

Revenue Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Revenue Scotland
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Revenue Scotland Resource Accounts (RA) and Devolved Taxes Account (DTA). The main elements of our work include:

- evaluation of the key controls within the main accounting systems for both the RA and DTA
- audits of, and provisions of Independent Auditor's Reports for the RA and DTA
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report (RA only), the Foreword (DTA only), the Governance Statements (RA and DTA) and the Remuneration and Staff Report (RA only)
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. 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 will help Revenue Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and Revenue Scotland

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Revenue Scotland. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. 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.

Revenue Scotland responsibilities

8. Revenue Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Revenue Scotland 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 their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence 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 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Revenue Scotland RA and DTA are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Quantitative materiality levels for Revenue Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements.	
<ul style="list-style-type: none"> Resource Accounts: It has been set at 2% of gross expenditure for the year ended 31 March 2022 based on the budget report for Q2 2021/22 (rounded). 	£121,000
<ul style="list-style-type: none"> Devolved Taxes Account: It has been set at 1% of total forecast tax revenue for the year ended 31 March 2022 based on the December 2021 'Scotland's Economic and Fiscal Forecasts' report. 	£8.43 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:

- | | |
|--|---------------|
| <ul style="list-style-type: none"> Resource Accounts: 75% of planning materiality (rounded). | £91,000 |
| <ul style="list-style-type: none"> Devolved Taxes Account: 35% of planning materiality. | £2.95 million |

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated as:

- | | |
|--|---------|
| • Resource Accounts: 4% of planning materiality (rounded). | £5,000 |
| • Devolved Taxes Account: 1% of planning materiality (rounded). | £85,000 |

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Revenue Scotland, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls (RA/DTA)</p> <p>International Standard on Auditing (UK) 240 requires that audits are planned to consider that management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is</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, and test journals to focus on significant risk areas. • Walkthroughs of key controls for the RA and DTA. • Evaluate significant transactions outside the normal course of business. • Assess accounting estimates, including any changes to the methods and underlying assumptions compared to the prior year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>presumed to be a significant risk in all audits.</p>		<ul style="list-style-type: none"> • Substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accruals, prepayments and accounting adjustments at the year-end.
<p>2. Risk of material misstatement caused by fraud in revenue recognition and tax repayments (DTA)</p>	<ul style="list-style-type: none"> • Adoption of accounting policies in compliance with the FReM (Government Financial Reporting Manual). • Early intervention and compliance checking. • Revenue recognition policy and year-end closedown procedures. 	<ul style="list-style-type: none"> • Detailed testing of tax revenue transactions focusing on the areas of greatest risk. • Walkthroughs of key controls for the RA and DTA, and focused testing on key controls. • Evaluation of internal controls over ADS repayments. • Detailed testing of ADS repayments. • Cut-off testing. • Review of accounting policy for revenue recognition. • Monitoring early intervention and compliance work, and review of the associated control framework.
<p>ISA (UK) 240 requires auditors to presume a risk of fraud where income streams, other than sources such as Scottish Government funding, are significant. Revenue Scotland collected £624m of tax revenue in 2020/21.</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 Land and Building Transaction Tax (LBTT) Additional Dwelling Supplement (ADS) where certain conditions are met. £44m of ADS was repaid in 2020/21.</p>		
<p>The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA (UK)</p>		

Significant risk of material misstatement	Sources of assurance	Planned audit response
240, there is an inherent risk of fraud.		
<p>3. Risk of tax revenue being misstated (DTA)</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 ongoing enquiries being undertaken by Revenue Scotland and some taxpayer appeals are being considered by Tribunals. In 2020/21, £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>	<ul style="list-style-type: none"> • Oversight by the Board and Tax Advisory Group (TAG). • Regular communications with partner bodies including SEPA (Scottish Environment Protection Agency). • Regular communications with other stakeholders. 	<ul style="list-style-type: none"> • Review compliance activity and case progress, and the associated control framework. • Review and build knowledge in the key processes for compliance work • Substantive testing to ensure that: <ul style="list-style-type: none"> • the tax has been properly assessed • the legislation has been applied appropriately • timely payment has been received • income has been correctly allocated. • Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied. • Review of Board papers. • Review working relationships with SEPA and other stakeholders.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Revenue Scotland's Resource Accounts because

there are only immaterial levels of secondment income. We consider that this income and Scottish Government funding are not subject to significant risk of fraudulent recognition.

16. 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. Revenue Scotland's Resource Accounts expenditure is largely administered using well-established Scottish Government systems and controls. The Devolved Taxes Account recorded £2.6m of expenditure in 2020/21. 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.

17. We have not incorporated specific work into our audit plan in these areas, in paragraph [15.](#) and [16.](#), over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have not identified any other areas where we consider there are also risks of material misstatement to the financial statements.

Audit risk assessment process

19. 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. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

21. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

22. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

23. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. As part of our audit work, we will confirm that such arrangements are in place within Revenue Scotland.

24. Additionally, as part our Best Value work, we will be carrying out a high-level review of the Best Value characteristic “equalities” within Revenue Scotland. Internal audit has highlighted that it will carry out work in equalities and diversity in early 2022/23 and therefore, to avoid duplication, we will look to discuss the scope with internal audit and review this work. We will assess the arrangements to support the specific reporting duties in the Equality Act 2010.

Audit dimension risks

25. We have identified one audit risk in the areas set out in [Exhibit 4](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Tax compliance activity (DTA)</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>	<ul style="list-style-type: none"> • Oversight by the Board and TAG. • Continued improvement of the SETS system. • Regular communication with partner bodies including SEPA. 	<ul style="list-style-type: none"> • Focused testing of assessment, collection, and allocation of tax revenues, as detailed above. • Review Board papers. • Review working relationships with SEPA and other stakeholders. • Review compliance activity and the associated control framework. • Ongoing review of tax tribunal decisions • Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied

In our 2020/21 annual audit report, we noted that compliance work was behind schedule for LBTT, and that Scottish Landfill Tax (SLfT) work was caught up after year end following suspensions of compliance work during the early stages of the Covid-19 pandemic.

There is a risk that the increasing number and complexity of cases impacts on the effectiveness of compliance activity.

including consideration of impairment.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

27. 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.

28. We will provide an independent auditor's report to Revenue Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on both the resource accounts and devolved taxes account. We will provide Revenue Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

29. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 5 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	2 March 2022	2 March 2022
Independent Auditor's Report	31 October 2022	31 October 2022
Annual Audit Report	31 October 2022	31 October 2022

Source: Audit Scotland

30. If any significant matters are identified from our interim audit, we will bring these promptly, in writing, to the attention of management and the Audit and Risk Committee.

Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

32. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back toward pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

33. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	July 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	1 August 2022
Latest date for final clearance meeting with management	7 October 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	October 2022
Agreement of audited and unsigned annual report and accounts	October 2022
Issue of Annual Audit Report to those charged with governance	October 2022
Signed Independent Auditor's Report	31 October 2022

Source: Audit Scotland

Notional audit fee

34. The agreed notional audit fee for the 2021/22 audit of Revenue Scotland is £100,230 (2020/21: £98,230). This is split across the Resource Accounts £22,051 (2020/21 - £21,416) and the Devolved Taxes Account £78,179 (2020/21 - £76,814). In determining the audit fee, we have taken account of the risk

exposure of the Revenue Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

35. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, 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.

Other matters

Internal audit

36. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

37. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider and review the findings of Internal Audit across a range of work including equalities and diversity and debt management.

Independence and objectivity

38. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

39. 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

40. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

41. 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.

42. 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

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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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