

Revenue Scotland

Resource Accounts / Devolved Taxes Account
2020/21 Annual Audit Report



Prepared for Revenue Scotland and the Auditor General for Scotland
November 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2020/21 were unqualified.
- 2 Expenditure and income in the financial statements were in accordance with applicable enactments and guidance.
- 3 The annual report and accounts for the Resource Accounts and the Devolved Taxes Account are consistent with the financial statements and have been prepared in accordance with legal requirements.

Financial management and sustainability

- 4 Revenue Scotland has appropriate and effective financial management in place. The Resource Accounts showed small underspends in fiscal and capital resources.
- 5 Revenue Scotland collected net tax revenues of £624m during 2020/21, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget and subsequent amendments made in response to Covid-19.
- 6 Revenue Scotland has introduced a 5-year financial strategy. This provides a valuable reference point for longer term planning and is a key building block of the new Corporate Plan 2021-2024.
- 7 There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2021/22.

Governance, transparency, and value for money

- 8 Appropriate governance arrangements were in place during 2020/21. Governance arrangements operating throughout the Covid-19 pandemic were appropriate and supported effective working.
- 9 Revenue Scotland has appropriate arrangements in place to support effective performance management.
- 10 Performance monitoring has continued throughout 2020/21, with eight out of eleven key performance indicators achieved.

Introduction

1. This report summarises the findings from our 2020/21 audit of Revenue Scotland's Resource Accounts (RA) and the Devolved Taxes Account (DTA).

2. The scope of our audit was set out in our Annual Audit Plan, which was presented to the 26 May 2021 meeting of the Audit and Risk Committee. The plan had been shared previously with members by correspondence in March 2021. This report comprises the findings from:

- an audit of both the Resource Accounts and the Devolved Taxes Account annual report and accounts
- a consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

3. The main elements of our audit work in 2020/21 have been:

- an audit of the body's 2020/21 annual report and accounts for both the Resource Accounts and for the Devolved Taxes Account, including the issue of an independent auditor's report setting out our opinions
- a review of Revenue Scotland's key financial systems
- a consideration of the four audit dimensions.

4. The Covid-19 pandemic has had a considerable impact on audited bodies during 2020/21. There were no specific risks related to the pandemic in our annual audit plan. We reviewed our assessment of the key risks in advance of the year-end financial statements audit. We considered that our risk assessment remained relevant, and there were no new or emerging risks that affect our audit.

Adding value through the audit

5. We add value to Revenue Scotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts directions from Scottish Ministers for the Resource Accounts and Devolved Taxes Account.

7. Revenue Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts.

9. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

12. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. The 2020/21 audit fee of £98,230 (2019/20: £95,850) as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both Revenue Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2020/21 were unqualified.

Expenditure and income in the financial statements were in accordance with applicable enactments and guidance.

The annual report and accounts for the Resource Accounts and the Devolved Taxes Account are consistent with the financial statements and have been prepared in accordance with legal requirements.

Our audit opinions on the annual report and accounts are unmodified

16. The annual report and accounts for both the Resource Accounts and the Devolved Taxes Account for the year ended 31 March 2021 were approved by the board on 24 November 2021. As reported in the independent auditor's reports:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 (RA only), foreword (DTA only) and governance statements were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The Covid-19 pandemic had a limited impact on audit evidence

17. Revenue Scotland staff have mainly worked from home during the pandemic. The Scottish Electronic Tax System (SETS 2) has been made available to staff to enable remote working. Revenue Scotland suspended penalties and debt pursuit during the pandemic from 23 March to 10 November 2020.

18. Revenue Scotland provided the audit team with laptops to access the SETS 2 system remotely. This allowed us to undertake our substantive tax testing for the DTA. We kept in regular communication with management throughout the audit. Despite the challenges of remote working, the audit was completed in line with the planned timetable.

The DTA and RA annual report and accounts were provided on time

19. We received the unaudited annual report and accounts on 13 August 2021 in line with our agreed audit timetable. Working papers were provided during the following week.

Accounts working papers were improved from previous years and of a reasonable standard

20. Responding to previous audit recommendations, management have made improvements to the working papers. We issued a working papers checklist for the DTA in April 2021 to support this process. The working papers were of a reasonable standard and continued to be improved year on year. In particular, we are pleased to report that management completed the Financial Reporting Manual (FRoM) disclosure checklists for the RA and DTA. All staff, particularly the finance team, were supportive in providing detailed explanations of working papers and when answering audit queries.

21. In one area, we identified that there is scope for continued improvement. The complexity of information in relation to payables and receivables in the DTA meant schedules were difficult to follow. We will discuss with Revenue Scotland scope for further development, including the use of lead schedules that clearly outline the individual balances and transactions that are included in payables and receivables notes.

Recommendation 1

Revenue Scotland should review the year-end DTA working papers to improve their clarity and linkages to the figures reported in the financial statements.

Overall materiality was £6.24 million for the Devolved Taxes Account and £126,000 for the Resource Accounts

22. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts to reflect actual income and expenditure in-year and is summarised in [Exhibit 1](#).

Exhibit 1

Quantitative materiality values

Materiality level	Resource Accounts	Devolved Taxes Account
Overall materiality	£126,000	£6,240,000
Performance materiality	£95,000	£1,250,000
Reporting threshold	£5,000	£62,000

Source: Audit Scotland

The main risks of material misstatement were identified at our planning stage

23. A description of the assessed risks of material misstatement in the annual report and accounts and any wider dimension audit risks that were identified during the audit planning process is included at [Appendix 2](#). These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

24. We have reported on issues from our work on the risks highlighted in our 2020/21 Annual Audit Plan issued in March 2021. These relate to the risk of:

- management override of controls (RA/DTA)
- fraud in income recognition and expenditure (tax repayments) (DTA)
- tax revenue being misstated (DTA).

Significant findings from the audit of the annual report and accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. Qualitative aspects include accounting policies, accounting estimates and financial statements disclosures. The significant findings from our audit are summarised in [Exhibit 2](#) below and include those in relation to qualitative aspects.

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Contingent Assets (DTA)</p> <p>Note 8 to the accounts discloses £113m of contingent assets. These are in respect of decisions by Revenue Scotland that have been appealed to the tax tribunal and which have not yet been finalised.</p> <p>A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.</p> <p>No income has been recognised in the DTA in respect of these cases as the outcome is uncertain due to the ongoing tribunal cases. A number of tribunal cases were ongoing during 2020/21 and beyond the issue of the audited accounts.</p>	<p>We confirmed that the accounting treatment for these cases was appropriate and consistent with the approach previously established.</p> <p>We liaised with management in detail about the progress of tribunals, considering the potential for adjusting events after the reporting period.</p> <p>We agreed with management's assessment that no tax revenue should be recognised until a final decision has been reached by the tribunal/court and all potential appeals have been exhausted.</p> <p>We tested a sample of tribunal cases that were disclosed as contingent assets and confirmed that these were disclosed accurately and in accordance with the policy.</p>
<p>2. Payables (DTA)</p> <p>Revenue Scotland's DTA included a total £3.371m of LBTT revenue repayable.</p> <p>Our audit testing identified that a number of these payables arose from errors on tax returns and other anomalies, that remained to be investigated and resolved. These resulted in the SETS 2 system showing a repayment due to these taxpayers (i.e., a payable), which had not yet been confirmed. As such, there is a risk that the payable balance is overstated.</p> <p>Management does not routinely review the payables balances within the accounts. Revenue Scotland is unable to amend tax returns; this can only be done with the agreement of a taxpayer/agent.</p>	<p>We agreed with management that they should not derecognise any potential errors on tax returns until they have investigated these. This is on the basis that Revenue Scotland need the agreement of a taxpayer or their agent to amend their tax return.</p> <p>We concluded that the potential impact of any potential error was below our materiality threshold.</p> <p>Management agreed to implement a regular check of creditor balances and to review these for the 2021/22 DTA. The use of exception reporting within the tax system would help management identify any erroneous transactions.</p> <p>Recommendation 2 (refer Appendix 1, action plan)</p>
<p>3. Additional Dwelling Supplement (ADS)</p> <p>ADS is chargeable on the purchase of second homes. Taxpayers are entitled to reclaim ADS paid if they sell their primary property within 18 months (extended to 36</p>	<p>ADS repayments have been accounted for appropriately.</p> <p>We agree that proportionate risk-based checks are an appropriate basis of reviewing these repayments. In our view an analysis of the profile of risk of ADS repayments should</p>

Issue	Resolution
<p>months in some cases, as a result of the Covid-19 pandemic).</p> <p>In 2020/21, Revenue Scotland made over 4,000 repayments of ADS, £43.625m. During the financial year, not all planned checks were carried out for a number of repayments (570 transactions, £6.5m). A backlog of checks arose due to pressures from Covid-19.</p> <p>Revenue Scotland temporarily moved to a risk-based methodology. A sample of these 570 transactions are being tested by the compliance team. From autumn 2021, full checks have resumed.</p>	<p>be carried out to support a permanent move to a risk-based methodology.</p> <p>Recommendation 3 (refer Appendix 1, action plan)</p>

Source: Audit Scotland

An identified misstatement of £0.583 million was adjusted in the Devolved Taxes Account. A misstatement of £0.022 million was not adjusted in the Resource Accounts

26. There was one misstatement of £0.022m in the RA which was not adjusted in the annual report and accounts. This related to an accrual for which improved information about the estimate was received immediately before the conclusion of the audit. If this had been adjusted for in the accounts, this would have resulted in a £0.022m increase in expenditure in the Statement of Comprehensive Net Expenditure, and an increase in accruals of £0.022m which would have reduced net assets in the Statement of Financial Position, by the same amount.

27. One misstatement was identified in the DTA, totalling £0.583m. This related to one suspense account balance which had not updated at year-end. This resulted in an adjustment to reduce both the receivables and payables in the Statement of Financial Position by £0.583m. There was no impact on the Balance Due to the Scottish Consolidated Fund (net assets) or the Statement of Revenue and Expenditure.

28. We have reviewed the nature and causes of these misstatements. We concluded that they arose from issues that have been isolated, identified in their entirety and do not indicate further systemic error. As such, we concluded that no additional testing was required.

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. However, the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management has adjusted all identified misstatements above our reporting threshold except for the one misstatement in the RA, detailed in paragraph 26.

Our audit identified a number of other findings

Impairment

30. The 2020/21 accounts recorded the write-off of £10.410 million of debts (notes 3.2 and 4.2 of the DTA). The vast majority of this debt write-off (£10.314m) relates to Scottish Landfill Tax (SLfT). This relates to assessments and determinations of unpaid tax, penalties, and interest that Revenue Scotland issued in June 2018 that were recognised in 2018/19. This had been impaired in 2019/20 following an assessment of amounts that were unlikely to be collectable. We are content with the accounting of this write-off.

31. Impairment of debts for LBTT increased from £0.393m in 2019/20 to £2.379m in 2020/21. Debt pursuit was paused during the Covid-19 pandemic and this, plus the economic impact and increased pressures on taxpayers' financial position due to the pandemic, are factors in this increase.

Compliance yield

32. The Resource Accounts annual report and accounts refers to a range of compliance activity undertaken by Revenue Scotland to ensure that taxes are paid as intended. Revenue Scotland measures the revenue raised as a direct result of any non-compliance activity identified.

33. Revenue Scotland reported this has generated £0.96m direct compliance yield (£0.87m taxes and £0.09m penalties and interest) and is one of Revenue Scotland's key performance indicators. This is a slight increase from 2019/20 (£0.86m), but still below that in previous years (2017/18, £2.366m; 2018/19, £1.03m). The yield is likely to vary year on year depending on the timing of cases under review and any referrals to the tax tribunals. We have also noted that Revenue Scotland paused compliance work in recognition of the impact of Covid-19 on taxpayers, which may contribute to this reduction (refer paras 58 to 62).

34. We reviewed the rationale behind the compliance disclosures in the annual report and accounts and examined the records maintained by Revenue Scotland to record the outcome and impact of its compliance work and concluded that the disclosures are consistent with the assessment undertaken.

Scottish Landfill Communities Fund

35. Revenue Scotland is responsible for regulating the Scottish Landfill Communities Fund (SLCF) which is a tax credit scheme designed to encourage landfill operators to make contributions to community projects. Revenue Scotland delegates its regulatory function to the Scottish Environment Protection Agency (SEPA). Qualifying contributions of £5m were received from landfill operators in 2020/21.

Air Departure Tax (ADT)

36. The Air Departure Tax (Scotland) Act 2017 received Royal Assent on 25 July 2017. On 23 April 2019, the Scottish Government deferred the introduction of ADT beyond April 2020. This continues to be deferred. We will continue to monitor developments in this area.

Aggregates Levy

37. In August 2020 the Scottish Government published research which involved reviewing, modelling and analysing illustrative options for a Scotland-specific Aggregates Levy. A timeline for the introduction of a devolved levy has not yet been agreed.

We used data analytics to help our work in LBTT

38. We used data analytics as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as “the science and art of discovering and analysing patterns, deviations and inconsistencies ... in the data underlying ... an audit ... for the purpose of planning and performing an audit.” Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

39. The Land and Buildings Transactions Tax (LBTT) included in the DTA includes a large volume of transactions with relatively low-value tax income. As such, we applied data analytics to aid in our substantive testing of tax returns. The model used provided assurance over c100,000 low risk LBTT transactions and focussed on tax returns where there are no linked properties or complex reliefs. This provided assurance over more than 90% of the value of all LBTT returns included in our model. It helped focus the activities of the audit team to targeted testing of more complex LBTT transactions. This has provided increased assurance over the risk of material misstatement of tax being misstated.

40. Due to the nature of self-assessed tax, Revenue Scotland does not require taxpayers to provide supporting evidence for tax calculations in the tax return. The scope of our audit does not include auditing the “tax gap” (the difference between the hypothetical amount of taxes due, based on economic activity and the actual taxes paid).

41. We identified a small number of tax returns where we were unable to recalculate the tax paid on the basis of the tax returns. We have flagged these cases to Revenue Scotland’s compliance team, who will assess the risk of these. We are content that these issues have not affected our audit opinions.

Good progress was made on prior year recommendations

42. The body has made good progress in implementing our prior year audit recommendations. We specifically welcome the work in completing the new medium-term financial strategy and plan. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Revenue Scotland has appropriate and effective financial management in place. The Resource Accounts showed small underspends in fiscal and capital resources.

Revenue Scotland collected net tax revenues of £624m during 2020/21, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget and subsequent amendments made in response to Covid-19.

Revenue Scotland operated within its revised budget in 2020/21

43. The main financial objective for Revenue Scotland is to ensure that the Resource Accounts financial outturn for the year is within the budget allocated by Scottish Ministers.

44. Revenue Scotland has reported underspends in its Resource Accounts against both its fiscal and capital resource for 2020/21. There was an outturn of £6.233 million against its resource budget for 2020/21 with an underspend of £0.367 million. The financial performance against budget is shown in [Exhibit 3](#).

Exhibit 3

Performance against budget in 2020/21

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Fiscal Resource	6.500	6.600	6.233	0.367
Capital Resource	0.500	0.400	0.349	0.051
Total outturn	7.000	7.000	6.582	0.418

Source: Revenue Scotland Resource Accounts Annual Report and Accounts 2020/21

The Resource Accounts record net assets of £2.2m

45. The Statement of Financial Position in the Resource Accounts summarises what is owned and owed by Revenue Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

46. The financial statements show that Revenue Scotland has net assets of £2.203m (2019/20: £2.019m net). This minor increase is attributable to the reduction in provisions at year-end.

Tax revenue collected in 2020/21 was £624m

47. Revenue Scotland is responsible for the collection and administration of the devolved taxes. In 2020/21, total tax revenue of £624.0m was collected, which was £132.9m lower than the original 2020/21 Scottish Budget estimates as shown in [Exhibit 4](#).

Exhibit 4 2020/21 Devolved Taxes revenue

Revenue net of repayments, excluding interest payable and revenue losses	2020/21 Devolved Taxes Revenue £m	2020/21 Scottish budget estimates £m	Performance against Scottish budget estimates £m	2020/21 Scottish budget spring budget revision estimates £m	Performance against spring budget revision estimates £m	2019/20 Devolved Taxes Revenue £m
Land and Buildings Transaction Tax	517.534	641.000	(123.466)	517.000	0.534	597.368
Scottish Landfill Tax	106.528	116.000	(9.472)	97.000	9.528	118.959
Penalties and interest	0.138	0	0.138	0	0.138	0.735
Total	624.020	757.000	(132.980)	614.000	10.020	717.062

Revenue Scotland Devolved Taxes Account 2020/21, 2019/20 and Scottish Government Budget 2020/21, Spring Budget Revision 2020/21

48. The 2020/21 Scottish Government budget detailed forecasts for the devolved taxes in advance of the Covid-19 pandemic. In April 2020, the Scottish Fiscal Commission (SFC) forecasted that there would be a reduction in expected LBTT and the impact on SLfT was unknown. In January 2021, the SFC revised estimates for 2020/21 devolved taxes to £517m for LBTT and £97m for SLfT, totalling £614m of tax revenues. This was reported in the Scottish Government's 2020/21 Spring Budget revision. Total tax revenue was £10m greater than this latest forecast.

49. The Covid-19 pandemic had a strong negative impact on LBTT in the first quarter of 2020/21. This was due to national lockdown when the housing market was paused. The housing market was stimulated by government policies, including increasing the nil-rate band to £250k from July 2020 to March 2021, with higher levels of transactions in the last months of 2020/21. The SFC's July 2021 [Forecast Evaluation Report](#) provides detailed assessment and analysis of the differences between its tax forecasts and outturns.

50. Revenue Scotland is required to remit receipts from the devolved taxes to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that in 2020/21, £606.8m of cash generated from the devolved taxes was remitted to the SCF during the year (2019/20: £724.6m). A further £56m was due to be remitted to the SCF which reflects accrued income and amounts which were outstanding and/or uncleared at the year end.

Budget processes were appropriate

51. Revenue Scotland's budget processes continued to be appropriate. There was a limited financial impact on Revenue Scotland's budget from the Covid-19 pandemic, with £0.230m identified as directly related Covid-19 expenditure.

52. Revenue Scotland had a number of staff seconded to the core Scottish Government to support pandemic related posts. The £0.136m costs associated with this were borne by Revenue Scotland. Some further staff supported the Scottish Government in non-pandemic related posts, and income was received for those posts.

53. Revenue Scotland had an underspend. The main areas of reduced expenditure included:

- savings from staff working from home including travel and printing costs
- tax tribunals were postponed by the Covid-19 pandemic which reduced associated legal costs
- recruitment services are supplied by the Scottish Government who paused recruitment of non-Covid-19 posts until November 2020, therefore, staff costs were lower than planned due to delays in filling vacancies.

54. Senior management and the board continued to receive regular and accurate financial information on the body's financial position. We noted that the budget figures are part of the dashboard reporting covering all areas of performance. These provide an effective summary of Revenue Scotland's performance.

We amended our audit approach to the Devolved Taxes Account due to the impact of remote working and some specific controls weaknesses.

55. Our audit work involves identifying and inspecting the key controls within the systems we regard as significant in producing the financial statements. Our objective is to gain assurance that Revenue Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements for both Resource Accounts and Devolved Taxes Account.

56. Our findings from the review of systems and internal controls were reported in the management report presented to the Audit and Risk Committee in May 2021. The findings outlined in this report informed our year-end audit testing and additional testing was carried out where required. Some weaknesses were identified for the Devolved Taxes Account including in relation to supervisory controls and segregation of duties. This meant we could take more limited assurance than anticipated over the controls operating for the Devolved Taxes Account. We modified our approach accordingly and undertook increased substantive testing.

57. Overall, we concluded that while there were some specific weaknesses identified in the system of internal control, no significant internal control weaknesses were identified during the audit that would affect Revenue Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

LBTT compliance activity is behind schedule for 2020/21. SLfT compliance activity was brought up to date after year-end.

58. Detailed compliance plans were in place for 2020/21. In March 2020, Revenue Scotland suspended its proactive compliance work as a result of the Covid-19 pandemic. Compliance activity resumed in October 2020 for LBTT and April 2021 for SLfT.

59. Compliance activity for SLfT was adversely affected by SEPA being unable to access SETS 2 and then the SEPA cyberattack on 24 December 2020. Access to SETS 2 for SEPA staff was restored during February 2021. The Covid-19 pandemic also affected the ability of SEPA staff to attend landfill sites during the beginning of the financial year. Compliance work was brought up to date after year-end, with a year-end meeting between SEPA and Revenue Scotland to discuss any compliance issues.

60. Notwithstanding the impact of the Covid-19 pandemic, we have reported that Revenue Scotland's random LBTT sampling has been behind schedule for several years. Resourcing issues in the LBTT compliance team impacted its ability to complete the planned compliance testing within the financial year. Revenue Scotland has three years in which to open and close an enquiry into a tax return. Therefore, despite these delays, Revenue Scotland still has sufficient time to complete its compliance reviews.

61. The planned random sampling for 2020/21 was restarted in autumn 2021, with a target date of November 2021 to complete this. A compliance review of group relief was started in 2019/20 but has not yet been concluded.

62. Revenue Scotland's 2021/22 compliance plan proposes to focus its sampling on targeted risk areas, which it considers is a more efficient use of resources. This work began in September 2021.

Recommendation 4

Revenue Scotland should ensure that compliance plans are appropriately targeted at risks and there are sufficient resources dedicated to this work.

Internal audit

63. Revenue Scotland's internal audit function is carried out by the Scottish Government's Directorate for Internal Audit and Assurance (SGDIAA).

64. The Public Sector Internal Audit Standards (PSIAS) requires the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2020/21 is that of substantial assurance, which is defined as:

- Controls are robust and well managed.
- Risk, governance, and control procedures are effective in supporting the delivery of any related objectives.
- Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.

65. We reviewed the body's internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit.

66. We assessed that we were able to place reliance on the work of internal audit and have considered its work in respect of our wider dimension audit responsibilities, including their reports on Governance & Compliance and Operational Decisions Made as a Result of Covid-19.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

67. Revenue Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

68. We concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities. We noted that the whistleblowing

policy requires to be reviewed and that management intends to review this in 2021/22.

69. We have reviewed the arrangements in place to maintain standards of conduct including the Board Code of Conduct and the Conflicts of Interests' Policy.

70. We concluded that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. We are not aware of any specific areas that we are required to bring to your attention.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

Revenue Scotland has introduced a 5-year financial strategy. This provides a valuable reference point for longer term planning and is a key building block of the new Corporate Plan 2021-2024.

There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2021/22.

Revenue Scotland approved a balanced budget for the 2021/22 Resource Accounts with £6.2m planned resource spend and £0.5m capital spend

71. In 2021/22, Revenue Scotland has been allocated a resource budget of £6.2m and capital budget of £0.5m. In March 2021, the board approved a balanced budget for 2021/22.

72. As a non-ministerial office of the Scottish Administration, Revenue Scotland has its own budget and is funded directly by block funding from the Scottish Government. Scottish Ministers consider this budget alongside the resourcing needs of other public bodies and portfolios. Revenue Scotland is separate from and independent of the Scottish Government.

The Scottish Fiscal Commission forecasts an increase in Devolved Taxes Account revenue of £142m in 2021/22

73. Since April 2017, the SFC has been responsible for forecasting devolved tax revenues and has set out its methodology and assumptions in Scotland's Economic and Fiscal Forecasts – August 2021. For 2021/22 the SFC is forecasting Revenue Scotland's tax receipts to be £766m (LBTT £653m; SLFT £113m) which is £142m above the 2020/21 outturn (£624m).

74. The increased SFC forecast is largely within LBTT. The SFC reports that the reasons for these increased forecasts are due to the impact on LBTT of increased property prices and number of transactions.

Revenue Scotland has a medium-term financial plan

75. Revenue Scotland included a high-level 3-year financial plan within its Corporate Plan 2021-2024, which is due to be published on its website in

November 2021. This outlines the costs which Revenue Scotland estimates it might incur as it carries out its operational and programme activity.

76. We are pleased to report that the new corporate plan is supported by a 5-year financial strategy and plan 2021-2026. This strategy includes providing for future scenarios which include the introduction of further devolved taxes. It also makes a number of assumptions on future financial pressures and risks associated with the plan.

77. The financial challenges stemming from the pandemic and those which pre-existed in the Scottish public sector, increase the need for medium-term financial planning. Therefore, having this medium-term strategy will help Revenue Scotland identify the resources, both financial and in terms of staff, needed for its work. Linked to the financial strategy are the new workforce plan and target operating model. These are key building blocks to support achievement of the strategic objectives of Revenue Scotland.

Revenue Scotland's pandemic response has changed ways of working

78. The restrictions introduced in response to the pandemic required Revenue Scotland to introduce new ways of working. SETS 2 was made available to staff working remotely. Following an equality impact assessment, Revenue Scotland removed the facility to make tax returns on paper and to make cheque payments.

79. As organisations move towards hybrid working, Revenue Scotland will be able to identify lessons learned from this period, including where costs savings have been delivered, to ensure these can be built into its future plans.

Covid-19 will have consequences for future public spending

80. Audit Scotland published a report in September 2021, [Covid-19: Tracking the impact of Covid-19 on Scotland's public finances](#). This identifies that financial management will become more challenging for the Scottish public sector and that the recovery from the pandemic must be managed alongside those financial pressures which pre-dated the pandemic. Planning for the medium and long-term continue to be challenging, but necessary to understand the financial risks and opportunities from the pandemic.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Appropriate governance arrangements were in place during 2020/21. Governance arrangements operating throughout the Covid-19 pandemic were appropriate and supported effective working.

The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

81. Revenue Scotland is accountable to the Scottish Parliament and is led by a board consisting of six members, appointed by Scottish Ministers. A new chair was appointed on 1 August 2021. The board collectively has responsibility for the leadership and management of the entity and for ensuring that it carries out its statutory functions effectively and efficiently. The board met on eight occasions in 2020/21. Meetings are held remotely through MS Teams, which has allowed them to continue throughout the Covid-19 pandemic. The board is supported by an Audit and Risk Committee and a Staffing and Equalities Committee.

82. The Chief Executive is the Accountable Officer and has personal responsibility for ensuring propriety and regularity in the handling of the public funds allocated to Revenue Scotland. She is accountable to the board for day-to-day operational matters and is supported by a senior leadership team (SLT) who are responsible for tax, legal services and corporate functions.

83. We have concluded that overall, Revenue Scotland has appropriate governance arrangements in place, and these have remained appropriate during the Covid-19 pandemic.

84. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in Revenue Scotland's annual report and accounts. We reported in last year's annual audit report on the revised governance arrangements introduced by Revenue Scotland which included:

- Implementation of the business continuity plan and the establishment of an Incident Management Team who met regularly. As Revenue Scotland reached a status of 'business as usual', the functions were subsumed by the SLT.

- A number of decisions were taken to allow Revenue Scotland to focus on its core remit, and in recognition of the wider impact of the pandemic on taxpayers. All debt pursuit and issuing of penalties was suspended. New compliance work was also suspended. These decisions were approved by the board and Scottish Ministers were notified. Debt pursuit and penalties resumed in November 2020. Compliance activity resumed in October 2020 for LBTT and April 2021 for SLfT.

85. In 2020/21, the Chief Executive commissioned SGDIAA to evaluate Revenue Scotland's response to the Covid-19 pandemic. This was reported in February 2021. Internal audit highlighted areas of good practice including good staff engagement and focus on wellbeing, the introduction of a dedicated Covid-19 risk register and risk analysis work in relation to the remote working of SETS 2 and managing telephone communications with taxpayers. The report gave substantial assurance on the organisational decisions taken by management in response to the Covid-19 pandemic.

The Audit and Risk Committee provides a good level of challenge

86. The Audit and Risk Committee's (ARC) role is to provide advice and constructive challenge to the Chief Executive, and to provide support in relation to her responsibilities regarding risk management, control, governance and associated assurance to support year-end accountability.

87. The ARC continues to have three members. The ARC had an independent member who was co-opted to the ARC to provide experience of internal audit and risk. In January 2021 he was appointed as a member of the board and continues to be an ARC member. One committee member stopped being a member of the ARC in May 2021 but continues to be part of the Staffing and Equality Committee.

88. We attend all ARC meetings. Agendas follow a standard format with papers being circulated to members in advance, allowing adequate time for members to review. We are content that the ARC operated effectively during 2020/21. We are pleased to report that the ARC members continue to provide an appropriate level of challenge and worked effectively with Audit Scotland and management.

Risk management arrangements are effective

89. Revenue Scotland has a detailed Risk Management Framework, which is published on its website. Risks are managed in a corporate risk register, with more detailed risk cards for each risk. Revenue Scotland's Audit and Risk Committee considers the risk register at every meeting including deep dives into specific risks.

90. We concluded that there is an effective and appropriate risk management procedure in place which is subject to continuous review and improvement.

The performance report was of a good standard

91. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of Revenue Scotland's performance report. The performance report should provide

information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

92. The performance report continues to be of a good standard, and we comment on the performance measures in Section 5. Our audit work identified some areas for improvement to the performance report, and these were discussed with management. Revisions were made to the performance report included in the audited accounts, and we are content that it complies with the 2020/21 FReM.

93. Revenue Scotland has now included financial trends which covers both the resources used by Revenue Scotland and the tax revenue generated. In addition, there are more infographics which make the annual report and accounts more accessible. Revenue Scotland should continue to ensure that the performance report tells the 'story' of its year and continue to make this accessible.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Revenue Scotland has appropriate arrangements in place to support effective performance management.

Performance monitoring has continued throughout 2020/21, with eight out of eleven key performance indicators achieved.

Revenue Scotland has developed an appropriate framework to help it deliver best value

94. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the Accountable Officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

95. The Chief Executive of Revenue Scotland is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate best value. The annual report and accounts outline how a range of best value attributes and practices are embedded across the organisation. These include:

- corporate governance arrangements which reflect the roles and structures within the organisation
- the development of a three-year strategic plan together with an annual business plan
- budgets and resources are regularly monitored
- a systematic risk management approach
- arrangements are in place to monitor the achievement of outcomes.

Services are delivered by third parties on behalf of Revenue Scotland

96. Revenue Scotland has continued to embed shared service arrangements in its activities in the interests of efficiency and economy. It makes use of Scottish Government corporate services for human resources and financial management, estates and facilities, procurement and information technology functions.

The delegated functions delivered by SEPA were impacted by a cyberattack

97. In accordance with the Revenue Scotland and Tax Powers Act 2014, some of Revenue Scotland's tax functions are delegated to SEPA in respect of the collection of SLfT.

98. However, this arrangement was affected by the cyberattack on SEPA on 24 December 2020. As a result, SEPA staff were unable to access information on their systems.

99. As a result, Revenue Scotland initiated actions to enable it to maintain service delivery including sharing IT services with some SEPA staff from February 2021 and requesting assurances over data belonging to Revenue Scotland. Revenue Scotland has reported improved relationships with SEPA, greater efficiency and better understanding between the two organisations as a result of this closer working.

100. This partner body has worked closely with Revenue Scotland and supported it, in implementing its tax collection and administration systems.

Revenue Scotland has effective procurement procedures. Work is ongoing to deliver a contract register to manage procurement and retendering

101. The Scottish Government provides procurement support to Revenue Scotland as part of the shared services, as detailed above. Revenue Scotland has been working with the Scottish Government to develop its own procurement guidance. Procurement largely relates to IT systems, legal advice and some other areas. It has increased in recent years with the introduction and upgrading of the SETS 2 tax system.

102. A member of the Corporate Governance team acts as lead for procurement activities. The Governance team lead and the Head of Governance left Revenue Scotland in November 2021. This will lead to a short-term gap in Revenue Scotland's procurement knowledge while alternative arrangements are put in place, which could adversely affect procurement decisions. Revenue Scotland should ensure that Scottish Government procurement training has been given to all staff involved in procurement decisions.

Recommendation 5

Revenue Scotland should ensure that new staff involved in procurement have received sufficient training. This will allow them to manage procurement activities effectively and permit increased management oversight over corporate projects.

103. Once a contract is procured, responsibility rests with the delegated purchasing officer. On one occasion, there was insufficient time to retender a contract, and a decision was made to extend a contract with an existing supplier.

104. Revenue Scotland has identified the need to fully develop its own contract register, which is now in draft, which will allow increased planning and control in managing contracts.

105. The contract register should then be managed to ensure it is a complete record of all contracts and accurately logs committed amounts, contract spend associated key dates and the appropriate lead officer. Developing its contract management will help Revenue Scotland deliver on the strategic objectives included in the Corporate Plan 2021-2024.

SETS 2 has a continuous improvement programme

106. We reviewed high level activities associated with the procurement and use of the SETS 2 tax system.

107. The SETS 2 tax system was introduced in July 2019. To minimise the risk of delays in implementing the new tax system, Revenue Scotland took a phased approach to the design of its SETS 2 system. Regular upgrades known as drops were introduced to adapt the SETS 2 system to Revenue Scotland's requirements. A continuous improvement programme was implemented to introduce further improvements to SETS 2.

108. Revenue Scotland has monthly service review meetings with the SETS 2 supplier and management has advised that there is a good working relationship.

Arrangements are in place to support effective performance management

109. The board monitors Revenue Scotland's performance on a quarterly basis through the provision of performance dashboard reports, which highlight progress made against the 2020/21 Business Plan. The dashboard has evolved throughout 2020/21 and provides an effective overview across areas of performance including tax returns and revenues, KPIs, strategic projects and performance against budget.

110. The performance report shows clear linkages between the four strategic themes detailed in the Corporate Plan 2018-2021 and progress against the eleven KPIs underpinning these themes. The four broad strategic themes which reflect Revenue Scotland's purpose and ambition are clearly aligned to the Scottish Government's outcomes and purpose detailed in the National Performance Framework. In addition, the collection and administration of the devolved taxes is an important contributor to the successful delivery of Scotland's Economic Strategy.

111. The eleven KPIs are consistent with previous years which allows Revenue Scotland to show trends across the current and prior year. Eight of the KPIs were achieved and three were not achieved in-year. Tax secured through compliance activity does not have a formal target and is compared to the previous year which was an increase from £0.862m in 2019/20 to £0.963m in 2020/21. This remains below the £2.4m secured in 2017/18. Revenue Scotland has changed the reporting status in 2020/21 to achieved or not achieved, replacing a traffic light style status.

112. In addition to the KPIs, 14 key projects for 2020/21 are identified in the performance report, with eight of these completed in-year. The impact of the pandemic and subsequently on staff has had an impact on the achievement of these work areas. The projects which were not completed in 2020/21 continue into 2021/22 and remain within project parameters.

113. We note that KPIs have continued to be achieved and some improvements have been made since 2019/20 despite the challenges of Covid-19. This is on top of a number of competing and time-consuming projects during the year such as successfully delivering the Scottish Tax Education Programme in a remote environment, redeveloping the Revenue Scotland website and working on complex litigation cases.

114. We concluded that Revenue Scotland has overall arrangements in place which support effective performance management, and which support the achievement of value for money and continuous improvement.

National performance audit reports

115. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 3](#).

116. We provide regular progress reports and updates to the Audit and Risk Committee where we reference national performance reports that may be of interest to members.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Working Papers</p> <p>We identified issues with agreement and cross-referencing of supporting documents to the trial balance and accounts, particularly in respect of payables and receivables in the DTA.</p> <p>Risk - The audit is delayed, and the audit opinion may be impacted by the poor quality of working papers.</p>	<p>Revenue Scotland should identify where further improvements can be made to working papers relating to debtors and creditors, taking consideration of recommendation 2 to support this work.</p> <p>Paragraph 21.</p>	<p>Revenue Scotland will continue to review and develop audit working papers relating to debtors and creditors.</p> <p>Chief Accountant August 2022</p>
<p>2. Payables Controls</p> <p>The payables balance included a number of anomalies including errors on tax returns and repayment requests that had not been actioned in a timely manner. These amounts have not been investigated by Revenue Scotland on a regular basis.</p> <p>Risk - There is a risk that failure to investigate these balances could lead to the DTA payables balance being overstated.</p>	<p>Revenue Scotland will introduce a regular check of payable balances to ensure those which stem from errors are being investigated in a timely manner.</p> <p>Exhibit 2.</p>	<p>Management will review the payables balance errors and establish regular investigation processes as part of business-as-usual activity.</p> <p>Head of Tax June 2022</p>
<p>3 ADS repayments</p> <p>Not all checks for 570 ADS repayments were undertaken during 2020/21. This backlog arose due to Covid-19</p>	<p>Revenue Scotland should carry out an analysis of ADS repayments to identify where areas of higher risk exist. A model should be developed</p>	<p>Management agree to undertake an analysis of ADS repayments to identify the highest areas of risk and to ensure that a sampling</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>pressures. A risk-based methodology was introduced temporarily during 2020/21 and then previous procedures resumed in autumn 2021.</p> <p>Risk - The risk-based methodology does not target the highest areas of risk.</p>	<p>to ensure that risk-based sampling targets higher risk repayments.</p> <p>Exhibit 2.</p>	<p>process is implemented to target higher risk repayments.</p> <p>Head of Tax</p> <p>May 2022</p>
<p>4 Compliance activity</p> <p>Compliance activity is a key aspect of protecting tax revenues. Proactive compliance was paused during Covid-19. However, there have been delays with this work. SLfT work was completed post year-end, however, LBTT work for 2020/21 has only recently begun.</p> <p>Risk - there is a risk that Revenue Scotland's compliance work is not effective, and the compliance plans for the year are not delivered in full.</p>	<p>Revenue Scotland should ensure that compliance plans are appropriately targeted at risks and there are sufficient resources dedicated to this work</p> <p>Paragraph 58.</p>	<p>We will continue to ensure risks are adequately addressed and the Compliance teams are appropriately resourced.</p> <p>Head of Tax Compliance and Professionalism</p> <p>Ongoing</p>
<p>5. Procurement</p> <p>Revenue Scotland have had staff turnover in procurement and contract management. New staff require training to ensure they can carry out this role effectively.</p> <p>Risk – Without appropriate training, staff may be unable to manage contracts effectively and not obtain best value in contracts.</p>	<p>Revenue Scotland should ensure that new staff involved in procurement have received sufficient training. This will allow them to manage procurement activities effectively and permit increased management oversight over corporate projects.</p> <p>Paragraph 101.</p>	<p>Plans are underway to improve our approach to procurement. This will involve revising internal processes and ensuring staff are appropriately trained.</p> <p>Head of Corporate Functions</p> <p>March 2022</p>

Follow-up of prior year (2019/20) recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. 2019/20 AAR Working Papers</p> <p>We identified issues with agreement and cross-referencing of supporting documents to the trial balance and accounts, particularly in respect of payables and receivables in the Devolved Taxes Account.</p> <p>Disclosure checklists were not fully completed in advance of the audit commencing.</p> <p>Risk - The audit is delayed, and the audit opinion may be impacted by the poor quality of working papers.</p>	<p>Management should review the year-end working papers to improve their clarity and linkages to the figures reported in the financial statements. All disclosure checklists should be completed in advance of the audit.</p> <p>We will meet with management after the audit has completed to have a wash-up meeting to discuss potential improvements in the audit. This will consider better ways of working for both Revenue Scotland and Audit Scotland to improve the audit in 2020/21.</p>	<p>There have been notable improvements in working papers for the Devolved Taxes Account. However, we have requested management continue to identify ways to improve the debtors and creditors working papers due to the complexity of these account areas.</p> <p>In Progress</p> <p>See recommendation 1 2020/21</p>
<p>2. 2019/20 AAR Contingent assets: LBTT deferrals (DTA)</p> <p>We identified 20 cases where review dates had passed without the deferral records having been updated to indicate that review had taken place.</p> <p>Risk - There is a risk that contingent assets are overstated in the financial statements. There is also a risk that the review of deferrals identifies unpaid tax.</p>	<p>Management should review the process and recordkeeping for LBTT deferrals to ensure that reviews are conducted on time.</p>	<p>A review of LBTT deferrals was carried out. The review dates of all deferrals tested were after the financial year-end. Evidence of review in-year had been documented.</p> <p>Complete</p>
<p>3. Compliance Activity</p> <p>The 2019/20 LBTT compliance work is significantly behind schedule and the planned work was not completed.</p> <p>In March 2020, Revenue Scotland decided to suspend</p>	<p>Revenue Scotland should ensure that there is sufficient capacity in the compliance team to complete the planned compliance work in 2020/21.</p>	<p>SLfT compliance was impacted by the Covid-19 pandemic and the SEPA cyberattack. However, this was brought up to date after year-end.</p> <p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>much of its compliance work as a result of the Covid-19 pandemic and the recognition of the additional burden this work could have on taxpayers.</p> <p>Risk - There is a risk that Revenue Scotland's compliance work is not effective, and the target yield is not met.</p>		<p>LBTT random sampling is behind schedule.</p> <p>In Progress</p> <p>See recommendation 4 2020/21</p>
<p>4. Longer-term financial planning</p> <p>Longer term financial planning continues to develop.</p> <p>Risk - There is a risk that business decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of Revenue Scotland.</p>	<p>Revenue Scotland should continue to develop a longer-term financial plan to demonstrate its financial sustainability over the longer term. The plan should link to Corporate Plan strategic objectives, annual business plans, and incorporate key business areas such as staffing, IT and procurement.</p>	<p>A financial strategy 2021-2026 has been developed which includes financial plans. The plans include future scenarios, and links into the new Corporate Plan 2021-2024. There are linkages with the new workforce plan and target operating model.</p> <p>Complete</p>
<p>5. Internal Controls: impact of Covid-19</p> <p>The scale and pace of change as a result of the Covid-19 pandemic, and the continuing impact of this, poses a risk to the control environment of Revenue Scotland and all other public bodies.</p> <p>In our interim report, we identified some high-level controls weaknesses in the DTA. We have discussed this with management, who agreed on the need to reconsider controls in light of its new working methods.</p>	<p>Revenue Scotland should ensure that processes and controls remain effective. Governance arrangements should continue to inform and support decision making during the period of uncertainty as a result of the Covid-19 pandemic.</p> <p>Financial controls should be reviewed and strengthened to provide management with assurance over the effectiveness of the controls.</p>	<p>We have not identified any significant impact of Covid-19 on the internal control environment. We reported some control weaknesses in our management report in May 2021, but these do not relate to Covid-19.</p> <p>Complete</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement caused by management override of controls (RA/DTA)</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>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>	<p>We did not identify any issues as a result of this audit work that would indicate management override of controls affecting the year-end position.</p> <p>Our interim audit work identified a number of issues on the operation of controls over reconciliations, IT access controls and journal authorisation. Due to this and the impact of Covid-19, we were unable to rely on the controls in place and undertook substantive testing at year-end. We note that these issues did not relate to management override of controls. No further issues identified.</p> <p>Satisfactory</p>
<p>2. Risk of material misstatement caused by fraud in income recognition and expenditure (tax repayments) (DTA)</p> <p>ISA (UK) 240 requires auditors to presume a risk of</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>We did not identify any evidence of fraud in our tax testing.</p> <p>We reviewed the accounting policy for revenue recognition and its application to tax</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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>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>	<p>revenues and confirmed FReM compliance.</p> <p>We reviewed LBTT compliance work carried out by Revenue Scotland in the year and were satisfied that it is designed to prevent and detect fraud in tax income and tax repayments. We reported delays in the LBTT compliance programme. SLfT compliance was delayed until after year-end due to the impact of Covid-19.</p> <p>Results of cut-off testing were satisfactory.</p> <p>We were satisfied with the accounting treatment on ADS repayments. We raised one recommendation relating to ADS repayments.</p> <p>Satisfactory</p>
<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 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>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"> • the tax has been properly assessed • the legislation has been applied appropriately • timely payment has been received • income has been correctly allocated. <p>Review of action taken in relation to enquiries,</p>	<p>We reviewed and assessed LBTT compliance activity and noted the delay in progressing the compliance plan. SLfT quarterly meetings were brought up to date after year-end.</p> <p>We continue to develop our understanding of Revenue Scotland's compliance work and highlight areas where we think this could be more effective.</p> <p>Our substantive testing has been satisfactory.</p> <p>Stakeholder feedback is predominantly positive, and complaints are small in number and an appropriate</p>

Audit risk	Assurance procedure	Results and conclusions
<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>penalties, 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>	<p>process is in place for handling them.</p> <p>Our review of board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory with no concerns noted. Noted that there has been a SEPA cyber-attack, but that SEPA staff seconded to Revenue Scotland.</p> <p>We reviewed management's assessment of the tribunal cases and the disclosures in the annual report and accounts. We are content these are satisfactory.</p> <p style="text-align: right;">Satisfactory</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. 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> <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>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>	<p>Our review of board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory.</p> <p>We reviewed and assessed compliance activity. We have noted the delay in completing the planned LBTT random sampling compliance work as well as the impact of the SEPA cyberattack on SLfT compliance. SLfT 2020/21 compliance was completed post year-end.</p> <p>Our substantive testing has been satisfactory.</p> <p>Refer to paragraphs 58-62 above</p> <p>Recommendation 4 2020/21 Appendix 1</p>

Audit risk	Assurance procedure	Results and conclusions
There is a risk that the increasing number and complexity of cases impacts on the effectiveness of compliance activity.		

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Revenue Scotland

2020/21 Annual Audit Report

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