

# Non-Domestic Rating Account

2019/20 Annual Audit Report



 AUDIT SCOTLAND

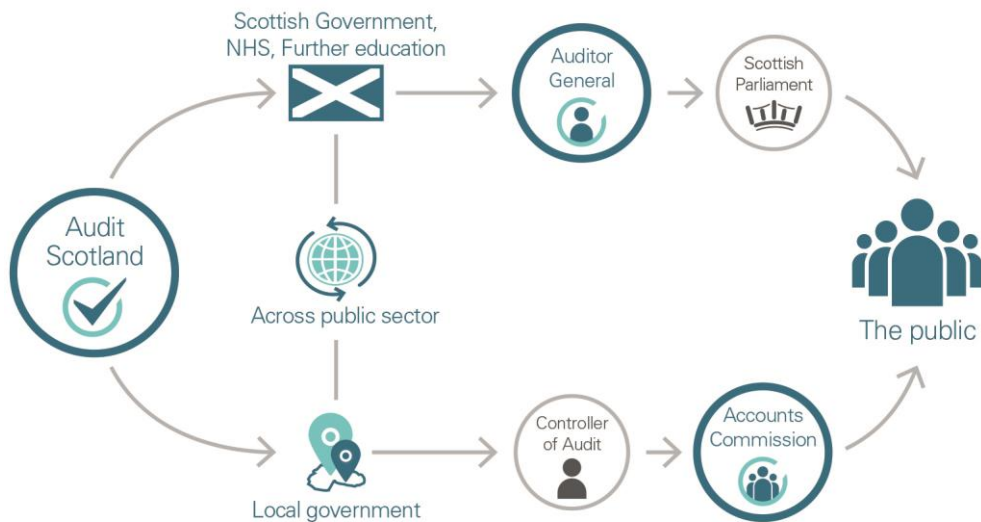
Prepared for the Scottish Government and the Auditor General for Scotland

February 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2019/20 Non-Domestic Rating account

- 1 The independent auditor's report for the 2019/20 Non-Domestic Rating Account is unqualified.
- 2 The receipts and payments in the NDR account were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

## Financial sustainability, governance and transparency

- 3 The 2019/20 account shows Scottish Ministers received £2,920 million of non-domestic rates in the year and paid £2,919 million back to local authorities. This means the overall surplus on the account increased by £1 million to £25 million in 2019/20.
- 4 The Scottish Budget for 2020/21 shows that the Scottish Government plans to allocate £100 million more than forecast in NDR receipts for 2020/21 changing the overall balance on the account from a surplus of £25 million to a deficit of £100 million. The Scottish Government plans to bring the account back into balance by the end of 2023/24.
- 5 The Summer Budget Revision to the 2020/21 Scottish Budget shows NDR income forecasts reduced by £972 million and a corresponding top up grant of £972 million was provided to the General Revenue Support grant for local government as a result of Covid-19. It's not yet clear what the longer-term implications of Covid-19 will have on NDR receipts and payments.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of the Scottish Government's Non-Domestic Rating Account (NDR account).
2. The scope of our audit was set out in our Annual Audit Plan presented to the Scottish Government's Audit and Assurance Committee (SGAAC) on 22 June 2020. This report comprises the findings from:
  - an audit of the 2019/20 NDR account
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The Code includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.
4. As highlighted in our 2019/20 Annual Audit Plan, we applied the small body provisions of the Code to the 2019/20 audit of the NDR account. As such, our audit dimensions work focused on financial sustainability, financial management and governance and transparency.
5. We undertook most of our planning work prior to the Covid-19 pandemic and the draft audit plan was shared with the Scottish Government in March 2020. Our Annual Audit Plan was revisited and updated to consider the potential impact of the Covid-19 pandemic on our audit approach for 2019/20 and provided to SGAAC at its meeting in June 2020.
6. We fully recognise the unique and significant pressures that the public sector is under in responding to the threat posed by the current Covid-19 pandemic. These are exceptional times for the Scottish Government. The effects of the Covid-19 health crisis will be felt across all aspects of the public sector and the wider economy for years to come. The Scottish Government's primary focus in recent months has been on responding to the pandemic's immediate threat to public health and the economy whilst outlining plans for how to repair and recover from the damage inflicted on individuals, businesses and communities.
7. Our approach to audit during the pandemic aims to be flexible, pragmatic and consistent. It will be some time before we fully understand the impact on public services and finances, but it is clear sound financial management and effective governance are more important than ever. Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances and we will prioritise quality and independence.

## Responsibilities and reporting

8. The Scottish Government has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing the NDR account in accordance with the accounts direction from the Scottish Ministers. The Scottish Government is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**9.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

**10.** As public sector auditors we give independent opinions on the accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**11.** This report raises matters from our audit of the NDR account. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

### **Auditor independence**

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £11,350 as set out in our Annual Audit Plan remains unchanged.

**13.** We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**14.** Our aim is to add value to the Scottish Government by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Scottish Government promote improved standards of financial reporting and governance.

**15.** This report is addressed to both the Scottish Government and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

# Part 1

## Audit of 2019/20 Non-Domestic Rating Account



### Main judgements

The independent auditor's report for the 2019/20 Non-Domestic Rating Account is unqualified.

The financial statements properly present receipts and payments of the NDR account in accordance with applicable enactments and guidance issued by the Scottish Ministers.

### Audit opinions

**16.** The accounts for the year ended 31 March 2020 were presented to the Scottish Government's Audit and Assurance Committee on 8 December 2020. We reported within the independent auditor's report that:

- The financial statements properly present 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 the Scottish Ministers the receipts and payments of the account for the year ended 31 March 2020 and the balances held at that date.
- In all material respects, the sums paid out of the NDR account for the purpose of meeting the payments shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998 and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000.
- Information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and our understanding of the NDR account. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

### Impact of Covid-19

**17.** The unaudited NDR account was received in line with our agreed audit timetable in May 2020. Due to the restrictions imposed in response to the Covid-19 pandemic, we were required to audit supporting documentation (transaction records) remotely. We did not encounter any difficulties in obtaining the evidence required.

**18.** The working papers provided were of a good standard and finance staff provided support to the audit team which helped ensure the audit process ran smoothly.

### Risk of material misstatement

**19.** [Appendix 1](#) provides a description of those assessed risks of material misstatement in the NDR account and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

## Materiality

**20.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**21.** Our initial assessment of materiality for the NDR account was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual account, we assess the materiality of uncorrected misstatements both individually and collectively.

**22.** On receipt of the unaudited NDR account we reviewed our materiality calculations and concluded that they remained appropriate.

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## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£28.5 million
Performance materiality	£21.4 million
Reporting threshold	£0.25 million

Source: Non-Domestic Rating Account: Annual Audit Plan 2019/20

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## Evaluation of misstatements

**23.** There were no material adjustments to the unaudited NDR accounts arising from our audit.

**24.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the accounting practices covering accounting policies, accounting estimates and financial statements disclosures. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited NDR account.



# Part 2

## Financial sustainability, governance and transparency



### Main judgements

The 2019/20 account shows Scottish Ministers received £2,920 million of non-domestic rates in the year and paid £2,919 million back to local authorities. This means the overall surplus on the account increased by £1 million to £25 million in 2019/20.

The Summer Budget Revision to the 2020/21 Scottish Budget shows NDR income forecasts reduced by £972 million and a corresponding top up grant of £972 million was provided to the General Revenue Support grant for local government as a result of Covid-19. It's not yet clear what the longer-term implications of Covid-19 will have on NDR receipts and payments.

### Financial performance in 2019/20

**25.** The NDR account operates on a receipts basis and is managed by the Scottish Government. All NDR income collected by local authorities in Scotland is placed in a national “pool” and distributed to the local authorities as part of the Scottish Government’s funding arrangements.

**26.** The Scottish Government guarantees the combined amount of revenue grant funding and non-domestic rates distributions provided to councils each year and manages the financial risk of variances within its budget. Where variances in non-domestic rates occur, the Scottish Government adjusts the council’s General Revenue grant to ensure funding levels to local government align to the levels agreed in the local government finance settlement for that year. Weekly payments are made to local authorities. These payments represent total revenue funding less NDR income, and any specific revenue grants that local authorities expect to receive.

**27.** Total non-domestic rates collected in 2019/20 was £2,920.4 million of which £30.3 million related to prior years. The total amount distributed for 2019/20 was £2,919.4 million which includes £66.4 million relating to prior years. The net position for 2019/20 was therefore a surplus of £1.1 million (2018/19: surplus of £165.0 million) resulting in a cumulative surplus balance on the account of £24.9 million carried forward into 2020/21.

**28.** In the Scottish Budget for 2019/20, published in December 2018, the Scottish Government made a policy decision to allocate £100 million more than the forecast receipts in the NDR account to support investment in local government services. This led to a forecast £100 million deficit balance in the account at 31 March 2020, with plans set out in the same budget document to bring the account back into balance by the end of 2021/22.

**29.** Actual receipts were £125 million greater than forecast (including prior year adjustments), and therefore the forecast deficit balance did not materialise, and the account ended the year £25 million in surplus.

## Financial sustainability and transparency

**30.** The Scottish Budget for 2020/21 shows that the Scottish Government plans to allocate £100 million more than forecast in NDR receipts for 2020/21 changing the overall balance on the account from a surplus of £25 million to a deficit of £100 million. The Scottish Government plans to bring the account back into balance by the end of 2023/24. The Summer Budget Revision to the 2020/21 Scottish Budget shows NDR income forecasts reduced by £972 million and a corresponding top up grant of £972 million was provided to the General Revenue Support grant for local government as a result of Covid-19. It's not yet clear what the longer-term implications of Covid-19 will have on NDR receipts and payments.

**31.** The Scottish Government has improved transparency around NDR, with information provided on Scottish Fiscal Commission's forecast of NDR income to 2023/24 and the Scottish Government's planned distributable amount up to 2023/24 are set out in the 2020/21 Scottish Budget.

**32.** In previous years, we have recommended there is scope for the Scottish Government to further improve the transparency of financial information and reporting on NDR. This remains the case. The Scottish Government should provide the Parliament and the wider public with a fuller understanding of how NDR funding operates. This is particularly important where the public finances are adapting to a series of uncertainties from Covid-19 and withdrawal from the EU. They could do this by:

- including details of NDR forecasts and funding within its medium-term financial strategy
- publish further details of how the distributable amount is calculated, including details of any assumptions used
- undertaking, and publishing, scenario planning and sensitivity analysis to provide decision makers with greater information of how any fluctuations in NDR contributions or distributions may impact on decisions about how local government is funded.

**33.** It remains the responsibility of the Scottish Government to take action to address these action points and therefore we have not repeated our recommendation within this year's report. The need for the Scottish Government to improve aspects of its financial reporting is also covered in our Annual Audit Report of the 2019/20 Scottish Government Consolidated Accounts. Increasing users understanding of the NDR account and how it links with the Scottish budget is particularly important given the uncertainty in public finances created by the Covid-19 pandemic.

## Systems of internal control

**34.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that there are systems of recording and processing transactions in place which provide a sound basis for the preparation of the financial statements.

**35.** The NDR account is subject to the same controls that apply to the Scottish Government therefore for this audit we could place reliance on our findings from our Management (interim) Report presented to the Scottish Government Assurance and Audit Committee on 22 September 2020. No significant internal control weaknesses were identified during the audit which could affect the ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the NDR account.

## Governance arrangements

**36.** The governance arrangements for the NDR account operate within the context of the Scottish Government's overall system of corporate governance. Our judgements on the adequacy of the governance arrangements form part of our reporting on the 2019/20 Scottish Government's Consolidated Accounts.

**37.** The Scottish Government Audit and Assurance Committee is responsible for oversight of the NDR account on an exceptions basis. Any issues relating to reporting or the administration of the NDR account are escalated to the Committee.

**38.** The arrangements, within which the NDR account operates, are assessed by the Scottish Government who confirmed that these arrangements comply with generally accepted best practices and relevant guidelines. Assurance is also provided by the work of internal and external audit and can be supported by SGAAC if required.

**39.** A separate governance statement is not prepared for the NDR account as it is not an entity but an extract of the Scottish Consolidated Fund. Although the Scottish Consolidated Fund sits outside the Scottish Government's internal governance arrangements, the Fund, like the NDR account, is subject to the same controls and assurance procedures that apply to the Scottish Government.

# Appendix 1

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management of override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>The balances making up the 2019/20 NDR account were substantively tested and the results were satisfactory.</p>

# Non-Domestic Rating Account

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)