Wales makes all payments on behalf of the Agency. In 2001-02 85.6% of payments met this target.

7. Financial Review

The net deficit on the Income and Expenditure Account for the year of £ 12,831,000 (2000-01 £3,441,000) has been charged to the General Fund. The increase in the deficit in 2001-02 is a result of WEFO increasing, by almost 200% during the year, the level of grants administered. In addition WEFO has also administered Local Regeneration Fund grant which is funded by the National Assembly for Wales as a match-funded scheme.

8. Going Concern

The balance sheet at 31 March 2002 shows net liabilities of £ 113,000. This relates mostly to business creditors and reflects the inclusion of liabilities falling due in future years that may only be met by future grant from WEFO's sponsoring organisation the National Assembly for Wales. This is because, under the normal conventions applying to government control over income and expenditure, such grants may not be issued in advance of need.

Grant for 2002-03, taking into account the amounts required to meet WEFO's liabilities falling due in that year, have already been included in the National Assembly for Wales' estimates for that year. There is no reason to believe that these elements of funding will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

9. Auditors

The Accounts have been audited by the Auditor General for Wales in accordance with Section 97 of the Government of Wales Act 1998.

Signed:

John Clarke
Chief Executive

Date: 29 November 2002

WELSH EUROPEAN FUNDING OFFICE STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 97 of the Government of Wales Act 1998, the Treasury has directed the Welsh European Funding Office Executive Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction on page 21. The accounts are prepared on an accrual basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosing requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Permanent Secretary of the National Assembly for Wales has designated the Chief Executive of the Welsh European Funding Office as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the National Assembly for Wales Framework Document, appointment letter and accompanying Accounting Officer Agreement.

WELSH EUROPEAN FUNDING OFFICE STATEMENT ON INTERNAL CONTROL

This statement is given in respect of the resource account for the Welsh European Funding Office. As Accounting Officer I acknowledge my overall responsibility for ensuring that an effective system of internal control is maintained that supports the achievement of the Welsh European Funding Office's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my appointment letter.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable, and not absolute, assurance of effectiveness.

The system of internal financial control is based on an ongoing process designed to identify the principal risks to the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I shall have the procedures in place to implement HM Treasury guidance on risk management in March 2003. This takes account of the time needed to fully embed the processes which the organisation has agreed should be established, and to improve their robustness.

During the coming year the Welsh European Funding Office will:

- Adhere to the risk management policy document published by the National Assembly for Wales;
- Ensure the Agency develops, monitors and takes ownership of its own risk register;
- Establish a system for review of risk management; and
- Incorporate into its business planning the concept of risk.

The internal audit function for the Welsh European Funding Office is provided by the Internal Audit Unit of the National Assembly for Wales. The Internal Audit Unit operates to standards defined in the Government Internal Audit Manual. The work of the Internal Audit Unit is informed by an analysis of the risks to which the Agency is exposed, and annual internal audit plans are based on this analysis. At least annually, the Head of Internal Audit (HIA) provides me with a report on internal audit activity in the Agency. The report includes the HIA's independent opinion on the adequacy and effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors.

As well as the framework of corporate management controls identified above, my review of the effectiveness of the system of internal control has been informed by the reviews of executive managers in the Agency who are responsible for the development and maintenance of the control framework.

In forming my view on the effectiveness of the system of internal control I have also taken account of the comments of the external auditors in the reports and management letters they have issued.

I have set up a Corporate Governance Committee to assist and advise me on matters relating to financial management and internal control.

Signed:

John Clarke
Chief Executive

Date: 29 November 2002

THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO THE MEMBERS OF THE NATIONAL ASSEMBLY FOR WALES

I certify that I have audited the financial statements on pages 9 to 20 in accordance with Section 97(5) of the Government of Wales Act 1998. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 12 to 13.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 4 the Agency and Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government of Wales Act 1998 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 to 6 reflects the Agency's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Welsh European Funding Office at 31 March 2002 and of the net expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government of Wales Act 1998 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Auditor General for Wales
16 December 2002

National Audit Office,
3 – 4 Park Place,
CARDIFF CF10 3DP

**WELSH EUROPEAN FUNDING OFFICE
INCOME AND EXPENDITURE ACCOUNT
for year ended 31 March 2002**

		Year Ended		Year Ended	
		31 March 2002		31 March 2001	
	Notes	£000	£000	£000	£000
INCOME					
European Programmes	2	197,341		67,743	
Total Income			<u>197,341</u>		<u>67,743</u>
EXPENDITURE					
European Programmes	2	(197,341)		(67,743)	
Local Regeneration Fund – Match Funded Programmes	3	(9,584)		-	
Other Expenditure	4	(290)		(158)	
Administration Expenditure	5	(1,642)		(1,074)	
Staff Costs	6	(3,289)		(2,152)	
Total Expenditure			(212,146)		(71,127)
Cost of Capital Credit / (Charge)			1,974		(57)
NET EXPENDITURE FOR THE YEAR			<u>(12,831)</u>		<u>(3,441)</u>

All activities are continuing.

**STATEMENT OF RECOGNISED GAINS AND LOSSES
for year ended 31 March 2002**

There were no other recognised gains and losses during the year.

The notes on pages 12 to 20 form part of these accounts.

WELSH EUROPEAN FUNDING OFFICE
BALANCE SHEET
as at 31 March 2002

		At 31 March 2002	At 31 March 2001
	Notes	£000	£000
CURRENT ASSETS			
Debtors	7	39,068	4,473
Cash at Bank and in hand	8	31,719	145,156
		<u>70,787</u>	<u>149,629</u>
CREDITORS:			
Amounts falling due within one year	9	(70,900)	(149,747)
		<u>(113)</u>	<u>(118)</u>
Net Current Liabilities		(113)	(118)
Total Net Liabilities		(113)	(118)
Taxpayers Equity			
General Fund	10	(113)	(118)
Total Government Funds		(113)	(118)

John Clarke
Chief Executive

29 November 2002

The notes on pages 12 to 20 form part of these accounts

WELSH EUROPEAN FUNDING OFFICE
CASH FLOW STATEMENT
for the year ended 31 March 2002

	Year ended 31 March 2002	Year ended 31 March 2001
	£000	£000
Net cash (outflow) / inflow from operating activities	(127,136)	142,681
Financing from the National Assembly for Wales	13,699	2,475
(Decrease) / increase in cash	<u>(113,437)</u>	<u>145,156</u>

Reconciliation of net cost of operating activities to net cash outflow from operating activities

	Year ended 31 March 2002	Year ended 31 March 2001
Net cost of operating activities for the year	(12,831)	(3,441)

Notional Charges:

Central Services provided by the National Assembly for Wales	1,048	736
Audit Fee	63	55
Cost of Capital	(1,974)	57

Movement in net current assets:

Increase in debtors	(34,595)	(4,473)
(Decrease) / increase in creditors	(78,847)	149,747
Net cash (outflow) / inflow from operating activities	<u>(127,136)</u>	<u>142,681</u>

The notes on pages 12 to 20 form part of these accounts

WELSH EUROPEAN FUNDING OFFICE

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

The accounts for the Welsh European Funding Office have been prepared in accordance with the Accounts Direction issued by HM Treasury pursuant to Section 97 of the Government of Wales Act 1998.

The Accounts follow the requirements of the Resource Accounting Manual issued by HM Treasury and are based on the accruals concept of accounting and the historical cost convention.

Subject only to compliance with the requirements set out in the Accounts Direction, the Accounts also:

- i. Comply with the accounting and disclosure requirements of the Companies Act 1985 insofar as they are consistent with the status of an Agency of the National Assembly for Wales;
- ii. Comply with accounting standards issued or adopted by the Accounting Standards Board except to the extent that they are advised inapplicable by the Treasury.

b. Tangible Fixed Assets

The Agency does not have any fixed assets.

c. Value Added Tax

The Agency is covered by the VAT registration of the National Assembly for Wales which operates on a cash basis. The Agency recovers VAT on certain contracted out services, as agreed by HM Treasury. All supplies to third parties are taxable. Expenditure shown in the Income and Expenditure Account includes VAT except where VAT has been recovered in conjunction with contracted out services.

d. Pension Costs

Present and past employees are covered by the provision of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Government bodies covered by the PCSPS meet the cost of pension cover period for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

WELSH EUROPEAN FUNDING OFFICE NOTES TO THE ACCOUNTS

e. Income

Income comprises amounts receivable from the European Union (EU) in respect of the European programmes, funds and initiatives and is brought to account in line with grants payable in respect of these amounts.

f. Grants Payable

Grants administered by the Agency in accordance with its statutory powers and duties are charged to the Income and Expenditure Account in the period in which the recipient carries out the activity which creates an entitlement.

g. Notional Costs

A notional cost has been included to cover certain common services and support functions, such as finance, personnel, information technology, accommodation and other office services, provided to the Agency by the National Assembly for Wales free of charge. A notional interest on capital charge has been calculated at the appropriate government lending rate on the average value of net current assets in the year, excluding those relating to EU funding.

h. Foreign Currency transactions

The total amounts made available from the structural funds programme are denominated in Euros. These are converted to sterling at the rate prevailing at the time of the draw down of funds from the EU. Other than this, WEFO is not exposed to exchange rate risk.

**WELSH EUROPEAN FUNDING OFFICE
NOTES TO THE ACCOUNTS**

Note 2. European Programmes, Funds and Initiatives

Income and Expenditure

	European Regional Development Fund	European Social Fund	European Agriculture Guidance and Guarantee Fund	Financial Instrument for Fisheries Guidance	Total
	£000	£000	£000	£000	£000
2000-2006 Programmes					
Objective 1 - West Wales and the Valleys	59,437	30,129	977	6	90,549
Objective 2 - East Wales	84	-	-	-	84
Objective 3 – East Wales	-	5,818	-	-	5,818
Residual Programmes					
Objective 2 Industrial South Wales	66,460	-	-	-	66,460
Objective 5b Rural Wales (incl. DGP)	13,097	-	5,952	-	19,049
Clwyd 88-91	34	-	-	-	34
Clwyd 92-93	150	-	-	-	150
Residual Community Initiatives					
Leader II	1,550	-	310	-	1,860
Rechar II	5,803	-	-	-	5,803
Resider II	1,773	-	-	-	1,773
Retex	505	-	-	-	505
Konver II	414	-	-	-	414
SMEs	312	-	-	-	312
PESCA	76	-	-	49	125
Interreg II	1,638	-	-	-	1,638
Urban	2,767	-	-	-	2,767
2001-02 Total for all Funds	154,100	35,947	7,239	55	197,341
2000-01 Total for all Funds	63,578	-	4,141	24	67,743

**WELSH EUROPEAN FUNDING OFFICE
NOTES TO THE ACCOUNTS**

Note 3. Local Regeneration Fund – Match Funded Programmes

	Year ended 31 March 2002 £000	Year ended 31 March 2001 £000
Capital Payments – South East Wales	9,360	-
Revenue Payments – South East Wales	224	-
	9,584	-

Note 4. Other Expenditure

	Year ended 31 March 2002 £000	Year ended 31 March 2001 £000
Project Support Costs	73	6
Gap Guarantee Fund	217	152
	290	158

Note 5. Administration Expenditure

	Year ended 31 March 2002 £000	Year ended 31 March 2001 £000
Travel and Subsistence	191	130
Hospitality	7	13
Training	52	39
Office Services	281	101
Notional Costs:		
Central services provided by the National Assembly	1,048	736
Audit Fee	63	55
	1,642	1,074

WELSH EUROPEAN FUNDING OFFICE NOTES TO THE ACCOUNTS

Note 6. Staff Costs

	Year ended 31 March 2002 £000	Year ended 31 March 2001 £000
Wages and Salaries	2,767	1,818
Social Security Costs	175	120
Other Pension Costs	347	214
	3,289	2,152

The average number of full time equivalents of staff employed by the Agency during the year was **143** (2000-01 - 97).

Contributions of £ 377,000 (2000-01 - £181,000) were paid to the PCSPS at rates determined by the Government Actuary and advised by Treasury. These rates were in the range 12 – 18.5% of pensionable pay.

SENIOR STAFF EMOLUMENTS

Name and Title	Salary Range At 31 March 2002 £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2002 £000
John Clarke Chief Executive	75-80	0-2.5	0-5
Phil Gray* Head of Corporate Planning	60-65	Nil	Nil
Katherine Himsworth Head of Local Action Plans	45-50	0-2.5	15-20
David Howarth Head of ESF/EAGGF/FIFG	45-50	0-2.5	15-20
Sheila Maxwell Head of ERDF	45-50	0-2.5	0-5

* Has opted not to join the Principal Civil Service Pension Scheme.

Note: The Resource Accounting Manual normally requires the ages of senior staff to be disclosed. However, the individuals concerned refused their consent to disclose this information as, in their view, it is not essential to an understanding of the details of the senior staff emoluments shown above.

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is a statutory scheme which provides benefits on a “final salary” basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable

salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pay a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Salaries include gross salaries plus performance bonus and allowances where payable.

Note 7. Debtors: Amounts falling due within one year

	At 31 March 2002 £000	At 31 March 2001 £000
European Union Debtors	11,478	2,452
Grant Debtors	16,681	-
Other Debtors	10,908	2,019
Prepayments	1	2
	39,068	4,473

Note 8. Bank and Cash

	At 31 March 2002 £000	At 31 March 2001 £000
Balance at 1 April	145,156	-
Net cash (outflow) / inflow	(113,437)	145,156
Balance at 31 March	31,719	145,156
The Office of HM Paymaster General (OPG) provides a current account banking services. The following were held at 31 March:		
Balance at OPG	28,842	145,125
Balance at Commercial Banks and cash in hand	2,877	31
Balance at 31 March	31,719	145,156

The bank balances at year-end largely relate to advance funding from the EU for projects where grant payment is not yet due.

**WELSH EUROPEAN FUNDING OFFICE
NOTES TO THE ACCOUNTS**

Note 9. Creditors: Amounts falling due within one year

	At 31 March 2002 £000	At 31 March 2001 £000
European Union Creditors	790	121,525
Grant Creditors	69,693	28,086
Other Creditors	404	130
Accruals	13	6
	70,900	149,747

Note 10. General Fund & Taxpayers Equity

	At 31 March 2002 £000	At 31 March 2001 £000
Funding from the National Assembly for Wales	13,699	2,475
Net Expenditure for the year	(12,831)	(3,441)
Notional Charges:		
Central Services provided by the National Assembly	1,048	736
Audit Fee	63	55
Cost of Capital	(1,974)	57
Movement On General Fund for the Year	5	(118)
Balance as at 1 April	(118)	-
Balance as at 31 March	(113)	(118)

Note 11. Operating Leases

There were no operating leases as at 31 March 2002.

WELSH EUROPEAN FUNDING OFFICE NOTES TO THE ACCOUNTS

Note 12. Capital Commitments

There were no contracted capital commitments at 31 March 2002.

Note 13. Analysis of Expenditure by Main Category

	Year ending 31 March 2002 £000	Year ending 31 March 2001 £000
Administration costs	3,247	3,441
<i>less: operating income</i>	-	-
Net Administration costs	3,247	3,441
Programme costs	206,925	67,743
<i>less: income</i>	(197,341)	(67,743)
Net Programme costs	9,584	-
Total Net Expenditure for the year	12,831	3,441

Note 14. Related Party Transactions

The Welsh European Funding Office was created on 1 April 2000 as an Executive Agency of the National Assembly for Wales.

The National Assembly for Wales is regarded as a related party. During the year WEFO had various material transactions with the National Assembly. There were also transactions with the following sponsored bodies and other government departments:

- Welsh Development Agency
- Wales Tourist Board
- Countryside Council for Wales
- Forestry Commission
- National Museums & Galleries of Wales
- National Council for Education & Training for Wales
- Department for Trade and Industry
- Department for Education and Employment

Note 15. Contingent Liabilities

There were no contingent liabilities at 31 March 2002 (At 31 March 2001 – nil).

WELSH EUROPEAN FUNDING OFFICE NOTES TO THE ACCOUNTS

Note 16. Post Balance Sheet Events

There have been no events since year-end that materially affect the accounts.

WELSH EUROPEAN FUNDING OFFICE

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 97 OF THE GOVERNMENT OF WALES ACT 1998

The Welsh European Funding Office shall prepare resource accounts for the year ended 31 March 2001 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the HM Treasury Resource Accounting Manual (“the Resource Accounting Manual”) which is in force for that financial year.

The accounts shall be prepared so as to give a true and fair view of the state of affairs of the agency at 31 March 2001 and the income and expenditure, recognised gains and losses and cash flows for the financial year then ended.

Compliance with the requirements of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent both with the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

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Head of the Central Accountancy Team
HM Treasury
19 July 2001