

# Revenue Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Revenue Scotland

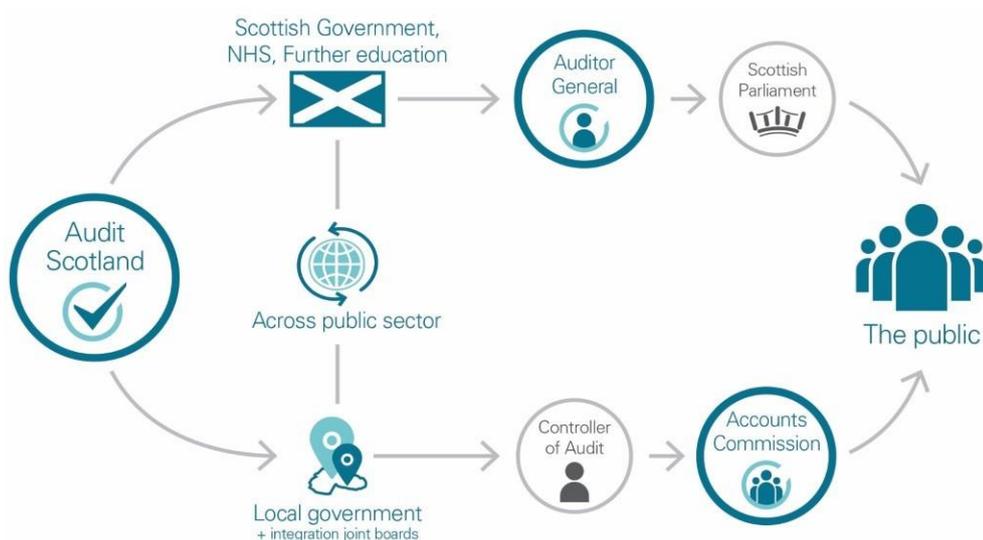
March 2021



## 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.

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# Risks and planned work

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1. 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. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Impact of Covid-19

3. The Covid-19 pandemic has had a significant impact on Scottish public services. The Scottish and UK governments provided 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.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission 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.
5. We published a further [update](#) on the impact of Covid-19 on public audit in January 2021, which recognised that the reintroduction of restrictions affects our capacity for audit work. It may also affect the capacity of some public bodies to prepare accounts. The wellbeing of everyone involved and the delivery of high-quality audits remain paramount, and we will continue to be flexible about timelines. 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 our annual audit plan may be necessary.

## Adding value

6. We aim to add value to Revenue Scotland 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 Revenue Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

7. Based on our discussions with Revenue Scotland, attendance at audit and risk committee meetings and completion of our planning work, we have identified the following significant risks for Revenue Scotland. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#). We have highlighted which risks apply to the resource accounts (RA) and the devolved taxes account (DTA).

## Exhibit 1

### 2020/21 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>			
1	<p><b>Risk of material misstatement caused by management override of controls (RA/DTA)</b></p> <p>ISA (UK) 240 requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Controls testing of financial systems for DTA.</p> <p>Walkthrough testing of controls for RA and DTA.</p> <p>Review of arrangements and policies for preventing and detecting fraud.</p> <p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals, prepayments, and accounting adjustments at the year-end.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
2	<p><b>Risk of material misstatement caused by fraud in income recognition and expenditure (tax repayments) (DTA)</b></p> <p>ISA (UK) 240 requires auditors to presume a risk of fraud where income streams are significant other than from sources such as Scottish Government funding. Revenue Scotland collected £717m of tax revenue in 2019/20.</p> <p>The Code of Audit Practice and Practice Note 10 also require auditors to consider the risk of fraud over certain types of public sector expenditure where activity is undertaken by individuals or groups outside the immediate control of the audited body (e.g. tax repayments).</p> <p>Taxpayers can claim a repayment of Additional Dwelling Supplement (ADS) where certain conditions are met. £39m of ADS was repaid in 2019/20.</p> <p>The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA (UK) 240, there is an inherent risk of fraud.</p>	<p>Adoption of accounting policies in compliance with the FReM (Government Financial Reporting Manual).</p> <p>Early intervention and compliance checking.</p> <p>Year-end closedown procedures.</p>	<p>Detailed testing of tax revenue transactions focusing on the areas of greatest risk.</p> <p>Review of accounting policy for revenue recognition.</p> <p>Monitoring early intervention and compliance checks.</p> <p>Cut-off testing.</p> <p>Evaluation of internal controls over ADS repayments.</p> <p>Detailed testing of ADS repayments.</p>

	Audit Risk	Source of assurance	Planned audit work
3	<p><b>Risk of tax revenue being misstated (DTA)</b></p> <p>Revenue Scotland has a range of investigatory powers which allows it to make enquiries into submitted tax returns. Penalties may also be imposed for failures in terms of liability or in submission of returns.</p> <p>There are a number of on-going enquiries being undertaken by Revenue Scotland and some taxpayer appeals are being considered by Tribunals. In 2019/20, £113m of contingent assets were recognised in respect of tribunal cases.</p> <p>Internal controls over processes and procedures, together with related compliance activity, continue to be developed and refined.</p> <p>There is a risk that the tax revenue reported in the financial statements is misstated due to the outcomes of compliance activity, reviews and tribunal cases not being appropriately reflected.</p>	<p>Oversight by the Board.</p> <p>Regular communications with partner bodies including SEPA (Scottish Environmental Protection Agency).</p> <p>Regular communications with other stakeholders.</p>	<p>Review compliance activity and case progress.</p> <p>Continue to understand and update our knowledge on the key processes in place.</p> <p>Substantive testing to ensure that:</p> <ul style="list-style-type: none"> <li>• the tax has been properly assessed</li> <li>• the legislation has been applied appropriately</li> <li>• timely payment has been received</li> <li>• income has been correctly allocated.</li> </ul> <p>Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied.</p> <p>Consider Internal Audit's work on conduct of reviews and designated officer review.</p> <p>Review of Board papers.</p> <p>Review working relationships with SEPA and other stakeholders.</p>

#### Wider dimension risks

4	<p><b>Tax compliance activity (DTA)</b></p> <p>Systems and processes to assess, collect and allocate tax revenues continue to be developed and refined. This development will be crucial as further taxes are devolved to Scotland.</p> <p>There continues to be a number of challenging, complex and time-consuming cases identified, particularly where the application or interpretation of legislation is in dispute.</p> <p>In our 2019/20 annual audit report, we noted that compliance work was behind schedule, and was then suspended due to the Covid-19 pandemic.</p> <p>There is a risk that the increasing number and complexity of cases impacts on the effectiveness of compliance activity.</p>	<p>Board oversight of tax collection and compliance activity.</p> <p>Regular communication with SEPA.</p> <p>Regular reporting of tax statistics to stakeholders and Parliament.</p> <p>New compliance strategies.</p>	<p>Focused testing of assessment, collection, and allocation of tax revenues (as outlined at point 3 above).</p> <p>Review Board papers.</p> <p>Review working relationships with SEPA and other stakeholders.</p> <p>Review compliance activity.</p> <p>Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied including consideration of impairment.</p>
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8. ISA (UK) 240 presumes a risk that income may be misstated due to fraud resulting in a material misstatement in the financial statements. The only source of revenue in the Resource Accounts is Scottish Government funding. We have therefore rebutted the presumed risk of material misstatement due to fraud in income received for the Resource Accounts.
9. Practice Note 10 explains that the risk of fraud is more likely to occur in expenditure for as most public-sector bodies are net expenditure bodies. Public sector auditors focus their consideration of the risk of fraud and error on expenditure. Resource Accounts expenditure is largely administered using well-established Scottish Government systems and controls. The Devolved Taxes Account only recorded £0.6m of expenditure. We have therefore rebutted the presumed risk of material misstatement due to fraud over expenditure and do not plan to undertake any further audit procedures in relation to potential fraud.

## Reporting arrangements

10. 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](http://www.audit-scotland.gov.uk).
11. 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 Revenue Scotland to confirm factual accuracy.
12. We will provide an independent auditor's report to Revenue Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on both the resource accounts and devolved taxes 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	31 March 2021	26 May 2021*
Management Report	19 May 2021	26 May 2021
Independent Auditor's Report	Tbc – November 2021**	Tbc – November 2021
Annual Audit Report	Tbc – November 2021**	Tbc – November 2021

\*The Annual Audit Plan has been shared with Revenue Scotland and audit and risk committee (ARC) members before the deadline of 31 March 2021. The plan will be brought to the May ARC meeting to ensure it has been considered in public.

\*\*Please note that all dates are indicative and are likely to be subject to change.

Source: Audit Scotland

## Notional audit fee

13. The notional audit fee for the 2020/21 audit of Revenue Scotland is £98,230 (2019/20 - £95,850). This is split across the Resource Accounts £21,416 (2019/20 - £20,897) and the Devolved Taxes Account £76,814 (2019/20 - £74,863). The split recognises the relative complexity of the Devolved Taxes Account.
14. In determining the audit fee we have taken account of the risk exposure of Revenue Scotland, 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 Resource Accounts and Devolved Taxes Account, with a complete working papers package on 13 August 2021 (TBC).

15. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts, 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

### Audit and Risk Committee and Accountable Officer

16. 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.
17. The audit of the annual report and accounts does not relieve Revenue Scotland or the audit and risk committee, as those charged with governance, of their responsibilities.

### Appointed auditor

18. 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.
19. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and financial statements. We also review and report on the arrangements within Revenue Scotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual report and accounts

**20.** The annual report and accounts, which include the financial statements, 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 business of Revenue Scotland 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 Revenue Scotland 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.

**21.** We will give an opinion on both the Resource Accounts and the Devolved Taxes Account as to whether:

- The financial statements give a true and fair view and were properly prepared;
- Expenditure and income were regular and in accordance with applicable enactments and guidance
- The audited part of the remuneration and staff report (RA only), performance report and governance statement were all consistent with the financial statements and were properly prepared in accordance with the accounts direction.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

**22.** We also review and report on statutory other information published within the annual report and accounts including the performance report and accountability report, including the governance statement and the remuneration report. 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 annual report and accounts 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 Revenue Scotland are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements.	
<ul style="list-style-type: none"> <li><b>Resource accounts:</b> It has been set at 2% of gross expenditure for the year ended 31 March 2021 based on the budgeted resource expenditure for 2019/20.</li> </ul>	£122,000
<ul style="list-style-type: none"> <li><b>Devolved taxes account:</b> It has been set as 1% based on the total forecast tax revenue for the year ended 31 March 2021, based on income in the 2019/20 DTA.</li> </ul>	£7.2 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	
<ul style="list-style-type: none"> <li><b>Resource accounts:</b> 75% of planning materiality</li> </ul>	£92,000
<ul style="list-style-type: none"> <li><b>Devolved taxes account:</b> 20% of planning materiality.</li> </ul>	£1.4 million
<b>Reporting threshold (i.e., clearly trivial)</b> – 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	
<ul style="list-style-type: none"> <li><b>Resource accounts:</b> 2% of planning materiality</li> </ul>	£5,000
<ul style="list-style-type: none"> <li><b>Devolved taxes account:</b> 1% of planning materiality (rounded)</li> </ul>	£70,000

Source: Audit Scotland

### Timetable

26. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). All dates will be kept under review in consultation with management.

### Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Meeting with management to clarify working papers' expectations. Issue working papers checklist to management.	By end March 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	13 August 2021
Consideration of unaudited annual report and accounts by those charged with governance	Tbc November 2021

 Key stage	 Date
Latest date for final clearance meeting with Accountable Officer	Tbc November 2021
Issue of Annual Audit Report and proposed independent auditor's report to the Accountable Officer	Tbc November 2021
Consideration of unaudited financial statements by the Audit & Risk Committee; Board meeting to approve the financial statements	Tbc November 2021
Independent auditor's report signed	Tbc November 2021

\* Please note that all dates are indicative and are likely to be subject to change.

Source: Audit Scotland

## Internal audit

**27.** Internal audit is provided by the Scottish Government Internal Audit and Assurance Directorate. Audit Scotland's Scottish Government audit team plans to carry out a review of the effectiveness of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). We plan to rely on this work. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**28.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**29.** International 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. We will consider the findings of the work of internal audit's reports Governance and Compliance Review and Review of Operational Changes Made as a Result of Covid-19.

## Audit dimensions

**30.** 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

**31.** 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.

### Financial sustainability

**32.** 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will consider:

- 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
- review progress towards the completion of the proposed 3 year financial strategy which will underpin the new corporate plans.

### Financial management

**33.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Over the course of our appointment, we shall consider:

- whether Revenue Scotland has arrangements in place to ensure systems of internal control are operating effectively
- whether Revenue Scotland has appropriate controls in place over the assessment, collection and allocation of tax, including tax compliance activities
- whether Revenue Scotland can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how Revenue Scotland has assured itself that its financial capacity and skills are appropriate

- whether Revenue Scotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption. In particular, we shall assess the risk of fraud and corruption in Revenue Scotland's procurement function. We will consider the controls around the procurement process, whether appropriate training is provided to staff to assist in the recognition of fraud and any findings from internal audit.

### Governance and transparency

**34.** 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. Over the course of our appointment, we shall consider:

- whether Revenue Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, bodies such as the Scottish Environment Protection Agency)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**35.** Value for money refers to using resources effectively and continually improving services. Over the course of our appointment, we shall consider:

- value for money in the use of resources.
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it
- we shall also consider the procurement process for the new SETS 2 system and consider the dependency on key suppliers.

### Best Value

**36.** The Accountable Officer of Revenue Scotland has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements as appropriate.

### Independence and objectivity

**37.** 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.

**38.** The engagement lead (i.e. appointed auditor) for Revenue Scotland is Mark Taylor, 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 Revenue Scotland.

## Quality control

- 39.** International Standard on Quality Control 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.
- 40.** 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.
- 41.** 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.

# Revenue Scotland

## Annual Audit Plan 2020/21

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)

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