

Scottish Government: Non-Domestic Rating Account

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Government
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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Non-Domestic Rating Account. The main elements of our work include:

- an audit of the annual accounts of the Non-Domestic Rating Account and the issue of an Independent Auditor's Report setting out our audit opinions on the financial statements, regularity and other statutory information including the foreword and statement of accountable officer's responsibilities
- consideration of arrangements in relation to financial sustainability and the governance statement.

Audit Appointment

2. For the period 2022/23 to 2026/27 inclusive, Audit Scotland will continue to be the appointed auditor for the Non-Domestic Rating Account. Carole Grant has been appointed as engagement lead for the audit.

3. We use our initial assessment of risk to inform our planned audit approach and we keep it under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

Adding value

4. We aim to add value to the Scottish Government by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will 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 2021](#) 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 accounts. We also review and report on the arrangements in place at the Scottish Government in respect of the Non-Domestic Rating Account. In doing this, we aim to support improvement and accountability.

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 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.

Audit planning

Materiality

10. The concept of materiality is applied by auditors in planning and performing the audit and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

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

Exhibit 1

2022/23 Materiality levels for the Non-Domestic Rating Account

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 based on our assessment of the needs of the users of the financial statements and the nature of the Non-Domestic Rating Account. For the year ended 31 March 2023 we have set our materiality at 2 per cent of the distributable amount based on the 2022/23 Scottish Budget.	£55.3 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 per cent of planning materiality.	£41.5 million
Reporting threshold (i.e. clearly trivial) – 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 per cent 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, key systems of internal control and risk management processes. It is informed by our discussions with management and a review of supporting information.

13. 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. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

14. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This risk has 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.

Exhibit 2

2022/23 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by 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 their 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>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Assess and test the design and implementation of controls over journal entry processing. • Detailed testing of journal entries. • Evaluate any significant transactions outside the normal course of business.

Source: Audit Scotland

15. 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. We have rebutted this risk in 2022/23 because there is very little incentive and opportunity for Scottish Government or local authorities to fraudulently manipulate the contributable amounts in the Non-Domestic Rating Account. All Non-Domestic Rates returns submitted to the Scottish Government by local authorities are subject to audit.

16. 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. We have also rebutted this risk as there is little incentive for the Scottish Government to manipulate the distributable amount paid out to local authorities. We have identified no issues with the process for setting the total distributable amount, which is included in the 2022/23 Scottish Budget.

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

18. As part of our assessment of audit risks, we have not identified any other areas of audit focus that we are looking to bring to your attention.

Wider scope

19. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place.

20. The four wider scope areas are:

- Financial management
- Financial sustainability
- Vision, leadership and governance
- Use of resources to improve outcomes.

21. 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.

22. 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 is paid directly to the 32 local authorities. As a consequence, 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

23. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

24. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

25. 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.

26. [Exhibit 3](#) outlines the target dates for our audit outputs. We aim to issue the independent auditor's report by the statutory deadline of 31 October 2023.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28 February 2023	6 March 2023
Independent Auditor's Report	31 October 2023*	To be confirmed
Annual Audit Report	31 October 2023*	To be confirmed

Source: Audit Scotland

* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Assurance committee to enable them to be considered.



Timetable

27. 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 4](#).

28. The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to return the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

29. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. Progress will be discussed with management over the course of the audit.

Exhibit 4 Proposed annual report and accounts 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 2023
Issue draft annual audit report for clearance discussion	15 September 2023
Latest date for final clearance meeting with the Scottish Government	22 September 2023
Agreement of audited and unsigned Non-Domestic Rating Account	29 September 2023
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	3 October 2023
Consideration of audited Non-Domestic Rating Account and audit reporting by those charged with governance	To be confirmed – October 2023
Independent auditor's report signed	31 October 2023

Source: Audit Scotland

Audit fee

30. In determining the audit fee, we have taken account of the risk exposure of the Non-Domestic Rating Account. The audit fee for 2022/23 has been set at the baseline level of £11,920 (2021/22: £11,880). The audit fee assumes the provision of comprehensive and accurate accounts for audit in line with the agreed audit timetable.

31. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

Other matters

Independence and objectivity

32. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

33. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

34. The appointed auditor for the Non-Domestic Rating Account is Carole Grant, Audit Director. Auditing and ethical standards require us 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.

Audit Quality

35. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

36. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

37. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

38. 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 appointed auditor.

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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