

Non-Domestic Rating Account

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland
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Contents

Key messages	3
Introduction	4
Part 1. Audit of 2023/24 Non-Domestic Rating Account	5
Part 2. Financial sustainability and governance	8
Appendix 1. Action plan 2023/24	11

Key messages

2023/24 Non-Domestic Rating Account

- 1 Audit opinions on the 2023/24 Non-Domestic Rating Account are unmodified.
- 2 In all material respects the receipts and payments presented in the 2023/24 Non-Domestic Rating Account were incurred in accordance with applicable enactments and guidance.

Financial sustainability and governance

- 3 The 2023/24 Non-Domestic Rating Account shows Scottish Ministers received £3,082 million of non-domestic rates in the year and paid back £3,047 million to local authorities. This resulted in an in-year surplus of £35 million, which decreased the cumulative deficit on the account to £48 million.
- 4 A cumulative deficit balance of £66 million was estimated for 2023/24 which is £18 million more than the actual outturn position. The 2023/24 Scottish Budget set out plans to bring the account back into balance by the end of 2024/25. However, the 2024/25 Scottish Budget reassessed the position and the plan is now to bring the Account back into balance by 2027/28.
- 5 There continues to be scope for the Scottish Government to improve the clarity and transparency of financial information and reporting on non-domestic rates.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of the Non-Domestic Rating (NDR) Account. It is addressed to the Scottish Government and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
2. The scope of the audit was set out in an Annual Audit Plan presented to the March 2024 meeting of the Scottish Government Audit and Assurance Committee. This Annual Audit Report comprises significant matters arising from an audit of the 2023/24 NDR Account alongside conclusions on financial sustainability and governance as required for less complex bodies by the [Code of Audit Practice 2021](#).
3. My team and I would like to thank staff involved for their cooperation and assistance this year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

4. 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 account direction from Scottish Ministers. The Scottish Government is also responsible for compliance with legislation and putting arrangements in place for governance, propriety and regularity.
5. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK (ISAs).
6. This report contains an agreed action plan at [Appendix 1](#). The weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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

7. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £12,630, as set out in my 2023/24 Annual Audit Plan, remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2023/24 Non-Domestic Rating Account

Main judgements

Audit opinions on the 2023/24 Non-Domestic Rating Account are unmodified.

In all material respects the receipts and payments presented in the 2023/24 Non-Domestic Rating Account were incurred in accordance with applicable enactments and guidance.

Audit opinions are unmodified

8. The NDR Account for the year ended 31 March 2024 was presented to the Scottish Government Audit and Assurance Committee on 9 September 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements properly present, in accordance with applicable legislation and directions made thereunder by the Scottish Ministers, the receipts and payments of the account for the year ended 31 March 2024 and the balances held at that date
- in all material respects the receipts and payments in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- the information given in the Foreword is consistent with the financial statements. There are no matters which I am required by the Auditor General to report by exception.

Overall materiality was assessed as £60 million

9. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

10. My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed on receipt of the unaudited NDR Account and it was concluded that it remained appropriate. The materiality levels are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£60 million
Performance materiality	£45 million
Reporting threshold	£0.6 million

Source: Audit Scotland

11. Overall materiality is the figure we calculate to assess the impact of potential misstatements on the NDR Account. It was set at 2 per cent of the distributable amount for the year ended 31 March 2024, based on the 2023/24 Scottish Budget, which I judged as the figure most relevant to the users of the NDR Account.

12. Performance materiality is used by auditors when undertaking work on individual areas of the NDR Account. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75 per cent of overall materiality.

13. It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold, which was set at 1 per cent of overall materiality. The final decision on making the correction lies with those charged with governance.

We have no significant findings to report

14. Under ISA (UK) 260, I communicate significant findings from the audit to the Scottish Government Audit and Assurance Committee, including my view about the qualitative aspects of the body's accounting practices.

15. The Code of Audit Practice also requires me to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance.

16. There are no significant findings or key audit matters to report. There were no identified misstatements in the NDR Account presented for audit.

17. My audit identified a small number of presentational and disclosure issues which were discussed with management. These were adjusted and are reflected in the audited NDR Account. I also continue to raise issues around the clarity and transparency of information provided within the NDR Account. These are discussed at [paragraphs 29. - 30.](#)

18. It is normal practice for adjustments to be made during the year to the contributable and distributable amounts to reflect interim and final recalculations for previous years. During 2023/24, due to Scottish Government staff shortages, no adjustments were calculated. These will instead be processed in 2024/25.

19. The unaudited NDR Account was received on 7 June 2024, slightly later than the agreed date of 3 June 2024. The working papers provided in support of the NDR Account were of a good standard and although we experienced some delays in receiving responses to audit queries, we appreciate the support from finance staff to conclude the audit.

Audit work responded to the risk of material misstatement identified

20. [Exhibit 2](#) sets out the significant risk of material misstatement identified in my 2023/24 Annual Audit Plan, the further audit procedures performed to obtain assurances and the conclusions from the work completed.

Exhibit 2

Identified Significant risk of material misstatement to the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (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>This is presumed to be a significant risk in every audit.</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 journal activity and other adjustments. Detailed testing of journal entries. Evaluate any significant transactions outside the normal course of business. 	<p>Audit testing did not identify any issues.</p> <p>Conclusion: No incidence of management override of controls was identified.</p>

Source: Audit Scotland

Part 2. Financial sustainability and governance

Conclusion

The 2023/24 Non-Domestic Rating Account shows Scottish Ministers received £3,082 million of non-domestic rates in the year and paid back £3,047 million to local authorities. This resulted in an in-year surplus of £35 million, which decreased the cumulative deficit on account to £48 million.

A cumulative deficit balance of £66 million was estimated for 2023/24 which is £18 million more than the actual outturn position. The 2023/24 Scottish Budget set out plans to bring the account back into balance by the end of 2024/25. However, the 2024/25 Scottish Budget reassessed the position and is now looking to bring the Non-Domestic Rating Account back into balance by 2027/28.

There continues to be scope to improve the clarity and transparency of financial information and reporting on non-domestic rates.

There was an in-year surplus of £35 million

21. The NDR Account operates on a receipts and payments basis and is managed by the Scottish Government. It serves as a national “pool” for all NDR receipts. The receipts of local authorities across Scotland are recognised in the NDR Account as contributions. The Scottish Government distributes these receipts to local authorities as part of its overall local government funding arrangements.

22. The amount distributed as non-domestic rates funding to local authorities (the Distributable Amount) was set in the Local Government Finance (Scotland) Order 2023 at £3,047 million for 2023/24 after considering the expected NDR receipts to be received by local authorities in 2023/24.

23. The Scottish Government guarantees the combined amount of revenue grant funding and non-domestic rates distributions provided to local authorities each year. Where variances in non-domestic rates occur, the Scottish Government adjusts the associated General Revenue Grant to ensure funding levels to local government align to the levels agreed in the finance settlement for that year.

24. The total NDR receipts contributed by local authorities for 2023/24 were £3,082 million. The total amount distributed from the NDR Account to local authorities for 2023/24 was £3,047 million. No adjustments in relation to prior years have been recognised in 2023/24 (as noted in [paragraph 18.](#)).

25. The excess of contributions over distributions represents an in-year surplus of £35 million (2022/23 in-year surplus: £117 million). The cumulative deficit balance of £48 million will be carried forward into 2024/25.

There are plans to break-even by the end of 2027/28

26. The Scottish Budget for 2023/24 set the distributable amount at a level which led to a forecasted cumulative deficit on the NDR Account at the end of 2023/24 of £66 million. The same Scottish Budget set out plans to bring the NDR Account back to break-even by the end of 2024/25.

27. The 2024/25 Scottish Budget reflects the latest NDR financial information and forecasted a cumulative deficit for 2023/24 of £85 million, with plans to bring the NDR Account back to break-even by the end of 2027/28.

28. The actual cumulative deficit at the end of 2023/24 of £48 million is £37 million below the latest estimate contained in the 2024/25 Scottish Budget.

The foreword could be further developed

29. We have previously reported that there is scope to improve the clarity and transparency of financial information and reporting on the NDR Account. We first raised this in 2016/17. Some improvement to the narrative has been incorporated, but the Scottish Government could develop it further and provide the Scottish Parliament and the wider public with a fuller understanding of how the NDR Account operates. We noted the following:

- the narrative could be easier for the reader to understand by reducing the extent of legal references
- the narrative could be further developed by including more information about reasons for the annual surplus or deficit and future plans to reduce the cumulative deficit on the NDR Account and return to break-even
- further information could be provided around NDR forecasts and funding within its medium-term financial strategy
- scenario planning and sensitivity analyses to provide decision makers with greater information on the impact of fluctuations in NDR contributions or distributions could be undertaken and published.

30. By providing greater transparency, the Scottish Government could demonstrate more clearly their plans for the NDR Account, the funding choices it presents, and how these align to the Government's wider decision-making on financial sustainability.

Recommendation 1

The Scottish Government should continue to improve the clarity and transparency of reporting for the Non-Domestic Rating Account.

Governance arrangements are appropriate

31. The governance arrangements for the NDR Account operate within the context of the Scottish Government's overall system of corporate governance. My judgement on the adequacy of the governance arrangements form part of my reporting on the 2023/24 Scottish Government Consolidated Accounts.

32. The Scottish Government Audit and Assurance Committee is responsible for oversight of the NDR Account. Any issues relating to the reporting or administration of the NDR Account are escalated as appropriate.

33. 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. The NDR Account is subject to the same controls and assurance procedures that apply to the Scottish Government.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Transparency of reporting</p> <p>We continue to recommend that the Scottish Government should improve the transparency of financial information and reporting on NDR.</p> <p>Risk: There is a risk that the reader's understanding is impaired.</p>	<p>The Scottish Government should continue to improve the clarity and transparency of reporting for the Non-Domestic Rating Account.</p> <p>Paragraphs 29. - 30.</p>	<p>Accepted</p> <p>The Scottish Government will continue to consider how best to improve clarity and transparency to provide a fuller understanding of how the NDR account operates, including providing additional information in the Scottish Government Budget and Medium Term Financial Strategy.</p> <p>Responsible officer</p> <p>Craig Inglis, Team Leader - Local Government Finance</p> <p>31 March 2025</p>

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www.audit-scotland.gov.uk/accessibility



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