

Scottish Government: Non-Domestic Rating Account

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for the Scottish Government
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Contents

Introduction	3
Financial statements audit planning	5
Audit dimensions	8
Reporting arrangements, timetable, and audit fee	10
Other matters	12

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Non-Domestic Rating Account. The main elements of our work include:

- the audit of the financial statements leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the Non-Domestic Rating Account including the Foreword and the Statement of Accountable Officer's Responsibilities
- consideration of arrangements in relation to financial sustainability and governance and transparency.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the Scottish Government through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Scottish Government promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Scottish Government

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Scottish Government. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts.

Scottish Government responsibilities

8. The Non-Domestic Rating Account, 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. The Scottish Government is responsible for maintaining accounting records and preparing the Non-Domestic Rating Account in accordance with the financial reporting framework.

9. The Scottish Government also has the primary responsibility 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 their objectives.

Financial statements audit planning

Materiality

10. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. The assessment of what is material is a matter of professional audit judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

11. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Non-Domestic Rating Account are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of the distributable amount for the year ended 31 March 2022 based on the 2021/22 Scottish Budget.	£20.9 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£15.7 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality but capped at a maximum level of £0.25 million.	£0.25 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

12. Our risk assessment draws on our cumulative knowledge of the Non-Domestic Rating Account, its major transaction streams, and risk management processes. It is also informed by our discussions with management and a review of supporting information.

13. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Test any significant transactions outside the normal course of business. • Review of accounting estimates

Source: Audit Scotland

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue and that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk in 2021/22 because the Non-Domestic Rating Account is run as a pool with notional balances being collected and distributed. Any differences between the collection and distribution are then adjusted through the General Revenue Grant. No income is collected or banked.

15. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to

revenue recognition. As noted above, the Non-Domestic Rating Account is run as a pool with notional balances being collected and distributed. Any differences between the collection and distribution are then adjusted through the General Revenue Grant which are then paid directly to the 32 local authorities. Also, Non-Domestic Rates returns submitted to the Scottish Government by local authorities are audited separately.

16. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified one other area where we consider there to be a risk of material misstatement to the financial statements. The area of specific audit focus is:

- **Compliance with legislation: Mid-Year Adjustments.** In 2020/21 the NDR account included £40.4 million of receipts and £19.9 million of payments which were not in accordance with the regulations and we qualified the audit opinion on regularity in relation to this matter. We consider this to be a continuing area of risk in 2021/22.

18. We do not consider this to represent a significant risk and we shall keep this area under review as our audit progresses.

Audit risk assessment process

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise the Scottish Government and where relevant, report them to those charged with governance.

Audit dimensions

Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

21. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3 Audit dimensions



Source: Code of Audit Practice

22. In summary, the four dimensions cover the following:

Financial management – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial sustainability – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

Governance and transparency – governance and transparency is concerned with the effectiveness of scrutiny and governance

arrangements, leadership, and decision-making and transparent reporting of financial and performance information.

Value for money – value for money refers to using resources effectively and continually improving services.

23. The Code of Audit Practice includes provisions relating to the audit of less complex 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.

24. Due to the nature of the Non-Domestic Rating Account, we have concluded that a reduced scope can be applied.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. All plans and reports, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk. Matters arising from our audit will be reported on a timely basis and will include agreed action plans.

26. We will provide an independent auditor's report to the Scottish Government, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Non-Domestic Rating Account. We will provide the Accountable Officer and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

27. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 4 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	14 March 2022	21 March 2022
Independent Auditor's Report	31 October 2022	12 December 2022
Annual Audit Report	31 October 2022	12 December 2022



Source: Audit Scotland

Timetable

28. To support an efficient audit, it is critical that the timetable for producing the Non-Domestic Rating Account for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

29. We will continue to work in close partnership with the Scottish Government and progress will be discussed over the course of the audit.

Exhibit 5 Proposed timetable

	Key stage		Provisional Date
	Latest submission date for the receipt of the unaudited Non-Domestic Rating Account with complete working papers package		31 May 2022
	Latest date for final clearance meeting with the Scottish Government		30 September 2022 (tbc)
	Agreement of audited unsigned Non-Domestic Rating Account and issue of Annual Audit Report and proposed Independent Auditor's opinion		21 October 2022 (tbc)
	Signed Independent Auditor's Report		31 October 2022 (tbc)

Source: Audit Scotland

Audit fee

30. The proposed audit fee for the 2021/22 audit of the Non-Domestic Rating Account is £11,880 (2020/21: £11,630). In determining the audit fee, we have taken account of the risk exposure of the Non-Domestic Rating Account.

31. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Other matters

Independence and objectivity

32. Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

33. The engagement lead (i.e. appointed auditor) for the Non-Domestic Rating Account is Michael Oliphant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Non-Domestic Rating Account.

Quality control

34. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

35. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

36. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Scottish Government

Non-Domestic Rating Account

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