

Issues of Concern

FINANCIAL MANAGEMENT

Financial management is the way an organisation's finances are managed to achieve financial objectives. Financial management has three parts: financial planning, financial control and financial decision-making.

Public bodies are expected to have adequate financial management arrangements in place in order to deliver planned services and meet their financial objectives (such as financial targets within the NHS).

Effective financial management is also a key aspect of Best Value. You can find out more about our Best Value work on [our website](#). Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public. This is a statutory duty in local government, and in the rest of the public sector it is a formal duty on [Accountable Officers](#). Therefore the duty of 'Best Value' applies to all public bodies in Scotland.

Audit Scotland's role in Financial Management – Where does our interest lie?

We are interested in issues which may indicate a widespread breakdown of financial management, which affects significant spending in relation to the overall budget of the public body concerned. Examples may include:

- where you have a concern that a public body may not be able to meet its future financial commitments
- where a council has failed to maintain assets such as transport links or school buildings
- where a public body has entered into a contract and the other party fails to meet its commitments
- if a public body did not have the power or duty to spend public money in a particular area
- the use of incorrect accounting methods in the preparation of financial accounts

Audit Scotland's role in Financial Management – What is not within our remit?

- we have no powers to reverse, change or stop individual spending decisions made by a public body - for example, we cannot overturn a financial decision made by a public body, even if you personally disagree with the outcome
- we cannot change a public body's decision on how much to spend on a particular service or area, for example budget setting or grant award decisions
- we cannot act if we are unable to substantiate evidence

- we will not act on an issue of concern that another public body or regulator is already considering, or that concerns a public body we do not audit. We also cannot act in a case involving fraud, where the police are already investigating
- We cannot act on issues that do not involve significant spending. The sum of money in question must be significant in relation to the body's overall budget. The issue itself must also be closely related to how the body uses public money

Where we are made aware of potential financial fraud within a body, these matters are referred to the Internal Auditors of the body for investigation. The Internal Auditors would decide what investigation would be appropriate, and report any findings to the body in question. The external auditors would receive a copy of the investigation for consideration of any additional work required.

What work have do we already undertake?

Financial management arrangements are considered during the annual audit of each body we audit, with any significant issues highlighted in individual annual audit reports. Depending on the public body:

- the Accounts Commission can ask the Controller of Audit to undertake additional work. This may lead to them holding a hearing, issuing recommendations to Scottish Ministers and/or the local authority, or issuing sanctions.
- the Auditor General for Scotland is also able to issue specific reports to the Scottish Parliament on any of the significant matters raised in annual audit reports.

Financial management is an element of the Best Value audits which are completed across all Scottish councils over a five year cycle.