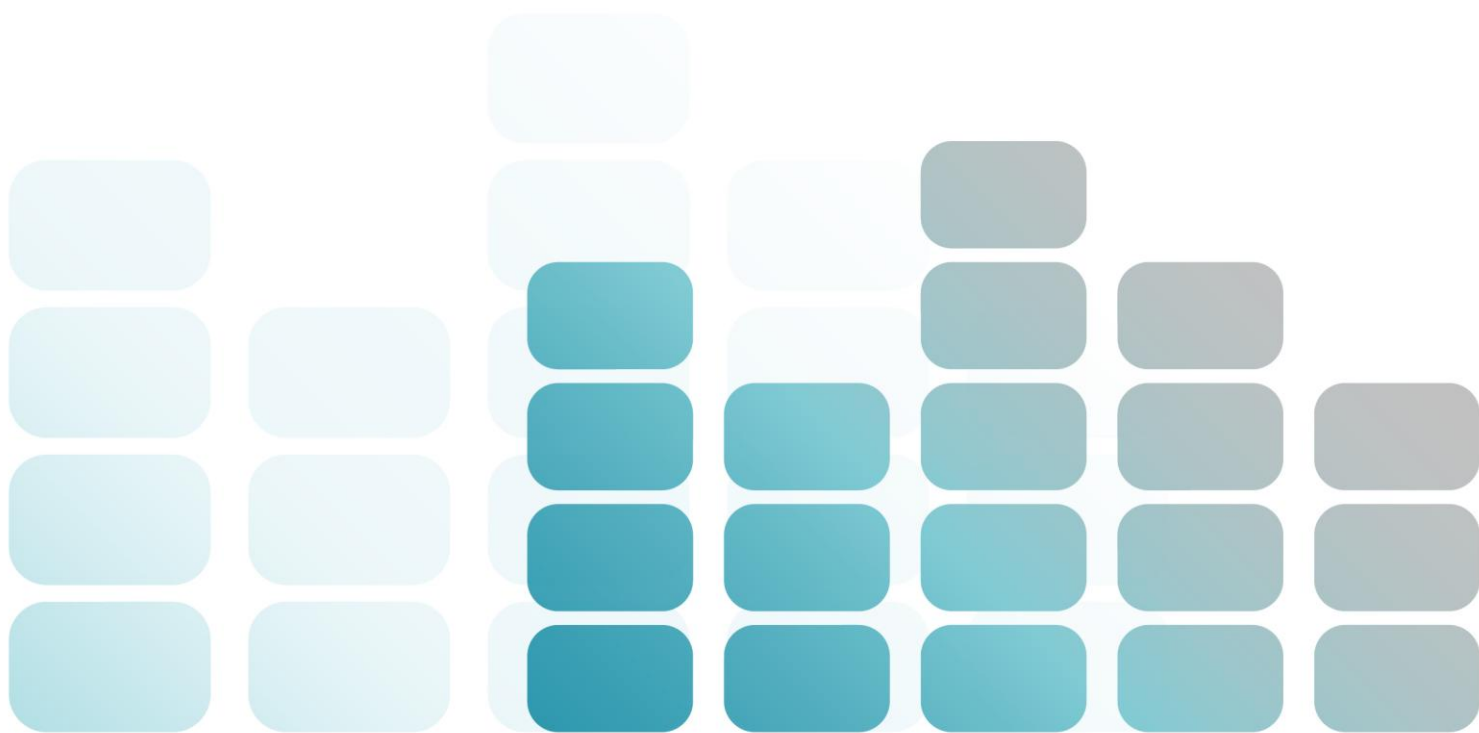


Non-Domestic Rating Account

Annual Audit Plan 2025/26



 AUDIT SCOTLAND

Prepared for the Scottish Government
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Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the Non-Domestic Rating Account	6
Wider scope	9
Reporting arrangements, timetable and audit fee	10
Other matters	12

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of the Non-Domestic Rating Account. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Carole Grant, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of the Non-Domestic Rating Account, hereafter referred to as 'the NDRA', for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. Carole Grant and the audit team are independent of the NDRA in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships, pertaining to the audit of the NDRA, that we would be required to communicate.

Communication of suspected fraud

5. In line with ISA 240, in presenting this annual audit plan to the Scottish Government Audit and Assurance Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Audit scope and responsibilities

Scope of the audit

6. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the NDRA and audit opinions on the financial statements, including on the regularity of receipts and payments.
- An opinion on statutory other information published in the Foreword to the NDRA.
- Concluding on the financial sustainability of the NDRA.
- Provision of an Annual Audit Report setting out significant matters identified from the audit.

Responsibilities

7. The Code of Audit Practice sets out the respective responsibilities of the Scottish Government and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

8. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the NDRA.

Scottish Government's responsibilities

9. The NDRA, prepared by the Scottish Government, reports all non-domestic rates collected by local authorities and paid over to Scottish Ministers and the redistribution of this income to local authorities. The purpose of the account is to demonstrate that all non-domestic rates collected are redistributed. The Scottish Government determines the amount to be redistributed to local authorities each financial year as part of the Scottish Budget. Non-domestic rates collected by local authorities are audited locally.

10. The Scottish Government is responsible for maintaining accounting records and preparing the NDRA in accordance with the requirements of

Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers.

11. In addition, the Scottish Government is responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver the objectives of the NDRA.

12. The audit of the NDRA does not relieve management or the Scottish Government Audit and Assurance Committee, as those charged with governance, of their responsibilities.

Audit of the Non-Domestic Rating Account

Materiality

13. The audit of the NDRA is driven by materiality and the risks of material misstatement, with greater attention being given to the significant risks of material misstatement. This section outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

14. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the NDRA.

15. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the NDRA. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

16. The materiality levels determined for the audit of the NDRA are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for the NDRA audit

Materiality	Value
Materiality: Based on an assessment of the needs of users of the financial statements and the nature of the NDRA, the benchmark used to determine materiality is the Distributable Amount of NDR as set in the Scottish Budget 2025/26. Materiality has been set at 2 per cent of the benchmark.	£62 million
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 75 per cent of planning materiality.	£46 million

Materiality	Value
Reporting threshold: All misstatements greater than the reporting threshold will be reported.	£0.6 million

Source: Audit Scotland

Significant risks of material misstatement to the NDRA

17. The risk assessment process draws on the audit team's cumulative knowledge of the NDRA, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

18. Based on the risk assessment process, one significant risk of material misstatement to the NDRA has been identified. [Exhibit 2, page 7](#) summarises this risk and our planned audit procedures in response.

19. The risk assessment process is an iterative and dynamic process. The assessment of risks may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the Scottish Government and those charged with governance.

Exhibit 2

Significant risks of material misstatement to the NDRA

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of its ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in all audits.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test 100% of receipts and payments. • Evaluate significant transactions outside the normal course of business.

Source: Audit Scotland

Key audit matters

20. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit. The matters determined to be key audit matters will be communicated in the Annual Audit Report.

Wider scope

Less complex bodies approach

21. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit to include consideration of additional aspects or risks in the four wider scope areas of financial management, financial sustainability, vision, leadership and governance, and use of resources to improve outcomes.

22. Due to the nature of the NDRA and its limited financial activity, it is considered a less complex body for the wider scope audit. Therefore, our work is focused on the financial sustainability of the NDRA.

23. We have not identified any specific risks in relation to the wider scope audit.

Reporting arrangements, timetable and audit fee

Audit outputs

24. The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the Scottish Government, the Auditor General for Scotland, and the Scottish Parliament, setting out opinions on the NDRA.
- An Annual Audit Report to the Scottish Government and the Auditor General for Scotland, setting out significant matters identified from the audit of the NDRA, conclusions from the wider scope audit, recommendations, where required, and any good practice identified.

25. The matters to be reported in the outputs will be discussed with the Scottish Government for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which will be included in the audited NDRA.

26. Target dates for the audit outputs are set by the Auditor General for Scotland. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 31 October 2026.

Audit timetable

27. Achieving the timetable for production of the NDRA, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 3](#) includes a timetable for the audit, which has been agreed with management. These dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the Scottish Government and reported to those charged with governance, where required.

Exhibit 3

2025/26 audit timetable

Audit activity	Target date
Submission of unaudited NDRA and all working papers to audit team	8 June 2026
Issue draft Annual Audit Report for clearance discussion	10 August 2026
Latest date for audit clearance meeting	19 August 2026
Agreement of audited and unsigned NDRA	26 August 2026
Issue of proposed Independent Auditor's Report, draft Letter of Management Representations, and proposed Annual Audit Report to those charged with governance	28 August 2026
Approval of audited NDRA by those charged with governance	7 September 2026
Signing of Independent Auditor's Report and issue of Annual Audit Report	9 September 2026

Source: Audit Scotland

Audit fee

28. The NDRA's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for 2025/26 has been set at the baseline level of £13,430 (2024/25: £12,870).

29. In setting the audit fee, it is assumed that the Scottish Government has effective governance arrangements in place and the complete NDRA will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

30. The Scottish Government is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

31. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

32. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits are available from the [Audit Scotland website](#).

33. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

34. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

35. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

36. Audit Scotland may periodically seek the views of the Scottish Government on the quality of audit services provided. The audit team would also welcome feedback at any time.

Non-Domestic Rating Account

Annual Audit Plan 2025/26



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