

# Financial Reporting & Scrutiny: Reviewing the Annual Accounts



 AUDIT SCOTLAND

Prepared for Central Government Bodies

March 2016

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: Reviewing the Annual Accounts

## The financial statements

1. Effective planning, management and scrutiny of the use of public funds are a key part of a government's responsibilities. The financial statements (commonly known as the accounts) are a vital part of the accountability framework, as they demonstrate how a body 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 body. They provide non executive directors and independent members with information to scrutinise the use of funds in each year, and to understand budgetary decisions for the future.
3. Central government bodies, including the Scottish Government, non-ministerial government departments, government agencies, trading funds and executive non departmental public bodies (NDPBs) are required to prepare their accounts in line with the UK Government financial reporting manual (the FReM). The FReM is the technical accounting guide on the preparation of the financial statements and is prepared by HM Treasury in consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities in the UK (the Scottish Government in respect of Scotland).

## The Statement of Financial Position

4. The Statement of Financial Position, known previously as the balance sheet, is one of the primary financial statements in the accounts. It summarises what is owned and owed by the body. This shows taxpayers' equity – an accounting measurement of the amount invested by taxpayers that has continuing public benefit. The Statement of Financial Position includes:
  - items which are owned, have already been funded from revenues and will provide continuing economic benefit in future periods. These increase taxpayers' equity.
  - items which are owed and expected to require to be funded from future revenues. These decrease taxpayers' equity.
5. In public finances, the position at a point in time is helpful but the most valuable insight comes from an analysis of trends in assets and liabilities over time. This provides important information about the impact of past decisions on future budgets and in turn highlights potential risks to financial sustainability.

## Your role in the accounts process

<b>Role of the accountable officer</b>	<b>Role of the audit committee</b>	<b>Role of the auditor</b>
<ul style="list-style-type: none"> <li>• comply with the Accounts Direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.</li> </ul>	<p>In reaching a view on the accounts, the Audit Committee should consider:</p> <ul style="list-style-type: none"> <li>• key accounting policies and disclosures</li> <li>• assurances about the financial systems which provide the figures for the accounts</li> <li>• the quality of the control arrangements over the preparation of the accounts by management</li> <li>• key judgements made in preparing the accounts</li> <li>• any disputes arising between those responsible for preparing the accounts and the auditors.</li> </ul>	<ul style="list-style-type: none"> <li>• To provide an independent auditor's report (opinion) on whether the accounts show a 'true and fair view' of the financial position.</li> <li>• To provide an annual audit report addressed to the accountable officer, the Auditor General for Scotland and the Scottish Parliament, reporting significant audit findings.</li> </ul>

## Financial reporting and transparency

6. Many central government bodies continue to find it challenging to produce the accounts to the existing timescales. Most meet this challenge well but auditors commented on some areas for improvement:
  - The accounts are complex and lengthy documents. Senior finance staff could do more to explain to the audit committee the role of the accounts, and what they show about the body's performance.
  - The management commentaries could do more to explain the overall picture regarding the body's financial performance and challenges.
  - Some audit committees need more guidance on what they are looking for when reviewing and approving the accounts.
  - It is disappointing that audit committees do not ask more questions about the issues raised in our annual audit reports.
  
7. In light of these key messages we have compiled a list of questions at Appendix 1. The audit committee may wish to refer to these when asking questions of the accountable officer prior to the accounts being approved.

# Appendix 1

## Questions for non executive directors and independent members to consider as part of the accounts scrutiny and approval process

Stewardship of accounts	Your answer
1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the body has been reported?	
2. Does the body'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?	
3. Does the annual audit report provide you with assurance that: <ul style="list-style-type: none"> <li>• financial management is effective?</li> <li>• financial sustainability is demonstrated?</li> <li>• the body reports on its financial and service performance in a transparent way?</li> <li>• management have responded appropriately to any audit recommendations?</li> </ul>	
Sustainability of services	
4. Does the management commentary in the accounts clearly explain to you the financial position of the body?	
5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information for this year?	
6. The value of fixed assets is shown in the Statement of Financial Position. Do you understand how these assets are managed to secure the delivery of services in the future?	
7. Are you satisfied that the body's commitments for funding the capital programme, shown as liabilities in the Statement of Financial Position, are affordable into the future?	

---

<p>8. Do you understand what any provisions included in the Statement of Financial Position are for? Is there risk that further significant liabilities could arise in the future?</p>	
<p>9. 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?</p>	
<p>10. Do you have suggestions for the accountable officer on how information in the accounts could be presented in a different or more understandable way?</p>	