

Scottish Government: Non-Domestic Rating Account

Annual Audit Plan 2023/24



Prepared for the Scottish Government
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Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 audit. The main elements of the audit 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 the arrangements in relation to financial sustainability and the governance statement.

2. There has been no change to the audit team as we move into the second year of this audit appointment. Carole Grant remains the appointed auditor.

Respective responsibilities of the auditor and the Scottish Government

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

Auditor responsibilities

4. My responsibilities as appointed auditor 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.

5. 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 for the Non-Domestic Rating Account. In doing this, we aim to support improvement and accountability.

Scottish Government's responsibilities

6. 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.

7. 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 the objectives of the Non-Domestic Rating Account.

Adding value

8. We aim to add value to the Scottish Government by being constructive and forward looking and providing independent conclusions on all aspects of the audit. We will identify areas for improvement and recommend, and encourage, good practice. In so doing, we will promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

9. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the Non-Domestic Rating Account, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 and guidance from Audit Scotland.

10. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to the main financial systems relevant to the production of the financial statements.

Materiality

11. 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 the audit to obtain reasonable assurance about whether 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 2023/24 audit

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

Exhibit 1

2023/24 Materiality levels for the Non-Domestic Rating Account

Materiality	Amount
<p>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 2024, we have set our materiality at 2 per cent of the distributable amount, based on the 2023/24 Scottish Budget.</p>	£60 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.</p>	£45 million

Materiality	Amount
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. Using our professional judgement, we have set the 'reporting threshold' at 1 per cent of planning materiality.	£600,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. 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.

14. 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.

15. 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, management's sources of assurance over this risk, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit work
<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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</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.

Significant risk of material misstatement	Management's sources of assurance	Planned audit work
This is presumed to be a significant risk in every audit.		

Source: Audit Scotland

16. As set out in ISA (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 as there is little incentive or opportunity for the Scottish Government 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 have been subject to audit.

17. 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 2023/24 Scottish Budget.

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

19. 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.

Regularity

20. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

21. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any potential irregular transactions, where necessary.

Wider scope

Introduction

22. Reflecting the fact that public money is involved the [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to conclude on the effectiveness and appropriateness of the arrangements in place for each area.

23. The four wider scope areas are financial management, financial sustainability, vision, leadership and governance, and use of resources to improve outcomes.

Less complex bodies

24. 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 a consideration of the financial sustainability of the body and its services.

25. 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

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

27. 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 also provide the Scottish Government and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit.

28. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	31/03/2024	04/03/2024
Independent Auditor's Report	31/10/2024*	TBC
Annual Audit Report	31/10/2024*	TBC

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.



29. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

30. 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 timetable for the audit at [Exhibit 4](#).

31. We will work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with the Scottish Government over the course of the audit.

Exhibit 4 Non-Domestic Rating Account timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited Non-Domestic Rating Account with complete working papers package	3 June 2024
Issue draft Annual Audit Report for clearance discussion	14 August 2024
Latest date for final clearance meeting with the Scottish Government	21 August 2024
Agreement of audited and unsigned Non-Domestic Rating Account	28 August 2024
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	TBC
Consideration of audited Non-Domestic Rating Account and audit reporting by those charged with governance	TBC – September 2024
Independent Auditor's Report signed	TBC

Source: Audit Scotland

Audit fee

32. In determining the audit fee, we have taken account of the risk exposure of the Non-Domestic Rating Account and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is set at the baseline level of £12,630.

33. The audit fee assumes the provision of comprehensive and accurate accounts for audit in line with the agreed audit timetable. 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 outwith our planned audit activity.

Other matters

Independence and objectivity

34. As the appointed auditor, I am independent of the Non-Domestic Rating Account in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

35. Audit Scotland has robust arrangements in place to ensure compliance with the Ethical Standard 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.

36. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Non-Domestic Rating Account.

Audit quality

37. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

38. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team.

39. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

40. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

41. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

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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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