

---

# Scottish Government Non-Domestic Rating Account

Annual Audit Plan 2017/18

---



 AUDIT SCOTLAND

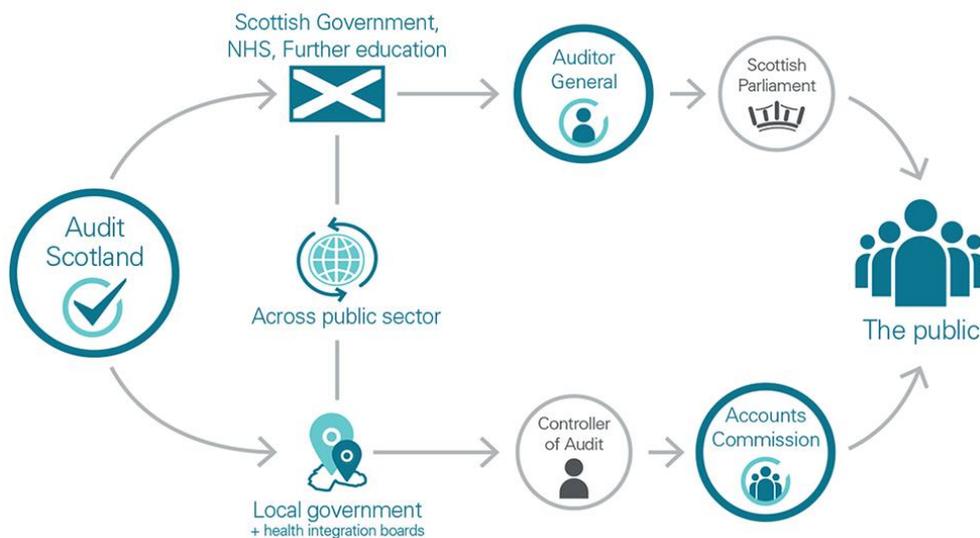
Prepared for the Scottish Government

April 2018

## 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.

---

# Contents

---

<b>Risks and planned work</b>	<b>4</b>
Audit dimensions	4
Audit risks	6
Reporting arrangements	7
Audit fee	7
Responsibilities	8
<b>Audit scope and timing</b>	<b>9</b>
Financial statements	9
Materiality	9
Internal audit	11
Independence and objectivity	11
Quality control	11
Adding Value	11

---

# Risks and planned work

---

- 1.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
- 2.** 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 to local authorities. The purpose of the account is to demonstrate all non-domestic rates paid over are redistributed to local authorities. The Scottish Government determines the amount to be redistributed to councils as part of the Scottish Budget. Non-domestic rates collected by local authorities are audited locally.
- 3.** This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

## Audit dimensions

- 4.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#). Due to the nature of the NDR account, we have assessed the extent of wider dimensions work and concluded that a reduced scope, as outlined in the Code of Audit Practice, can be applied. This will focus on financial sustainability, financial management and governance and transparency.

## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**5.** 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 the financial sustainability of the NDR Account and its impact on the Scottish Budget in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the Scottish Government can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**6.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Scottish Government has arrangements in place to ensure systems of internal control are operating effectively for the preparation of the NDR account
- how the Scottish Government has assured itself that its financial capacity and skills are appropriate in preparing the NDR account
- whether the Scottish Government has established appropriate and effective arrangements for the prevention and detection of fraud and corruption in preparing the NDR account.

### Governance and transparency

**7.** 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. In relation to the NDR account we will review, conclude and report on:

- whether the Scottish Government can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making and reports.
- the quality and timeliness of financial reporting.

## Audit risks

8. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main audit risk areas for the Scottish Government's Non-domestic Rating Account (NDR). We have categorised these audit risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 2](#).

## Exhibit 2

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Changes to processes</b></p> <p>In 2017/18 the Non-Domestic Rating Account will be prepared using revised processes. These processes will automatically populate the account rather than the previous manual process.</p> <p>With any change in approach, there is always a risk that changes may lead to errors.</p>		<p>Document and assess the new process for populating the account.</p> <p>Detailed testing of Account balances.</p>
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability</b></p> <p>At the end of 2016/17, the NDR account showed a cumulative deficit balance of £297 million. In December 2017, the Scottish Government published plans that</p>	<p>In December 2017, the Scottish Government published details of its intention to bring the account into balance by the end of 2018/19. This was based on</p>	<p>Re-performance of calculations for projected year end balance</p> <p>Substantive testing of balances.</p>

Audit Risk	Source of assurance	Planned audit work
<p>indicated the deficit would reduce to £142 million at the end of 2017/18.</p> <p>There remains a risk that the planned year-end balance in 2017/18 may not be achieved. This would impact on the Scottish Government's intention to bring the account into balance by the end of 2018/19.</p>	<p>an anticipated year end deficit balance of £142 million in 2017/18.</p>	

## Reporting arrangements

**9.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**10.** 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 officer(s) to confirm factual accuracy.

**11.** We will provide an independent auditor's report to the Scottish Government, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual account. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

**12.** It is the responsibility of Director General Education, Communities and Justice, as Accountable Officer, to prepare the financial statements in accordance with Schedule 12 of the Local Government Finance Act 1992 and present them to Parliament.

## Exhibit 3

### 2017/18 Audit outputs

Audit Output	Target date	SGAAC meeting
Annual Audit Report	15 August 2018	24 September 2018
Independent Auditor's Report	10 August 2018	24 September 2018

## Audit fee

**13.** The proposed audit fee for the 2017/18 audit of the Non-Domestic Rating Account is £10,810 (2016/17: £10,690). In determining the audit fee we have taken account of the risk exposure of the NDR Account, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 29 June 2018.

**14.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, 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.

## Responsibilities

### Assurance and Audit Committee and Accountable Officer

**15.** Audited bodies have 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 successfully deliver their objectives.

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

### Appointed auditor

**17.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

# Audit scope and timing

## Financial statements

**18.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the nature of the NDR account and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the NDR account will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on the financial statements as to:

- whether they properly present the receipts and payments for the financial year, and the balances held at the year end
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the receipts and payments.

## Materiality

**20.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**21.** We calculate materiality at different levels as described below. The calculated materiality values for the NDR account are set out in [Exhibit 4](#).



## Exhibit 4

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts for 2016/17.	£26.7 million
<b>Performance materiality</b> – 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 calculated performance materiality at 75 per cent of planning materiality.	£20.1 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at one per cent of planning materiality.	£0.3 million

**22.** We review and report on other information published with the financial statements including the management commentary, and the annual governance report. Any significant issues will be reported to the Scottish Government's Assurance and Audit Committee.

### Timetable

**23.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited account. An agreed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned Scottish Government Assurance and Audit Committee meeting dates.

## Exhibit 5

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for Audit work to commence	2 July 2018
Latest date for final clearance meeting with the Scottish Government	18 July 2018
Issue of letter of representation and proposed independent auditor's report	3 August 2018
Agreement of audited unsigned annual accounts; issue of Annual Audit Report including ISA 260 report to those charged with governance	3 August 2018
Independent auditor's report signed	10 August 2018

## Internal audit

**24.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible. However, given the audit approach of the NDR account is wholly substantive in nature and there is no specific internal audit work from which we aim to take assurance from this year.

## Independence and objectivity

**25.** Auditors appointed by Audit 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 in place robust arrangements 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.

**26.** The engagement lead and appointed auditor for the NDR account is Stephen Boyle, Assistant 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 Scottish Government Non-Domestic Rating Account.

## Quality control

**27.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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.

**28.** 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**29.** 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.

## Adding Value

**30.** Through our audit work we aim to add value to the Scottish Government. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Scottish Government has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Government Non-Domestic Rating Account

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



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)