

## Consultation on Government Expenditure & Revenue Scotland (GERS) 2015-16

1. ICAS's Public Sector Committee welcomes this consultation and the opportunity to comment. ICAS is a leading professional body for chartered accountants with over 20,000 members working across the UK and internationally. Our members work across the private and not for profit sectors.
2. The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

### Key messages

3. Easy access to high quality, transparent, complete and understandable financial information is an essential tool to enhance accountability, scrutiny and to support effective decision making on public finances. This is increasingly important in the context of devolved powers and increasing volatility of revenue.
4. The GERS publication is a useful and credible official source of financial information which is used by various stakeholders to inform analysis. It forms part of a broader suite of financial information used by stakeholders supporting analysis across a range of areas such as the economy, performance and financial sustainability. This broader suite is informed by a combination of statistical, accounting, budgetary and forecasting information. A clear explanation of how this all fits together would be helpful to the wider public.
5. We believe it is timely to review the broader fiscal and financial reporting framework to ensure that reporting and communicating Scotland's public finances remains fit for purpose in an evolving landscape with developing demands.
6. We would welcome further consideration of the developments in fiscal and financial reporting to meet the growing needs of scrutiny and accountability. In particular, the existing information (such as GERS and the Scottish Government accounts) offers a good starting point to consider what further developments are needed to provide a more holistic picture of Scotland's public finances and its' liabilities. This could include a cost benefit analysis of options to develop government accounts which consolidate the whole public sector in Scotland (on an accruals basis).
7. In our view, this would help to improve transparency which is essential to develop understanding of longer term financial health, inform decision making and strengthen accountability in a period of growing devolution of powers<sup>1</sup>.
8. Within an evolving landscape, ICAS supports efforts to review and improve the financial and fiscal reporting framework so it continues to meet its purpose fully and effectively. We would be happy to discuss further any aspect of this submission.

### Our response to specific questions

*Q1: Do you agree with the proposal to bring forward the publication to August, and the associated methodology changes? What further analysis or information could be used to judge the change?*

9. We support the proposal to bring forward publication. This supports the principle of timeliness – generally the older information is the less useful it becomes. The only caveat we would add is that if there is a short delay to reduce the need for estimated figures and provide final figures then that would be preferable as final figures offer greater clarity.

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<sup>1</sup> The IFRS Conceptual Framework articulates this as: “*information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.*” Source CF OB17.

The example quoted in the consultation paper demonstrates that the difference in methodology to achieve the earlier publication date is not significant, it would be helpful to confirm whether this is reflective of the norm.

*Q2: Do you feel that publishing GERS in August could cause confusion with other financial information produced by the Scottish Government?*

10. To support an advance timetable there needs to be careful communication and explanation to minimise potential confusion. For example, this could include an outline of the different types of financial information available, their purpose, what they are/ are not, key features, differences and how/if they interact, scope, different bases used and why that matters, whether audited or not and what that means. A landing page on the website could help to signpost users to the various publications. This would need to include the GERS, budget, financial statements and Scottish Fiscal Commission reports. Examples of areas of interaction for explanation could include how the financial statements interact with, and report on, the budgets; how the liabilities presented in the accounts inform planning and forecasting.

*Q3: What do users think about the proposal to include the additional analysis discussed above? Are there any other suggestions for the type of information that users would find useful?*

11. We are supportive of the proposed additional information.

#### *Evolving information needs*

12. The devolution of powers and increasing responsibilities that come with those powers, means that information requirements to maintain effective accountability have increased. It is appropriate and timely to review the suite of information which is publicly available to enable analysis of the economy, financial sustainability and how new borrowing powers are applied to ensure that they are implemented in an affordable and sustainable manner. There is also a need for financial information to provide a better understanding of tax, how it has been used to support public finances and to enable taxpayers to hold decision makers to account. It would be helpful to provide an analysis of devolved revenues against budget to assess whether policy decisions made in respect of the new devolved powers achieved their intended effect (as well as for expenditure).
13. Another dimension is the need for a longer term perspective. We note that by increasing the proportion of revenue raised through taxation, as well as increasing uncertainty in the political and economic environment, it presents a greater exposure to volatility. We are also in a period of financial challenges where sustainability and public sector reform is under the spotlight. This is against a backdrop of an increasingly uncertain economic and political environment. Financial planning and a longer term view combined with forecasting to inform policy development, modernisation and yet balance affordability is critical. This context stresses the need for reviewing what potential improvements could be made to the existing package of fiscal and financial information to ensure it remains fit for purpose.

#### *Principles to underpin usefulness of financial information*

14. ICAS supports the qualitative characteristics for enhancing the usefulness of financial information as identified in the IFRS Conceptual Framework<sup>2</sup> (which are based on the premise that the information is relevant and faithfully represented):
- Understandability
  - Comparability
  - Verifiability
  - Timeliness (see our comment in paragraph 9).
15. We have separately identified openness and transparency to represent the public interest duties of government. We offer the following observations on these characteristics.

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<sup>2</sup> Section QC 19

### *Openness and transparency*

16. Providing accessible, transparent and complete information on public finances for decision makers, stakeholders and the wider public is critical to understand the overall financial position, drive informed financial and policy decisions and to meet public interest duties. A holistic picture of public finances in Scotland would include scope i.e. the whole public sector, as well as methodology to ensure a full picture of liabilities is available.
17. Where different accountabilities are a feature of particular parts of the public sector (e.g. with local authorities as they are not accountable to Parliament unlike some other government bodies), this would need to be clarified in any presentation of national finances.
18. Accruals based accounts give a fuller picture of liabilities which is essential to transparency and is recognised as international good practice. The accrual accounting methodology requires that all transactions are recorded when the underlying events occur (i.e. as soon as one becomes committed to the payment at a future point in time), regardless of the timing of the actual cash receipts and payments. This provides a more complete financial picture of liabilities to understand financial health and support assessment of financial sustainability and performance. Examples include pensions and public private finance initiatives. In our view, it offers valuable additional information which complements the statistical and budget information provided and could inform the Scottish Fiscal Commission (for example, as the UK Whole of Government Accounts informs the OBR).
19. The Scottish Government already prepares annual accounts on an accruals basis for the bodies within its boundary. This does not reflect the whole public sector in Scotland. We are supportive of efforts to build on the information already available to provide a complete picture of Scottish public finances on an accruals basis. One option under discussion is to prepare whole of government accounts for Scotland, similar to what is available at a UK level. We recognise the merits of this and note that it may require extra resources to implement and intermediary steps to deliver. The significance of the changes we are experiencing at present as well as those appearing over the horizon indicate that it is timely and appropriate to have an open debate on how we can ensure information on Scotland's public finances evolves to keep pace with change and remains fit for purpose.
20. We would welcome further consideration of developments in fiscal and financial reporting to meet the growing needs of scrutiny and accountability. This could include options such as a full set of government accounts which consolidates the whole public sector in Scotland (on an accruals basis) accompanied by a cost benefit analysis.

### *Understandability (including objectivity and independence)*

21. We welcome the wide variety of GERS data which the public can access on the web and standards which statistical publications adhere to. Other readers include non-statisticians and as such, may value additional explanations. Generally, the volume of information can present a challenge to user understanding. We support a user focused approach including:
  - Clear signposting and explanation of the different sources available, their purpose etc. as noted in paragraph 10
  - A balanced upfront summary narrative report – this is an important tool to help users understand and interpret the key issues in the technical report with appropriate use of summaries and visuals. This approach is good practice in annual reports and accounts and can be applied to different types of financial and fiscal reports.
  - We welcome regular engagement and consultation with users on the content, format and presentation of information given the evolving policy landscape.
22. For information and comparative practice, the IFRS Conceptual Framework has identified as an objective for financial statements that they should be useful to a wide range of users in making economic decisions. The 4 qualitative characteristics they use are specified in Annex A.
23. A key feature is objectivity and providing information which is free from bias. This applies to the narrative as well as financial information. Good practice narrative reporting across the public and private sectors is to provide a balanced and objective assessment which supports the principles of openness and transparency. A balanced summary can be an important aid to prevent obfuscation of key issues.

24. Another comparative in practice where this principle is a key component is the FRC's [UK Corporate Governance Code \(September 2014<sup>3</sup>\)](#) which includes in its section on accountability the principle<sup>4</sup> that boards should present a fair, balanced and understandable assessment of the company's position and prospects which we believe has been a positive development.
25. The principle of objectivity works well with verifiability and independence. Another benefit from annual accounts is that they are subject to an independent audit. This adds credibility and is an important assurance mechanism for the wider public to rely on.

#### *Comparability*

26. We support greater use of benchmarking for key indicators both with other jurisdictions and over time to help communicate key messages on finance and performance in a more meaningful way. As an example, it would be helpful to have key comparatives in the upfront summary with explanations for any significant differences, as appropriate.
27. The selection and changes made to assumptions is a key area of judgement and as such, it is important to explain fully the materiality of the impact, where it affects comparability and underlying reasons to enable sufficient scrutiny to be performed. As an example, in financial reporting processes, this would constitute one of the key judgement areas which the audit committee would be keen to be informed on.

## ANNEX A

### **Useful information for users - the qualitative characteristics identified by IFRS conceptual framework**

1. Readily understandable by users.
2. Relevant to the decision-making needs of users.
3. Reliable, in other words financial statements should:
  - represent faithfully the transactions and other events they either purport to represent or could reasonably be expected to represent;
  - represent transactions and other events in accordance with their substance and economic reality and not merely their legal form;
  - be neutral, that is to say, free from bias;
  - contend with the uncertainties that inevitably surround many events and circumstances by the exercise of prudence; and
  - be complete within the bounds of materiality and cost.
4. Comparable with information provided by the entity in its financial statements through time and with information provided in the financial statements of other entities<sup>5</sup>.

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<sup>3</sup> Note: this is the version where the principle changes were made, a newer version which incorporates minor updates was published in 2015. Revised Code (final draft April 2016) [here](#).

<sup>4</sup> Section C1- [UK Corporate Governance Code \(September 2014\)](#)

<sup>5</sup> IFRS Conceptual Framework Section BC 7,8 (Red Book PART B)