

Revenue Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Revenue Scotland
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 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 an Independent Auditor's Reports for both 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 wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Revenue Scotland for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Revenue Scotland through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee 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.

Respective responsibilities of the auditor and Revenue Scotland

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Revenue Scotland. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. 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 wider scope arrangements in place at Revenue Scotland. In doing this, we aim to support improvement and accountability.

Revenue Scotland responsibilities

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

10. 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.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating Revenue Scotland's stewardship of resources and its performance in the use of those resources.

12. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements. We focus our work on the areas of highest risk.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. 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 2022/23 audit

14. 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

2022/23 Materiality levels for Revenue Scotland

Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Revenue Scotland operations. For the year ended 31 March 2023 we have set our materiality as follows:</p>	
<ul style="list-style-type: none"> Resource Accounts: 2% of projected gross expenditure for the year ended 31 March 2023 based on the budget report for Q3 2022/23. 	£130,000
<ul style="list-style-type: none"> Devolved Taxes Account: 1.5% of total forecast tax revenue for the year ended 31 March 2023 based on the December 2022 'Scotland's Economic and Fiscal Forecasts' report. 	£14.3 million

Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at:

- | | |
|---|--------------|
| • Resource Accounts: 75% of planning materiality. | £98,000 |
| • Devolved Taxes Account: 50% of planning materiality. | £7.1 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 amount has been calculated as:

- | | |
|--|----------|
| • Resource Accounts: 5% of planning materiality. | £7,000 |
| • Devolved Taxes Account: 5% of planning materiality. | £250,000 |
-

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

16. 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.

17. 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**2022/23 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 management override of controls (RA and DTA)</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in all audits.</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"> • Review the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries, with a focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Risk of material misstatement caused by fraud in revenue recognition and tax repayments (DTA)</p> <p>ISA (UK) 240 requires auditors to presume a risk of fraud where income streams, other than sources such as</p>	<ul style="list-style-type: none"> • Adoption of accounting policies in compliance with the Government Financial Reporting Manual (FReM). • 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. • Review of the design and implementation of key controls for DTA. • Evaluation of internal controls over ADS repayments. • Detailed testing of ADS repayments.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>Scottish Government funding, are significant. Revenue Scotland collected £932m of tax revenue in 2021/22.</p> <p>Taxpayers can claim a repayment of Additional Dwelling Supplement (ADS) where certain conditions are met. £52m of ADS was repaid in 2021/22.</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>		<ul style="list-style-type: none"> • Cut-off testing of tax revenue transactions. • Review of accounting policy for revenue recognition. • Monitoring early intervention and compliance work, and review of the associated control framework.
<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 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 2021/22, £116m of contingent assets were recognised in respect of tribunal cases.</p> <p>There is a risk that the tax revenue reported in the financial statements</p>	<ul style="list-style-type: none"> • Oversight by the Board and Tax Advisory Group (TAG). • Regular communications with partner bodies, including Scottish Environment Protection Agency (SEPA). • Regular communications with other stakeholders. 	<ul style="list-style-type: none"> • Review compliance activity and case progress, and the associated control framework. • 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 working relationships with SEPA and other stakeholders.

Significant risk of material misstatement	Sources of assurance	Planned audit response
is misstated due to the outcomes of compliance activity, reviews and tribunal cases not being appropriately reflected.		

Source: Audit Scotland

18. 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 the only material source of income relates to Scottish Government funding. We do not consider this to be subject to significant risk of fraudulent recognition. In addition, we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

19. 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 £0.5 million of expenditure in 2021/22. 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.

20. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

21. As part of our ongoing assessment of audit risks, we have not identified other areas where we consider there to be risks of material misstatement to the financial statements.

Wider Scope and Best Value

Introduction

22. The [Code of Audit Practice 2021](#) sets out the four areas 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 wider scope areas in audited bodies.

23. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **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 assess how Revenue Scotland is planning to deliver services over the medium and longer-term.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Revenue Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Revenue Scotland demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

24. We will also consider tax compliance activity at Revenue Scotland as part of our wider scope work. The systems and processes to assess, collect and allocate tax revenues continue to be developed and refined by Revenue Scotland. This development will be crucial as further taxes are devolved to Scotland.

25. We will review compliance activity and the associated control framework and monitor the development of a new compliance strategy. We will also monitor and review the status of ongoing tax tribunal decisions, as well as reviewing the action taken in relation to enquiries, penalties, and taxpayer appeals.

26. Our planned work on our wider scope responsibilities is risk-based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23, we will also consider Revenue Scotland's arrangements for tackling climate change and responding to cyber security threats.

Climate Change

27. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of achieving net zero emissions by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

28. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Revenue Scotland's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

29. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Revenue Scotland's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

30. [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. We will be carrying out a high-level review to confirm that such arrangements are in place within Revenue Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

32. 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.

33. 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.

34. [Exhibit 3](#) 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 2023.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	16 March 2023
Independent Auditor's Report	31 October 2023	25 October 2023 (provisional)
Annual Audit Report	31 October 2023	25 October 2023 (provisional)



Source: Audit Scotland

Timetable

35. 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 4](#) that has been discussed with management.

36. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	4 August 2023
Latest date for final clearance meeting with management	6 October 2023
Agreement of audited and unsigned annual report and accounts	11 October 2023
Issue of Annual Audit Report, draft Letter of Representation and proposed Independent Auditor's Report	18 October 2023
Signed Independent Auditor's Report	November 2023

Source: Audit Scotland

Notional Audit fee

37. The agreed notional audit fee for the 2022/23 audit of Revenue Scotland is £100,590 (2021/22: £100,230). This is split across the Resource Accounts £22,130 (2021/22: £22,051) and the Devolved Taxes Account £78,460 (2021/22: £78,179).

38. In setting the fee for 2022/23 we have assumed that Revenue Scotland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

39. It is the responsibility of Revenue Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

40. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

41. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice 2021](#) 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.

42. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

43. The appointed auditor for Revenue Scotland is Pauline Gillen, 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.

Audit Quality

44. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

45. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

46. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

47. Audit Scotland is committed to delivering high quality audits. 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 2021](#) (and supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

48. 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.

Appendix 1. Your audit team

49. The audit team involved in the audit of Revenue Scotland have significant experience in public sector audit.

Pauline Gillen
Audit Director
pgillen@audit-scotland.gov.uk

Pauline has over 16 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

Kyle McAulay
Senior Audit Manager
kmcaulay@audit-scotland.gov.uk

Kyle has over 10 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Martin Nolan
Senior Auditor
mnolan@audit-scotland.gov.uk

Martin has experience in planning and delivering audits. Martin will lead the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

50. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

51. Where possible and appropriate, we use our data analytics team to enable us to assess your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Revenue Scotland

Annual Audit Plan 2022/23

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

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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