



Scottish Government: Local Government Portfolio Non- Domestic Rating Account

Annual report on the
2011/12 audit



Prepared for Scottish Government and the Auditor General for Scotland
December 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction

1. This report sets out our key findings from our audit of the Scottish Government: Local Government (LG) Portfolio: Non-Domestic Rating (NDR) Account for the year to 31 March 2012. It covers our audit of the financial statements and aspects of governance.
2. Our responsibilities and approach are outlined in the Scottish Government Non-Domestic Rating Account Audit Plan. In summary, we audit the financial statements and give an opinion on:
 - whether they properly present the financial position of the NDR Account and its receipts and payments for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the foreword with the financial statements
 - the regularity of the receipts and payments.
3. The management of the audited body is responsible for preparing the financial statements of the NDR Account, and for ensuring that they properly present the receipts and payments of the NDR Account and the balance held at 31 March 2012, and for implementing appropriate internal control systems.
4. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

Overall Conclusion

5. We have given an unqualified opinion on the financial statements of the NDR Account for 2011/12. This means that, in our view, they properly present the receipts and payments of the NDR Account and the balance held at 31 March 2012, and that they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers.
6. We have also confirmed that the receipts and payments shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers.

Financial position

7. Total non-domestic rates collected were £2,235 million for 2011/12 plus an additional £24 million which related to prior years. The total sums distributed amounted to £2,182 million for 2011/12 with a further £56 million relating to prior years. The surplus carried forward at the year-end was £21 million compared to a surplus of £47 million at the prior year-end.
8. As explained in paragraph 6 of the foreword to the financial statements there may be a surplus or a deficit on the account on any financial year as a result of the use of estimates to determine the amounts paid to local authorities. The surplus in 2011/12 is carried forward to 2012/13 increasing the amount available for redistribution that year. Through time all non-domestic rates paid to Scottish Ministers require to be redistributed in this manner.

Issues arising

9. The unaudited schedules for the accounts were submitted in line with agreed plans. Working papers and responses provided by staff in Finance allowed us to conclude our audit within the agreed timetable.

International Standards on Auditing (ISA) 260

10. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
11. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - expected modifications to the audit report

- management representations requested by us
 - unadjusted misstatements, other than those that are clearly trivial
 - material weaknesses in internal control identified during the audit
 - qualitative aspects of accounting practice and financial reporting, including accounting policies
 - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.
12. There are no matters arising from our audit that require to be reported under ISA 260.
13. Subject to the satisfactory receipt of a revised set of accounts for final review, we anticipate being able to issue an unqualified auditor's report. The proposed report is attached at Appendix A. There are no anticipated modifications to the audit report.
14. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan for 2011/12, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
15. With respect to the requirements of ISA 260 there are no matters arising relating to the audit of the Non-Domestic Rating White Paper Account. There are no unadjusted misstatements or material weaknesses identified in the accounting and internal control arrangements that require to be brought to the attention of those charged with governance.

Corporate Governance

16. The corporate governance and control arrangements relevant to the operation of the non-domestic rating account were satisfactory during the period under review. This is reflected in the Statement on Internal Control for the Scottish Consolidated Fund and assurances provided to the Principal Accountable Officer on the systems of internal control within the Local Government Portfolio by the Accountable Officer of that Portfolio.

Systems of internal control

17. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. As part of our audit we obtained assurance from the audit of the Scottish Government's consolidated financial statements that the key controls operating across the Scottish Government's central financial systems were operating satisfactorily, enabling us to place reliance on them for the purposes of our audit.

Internal Audit

18. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2011/12

audit we assessed whether we could place reliance on the Scottish Government's internal audit function.

19. We concluded that Scottish Government Internal Audit Division complied with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. We have taken account of the work of internal audit with respect to the Scottish Government generally but, because our audit approach to the non domestic rating account is wholly substantive in nature, there was no specific internal audit work on which we sought to place formal reliance upon.

Acknowledgements

20. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.

Appendix A: Non-Domestic Rating Account 2011-12

Independent auditor's report to the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Scottish Government Local Government Portfolio: Non-Domestic Rating Account for the year ended 31 March 2012 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Receipts and Payments Account, Statement of Balances and related notes. These financial statements have been prepared in accordance with Schedule 12 of the Local Government Finance Act 1992, as amended by Schedule 13 of the Local Government etc (Scotland) Act 1994, and the directions made thereunder by the Scottish Ministers.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members, in their individual capacities, or to third parties.

Respective responsibilities of the Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities set out on page 5, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they properly present the receipts and payments for the financial year, and is also responsible for ensuring the regularity of receipts and payments. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of receipts and payments.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of payments and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Non-Domestic Rating Account to identify material inconsistencies

with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the Scottish Ministers in respect of the Non-Domestic Rating for the year ended 31 March 2012 and the balance held at that date in accordance with Schedule 12 of the Local Government Finance Act 1992 as amended by Schedule 13 of the Local Government etc (Scotland) Act 1994 and directions made thereunder by Scottish Ministers
- have been properly prepared in accordance with Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers.

Opinion on Regularity

In my opinion in all material respects:

- the receipts and payments shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Opinion on prescribed matter

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception:

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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30 November 2012