

Scottish Government Non-Domestic Rating Account

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Scottish Government
March 2019

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.

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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 that all non-domestic rates collected 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 sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

Audit dimensions

4. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money, 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. Value for money is concerned with using resources effectively and continually improving services. As non-domestic rates are used as part of individual local authorities' funding, the value for money dimension is not considered as part of this audit.

Exhibit 1 Audit dimensions



Financial sustainability

5. We will comment on the financial sustainability of the Non-Domestic Rating 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
- 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 Non-Domestic Rating Account
- how the Scottish Government has assured itself that its financial capacity and skills are appropriate in preparing the Non-Domestic Rating Account
- whether the Scottish Government has established appropriate and effective arrangements for the prevention and detection of fraud and corruption in preparing the Non-Domestic Rating 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 information. 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 in decision making and finance reports
- the quality and timeliness of financial reporting.

Audit risks

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

Exhibit 2 2018/19 Key audit risks

| Audit Risk | Source of assurance | Planned audit work |
|--|--|---|
| Financial statements issues and risks | | |
| 1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, | Owing to the nature of this risk, assurances from management are not | <ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. |

| Audit Risk | Source of assurance | Planned audit work |
|---|------------------------------|--|
| which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements. | applicable in this instance. | <ul style="list-style-type: none"> Evaluation of significant transactions that are outside the normal course of business. |

Wider dimension issues and risks

2 Openness and transparency

In 2017/18 we reported that the Scottish Government had made progress in increasing the transparency of its financial information and reporting on NDR. However there remains scope to enhance disclosures in the NDR Account such as explaining how the distributable amount is calculated and set. In doing so, this would help provide the Parliament and the wider public with a fuller understanding of how NDR funding operates.

- Consider disclosures in the NDR Account for 2018/19
- Review the Scottish Government's updated medium-term financial strategy due to be published in 2019.

Source: Audit Scotland

Reporting arrangements

9. Audit reporting is the visible output from 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.

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 officers 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 Non-Domestic Rating 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 during the audit.

Exhibit 3 2018/19 Audit outputs

| Audit Output | Target date | SGAAC meeting |
|------------------------------|-------------------|-------------------|
| Annual Audit Report | 13 September 2019 | 24 September 2019 |
| Independent Auditor's Report | 13 September 2019 | 24 September 2019 |

Source: Audit Scotland

Audit fee

12. The proposed audit fee for the 2018/19 audit of the Non-Domestic Rating Account is £11,130 [2017/18: £10,810]. In determining the audit fee, we have taken account of the risk exposure of the Non-Domestic Rating 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 28 June 2019.

13. 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

14. 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.

15. 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

16. 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.

Audit scope and timing

Financial statements

17. The statutory financial statements audit will be the foundation and source for most 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 Non-Domestic Rating 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 Scottish Government Non-Domestic Rating 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.

18. We will give an opinion on whether the financial statements:

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

Other information in the financial statements

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

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 opinions in the independent auditor's report.

21. We calculate materiality at different levels as described below. The calculated materiality values for Non-Domestic Rating Account are set out in [Exhibit 4](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 4

Materiality values

| Materiality | Amount |
|---|---------------|
| Planning materiality – 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 2019 based on the latest audited accounts for 2017/18. | £26.4 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 calculated performance materiality at 75 per cent of planning materiality. | £19.8 million |
| Reporting threshold – 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 one per cent of planning materiality. | £0.25 million |

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that the financial statements timetable is agreed with us to produce the unaudited financial statements. We have included an agreed timetable 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 financial statements with complete working papers package | 28 June 2019 |
| Latest date for final clearance meeting with the Scottish Government | 9 September 2019 |
| Agreement of audited unsigned financial statements | 11 September 2019 |
| Issue of Letter of Representation and proposed independent auditor's report | 13 September 2019 |
| Issue of Annual Audit Report, including ISA 260 report, to those charged with governance | 13 September 2019 |
| Independent auditor's report signed | 24 September 2019 |

Internal audit

23. 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 to avoid duplication.

Using the work of internal audit

24. We read all internal audit reports to inform our ongoing understanding of the NDR Account, but we do not intend to place reliance on internal audit's work in 2018/19 as we plan to take a fully substantive approach to the audit.

Independence and objectivity

25. Auditors appointed by the Accounts Commission or Auditor General 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 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

26. The engagement lead and appointed auditor for the Non-Domestic Rating Account is Stephen Boyle, Audit 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 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out 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.

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