

# Financial Reporting & Scrutiny: Why the Accounts Matter



 AUDIT SCOTLAND

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

# Financial Reporting & Scrutiny: Why the Accounts Matter

## The role of financial reporting

1. Effective planning, management and scrutiny of the use of public funds are a key part of a local authority's responsibilities. The financial statements (commonly known as the accounts) are a vital part of the accountability framework, as they demonstrate how an authority has spent its resources. They also record assets used, and liabilities incurred, in delivering services.
2. Audited accounts provide the public with reliable information about the stewardship of funds and the financial position of the authority. They provide elected members with information to scrutinise the use of funds in each year, and to make budgetary decisions for the future.
3. The accounts are prepared based on International Financial Reporting Standards (IFRS). Under local government accounting rules councils make a number of adjustments to the IFRS financial results to determine the impact on the General Fund, and consequently the level of council tax set for future years. For example large adjustments are made for the accounting treatment of fixed assets and pension costs. Councils monitor their financial results relative to the General Fund, and not on an IFRS basis. In taking decisions, it is therefore important that members understand the link between what the accounts show on the council's spending, assets and liabilities, and the budgetary outturn information.

### Your role in the accounts process

Role of the s95 officer	Role of elected members	Role of the auditor
<ul style="list-style-type: none"> <li>• Responsible for the preparation and submission of the financial statements, in accordance with proper accounting practice.</li> <li>• To support the Audit Committee in their scrutiny role.</li> </ul>	<ul style="list-style-type: none"> <li>• To scrutinise and approve the accounts.</li> <li>• To consider the financial results reported in setting future budgets and reserves policies.</li> <li>• To consider the annual audit report and hold officers to account on areas of concern reported.</li> </ul>	<ul style="list-style-type: none"> <li>• To provide an independent auditor's report on whether the accounts show a 'true and fair view' of the financial position.</li> <li>• To provide an annual audit report addressed to members and the Controller of Audit, reporting significant audit findings.</li> </ul>

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## Developments in financial reporting in 2014/15

4. In 2014/15 council's faced the challenge of producing the accounts to tighter timescales as prescribed by new accounts regulations<sup>1</sup>.
5. External auditors said that councils generally met this challenge well. They commented as follows:
  - The councils did well to bring forward the completion of the accounts for approval by members by 30 September.
  - Members welcomed receiving the audited accounts for approval alongside the auditors' annual audit reports.
6. The auditors also commented on some areas for improvement:
  - The accounts are complex and lengthy documents. Some s95 officers could do more to explain to the Audit Committee the role of the accounts, and what they show about the council's performance.
  - The management commentaries could do more to explain the overall picture regarding the council's financial performance and challenges.
  - Some members need more guidance on what they are looking for when reviewing and approving the accounts.
  - It is disappointing that members do not ask more questions about the issues raised in our annual audit reports.
  - The standing orders in some councils need to be updated to reflect the processes adopted for approving the accounts under the new regulations.
7. In light of these key messages we have compiled a list of questions, at Appendix 1, for members to consider when reviewing the accounts.
8. Your local auditor will request an opportunity to discuss this paper with members of the audit committee prior to the June meeting at which they consider the draft accounts. The expectation is that the audit committee members could then use the questions in considering the accounts and annual audit report at their meetings in June and September.
9. This paper complements the messages in the 2011 Local Authority (Scotland) Accounts Advisory Committee's publication 'Holding to Account, Using Local Authority Financial Statements.'

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<sup>1</sup> The Local Authority Accounts (Scotland) Regulations 2014

# Appendix 1

## Questions for elected members to consider as part of the accounts scrutiny and approval process

Stewardship of the council's funds	Your answer
<p>1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the council has been reported?</p>	
<p>2. Does the council's governance statement provide you with assurance that the internal controls and governance arrangements are operating effectively? Does it adequately disclose any risk areas that you are aware of?</p>	
<p>3. Does the annual audit report provide you with assurance that:</p> <ul style="list-style-type: none"> <li>• financial management of the council is effective?</li> <li>• financial sustainability of the council is demonstrated?</li> <li>• the council reports on its financial and service performance in a transparent way?</li> <li>• the council demonstrates Best Value in how its funds are used?</li> <li>• management have responded appropriately to any audit recommendations?</li> </ul>	
<b>Sustainability of services</b>	
<p>4. Does the management commentary in the accounts clearly explain to you the financial position of the council?</p>	
<p>5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information that you have considered for this year?</p>	

6. Do you understand how the council's reserves, shown in the movement in reserves statement (MIRS), will be used in the future?	
7. The value of fixed assets is shown in the balance sheet. Do you understand how these assets are managed to secure the delivery of services in the future?	
8. Are you satisfied that the council's commitments for funding the capital programme, shown as liabilities in the balance sheet, are affordable into the future?	
9. If the council has significant borrowings have you received assurances that the council can afford the interest and is keeping up with the repayment of capital?	
10. Do you understand what any provisions included in the balance sheet are for? Is there risk that further significant liabilities could arise in the future?	
11. If there is a significant movement in the pension liability, do you understand what has caused the change, and the implications for the council?	
12. Do you understand the reason for any large movements in this year's figures compared with those shown for last year? Are those movements in line with strategic decisions to shift resources?	
13. Do you have suggestions for the s95 officer on how information in the accounts could be presented in a different or more understandable way?	
14. After considering the accounts and the budget outturns you have seen how the council is funding current services. Are you satisfied that adequate plans have been made to realise efficiencies or deliver services in a different way with reduced budgets in the future?	