

Revenue Scotland

Resource Accounts / Devolved Taxes Account
2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Revenue Scotland and the Auditor General for Scotland

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Contents

Key messages	3
Introduction	5
1. Audit of 2022/23 annual report and accounts	7
2. Financial management	15
3. Financial sustainability	20
4. Vision, leadership and governance	22
5. Use of resources to improve outcomes	27
Appendix 1. Action plan 2022/23	29

Key messages

2022/23 annual report and accounts

- 1 Audit opinions on both the Resource Accounts and the Devolved Taxes Account annual report and accounts are unmodified.
- 2 Our audit work responded to the risks of material misstatement we identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

Financial management

- 3 Appropriate and effective financial management arrangements are in place, with regular financial monitoring reports provided to the Board.
- 4 Revenue Scotland operated within the resource and capital budgets allocated by the Scottish Government, reporting underspends in the Resource Accounts.
- 5 Revenue Scotland collected net tax revenues of £960 million during 2022/23, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget.
- 6 Financial controls and arrangements for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 7 Revenue Scotland has effective and appropriate arrangements in place to continue to deliver services.
- 8 A medium-term financial plan is in place and a balanced budget has been approved for 2023/24.

Vision, leadership and governance

- 9 Revenue Scotland has a clear plan in place to implement its vision, strategy and priorities.
- 10 Governance arrangements are appropriate and Revenue Scotland is open and transparent in the way it conducts its business.
- 11 Senior management and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance.

- 12 Cyber security arrangements are appropriate, but strategic IT planning could be enhanced.

Use of resources to improve outcomes

- 13 Revenue Scotland has developed an appropriate Best Value framework.
- 14 An effective performance management framework is in place, with all seven key performance indicators which have targets, achieved in year.
- 15 Revenue Scotland continues to work with third parties to deliver services.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Revenue Scotland's Resource Accounts (RA) and the Devolved Taxes Account (DTA). The scope of the audit was set out in an annual audit plan presented to the March 2023 meeting of the Audit and Risk Committee (ARC). This Annual Audit Report comprises:

- significant matters arising from an audit of both the Resource Accounts and the Devolved Taxes Account annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of 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.

Audit appointment from 2022/23

3. I, Pauline Gillen, have been appointed by the Auditor General as auditor of Revenue Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank Board members, ARC members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year. We look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual reports and accounts that are in accordance with the accounts directions from the Scottish Ministers for the Resource Accounts and Devolved Taxes Account. Revenue Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. 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 Revenue Scotland management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. 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 and therefore the 2022/23 notional audit fee of £100,590 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to Revenue Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on both the Resource Accounts and the Devolved Taxes Account annual report and accounts are unmodified.

Our audit work responded to the risks of material misstatement we identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved both the Resource Accounts and Devolved Taxes Account annual report and accounts for Revenue Scotland for the year ended 31 March 2023 on 25 October 2023. As reported in the independent auditor's reports, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff report (RA only) was prepared in accordance with the financial reporting framework, and
- the Performance Report (RA only), Foreword (DTA only) and Governance Statements were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was £139,000 for the Resource Accounts and £14.4 million for the Devolved Taxes Account

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors

set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Resource Accounts	Devolved Taxes Account
Overall materiality	£139,000	£14.4 million
Performance materiality	£104,000	£7.2 million
Reporting threshold	£7,000	£250,000

14. The overall materiality thresholds were set with reference to gross expenditure (RA) and total tax revenue (DTA), which we judged as the figures most relevant to the users of the respective financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% (RA) and 50% (DTA) of overall materiality, reflecting our risk assessment that confirmed no significant changes in the business activities, accounting systems and systems of internal control at Revenue Scotland. We also considered the extent of prior year errors and concluded that these were isolated and did not indicate further systemic error.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the body's accounting practices.

18. The [Code of Audit Practice 2021](#) also requires all audits to communicate key audit matters within the Annual Audit Report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Remuneration and Staff Report - Fair Pay Disclosure (RA)</p> <p>The fair pay disclosures within the Remuneration and Staff Report (Resource Accounts) were reviewed against the Fair Pay Disclosures Implementation Guidance issued by HM Treasury. We identified the following issues:</p> <ul style="list-style-type: none"> • salaries for Revenue Scotland staff members who had left their post during the year were incorrectly included; and • the average salary of each staff member as at 31 March was used in the calculation, instead of their annualised salary. <p>The audited part of the Remuneration and Staff Report is considered to be material by nature. Therefore, the fair pay disclosures required amendment to reflect guidance requirements. This also included a restatement of the prior year disclosure.</p>	<p>Management revised the calculations supporting the fair pay disclosures for the current year and prior year and updated the Resource Accounts audited annual report and accounts to ensure that these disclosures were in line with guidance.</p>
<p>2. Contingent Assets (DTA)</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>Note 8 of the DTA annual report and accounts discloses contingent assets in respect of decisions by Revenue Scotland that have been appealed to the tax tribunal and which have not yet been finalised. No tax revenue had been recognised in respect of these cases until a final decision had been reached by the tribunal and all potential appeals had been exhausted. In 2021/22, £116 million of contingent assets of this nature was disclosed.</p> <p>Significant tax disputes were settled in 2023 which resulted in tax revenue and associated penalties and interest income materialising, and a significant de-recognition of contingent assets of £110 million.</p>	<p>We reviewed the accounting adjustments, working papers and third-party evidence supporting the settlement outcomes and confirmed that they had been recorded accurately in Note 8.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<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. This is presumed to be a significant risk in all audits.</p>	<ul style="list-style-type: none"> • Reviewed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries, with a focus on significant risk areas. • Considered the need to test journal entries and other adjustments during the period. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. 	<p>Results: Work undertaken for both the RA and DTA included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates, adjustments and transactions for appropriateness.</p> <p>Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p>Our substantive testing on income and expenditure did not identify any significant transactions outside the normal course of business.</p> <p>Conclusion: No incidents of management override of controls were identified in either set of accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> • Substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of 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 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"> • Detailed testing of tax revenue transactions focusing on the areas of greatest risk. • Reviewed the design and implementation of key controls for DTA. • Evaluated internal controls over ADS repayments. • Detailed testing of ADS repayments. • Cut-off testing of tax revenue transactions. • Reviewed the accounting policy for revenue recognition. • Monitored the early intervention and compliance work and reviewed the associated control framework. 	<p>Results: Our testing of tax transactions did not identify any evidence of fraud.</p> <p>Our review of the design and implementation on key controls for the DTA did not identify any significant issues.</p> <p>We were satisfied with the accounting treatment and internal controls over ADS repayments. No issues were identified in our detailed sample testing.</p> <p>We did not identify any issues in our cut-off testing of tax transactions.</p> <p>We reviewed the accounting policy for revenue recognition and its application to tax revenues and confirmed FReM compliance.</p> <p>We reviewed compliance work carried out by Revenue Scotland in the current year and were satisfied that it is designed to prevent and detect fraud in tax income and tax repayments.</p> <p>Conclusion: No issues were identified that indicated fraud in revenue recognition and repayments in the DTA.</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</p>	<ul style="list-style-type: none"> • Reviewed compliance activity and case progress, and the associated control framework. • Substantive testing to ensure that: 	<p>Results: We reviewed and assessed LBTT and SLfT compliance activity and noted that there were no delays in progressing the compliance plans this year.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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 is misstated due to the outcomes of compliance activity, reviews and tribunal cases not being appropriately reflected.</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. Reviewed the action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied. Reviewed working relationships with SEPA and other stakeholders. 	<p>The control framework was reviewed and was confirmed to be operating effectively.</p> <p>Our substantive testing over tax revenue transactions and receivables balances did not identify any issues.</p> <p>Our review of the processes behind enquiries, penalties and taxpayer appeals, as well as the related accounting treatment, did not identify any issues.</p> <p>Our review of Board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory, with no concerns noted.</p> <p>We reviewed management's assessment of the tribunal cases and the disclosures in the annual report and accounts. We are content that these are satisfactory.</p> <p>Conclusion: No issues were identified which indicated that tax revenue was misstated.</p>

There were no identified misstatements within the financial statements

21. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making correction lies with those charged with governance. Our audit work did not identify any misstatements within the financial statements.

Other findings from our audit work

DTA Payables Balances

22. In previous years, we have reported that the DTA payables balance included a number of anomalies arising from errors on tax returns and repayment requests which remained to be investigated and resolved by management. This presented the risk that failure to investigate these balances could lead to the DTA payables balance being overstated. We acknowledged

that management had introduced processes for investigating outstanding payables balances. New functionality within the tax system had enabled staff to create transactions against tax returns more than 12 months old, to help clear payables balance errors. We recommended last year that Revenue Scotland continued its investigation of anomalies in DTA payables balance as part of business-as-usual activities to ensure that these were resolved in a timely manner.

23. While this work on clearing erroneous DTA payables balance is ongoing, our current year testing did not identify any balances that were incorrectly showing as DTA payables at year-end.

Related Parties

24. As part of our audit work, we reviewed and assessed the completeness of all material related party transactions and balances disclosed by Revenue Scotland in Note 8 of its Resource Accounts annual report and accounts. We recognise that Revenue Scotland maintains an updated register of interests for its Board members on its website. We note that Senior Leadership Team (SLT) members also declare their interests during the year. No issues were identified with the accuracy and completeness of the related party transactions disclosure note in the annual report and accounts.

25. We noted that SLT members' interests were provided to the finance team as part of the preparation of the Resource Accounts annual report and accounts after the unaudited accounts had been received. Going forward, it is recommended that SLT registers of interests are formally considered as part of the process to prepare the related parties' disclosures. Management should ensure that these are regularly reviewed and kept up to date.

Recommendation 1

The Finance team should ensure that registers of interest for Senior Leadership Team members are formally considered as part of the process of preparing related parties disclosures.

We used data analytics to help our review of Land and Buildings Transactions Tax and Additional Dwelling Supplement

26. We used data analytics as part of our planned audit approach for the DTA. Such techniques can enhance audit quality and efficiency by providing ways of dealing with high volumes of transactions as well as analysing complex data.

27. The Land and Buildings Transactions Tax (LBTT) and Additional Dwelling Supplement (ADS) 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 2022/23 tax returns. The data model used provided assurance for around 125,900 LBTT/ADS transactions. The model identified which tax returns had been subject to some form of relief and helped to provide assurance over the application of these reliefs.

28. The use of this data model provided assurance over 99% of the number of LBTT returns and over 99% of the value of all LBTT/ADS returns included in the SETS tax system for 2022/23. It helped focus the activities of the audit team to targeted testing of more complex LBTT transactions, e.g. linked transactions and complex reliefs. This has provided increased assurance over the significant risk of material misstatement of tax being misstated in the DTA.

29. For the second consecutive year, the finance team produced a working paper which reconciled the LBTT/ADS data per the SETS tax system and the data disclosed in the ledger used to prepare the year-end financial statements for the DTA. This working paper gave a high level of assurance that LBTT/ADS figures disclosed in the 2022/23 DTA were complete, reliable and accurate, prior to substantive tax transactions testing by the audit team.

30. 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).

31. We identified a small number of tax returns where we were unable to recalculate the tax paid on the basis of the tax returns. This was due to the nature of how the LBTT tax returns are submitted when there are further linked transactions and how this matches up with our model. We are content that these cases have not affected our audit opinion.

The unaudited annual audit report and accounts and working papers were received in line with the agreed audit timetable

32. The unaudited Resource Accounts and Devolved Taxes Account annual report and accounts were received by 4 August 2023 in line with our agreed audit timetable. The working papers which accompanied the annual report and accounts were also received on time and were of a good standard.

Good progress was made on prior year recommendations

33. Revenue Scotland has made good progress in implementing the audit recommendations identified in prior year Annual Audit Reports. 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 means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Appropriate and effective financial management arrangements are in place, with regular financial monitoring reports provided to the Board.

Revenue Scotland operated within the resource and capital budgets allocated by the Scottish Government, reporting underspends in the Resource Accounts.

Revenue Scotland collected net tax revenues of £960 million during 2022/23, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget.

Financial controls and arrangements for the prevention and detection of fraud remain appropriate.

Appropriate and effective financial management arrangements are in place, with regular financial monitoring reports provided to the Board

34. The Board and Senior Leadership Team continued to receive regular and accurate financial information on the Revenue Scotland's financial position in 2022/23. Actual expenditure compared to budgeted figures are part of the dashboard reporting covering all areas of the body's performance. These reports allowed members and officers to scrutinise financial performance effectively throughout the year.

Revenue Scotland operated within its revised budget in 2022/23

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

36. Revenue Scotland has reported underspends in its Resource Accounts against both its fiscal and capital resource for 2022/23. There was an outturn of £6.91 million against its resource budget for 2022/23 with an underspend of £0.11 million. The financial performance against budget is shown in [Exhibit 4](#).

Exhibit 4

Performance against budget in 2022/23

Performance	Budget £m	Outturn £m	Over/(under) spend £m
Fiscal Resource	7.02	6.91	(0.11)
Capital Resource	0.70	0.67	(0.03)
Total Outturn	7.72	7.58	(0.15)

Source: Revenue Scotland Resource Accounts Annual Report and Accounts 2022/23

37. The underspend in fiscal resource (£0.11 million) primarily relates to in-year savings achieved by Revenue Scotland from its pilot in hybrid working for staff. Legal costs were also lower than budget due to outcomes from litigation and resolution of tax tribunal disputes.

38. Capital resource budget had an underspend of £0.03 million. This primarily related to savings made in the costs of upgrading the Devolved Taxes Account ledger system, which was implemented with the same supplier following a procurement exercise.

The Resource Accounts included net assets of £2.4 million

39. 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. The financial statements show that Revenue Scotland has net assets of £2.428 million (2021/22: £2.148 million). This minor increase of £0.28 million is largely attributable to the increase in total non-current assets additions.

Tax Revenue collected in 2022/23 was £960 million

40. Revenue Scotland is responsible for the collection and management of the devolved taxes. In 2022/23, total tax revenue of £960 million was collected, which was £110 million higher than the original 2022/23 Scottish Budget estimates as shown in [Exhibit 5](#).

41. The 2022/23 Scottish Government budget estimates for the devolved taxes was based on the Scottish Fiscal Commission's (SFC) December 2021 fiscal forecasts. In December 2022, the SFC revised these estimates and forecast an increase in expected LBTT income and no change in expected Scottish Landfill Tax (SLfT) income in 2022/23.

42. The SFC's revised set of fiscal forecasts for 2022/23 devolved taxes predict £850 million for LBTT and £101 million for SLfT, totalling £951 million of tax revenues. Total outturn devolved tax revenue was £9 million greater than this latest forecast for 2022/23.

43. Registers of Scotland in its annual property market report 2022/23 noted an increase in the average price of a residential property in Scotland. A higher

proportion of property transactions were in the top two LBTT bands in 2022/23, compared to 2021/22. Both of these factors contributed to the increase in LBTT in 2022/23, even though the volume of property transactions (residential and non-residential) decreased in 2022/23. SLfT outturn revenue was lower in 2022/23, mainly due to a higher-than-average amount of waste being sent to landfill in 2021/22, with less waste being expected to enter landfill in future as a result of Scottish Gross Domestic Product (GDP) and household consumption being predicted to fall.

44. Penalties and interest continued to increase significantly in 2022/23. Debt pursuance activity had initially been postponed by Revenue Scotland in 2020 during the pandemic to help taxpayers. This activity restarted in November 2020, creating a backlog of cases to pursue in subsequent years, including 2022/23. New penalties had been issued for older tax cases, which led to a significant increase in 2022/23 compared to previous years. However, this increase is in line with expectations.

Exhibit 5

2022/23 Devolved Taxes Revenue

Revenue net of repayment (excluding interest payable and revenue losses)	2022/23 Devolved Taxes Revenue £m	2022/23 Scottish budget estimates £m	Performance against Scottish budget estimates £m	2022/23 Revised Forecast Dec 2022 £m	Performance against revised forecasts £m	2021/22 Devolved Taxes Revenue £m
Land and Buildings Transaction Tax	847.836	749.000	98.836	850.000	(2.164)	807.183
Scottish Landfill Tax	109.699	101.000	8.699	101.000	8.699	125.248
Penalties and interest	2.797	0	2.797	0	2.797	1.245
Total	960.332	850.000	110.332	951.000	9.332	933.676

Source: Revenue Scotland Devolved Taxes Account 2022/23, 2021/22; Scottish Government Budget 2022/23; Scotland's Economic and Fiscal Forecasts 2022

45. Revenue Scotland is required to remit devolved tax receipts to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that in 2022/23, £954.9 million of cash generated from the devolved taxes was remitted to the SCF during the year (2021/22: £874.2 million). A further £121.3 million was due to be remitted to the SCF which reflects accrued income and amounts which were outstanding and/or uncleared at the year end.

Revenue Scotland has appropriate financial control arrangements in place

46. From our review of the design, implementation and operating effectiveness of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any significant financial control weaknesses which could 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.

47. However we noted the following areas where there is scope for improvement to the operation of certain internal controls:

- SETS 2 tax system user access requests – there was one isolated instance of an ineffective segregation of duties present in the key application control over the authorisation of new system access user requests.
- Scheduled meetings with the DTA ledger system supplier – there were no 'scheduled' meetings in 2022/23 between Revenue Scotland IT and the supplier in relation to the DTA ledger system. Revenue Scotland have now reverted to formal meetings on a biannual basis, which should strengthen the general IT control in obtaining assurances over the hosting arrangements for the ledger system.

Recommendation 2

Revenue Scotland should implement improvements to address the minor internal control weaknesses identified.

48. We carried out focussed testing on specific key controls for the DTA financial systems to assess their operational effectiveness and to provide assurance. We also performed focussed substantive testing on tax revenue transactions throughout the year to provide further assurance. No issues were identified from this audit testing.

Tax compliance activity

49. An appropriate controls framework was in place for LBTT and SLfT compliance activity in 2022/23. Authorisation and segregation of duties existed for enquiries and assessments, while quarterly meetings between Revenue Scotland and the Scottish Environmental Protection Agency (SEPA) to discuss SLfT matters continued in 2022/23.

50. The LBTT compliance team progressed a number of compliance projects throughout the year, focussing on different types of residential and non-residential tax reliefs on a rolling basis. A risk-based approach is applied to selecting and reviewing tax returns, with non-residential LBTT returns being a higher area of risk. An effective working relationship continues to be developed with Registers of Scotland, with regular meetings held to discuss any issues and information shared between bodies.

51. 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. Direct compliance yield of £10.4 million was reported by Revenue Scotland in 2022/23 as one of the body's key performance indicators (KPI). This is a significant increase from 2021/22 (£0.72 million) and from 2020/21 (£0.96 million). The yield varies year on year depending on the timing of cases under review and any referrals to tax tribunals.

52. We 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.

53. Designated officers for Revenue Scotland (part of the SEPA tax unit) resumed compliance visits of landfill sites in 2022/23, with prioritisation of 'higher risk' site visits as necessary. Additionally, the SLfT compliance team has been holding regular meetings with taxpayers in 2022/23, with the aim of obtaining overviews of business practices and keeping informed of tax issues before or as they arise.

54. Revenue Scotland is still developing its new compliance strategy. The previous strategy 2019-21 is still applicable to current tax compliance activity in the meantime. This delay is offset by the approval of both the LBTT and SLfT compliance plans for 2023/24.

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

55. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

56. Revenue Scotland has appropriate arrangements for the prevention and detection of fraud or other irregularities. This is based upon review of its counter-fraud policy and fraud response plan, as well as its whistleblowing policy.

57. We also reviewed the arrangements in place to maintain standards of conduct including the codes of conduct for staff and Board members. This confirmed that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Revenue Scotland has effective and appropriate arrangements in place to continue to deliver services.

A medium-term financial plan is in place and a balanced budget has been approved for 2023/24.

Revenue Scotland has a medium-term financial plan in place

58. Revenue Scotland included a high-level 3-year financial plan within its corporate plan 2021-24. This medium-term financial plan outlines the costs which Revenue Scotland estimates it will incur as it delivers its operational and programme activities over this period.

59. This current plan is set to expire in March 2024 and Revenue Scotland is in the early stage of preparing a new corporate plan for 2024-27, which will include a new medium-term financial plan. Revenue Scotland is aiming for approval of this new plan by the Board in February 2024, followed by submission to the Scottish Ministers for approval.

Revenue Scotland approved a balanced budget for the 2023/24 Resource Accounts

60. In 2023/24, Revenue Scotland has been allocated a resource budget of £7.2 million and a capital budget of £0.5 million. In May 2023, the Board approved a balanced budget for 2023/24.

61. 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 SFC forecasts a decrease in the Devolved Taxes Account revenue of £94 million in 2023/24

62. The SFC is responsible for forecasting devolved tax revenues and has set out its methodology and assumptions in [Scotland's Economic and Fiscal Forecasts – May 2023](#). For 2023/24 the SFC forecasts Revenue Scotland's tax

receipts to be £864 million (LBTT £772 million; SLfT £92 million) which is £94 million below the 2022/23 level of £958 million.

63. The decreased SFC forecast is mainly attributable to residential LBTT, with revenue expected to decrease by £56 million in 2023/24. The SFC reports that higher interest rates and a wider economic downturn is expected to impact on property prices and transactions, with a decrease in revenue forecasted in the next few years compared to 2022/23.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Revenue Scotland has a clear plan in place to implement its vision, strategy and priorities.

Governance arrangements are appropriate and Revenue Scotland is open and transparent in the way it conducts business.

Senior management and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance.

Cyber security arrangements are appropriate, but strategic IT planning could be enhanced.

Revenue Scotland has a clear plan in place to implement its vision, strategy and priorities

64. Revenue Scotland is in the early stage of preparing a new corporate plan covering the period 2024-2027 with approval by the Board and Scottish Ministers planned for early 2024.

65. The purpose of Revenue Scotland is “to efficiently and effectively collect and manage the devolved taxes which fund public services for the benefit of the people of Scotland.”

66. Revenue Scotland outlines four broad strategic outcomes to help deliver its purpose. These themes are clearly aligned to the Scottish Government's outcomes and purpose as detailed in the National Performance Framework. The collection and administration of the devolved taxes is an important contributor to the successful delivery of Scotland's Economic Strategy. To achieve the delivery of Revenue Scotland's outcomes, the corporate plan outlines several key objectives which are monitored via key performance indicators (KPI). These are covered in part 5 of this report.

67. We concluded that Revenue Scotland's corporate plan has a clear purpose and vision supported by effective strategic outcomes and performance measures and is aligned with the supporting 3-year financial plan.

Governance arrangements are appropriate and Revenue Scotland is open and transparent in the way it conducts business

68. Revenue Scotland's governance arrangements have been set out in the Directors' Report and Governance Statement in both its Resource Accounts and Devolved Taxes Account annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate. They support robust scrutiny and challenge of performance and decisions made by the Board.

69. Revenue Scotland is accountable to the Scottish Parliament and during 2022/23 was led by a Board consisting of seven members, appointed by Scottish Ministers. Three new Board members were appointed on 1 June 2022. 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 seven occasions in 2022/23 with meetings mostly held in person. The Board is supported by the Audit and Risk Committee and Staffing and Equalities Committee.

70. 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. The Chief Executive is accountable to the Board for day-to-day operational matters and is supported by the Senior Leadership Team who are responsible for tax, legal services and corporate functions.

71. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets. Revenue Scotland's website is clear and well structured. Board minutes are available to the public along with key publications including the latest annual report and accounts. We concluded that the Board conducts its business in an open and transparent manner.

Senior management and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance

72. The Chief Executive and senior leadership team are responsible for the delivery of services performed by Revenue Scotland as well as leading the changes to how services are accessed and delivered by the organisation.

73. 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. The ARC continues to have three non-executive members. We are content that the ARC operated effectively during 2022/23. ARC members and Board members continue to

provide an appropriate level of challenge to senior management and work together effectively.

74. We have concluded that Revenue Scotland's senior management and non-executive directors have demonstrated effective leadership, challenge and scrutiny of operational activity and performance in 2022/23. Going forward, senior management and non-executive directors will have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

Cyber security arrangements are appropriate

75. 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 considered Revenue Scotland's arrangements for managing and mitigating cyber security risks.

76. Our review of Revenue Scotland's cyber security arrangements identified specific controls and actions in place to ensure that cyber risks are adequately managed. The Revenue Scotland IT operating model is a shared service provision whereby Scottish Government Information and Technology Services (iTECS) makes the shared IT network and services available on a 'per user' subscription basis. iTECS provides assurance on the Scottish Government IT cyber arrangements through an annual refresh of their Cyber Essentials Plus accreditation, which flows from a 'PSN health check and PENetration testing' framework.

77. Cyber Essentials Plus was first accredited to Revenue Scotland in 2018. Going forward into 2023/24, Revenue Scotland IT has decided to obtain Cyber Essentials Plus assurance from all of its IT suppliers as a collective 'umbrella expression' of its own Cyber Essentials Plus position, instead of obtaining its own reaccreditation. This decision was made as a result of the current IT operating model being based on a shared service provision with iTECS, as well as on supplied key systems from external providers. Contracts with suppliers for IT systems are subject to the Scottish Government's Cyber Security Procurement Support Tool, which determines the level of cyber accreditations required of IT suppliers through the use of cyber risk profile matrix. We concluded that Revenue Scotland's cyber security arrangements were appropriate.

78. Revenue Scotland commissioned an IT 'health check' in January 2023, which was broadly satisfactory and included recommended actions to be implemented going forward. Revenue Scotland and its IT system suppliers carry out cyber security incident checks to ensure that all partners are best placed to deal with any issues of this nature. The cyber security incident management at Revenue Scotland was considered to be appropriate.

79. Revenue Scotland maintains plans outlining its arrangements for business continuity and disaster recovery. Since Revenue Scotland depends on external IT systems and activities provided by third parties, they expect these providers to operate their own business continuity and disaster recovery arrangements. Revenue Scotland IT should ensure that it receives adequate assurance from

all third-party service providers over the accessibility and recovery of key systems in the event of system or service provision being disrupted.

Recommendation 3

Revenue Scotland should obtain business continuity and disaster recovery assurances from all key IT system and service providers.

Strategic IT planning could be enhanced

80. The 2019-24 digital strategy for Revenue Scotland is aligned with the 2021-24 corporate plan, with both documents sharing the same strategic objectives. Business plans outlining timelines and prioritisation of key deliverables will be developed by Revenue Scotland in parallel with the new 2024-27 corporate plan.

81. The Capital Investment Programme Board has oversight of delivery of the current Digital Strategy as part of Revenue Scotland's Capital Investment Programme; however the supporting IT action plans could be improved by including more detail on timelines and funding. We note that a new Data and Digital Strategy is currently in draft and will be presented to the Revenue Scotland Board in November 2023.

Climate change arrangements

82. Our 2022/23 annual audit plan highlighted that tackling climate change is one of the great global challenges. The Scottish Parliament has set a legally binding target of becoming net zero 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.

83. Revenue Scotland has a dedicated green strategy which aims to strengthen and drive forward its environmental performance by minimising its carbon emissions. This strategy sets out arrangements for the governance and management of this environmental performance. It also sets out a high-level action plan and key activities to be carried out by the body to help achieve its environmental objectives. This includes reducing emissions from buildings and systems, reducing waste, reducing travel emissions and reducing emissions through flexible working arrangements.

84. The green strategy is a key consideration within Revenue Scotland's 2021-24 corporate plan, where environmental impact has been included as a key principle in the design of the body's service delivery model. For example, Revenue Scotland plan to enhance its Scottish Electronic Tax System (SETS) to deliver a paperless tax collection and management process. This will apply to current devolved taxes and future devolved taxes such as the Scottish Aggregates Levy.

85. Externally, Revenue Scotland reports to the Sustainable Scotland Network each year. This reporting requires Revenue Scotland to complete emissions data and sustainability targets. Internally, the Board is responsible for the

scrutiny of environmental policies, strategies and compliance with climate change duties. The green strategy is a standing item at quarterly Board meetings where the design, delivery and monitoring of environmental objectives is scrutinised.

86. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Revenue Scotland has developed an appropriate Best Value framework.

An effective performance management framework is in place, with all seven key performance indicators which have targets, achieved in year.

Revenue Scotland continues to work with third parties to deliver services.

Revenue Scotland has developed an appropriate Best Value framework

87. [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.

88. 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 arrangements in place to monitor the achievement of outcomes, and the development of a new three-year corporate plan together with a supporting financial plan (as covered in parts 3 and 4 of the Annual Audit Report).

89. We consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We did not undertake any specific local work in this area in 2022/23 but concluded that appropriate arrangements were in place for securing best value based on the outcome of our other audit work.

Revenue Scotland has an effective performance management framework in place, with all seven key performance indicators which have targets, achieved in year

90. Revenue Scotland continued to monitor key performance indicators (KPI) throughout the year with performance reported to the Board on a regular basis, through the provision of performance dashboard reports. As covered in part 4 of the Annual Audit Report, the performance of several key objectives helps to achieve the delivery of the four strategic outcomes of Revenue Scotland's corporate plan 2021-24.

91. The Performance Report in the Resource Accounts annual report and accounts shows clear linkages between the four strategic outcomes of the corporate plan and progress and actions against the KPI underpinning these themes. 10 KPIs were introduced by Revenue Scotland to reflect priority objectives, but one relating to the environment was removed in 2022/23 due to difficulties in reporting on greening objectives. One further KPI was in development and was approved in February 2023 relating to service users' feedback. Progress against this KPI will be reported on during 2023/24.

92. Of the remaining eight KPIs, seven were achieved. The other KPI, tax secured through compliance activity, is a monetary figure which does not have a formal target set. This is compared to the previous year which was an increase from £0.72 million in 2021/22 to £10.4 million in 2022/23 (see [paragraph 51](#)).

93. In addition to the KPIs, eleven key strategic projects for 2022/23 are identified in the Performance Report, with two of these completed in-year. Those projects which were not completed in 2022/23 continue into 2023/24 and remain within the project parameters.

94. We concluded that Revenue Scotland has an effective performance management framework in place, which helps to support the achievement of strategic outcomes in its corporate plan.

Revenue Scotland continues to work with third parties to deliver services

95. Shared services: 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 estates and facilities management, financial management, procurement, information technology functions and some aspects of human resources.

96. Delegated services: Revenue Scotland delegates services to the Scottish Environmental Protection Agency (SEPA) in relation to Scottish Landfill Tax. As covered in part 3 of the Annual Audit Report, designated officers for Revenue Scotland (part of the SEPA tax unit) resumed visits of landfill sites in 2022/23 to support tax compliance work, with prioritisation of 'higher risk' site visits as necessary. Revenue Scotland and SEPA continue to work closely in implementing tax collection.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Related Parties</p> <p>We noted that Senior Leadership Team members' interests were provided as part of the preparation of the Resource Accounts annual report and accounts after the unaudited accounts had been received.</p> <p>Risk – The material related party transactions and balances disclosed by Revenue Scotland in its note to the accounts are incomplete or inaccurate.</p>	<p>The Finance team should ensure that registers of interest for SLT members are formally considered as part of the related parties disclosure process.</p> <p>Paragraph 25</p>	<p>Revenue Scotland will document a formal review of the SLT members' registers of interest as part of the related party disclosures in the annual accounts preparations going forward.</p> <p>Head of Governance / Head of Finance</p> <p>Ongoing</p>
<p>2. Internal Controls</p> <p>We noted areas where there is scope for improvement to the operation of certain internal controls.</p> <p>Risk – There is a risk that internal controls do not operate effectively.</p>	<p>Revenue Scotland should implement improvements to address the internal control weaknesses identified.</p> <p>Paragraph 47</p>	<p>Revenue Scotland will remind staff of procedures to ensure that internal controls operate as designed.</p> <p>Head of Data & Digital</p> <p>December 2023</p>
<p>3. IT Business Continuity & Disaster Recovery Assurances</p> <p>Since Revenue Scotland depends on external IT systems and activities provided by third parties, these providers are expected to operate their own business</p>	<p>Revenue Scotland should obtain business continuity and disaster recovery assurances from all key IT system and service providers.</p> <p>Paragraph 79</p>	<p>Discussions on business continuity, disaster recovery and cyber security will form standing agenda items in our regular service management meetings and assurances will be fully documented.</p> <p>Head of IT</p> <p>Ongoing</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>continuity and disaster recovery arrangements.</p> <p>Risk – Business continuity and disaster recovery arrangements for IT systems and services are not up to date.</p>		

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Contingent Assets: LBTT Deferrals (DTA)</p> <p>We identified 44 cases with a total LBTT deferred of £3.01 million where review dates had passed without the deferral records having been updated to indicate that review had taken place.</p> <p>Risk – Revenue Scotland does not identify where tax is no longer eligible for deferral.</p>	<p>The review process and record keeping for LBTT deferrals is revised to ensure that reviews are conducted on time and appropriately evidenced.</p>	<p>Complete</p>
<p>b/f 2. Payables Balances</p> <p>In 2020/21, we identified that 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. Work to address these issues began in late 2021/22 and continues into 2022/23.</p> <p>Risk – There is a risk that failure to investigate these balances could lead to the DTA payables balance being overstated.</p>	<p>The investigation of anomalies in payables balances should continue and become embedded in business-as-usual activities, to ensure that these are resolved in a timely manner.</p>	<p>Complete</p> <p>We recognise that management continue to work on clearing erroneous DTA payables balances as part of business-as-usual activity.</p>

Revenue Scotland

2022/23 Annual Audit Report

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