

# Scottish Government: Local Government Portfolio Non- Domestic Rating Account

Report on the 2009/10 audit

September 2010



AUDIT SCOTLAND

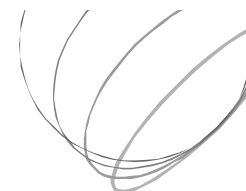
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# Introduction

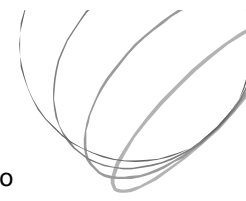
1. This report sets out our key findings from our audit of the Scottish Government: Local Government (LG) Portfolio: Non-Domestic Rating (NDR) Account for the year to 31 March 2010. It covers our audit of the financial statements and aspects of governance.
2. Our responsibilities and approach are outlined 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 expenditure and income 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.

## Financial Statements

3. 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 2010 and the balance held at that date, and have been properly 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. 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 2008 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.
4. Total non-domestic rates collected were £2,057 million for 2009/10 plus an additional £18 million which related to prior years. The total sums distributed amounted to £2,165 million for 2009/10 with a further £79 million relating to prior years. The deficit carried forward at the year-end was £34 million compared to a surplus of £135 million at the prior year-end.

## Issues Arising

5. In previous years we have recommended that the policy on accounting for NDR transactions be formalised. The then Scottish Executive prepared draft guidance on accounting for NDR in 2005. This document is important because it sets out the accounting relationship for NDR between the

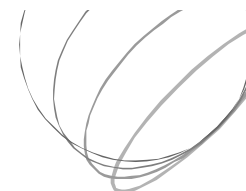


Scottish Consolidated Fund, the Scottish Government and Scottish Local Authorities. However no Scottish Government Audit Committee has formally approved and finalised this guidance.

6. In the course of our audit work we found that there had been over and under payments to four Local Authorities which related to interim recalculations for 2008/09. One authority was overpaid almost £1 million. The total net overpayment for the four Local Authorities was £335k. These problems arose because of errors made by Local Government Finance staff when calculating actual amounts due to/and receipts from councils in respect of 2008/09. Our 2008/09 final report highlighted the staffing problems in Local Government Finance which continued into the current year mainly due to the transfer of key and experienced members of staff to new postings. More detailed and comprehensive desk instructions during 2009/10 and evidence of a management review would have helped reduce or eliminate the errors that affected this account.
7. We have been advised by officers that desk instructions, worksheets and checking procedures have been put in place for the work being undertaken within the department in 2010/11. We will review these procedures as part of our 2010/11 audit work.

## **International Standards on Auditing (ISA) 260**

8. 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
  - other matters that we wish to draw to your attention.
9. 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.
10. 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

11. 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

12. 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 reviewed the key controls operating across the Scottish Government'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.

## Internal Audit

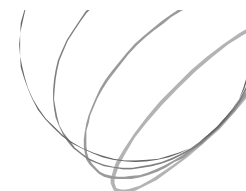
13. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on the Scottish Government's internal audit function.
14. 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. Therefore we are able to place reliance on the work of the Internal Audit Division for the purposes of our audit of the Scottish Government.

## Acknowledgements

15. 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.



September 2010



# APPENDIX A – Proposed Independent Auditor’s Report

## **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 2010 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 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.

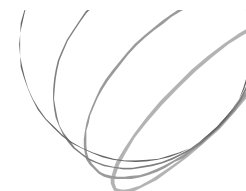
### **Respective responsibilities of the Accountable Officer and auditor**

The Accountable Officer is responsible for preparing the financial statements in accordance with Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers and for ensuring the regularity of payments and receipts. These responsibilities are set out in the Statement of Accountable Officer’s Responsibilities.

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 report to you whether, in my opinion, the information which comprises the Foreword, is consistent with the financial statements. 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 were in accordance with section 65 of the Scotland Act 1998.

In addition, I report to you if, in my opinion, the Scottish Government: Local Government Portfolio 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.

## **Basis of audit opinion**

I conducted my audit in accordance with the 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 payments and receipts 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 etc (Scotland) 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.

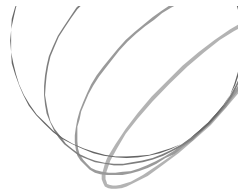
## **Opinion**

### *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 2010 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
- the financial statements have been properly prepared in accordance with Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers; and
- information which comprises the Foreword is consistent with the financial statements.





*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.

Bill Convery CPFA  
Assistant Director of Audit

Date:

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