

Non-Domestic Rating Account

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland

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Key messages

2022/23 Non-Domestic Rating Account

- 1 The independent auditor's report for the 2022/23 Non-Domestic Rating Account is unqualified.
- 2 The receipts and payments presented in the 2022/23 Non-Domestic Rating Account were incurred in accordance with the relevant applicable enactments and guidance issued by the Scottish Ministers.

Financial sustainability and governance

- 3 The 2022/23 Non-Domestic Rating Account shows Scottish Ministers received £3,006 million of non-domestic rates in the year and paid back £2,889 million to local authorities. This resulted in an in-year surplus of £117 million which decreased the overall deficit on the account to £83 million.
- 4 A cumulative deficit balance of £128 million was estimated which is £45 million more than the actual outturn position. The 2022/23 Scottish Budget set out plans to bring the account back into balance by the end of 2024/25.
- 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 our 2022/23 annual audit of the Non-Domestic Rating Account (NDR Account). This report 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 our audit was set out in our 2022/23 Annual Audit Plan presented to the March 2023 meeting of the Scottish Government Audit and Assurance Committee. This annual audit report comprises significant matters arising from the audit of the 2022/23 NDR Account and conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies is financial sustainability and governance.

Audit appointment from 2022/23

3. I, Carole Grant, have been appointed by the Auditor General for Scotland as auditor of the NDR Account. The 2022/23 financial year was the first of my five-year appointment. My team and I would like to thank all staff involved in assisting our audit of the NDR Account this year and we look forward to working together constructively over the course 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 accounts 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. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and International Standards on Auditing in the UK.

6. This report contains an agreed action plan at [Appendix 1](#). Weaknesses or risks identified in this report 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

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £11,920 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2022/23 Non-Domestic Rating Account

Main judgements

The independent auditor's report for the 2022/23 Non-Domestic Rating Account is unqualified.

The receipts and payments presented in the 2022/23 Non-Domestic Rating Account were incurred in accordance with the relevant applicable enactments and guidance issued by the Scottish Ministers.

Our audit opinions are unmodified

8. The NDR account for the year ended 31 March 2023 was presented to the Scottish Government Audit and Assurance Committee on 30 October 2023. As reported in the independent auditor's report:

- 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 2023 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
- 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.

Overall materiality was assessed as £55.3 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. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited NDR Account and it was concluded that they remained appropriate. Our materiality levels are summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2 per cent of the distributable amount for the year ended 31 March 2023 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 above this 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

We have no significant findings to report on the audit of the 2022/23 Non-Domestic Rating Account

11. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

12. Our 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. We continue to raise issues around the transparency of information provided within the NDR Account. These are discussed at [paragraphs 24-25](#).

13. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks 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 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>This is presumed to be a significant risk in every audit.</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. 	<p>Our testing did not identify any issues and we found no evidence of management override of controls.</p>

Source: Audit Scotland

14. The unaudited NDR Account was received in line with our agreed audit timetable on 30 May 2023. There were no identified misstatements in the account presented for audit.

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

Part 2. Financial sustainability and governance

Conclusion

The 2022/23 NDR Account shows Scottish Ministers received £3,006 million of non-domestic rates in the year and paid back £2,889 million to local authorities. This resulted in an in-year surplus of £117 million which decreased the overall deficit on the account to £83 million.

A cumulative deficit balance of £128 million was estimated which is £45 million more than the actual outturn position. The 2022/23 Scottish Budget sets out plans to bring the account back into balance by the end of 2024/25.

There continues to be scope for the Scottish Government to improve the clarity and transparency of financial information and reporting on Non-Domestic Rates.

Financial performance in 2022/23

16. The NDR Account operates on a receipts and payments basis and is managed by the Scottish Government. All NDR receipts collected by local authorities in Scotland are placed in a national “pool” and separately distributed to local authorities as part of the Scottish Government’s funding arrangements.

17. The amount distributed as non-domestic rates funding to local authorities (the Distributable Amount) was set in the Local Government Finance (Scotland) Order 2022 at £2,766 million for 2022/23 after considering the expected NDR receipts to be received by local authorities in 2022/23.

18. 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.

19. Total non-domestic rates contributed by local authorities in 2022/23 was £3,006 million, of which £177 million related to prior years. The total amount distributed for 2022/23 was £2,889 million which includes £123 million relating to prior years.

20. The net position for 2022/23 represents an excess of contributions over distributions resulting in a surplus of £117 million (2021/22: deficit of £140 million). The cumulative deficit balance on the account of £83 million will be carried forward into 2023/24.

21. In the Scottish Budget for 2022/23, published in December 2021, the Scottish Government made a policy decision to set the distributable amount at a level which led to a forecast £128 million deficit balance in the account at 31 March 2023, with plans set out in the same budget document to bring the account back into balance by the end of 2024/25.

22. The 2022/23 budget had anticipated a £64 million in-year surplus on the 2022/23 NDR Account. Actual 2022/23 non-domestic rate receipts contributed by councils were £20 million more than expected, and prior year adjustments were £33 million more than expected. This led to the expected in-year surplus of £64 million rising to £117 million.

Financial sustainability

23. The Scottish Budget for 2023/24 shows that the Scottish Government plans to distribute £17 million less (including prior year adjustments) than it receives, which would decrease the overall balance on the account from a deficit of £83 million to a deficit of £66 million. The Scottish Government plans to bring the account back into balance by the end of the 2024/25 financial year.

The foreword could be further developed

24. 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 parliament and the wider public with a fuller understanding of how the NDR Account operates. We noted the following:

- the narrative now includes reference to the 2023/24 Scottish Budget; it could be further developed by including more information about reasons for the annual surplus or deficit and future plans to reduce the overall deficit on the account and return to break-even
- further information could be provided around non-domestic rate forecasts and funding within its medium-term financial strategy
- scenario planning and sensitivity analysis to provide decision makers with greater information on the impact of fluctuations in non-domestic rate contributions or distributions could be undertaken and published.

25. 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

26. 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 2022/23 Scottish Government Consolidated Accounts.

27. 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 as appropriate.

28. The arrangements, within which the NDR Account operates, are assessed by the Scottish Government who confirmed that they comply with generally accepted best practice and relevant guidelines. Assurance is also provided by the work of internal and external audit.

29. 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. Action plan 2022/23

2022/23 recommendations

Issue / risk	Recommendation	Agreed management action / timing
<p>1. Transparency of reporting</p> <p>We have previously recommended that the Scottish Government should improve the transparency of financial information and reporting on NDR. We noted some improvement in 2022/23 and this should be further developed in 2023/24.</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 24-25</p>	<p>The Scottish Government will consider how best to improve transparency and 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>Craig Inglis, Team Leader – Revenue and Capital, Local Government Finance</p> <p>2023-24 Agreed</p>

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www.audit-scotland.gov.uk/accessibility



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