

Scottish Government Local Government Portfolio: Non - Domestic Rating Account

Annual report on the 2012/13 audit



Prepared for Scottish Government and the Auditor General for Scotland
October 2013

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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Key Messages

2012/13

We have given an unqualified opinion that the financial statements of the Scottish Government Local Government Portfolio: Non Domestic Rating Account (NDR Account) for 2012/13 properly present the receipts and payments of the account for the year ended 31 March 2013 and the balances held at that date. Our regularity opinion is also unqualified.

Total non-domestic rates collected during the year were £2,442 million and the total sums distributed were £2,311 million. The surplus carried forward at the year end was £131 million resulting in a balance of £165 million carried forward to 1 April 2014.

The assurances gained from the audit of the Scottish Government's Consolidated Accounts allowed us to conclude that the Scottish Government's systems of internal control were operating effectively.

Outlook

With effect from 1 April 2012 the Scottish Ministers introduced the Business Rates Incentivisation Scheme (BRIS). Any loss to the pool for 2012/13, arising from the implementation of the scheme, will be recorded in the 2013/14 NDR Account.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the NDR Account. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Scottish Government and no responsibility to any third party is accepted.
3. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Scottish Government understands its risks in relation to the NDR Account and has arrangements in place to manage these risks. The Accountable Officer should ensure that he is satisfied with the proposed management action and has a mechanism in place to assess progress.
4. This report is also addressed to the Auditor General for Scotland and will be published on our website.

Financial statements

Conduct and scope of the audit

5. 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 Scottish Government Annual Audit Plan presented to the Scottish Government Audit and Risk Committee (SGARC) on 18 March 2013 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of the NDR Account for 2012/13 properly present the receipts and payments of the account for the year ended 31 March 2013 and the balances held at that date. Our regularity opinion is also unqualified.
8. The audit opinion was formally issued and signed on 31 October 2013.
9. We received the unaudited financial statements on 19 September 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 11 October 2013. The financial reporting framework that has been applied in the preparation of these accounts is the receipts and payments basis and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings (ISA260)

10. During the course of the audit we did not identify any significant issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

Financial position

2012/13 Outturn and financial position

11. Total non-domestic rates collected were £2,378 million for 2012/13 plus an additional £64 million which related to prior years. The total sums distributed amounted to £2,263 million for 2012/13, which is consistent with the agreed budget, and a further £48 million relating to prior

years. The surplus carried forward at the year end was £131 million (2011/12: £21 million) resulting in a balance of £165 million at 1 April 2013.

12. As explained in the foreword to the financial statements there may be a surplus or deficit on the account in any financial year as a result of the NDR pooling arrangements. The surplus in 2012/13 has been carried forward to 2013/14 increasing the amount available for redistribution in that year. Taking one year with another all NDR rates paid to Scottish Ministers are redistributed to authorities.

Financial planning

13. With effect from 1 April 2012 the Scottish Ministers introduced the Business Rates Incentivisation Scheme (BRIS). This scheme is intended to incentivise all local authorities to maximise the non-domestic rates collected from their existing businesses and encourage new businesses to start up in their own local areas. Under the terms of the BRIS any local authority that exceeds its non-domestic rate income target, set by Scottish Ministers, will retain 50% of the additional income. As the 2012/13 BRIS targets have not yet been agreed with local government any loss to the non-domestic rates pool has no impact on the receipts and payments recorded in the 2012/13 accounts. Any loss to the pool for 2012/13, arising from implementation of the scheme, will impact on the NDR Account in future years.
14. The Scottish Government guarantees the combined general revenue grant and distributable non-domestic rate income figure, approved by Parliament, to each local authority. A drop in non-domestic rate income is compensated for by an increase in general revenue grant and vice versa.
15. Local government funding detailed in the Draft Budget 2014/15 includes the Government's best estimate of NDR income of £2,435 million and £2,664m to be collected during 2013/14 and 2014/15 respectively.

Corporate governance and systems of internal control

Overall governance arrangements

16. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Scottish Government had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. This assurance was gained from our audit of the Scottish Government's Consolidated Accounts.

NDR guidance

17. The NDR Guidance in place for 2012/13 had not been reviewed and updated since 2005. A number of changes have taken place since this date however these were not reflected in the guidance available during the financial year. Revised guidance was subsequently issued in October 2013.

Refer action plan no.1

NDR desk instructions

18. There have been some changes, since 2011/12, to the administration of NDR carried out by the Local Government Finance Unit. We were informed that the desk instructions, which cover a number of NDR processes, would be updated during 2012/13 to reflect these changes however this update is outstanding.

Refer action plan no.2

Accounting and internal control systems

19. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
20. No material weaknesses in the accounting and internal control systems were identified during the audit of the Scottish Government's consolidated accounts which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the NDR Accounts.
21. Internal audit is an important element of the Scottish Government's governance structure. Our review of the Scottish Government Internal Audit Division concluded that we could place reliance on their work. We have taken account of the work of internal audit in respect of our audit of the Scottish Government generally but, because our approach to the NDR Account is wholly substantive in nature there, was no specific internal audit work which we planned to place reliance upon.

Prevention and detection of fraud and irregularity

22. In our Scottish Government Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Scottish Government's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Standards of conduct and arrangements for the prevention and detection of corruption

23. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Acknowledgements

24. We would like to express our thanks to the staff of the Scottish Government for their help and assistance during the audit of this year's NDR Account which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	17	<p>NDR Guidance</p> <p>The NDR Guidance in place for 2012/13 had not been reviewed and updated since 2005. Revised guidance was subsequently issued in October 2013 however a review of the guidance should be carried out on a regular basis.</p> <p><i>Risk: Out of date guidance could result in a lack of knowledge and understanding in relation to the current legislation and administration requirements of NDR.</i></p>	Review annually and update as required.	Assistant Team Leader Local Government Finance	Annually as part of the NDR account preparation
2	18	<p>Desk Instructions</p> <p>Desk instructions, which cover the processes involved in the administration of NDR carried out by the Local Government Finance Unit, have not been updated to reflect recent changes in procedures.</p> <p><i>Risk: The absence of up to date desk instructions could increase the risk of non compliance with current practices, including</i></p>	Review annually and update as required.	Assistant Team Leader Local Government Finance	Annually as part of the NDR account preparation

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>control procedures.</i>			