

Scottish Government Local Government Portfolio: Non - Domestic Rating Account

Annual report on the 2013/14 audit



Prepared for Scottish Government and the Auditor General for Scotland
January 2015

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

2013/14

We issued an unqualified opinion that the financial statements of the Scottish Government Local Government Portfolio: Non Domestic Rating Account (NDR Account) for 2013/14 properly present the receipts and payments of the account for the year ended 31 March 2014 and the balances held at that date. We also issued an unqualified regularity opinion.

Total non-domestic rates collected during the year were £2,501 million and the total sums distributed were £2,513 million. The deficit carried forward at the year end was £12 million resulting in a positive balance of £153 million carried forward to 1 April 2015.

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. The NDR Account is compiled and managed using SG's systems.

Introduction

1. This report is the summary of our findings arising from the 2013/14 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 she is satisfied with the proposed management action and has a mechanism in place to assess progress.
4. This report is addressed to SG and the Auditor General for Scotland and should form the basis of discussions with the audit and risk committees as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website.

Financial statements

Conduct and scope of the audit

6. 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 10 March 2014 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. 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 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not have to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

8. We issued an unqualified opinion that the financial statements of the NDR Account for 2013/14 properly present the receipts and payments of the account for the year ended 31 March 2014 and the balances held at that date. We also propose to give an unqualified regularity opinion.
9. The audit opinion was issued and signed on 25 November 2014.
10. We received the unaudited financial statements on 20 October 2014, this was outwith our planned timetable. The working papers were of an acceptable standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 7 November 2014. 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)

11. The unaudited accounts were not made available for audit until 20 October. This was after the agreed deadline and also outwith the statutory deadline stated within section 21(2) of the Public Finance and Accountability (Scotland) Act 2000 and also the NDR account accounts direction, which is published as an appendix to the financial statements. This was due to competing priorities and resourcing pressures within the finance department, and meant that we were unable to conclude our audit prior to the target date of 31 October 2014.
12. **Resolution:** Although non compliance with the accounts direction had no impact on our audit opinion nor the basis on which the accounts have been prepared we would recommend a review of the proposed timetable for 2014/15.

Refer action plan no. 1

2013/14 Outturn and financial position

13. Total non-domestic rates collected were £2,454 million for 2013/14 plus an additional £46 million which related to prior years. The total sums distributed amounted to £2,435 million for 2013/14, which is consistent with the agreed budget, and a further £78 million relating to prior years. The deficit carried forward at the year end was £12 million (2012/13: surplus £131 million) resulting in a positive balance of £153 million being carried forward into 2014/15. 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 deficit in 2013/14 has been carried forward to 2014/15 decreasing 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

14. NDR forms a key part of how the SG budget is set and in how aggregated funding is distributed to local authorities. SG management therefore need to have a good understanding of predicted income from NDR over the coming period.
15. 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.
16. There was a delay in agreeing the 2012/13 BRIS targets with local authorities and COSLA, therefore any loss to the non-domestic rates pool has no impact on the receipts and payments recorded in the 2013/14 accounts
17. The 2012-13 targets were delayed due to the Scottish Government and COSLA being unable to agree the targets. It has since been confirmed that local authorities that exceeded the SGs targets for the year, set at £9.002 million in total, should retain this amount. Local authorities benefiting from this decision were notified of this decision in Local Government circular 6/2014 and this will impact the NDR account in 2014-15.
18. 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.
19. Local government funding detailed in the Budget 2014/15 includes the Government's best estimate of NDR income of £2,650 million and £2,800m to be collected during 2014/15 and 2015/16 respectively.

Corporate governance and systems of internal control

Overall governance arrangements

20. 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.

Accounting and internal control systems

21. 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.
22. 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.
23. 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

24. 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

25. 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

26. 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.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue, risk and recommendation	Management action/response	Responsible Officer	Target Date
1.	10	<p>Accounts submission</p> <p>The NDR accounts were submitted for audit outwith the timescale stated in the Public Finance and Accountability Act (Scotland) 2000 and the NDR accounts direction.</p> <p>Risk</p> <p>There is a risk that there is a lack of capacity to prepare the accounts within the local government finance team.</p> <p>Recommendation</p> <p>The Scottish Government should review resources and ensure that there are sufficient resources in place to deliver the NDR account in line with the planned timescale.</p>	<p>A timetable will be established to ensure that the accounts are submitted for audit within the statutory timetable.</p>	Stuart McMahon	31 March 2015