

PERTH AND KINROSS COUNCIL**Audit Committee – 30 March 2016****AUDIT SCOTLAND
FINANCIAL REPORTING & SCRUTINY: WHY THE ACCOUNTS MATTER****Report by the Head of Finance****PURPOSE OF REPORT**

This report advises the Committee of a recent Audit Scotland publication entitled Financial Reporting & Scrutiny: Why the Accounts Matter that was published in February 2016

1. BACKGROUND / MAIN ISSUES

- 1.1. Audit Scotland published Financial Reporting & Scrutiny: Why the Accounts Matter in February 2016.
- 1.2. The report was produced to recognise that the Annual Accounts are a vital part of the accountability framework, and that they provide elected members with the information they require to scrutinise the use of funds in the year and to make budgetary decisions for the future.

2. CONTENT

- 2.1 The report summarises the key roles in terms of financial reporting as they refer to:
 - The Section 95 Officer
 - Elected Members
 - External Audit
- 2.2 The Accounts play a key role in ensuring sound stewardship of the Council's funds. To that end the Audit Scotland report also includes a list of questions for elected members to consider when reviewing the accounts – see Appendix 1 to the Audit Scotland report.
- 2.3 The Audit Scotland report summarises findings from all of the Councils audited by Audit Scotland, rather than specific issues for Perth and Kinross Council. The local auditor (Audit Scotland) will discuss any specific issues with the Committee at this meeting. The expectation is also that the Audit Committee members may then use the questions in considering the accounts and Annual Audit Report at their meetings in June and September.

3.0 CONCLUSION AND RECOMMENDATIONS

- 3.1 Audit Scotland published Financial Reporting & Scrutiny: Why the Accounts Matter in February 2016.
- 3.2 The Committee is asked to note the contents of the report and make use of the checklist in scrutinising the unaudited and audited Annual Accounts.

Author(s)

Name	Designation	Contact Details
Scott Walker	Chief Accountant	swwalker@pkc.gov.uk 01738 475515

Approved

Name	Designation	Date
John Symon	Head of Finance	8 March 2016

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting (*Alison O'Brien-01738 475516*)



Council Text Phone Number 01738 442573

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

- 1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

- 2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

- 2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

- 2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. **Assessments**

3.1. Equality Impact Assessment

- 3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2 Strategic Environmental Assessment

- 3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3 Sustainability

- 3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

- 4.1.1 The Chief Executive and all Depute Chief Executives have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Audit Scotland published Financial Reporting & Scrutiny: Why the Accounts Matter

Financial Reporting & Scrutiny: Why the Accounts Matter



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

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 regulations¹.
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.'

¹ 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
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?	
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?	
3. Does the annual audit report provide you with assurance that: <ul style="list-style-type: none"> • financial management of the council is effective? • financial sustainability of the council is demonstrated? • the council reports on its financial and service performance in a transparent way? • the council demonstrates Best Value in how its funds are used? • management have responded appropriately to any audit recommendations? 	
Sustainability of services	
4. Does the management commentary in the accounts clearly explain to you the financial position of the council?	
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?	

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?	