

Scottish Government Non-Domestic Rating Account

Annual Audit Plan 2020/21



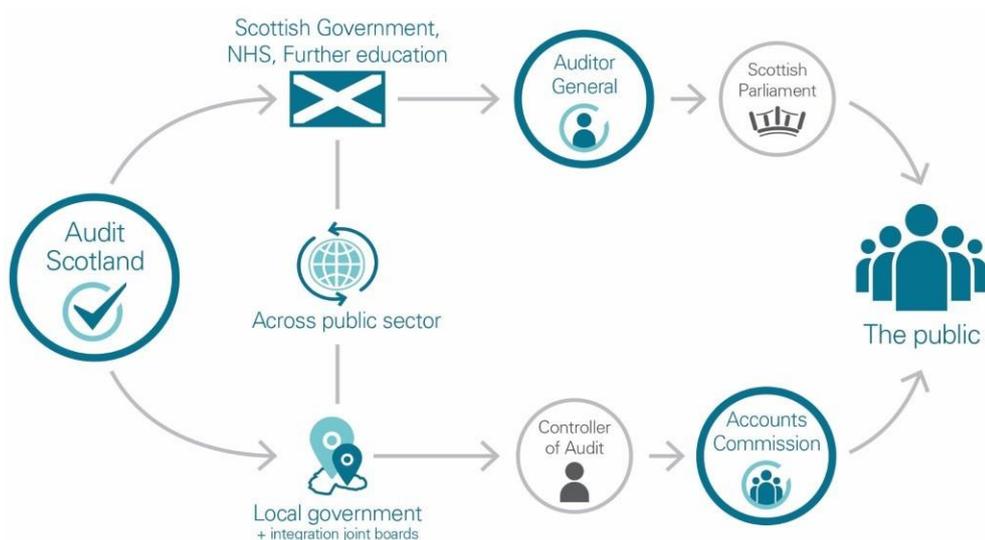
 AUDIT SCOTLAND

Prepared for the Scottish Government
March 2021

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

Audit risks and planned work	4
Audit scope and timing	7

Audit risks and planned work

1. 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.

2. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit.

3. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

4. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

5. We fully recognise the unique and significant pressures the public sector is under in responding to the threat posed by the Covid-19 pandemic. Our approach to audit during the pandemic aims to be flexible, pragmatic and consistent.

6. The public health crisis caused by the Covid-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

7. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

8. We aim to add value to the Scottish Government through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Non-Domestic Rating Account promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

9. Based on our discussions with staff and a review of supporting information we have identified the following significant risks for our audit of the Scottish Government Non-Domestic Rating Account. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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>

Source: Audit Scotland

10. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition and that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition in 2020/21 because 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. No income is collected or banked.

11. In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2020/21. As noted above, 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 are then paid directly to the 32 local authorities. There is documentation detailing how payments are calculated, and this is publicly available. Also, Non-Domestic Rates returns submitted to the Scottish Government by local authorities are audited separately.

12. In the 2019/20 Non-Domestic Rating Account, the Scottish Government committed to provide commentary on how Covid-19 has impacted on non-domestic rates income and the steps the Scottish Government has taken to address the impact. As part of our audit work, we will review the disclosures made in the 2020/21 Non-Domestic Rating account to assess whether they provide a sufficiently detailed explanation of the significant impact that Covid-19 has had on non-domestic rates in Scotland.

Reporting arrangements

13. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

14. 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 2

2020/21 Audit outputs

Audit output	Target date	Committee date
Annual Audit Plan	15 March 2021	22 March 2021
Independent Auditor's Report	6 December 2021	13 December 2021
Annual Audit Report	6 December 2021	13 December 2021

Source: Audit Scotland

Audit fee

15. The agreed audit fee for the 2020/21 audit of the Scottish Government Non-Domestic Rating Account is £11,630 [2019/20: £11,350]. In determining the audit fee we have taken account of the risk exposure of the Non-Domestic Rating Account. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 31 May 2021.

16. 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

17. 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.

18. 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

19. 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

20. 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 Scottish Government Non-Domestic Rating Account and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how these will be included 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.

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

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

Statutory other information in the financial statements

22. We also review and report on statutory other information published within the financial statements including the foreword and the annual governance statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

23. We also review the content of the statutory other information for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

24. 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.

25. We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Government Non-Domestic Rating Account are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

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 at 1% of the Distributable Amount for the year ended 31 March 2021.	£18.7 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% of planning materiality.	£14 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 1% of planning materiality.	£0.19 million

Source: Audit Scotland

Timetable

26. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the timetable. We will continue to assess the timescales in dialogue with the Scottish Government and will keep the Audit and Assurance Committee updated with our audit progress.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	31 May 2021
Latest date for final clearance meeting with the Scottish Government	By 12 November 2021
Agreement of audited unsigned financial statements and issue of Annual Audit Report and proposed Independent Auditor's opinion	6 December 2021
Independent auditor's report signed	14 December 2021

Internal audit

27. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources and where possible avoid duplication. There is no work planned by Internal Audit of direct relevance to this account.

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

29. 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.

30. Due to the nature of the Non-Domestic Rating Account, we have assessed the extent of wider dimensions work applicable and concluded that a reduced scope, can be applied.

Independence and objectivity

31. Auditors appointed by the 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.

32. The engagement lead for the Scottish Government Non-Domestic Rating Account is Michael Oliphant, 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

33. 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.

34. 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.

35. 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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