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News release

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Reporting of Scottish finances will need to develop further in light of new powers

The Scottish Government will need to make sure its financial reporting is more comprehensive and transparent as it prepares for new tax and borrowing powers.

An Audit Scotland report published today, *Developing financial reporting in Scotland*, highlights why good financial reporting matters. It is a contribution to preparations for new financial powers as the Scotland Act 2012 is implemented over the next three years.

The report says while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is currently no single complete picture of the devolved public sector's finances, and particularly its assets and liabilities.

The report says the Scottish Government will need to further develop its public financial reporting ahead of the new powers taking effect, making sure it is comprehensive and transparent. Areas of particular consideration include:

- the long-term consequences of funding assets from borrowing or public private partnerships
- how forecasts and other estimates are made
- how potential liabilities are assessed and monitored
- the clarification of complex accounting issues.

Auditor General for Scotland, Caroline Gardner, said:

"Scotland will soon enter a new era of fiscal and financial autonomy as the Scotland Act is implemented over the next three years and the Scottish Parliament gets new tax and borrowing powers. Comprehensive, transparent and reliable financial reporting will become even more important for public accountability and confidence.

"Public bodies' audited accounts are a sound base, but they do not give a complete picture of what Scotland's devolved public sector owns, owes, spends and receives. The global financial crisis highlighted the importance of having a thorough understanding of a government's assets and liabilities and of the key risks to a government's financial position.

"The Scottish Government needs to further develop its financial reporting in discussion with the Scottish Parliament. This report is a contribution to that process. It illustrates key issues and suggests particular areas for consideration, such as the forecasting of tax receipts and the long-term consequences of funding assets from borrowing."

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Notes to editors

1. The Scotland Act 2012 is expected to come into effect from April 2015. It will result in the UK Government reducing the amount of direct funding it provides the Scottish Government, with Scotland raising the balance from Scottish income, lands and building transaction and landfill taxes. The Act also gives the Scottish Government more borrowing powers, including borrowing for capital funding from private sources, and the authority to set up a financial reserve.
2. Good financial reporting is characterised by being: **comprehensive** – contains information about the sector as a whole; **transparent** – information is clear and easily available; and **reliable** – information has been independently audited or verified. It helps: **decision-making** – providing evidence and detail to support

decisions; **accountability** – enables public bodies to be held responsible for their decisions; and **confidence** – provides the public and investors with trust in government decisions.

3. The 'devolved public sector' is made up of the public bodies that deliver services and policies in the areas of domestic policy where the Scottish Government is empowered to take decisions instead of the UK Government. Examples include the health service, policing and education. In 2012/13 there were 214 devolved public bodies in Scotland. The Scottish Government had total income of £32.2 billion in 2012/13, from a UK Government block grant (£30.5 billion) and other sources of income such as sales of services and EU grants (£1.7 billion).
4. All Audit Scotland reports published since 2000 can be found on Audit Scotland's website www.audit-scotland.gov.uk
 - Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. Audit Scotland has prepared this report for the Auditor General for Scotland.
 - The Auditor General is responsible for securing the audit of the Scottish Government and most other public bodies in Scotland, except local authorities. She investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Government or the Scottish Parliament.