

Revenue Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

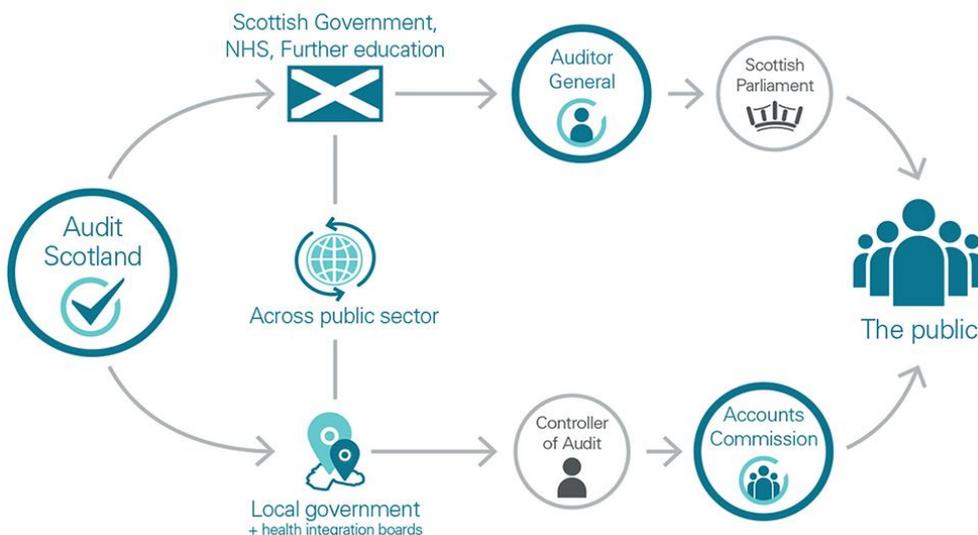
Prepared for Revenue Scotland

April 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements on both the Resource Accounts (RA) and the Devolved Taxes Account (DTA) and related matters, and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

2. Revenue Scotland was established as a Non-Ministerial Department (NMD) on 1 January 2015 and is responsible for the collection and management of Scotland's two devolved taxes, Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT). Both LBTT and SLfT are self-assessed taxes. However, 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 submissions of returns. Scottish Ministers are responsible for setting rates, bands and thresholds relating to the devolved taxes, subject to the approval of the Scottish Parliament.

Audit risks

3. Based on our knowledge, discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Revenue Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed below in [Exhibit 1](#).

Exhibit 1

| Audit Risk | Management assurance | Planned audit work |
|---|---|--|
| Financial statement issues and risks | | |
| <p>1 Risk of management override of controls (RA/DTA)</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable.</p> | <ul style="list-style-type: none"> • Review arrangements and policies for preventing and detecting fraud. • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Focused testing of accounting adjustments at the year-end. • Evaluation of significant transactions that are |

| Audit Risk | Management assurance | Planned audit work |
|---|---|--|
| <p>2 Risk of fraud over revenue (DTA)</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams, other than Scottish Government funding, are significant.</p> <p>Revenue Scotland's role is to collect and administer devolved taxes on behalf of the Scottish Government. The value and complexity of tax revenue means that, in accordance with ISA240, there is an inherent risk of fraud.</p> | <ul style="list-style-type: none"> • Adoption of accounting policies in compliance with the FReM. • Early intervention and compliance checking. • Year-end closedown procedures. | <p>outside the normal course of business.</p> <ul style="list-style-type: none"> • Detailed testing of tax revenue transactions focusing on the areas of greatest risk. • Review accounting policy for revenue recognition. • Monitor early intervention and compliance checks. • Cut-off testing. |
| <p>3 Risk of tax revenue being misstated (DTA) (see paragraph 2 above)</p> <p>Processes and procedures continue to bed in for both Revenue Scotland staff and users and these are becoming more 'business as usual'. Internal controls over processes and procedures are still being developed and refined.</p> <p>As a consequence of this better understanding, the volume of tax compliance activity has increased and there has been an increase in the number of challenging, complex and time consuming cases identified particularly where the legislation is unclear.</p> <p>There is a risk that the tax revenue reported in the financial statements is misstated due to</p> <ul style="list-style-type: none"> • The incorrect assessment of tax due • The non- or delayed collection of taxes due • The incorrect allocation of taxes received. <p>(see also point 6 below)</p> | <ul style="list-style-type: none"> • Oversight by the Board. • Regular communications with partner bodies SEPA and RoS. • Regular communications with other stakeholders. • Internal Audit review of Tax Governance & Compliance. | <ul style="list-style-type: none"> • Liaise with Internal Audit in regard to its review of tax compliance work. • Review compliance activity and case progress. • Continue to understand and update our knowledge on the key processes in place. • Substantive testing to ensure that: <ul style="list-style-type: none"> – the tax due has been properly assessed – the legislation has been applied appropriately – timely payment has been received – income has been correctly allocated. • Review stakeholder feedback and complaints management. • Review Board papers. • Review working relationships with SEPA and RoS and other stakeholders. |
| Wider dimension risks | | |
| <p>4 Financial sustainability (see also paragraph 26 below)(RA)</p> <p>Revenue Scotland intends to develop longer-term financial planning with clear links to the Corporate Plan strategic objectives and the annual</p> | <ul style="list-style-type: none"> • The development of longer term plans is progressing. | <ul style="list-style-type: none"> • Review progress on preparing longer term financial plans which link into corporate, business and workforce plans. • Review of action taken |

| Audit Risk | Management assurance | Planned audit work |
|---|--|--|
| <p>business plan. Longer term planning should ensure that the financial implications of business decisions are taken into consideration.</p> | | <p>to progress prior year audit findings.</p> <ul style="list-style-type: none"> • Monitor progress on implementation of new taxes (APD). |
| <p>5 Financial management (see also paragraphs 27-28 below) (RA)</p> <p>Budget management processes continue to develop as the organisation matures. The budget has to be reassessed to reflect the administration of the further devolving of taxes and subsequent collection by Revenue Scotland.</p> <p>There remains a risk that actual expenditure exceeds annual and longer term budgets and that the organisation does not meet its objectives.</p> | <ul style="list-style-type: none"> • Board oversight. • Reports to Senior Management Team. | <ul style="list-style-type: none"> • Early review of Internal Audit's work on budget management. • Review of action taken to progress prior year audit findings. • Review of key financial controls. • Monitor progress on reassessing budget as tax collection responsibilities increase. |
| <p>6 Financial Management (see also paragraphs 27-28 below) (DTA)</p> <p>Systems and processes to assess, collect and allocate tax revenues are continuing to develop. This development will be crucial as further taxes are devolved to Scotland.</p> <p>As a consequence, the assessment, collection and allocation of these taxes will become more challenging.</p> <p>There is a risk that the control environment and related internal controls do not operate effectively, resulting in the:</p> <ul style="list-style-type: none"> • incorrect assessment of tax due • non- or delayed collection of taxes due • incorrect allocation of taxes received. <p>(see also paragraph 2 above)</p> | <ul style="list-style-type: none"> • Board oversight of tax collection and compliance activity. • Regular communications with partner bodies SEPA and RoS. • Regular reporting of tax statistics to stakeholders and to Parliament. • Internal Audit review of Tax Governance & Compliance and Debt Collection Arrangements. | <ul style="list-style-type: none"> • Focused testing of assessment, collection and allocation of tax revenues. • Continue to understand and update our knowledge on the key processes in place throughout our audit appointment. • Review Board papers. • Review working relationships with SEPA and RoS and other stakeholders. • Monitor work done by the Change & Strategy team to prepare for increased workloads. • Review Internal Audit work where appropriate. |
| <p>7 Governance and transparency: (see also paragraph 29 below) (RA/DTA)</p> <p>There has been a staff restructuring which resulted in a number of staff changes including the departure of 3 senior staff. A small number of some senior posts remain to be filled.</p> | <ul style="list-style-type: none"> • Board oversight. • Recruitment processes are now largely complete. | <ul style="list-style-type: none"> • Review exit payments and ensure compliance with appropriate guidance. • Monitor progress on finalising staff restructure. • Follow up on any outstanding matters raised in relation to prior year audit reports. |

| Audit Risk | Management assurance | Planned audit work |
|---|---|--|
| <p>There is a risk that the ongoing restructuring:</p> <ul style="list-style-type: none"> could impact on staff capacity and morale new roles and reporting lines may take some time to bed down. There could be a loss of key staff together with knowledge and skills due to the uncertainty. <p>In addition, there is a risk that internal controls may not be as effective in a period of change.</p> <p>There is a further risk that due to the pace and level of organisational change together with policy changes may impact adversely on senior management capacity to manage the day to day operation and achieve the business objectives.</p> | | <ul style="list-style-type: none"> Follow up the Audit Scotland national report 'Role of Boards' published in 2010. Early review of Internal Audit work and early discussion on any material issues arising. Review progress on workforce planning. |
| <p>8 Governance and transparency: (see also paragraph 29 below) (DTA)</p> <p>The key business critical system, Scottish Electronic Tax System (SETS) which manages, records and processes all tax transactions, is provided and managed by an external supplier .</p> <p>There are a number of risks related to this relationship including:</p> <ul style="list-style-type: none"> The quality of the service being provided General contract management Business continuity and disaster recovery arrangements Impact of cyber attacks Contract renewal and/or termination. | <ul style="list-style-type: none"> Contract service level agreements with IT suppliers. Regular communication with suppliers. Oversight by the IT Governance Board and IT Security Group. 24 hour monitoring by IT infrastructure providers. Regular penetration testing. Disaster recovery procedures. Continuous staff training. | <ul style="list-style-type: none"> Review IT strategy for contract management (including contract renewal and termination planning). Review security controls in place to protect against cyber attack. Review Internal Audit review of disaster recovery testing. Review management assurances over IT service contracts. Monitor progress on testing plans for business continuity. |

National Fraud Initiative

4. The National Fraud Initiative (NFI) is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the

arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

5. The current data matching exercise collected data in October 2016 and match investigation work is due to begin in early 2017. Revenue Scotland is participating in this exercise for the first time. The Scottish Government has already submitted payroll and creditor data on behalf of Revenue Scotland and, following identification of data matches, will work together with Revenue Scotland staff to investigate the selected cases.

6. We shall monitor progress and report on this in our Annual Audit Report, which will be presented to the Audit and Risk Committee in September 2017.

Follow up of prior year findings

7. We shall review action taken by management in response to our prior year management letters and reports and shall consider the impact on our financial statements audit.

Reporting arrangements

8. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

9. 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 officer(s) to confirm factual accuracy.

10. We will provide an independent auditor's report to Revenue Scotland, the Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual resource accounts. We will also provide an independent auditor's report to the Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual devolved taxes accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

| Audit Output | Target date | Audit & Risk Committee Date |
|--|---|-----------------------------|
| Annual Audit Plan | 22 February 2017 | 1 March 2017 |
| Interim Management Report | 28 May 2017 | 7 June 2017 |
| Annual Audit Report including ISA 260 requirements | 6 September 2017 | 13 September 2017 |
| Signed Independent Auditor's Reports | As soon as practicable after the Board meeting on 13 September 2017 | N/A |

Audit fee

11. The agreed audit fee for the 2016/17 audit of Revenue Scotland is £90,200 (2015/16: £90,000): this is split across the Resource Account £20,000 (2015/16 £25,000) and the Devolved Taxes Account £70,200 (2015/16: £65,200). This split recognises the relative complexity of the Taxes Account and the additional audit work required on the new element of Land and Buildings Tax, Additional Dwelling Supplement. In determining the audit fee we have taken account of the risk exposure of Revenue Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on, 12 June 2017.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

13. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

14. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

15. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

16. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

17. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Revenue Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Revenue Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

18. We will give separate opinions on the Resource Accounts and on the Devolved Taxes Account as to:

- whether they give a true and fair view of the state of affairs of the audited body and its expenditure for the year (Resource Accounts)
- whether they give a true and fair view of the state of affairs of the collection of taxes, related expenditure and disbursements and its net revenue for the year (Devolved Taxes Account)
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements (both sets of accounts)
- the regularity of the expenditure and income (both sets of accounts)
- whether the part of the Remuneration Report in the Resource Accounts to be audited has been properly prepared
- whether the information given in the Performance Report sections is consistent with the financial statements (both sets of accounts).

Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Revenue Scotland's Resource Accounts and for the Devolved Taxes Account are set out below in [Exhibit 3](#).



Exhibit 3

Materiality values

| Materiality level | Amount |
|--|----------------|
| Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. | |
| <ul style="list-style-type: none"> Resource Accounts: Set at 1% of gross expenditure for the year ended 31 March 2017 based on the budget for 2016/17. | £52,000 |
| <ul style="list-style-type: none"> Devolved Taxes Account: Set at 1% of total forecast tax revenue for the year ended 31 March 2017 based on the budget for 2016/17. | £6.710 million |
| Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at: | |
| <ul style="list-style-type: none"> Resource Accounts: Set at 60% of planning materiality | £31,000 |
| <ul style="list-style-type: none"> Devolved Taxes Account : Set at 20% of planning materiality | £1.342 million |
| Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at: | |
| <ul style="list-style-type: none"> Resource Accounts: calculated as 2% of planning materiality | £1,000 |
| <ul style="list-style-type: none"> Devolved Taxes Account: calculated as 1% of planning materiality | £67,000 |

20. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issues identified will be reported to the Audit and Risk Committee.

Timetable

21. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates:

Exhibit 4

Financial statements timetable

|  Key stage |  Date |
|--|--|
| Meeting with officers to clarify working paper expectations | January 2017 |
| Latest submission date of unaudited financial statements with complete working papers package | 12 June 2017 |
| Latest date for final clearance meeting with Chief Executive, Change Director and Chief Accountant | 18 August 2017 |
| Issue of Annual Audit Report including ISA 260 report to the Accountable Officer | By 6 September 2017 |
| Consideration of unaudited financial statements by the Audit & Risk Committee; Board meeting to approve the financial statements | 13 September 2017 |

| | |
|--|--|
| Independent auditor's report signed | As soon as practicable after Board meeting |
| Target date for laying and publishing the annual report and accounts | 30 September 2017 |

Internal audit

22. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government's Internal Audit Directorate.

Adequacy of Internal Audit

23. Audit Scotland's Scottish Government audit team plans to carry out a review of the effectiveness of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We plan to place reliance on that work.

Areas of reliance

24. To support our audit opinion on the financial statements and our wider dimension responsibilities, we plan to place formal reliance on the following planned internal audit reviews:

- Budget Management
- Business Continuity Planning
- Assurance Mapping
- Tax Governance and Compliance
- Governance (follow-up)
- Debt Collection Arrangements (follow up)

Audit dimensions

25. As noted at paragraph 1 above, we are required to meet the wider scope requirements of public sector audit which are outlined in the Code of Audit Practice.

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As part of our responsibility to report on the four audit dimensions, we have identified specific areas of audit work for 2016/17 and these are outlined in Exhibit 1 above. We shall undertake further work over our five-year audit appointment.

Exhibit 5

Audit dimensions



Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We shall review selected aspects over our five-year audit appointment and conclude on the following:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

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

29. We will review, conclude and report on the following over our five-year appointment:

- whether Revenue Scotland has arrangements in place to ensure systems of internal control are operating effectively
- whether Revenue Scotland has appropriate controls in place over the assessment, collection and allocation of tax
- whether Revenue Scotland can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how Revenue Scotland has assured itself that its financial capacity and skills are appropriate
- whether Revenue Scotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption. We shall consider Revenue Scotland's response to the NFI exercise.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on the following over our five-year appointment:

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

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five-year appointment:

- Revenue Scotland can provide evidence that it is demonstrating value for money in the use of its resources
- Revenue Scotland can demonstrate that there is a clear link between money spent, output and outcomes delivered
- Revenue Scotland can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

32. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

33. The engagement lead for Revenue Scotland is Mark Taylor, Assistant Director. Auditing and ethical standards require Mark Taylor as the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Revenue Scotland.

Quality control

34. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

35. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

36. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Revenue Scotland

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