

Revenue Scotland

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Revenue Scotland
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 audit of the Revenue Scotland Resource Accounts (RA) and Devolved Taxes Account (DTA). The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in 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
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

2. The audit team remains unchanged for 2023/24.

Respective responsibilities of the auditor and Revenue Scotland

3. 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

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. 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's responsibilities

6. Revenue Scotland is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true

and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. 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.

Adding Value

8. My team and I aim to add value by: tailoring audit work to the circumstances of Revenue Scotland and the audit risks identified; being constructive and forward looking; providing independent conclusions; 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.

Annual report and accounts

Introduction

9. 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.

10. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. 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. I am required to plan my audit to obtain reasonable assurance about 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 2023/24 audit

13. The assessment of materiality levels for Revenue Scotland RA and DTA are set out in [Exhibit 1](#).

Exhibit 1

2023/24 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's operations. For the year ended 31 March 2024, we have set our materiality as follows:</p> <ul style="list-style-type: none"> RA: 2% of projected gross expenditure for the year ended 31 March 2024, based on the budget report for Q3 2023/24. 	£147,000

- **DTA:** 1.5% of total forecast tax revenue for the year ended 31 March 2024, based on the December 2023 'Scotland's Economic and Fiscal Forecasts' report £13.3 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 are required. Using our professional judgement, we have assessed performance materiality at:

- **RA:** 75% of planning materiality. £110,000
- **DTA:** 60% of planning materiality. £7.9 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:

- **RA:** 5% of planning materiality. £7,000
 - **DTA:** 3% of planning materiality £400,000
-

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. 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.

15. 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.

16. 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 risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2**2023/24 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Management's 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 ISA (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"> • Assess 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 and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship 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 income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused 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 	<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	Management's sources of assurance	Planned audit response
<p>Scottish Government funding, are significant.</p> <p>Revenue Scotland collected £958m of tax revenue in 2022/23.</p> <p>Taxpayers can claim a repayment of Additional Dwelling Supplement (ADS) where certain conditions are met. £48m of ADS was repaid in 2022/23.</p> <p>The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA (UK) 240, there is an inherent risk of fraud.</p>	<p>closedown procedures.</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.

Source: Audit Scotland

17. As set out in ISA (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.

18. 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.

20. Revenue Scotland's Resource Accounts expenditure is largely administered using well-established Scottish Government systems and controls. The Devolved Taxes Account recorded £0.1 million of expenditure in 2022/23. 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.

21. 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

22. 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.

Regularity

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

25. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

26. In summary, the four wider scope areas are:

- **Financial management** – this 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** – we will look ahead to consider whether Revenue Scotland is planning effectively to continue to deliver services over the medium (two to five years) to longer-term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans 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.

27. We have not identified any significant risks in the wider scope areas.

28. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

29. [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

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

31. 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 the annual report and accounts (RA and DTA).
- Revenue Scotland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

32. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date of 31 October, due regard is paid to meeting the statutory deadline for laying the accounts of 31 December 2024. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	20 March 2024
Independent Auditor's Report	31 October 2024	23 September 2024
Annual Audit Report	31 October 2024	23 September 2024

Source: Audit Scotland



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

Timetable

34. 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.

35. 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.	1 July 2024
Latest date for final clearance meeting with management	28 August 2024
Agreement of audited and unsigned annual report and accounts	4 September 2024
Issue of Annual Audit Report, draft Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	11 September 2024
Signed Independent Auditor's Report	24 September 2024

Source: Audit Scotland

Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of Revenue Scotland and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is £106,560 (2022/23: £100,590). This is split across the Resource Accounts £20,800 (2022/23: £22,130) and the Devolved Taxes Account £85,760 (2022/23: £78,460).

37. In setting the fee for 2023/24, we have assumed that Revenue Scotland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and 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

38. 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.

39. While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

40. I am independent of Revenue Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

42. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Revenue Scotland

Audit Quality

43. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

44. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

45. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

46. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

47. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Revenue Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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