

Scottish Executive

Non-Domestic Rating Account

Report on the 2006/07 Audit

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Introduction

1. This report sets out our key findings from our audit of the Scottish Executive Finance and Central Services Department – Non-Domestic Rating Account (NDR) for the year to 31 March 2007. It covers our audit of the financial statements and aspects of governance. Our responsibilities and approach are outlined in the Audit Planning Memorandum for Scottish Executive Finance and Central Services Departments (SEFCSD) for the year and can be summarised as being to assess:
 - whether the financial statements give a true and fair view of the financial position of our clients and its expenditure and income for the period in question;
 - whether the financial statements have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - the regularity of the expenditure and receipts.

Financial Statements

2. We have confirmed that NDR financial statements properly present the receipts and payments of the Scottish Ministers in respect of Non-Domestic Rating for the year ended 31 March 2007 and the balance held at that date, and have been properly prepared in accordance with Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers. We have also confirmed that the receipts and payments shown in the accounts were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers, the Budget (Scotland) Act 2000 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 accounts were applied in accordance with Section 65 of the Scotland Act 1998.
3. Total contributions for 2006-07 were £1,909 million with an additional £108 million relating to prior years. The total sums distributed amounted to £1,884 million for 2006/07 and £17 million for prior years. The surplus carried forward at the year end was £12.1 million compared to deficit of £104.2 million at the prior year end.

Issues Arising

4. The financial statements for the non-domestic rating accounting were presented for audit in May, significantly in advance of the statutory deadline of end September. The accounts presented, together with supporting working papers, were of a good standard which enabled the audit to progress smoothly.



5. Our 2003/04 audit recommended that the policy on accounting for NDR transactions with the Scottish Consolidated Fund be re-considered. The Executive agreed to do this and progress has been made, however, the revised policy framework on the accounting relationship between the Scottish Consolidated Fund, the Scottish Executive and Local Authorities in relation to NDR has still not yet been finalised.

International Standards on Auditing (ISA) 260

6. 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':
 - expected modifications to the audit report;
 - uncorrected misstatements;
 - material weaknesses in internal control;
 - qualitative aspects of accounting practice and financial reporting;
 - management representations requested by us;
 - matters specifically required by other auditing standards to be communicated to those charged with governance; and
 - other matters that we wish to draw to your attention.
7. Our work on the financial statements is now substantially complete. 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.
8. 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

9. 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 SEFCSD by the Accountable Officer of SEFCSD.



Internal Audit

10. We concluded that Scottish Executive Audit Services complied with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. Therefore we are able to place reliance on the work of Audit Services for the purposes of our audit of the Scottish Executive.

Central Financial Systems

11. We reviewed the key controls operating across the Scottish Executive's central financial systems. We concluded that controls and procedures were operating satisfactorily, enabling us to place reliance on them for the purposes of our audit.

Acknowledgements

12. 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 work.



Annex A

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

I have audited the financial statements of Scottish Executive Finance and Central Services Department Non-Domestic Rating Account for the year ended 31 March 2007 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 Finance 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 123 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

The Accountable Officer is responsible for the preparation of the financial statements in accordance with Schedule 12 of the Local Government Finance Act 1992 and the directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of the receipts and payments.

My responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements properly present the receipts and payments, of Scottish Ministers in respect of Non Domestic Rating and the balance held, and are properly prepared in accordance with Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers. I also report whether 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.



I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Scottish Executive Finance and central Services Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects compliance with Scottish Executive guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statements covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Scottish Executive's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of receipts and payments included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accountable Officer in the preparation of the financial statements in accordance with Schedule 12 of the Local Government Finance Act 1992, as amended by Schedule 13 of the Local Government Finance Act 1994, and the directions made thereunder by the Scottish Ministers.

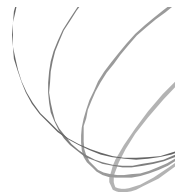
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the payments and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

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 2007 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 Finance Act 1994 and the directions made thereunder by Scottish Ministers..



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.

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