

Revenue Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

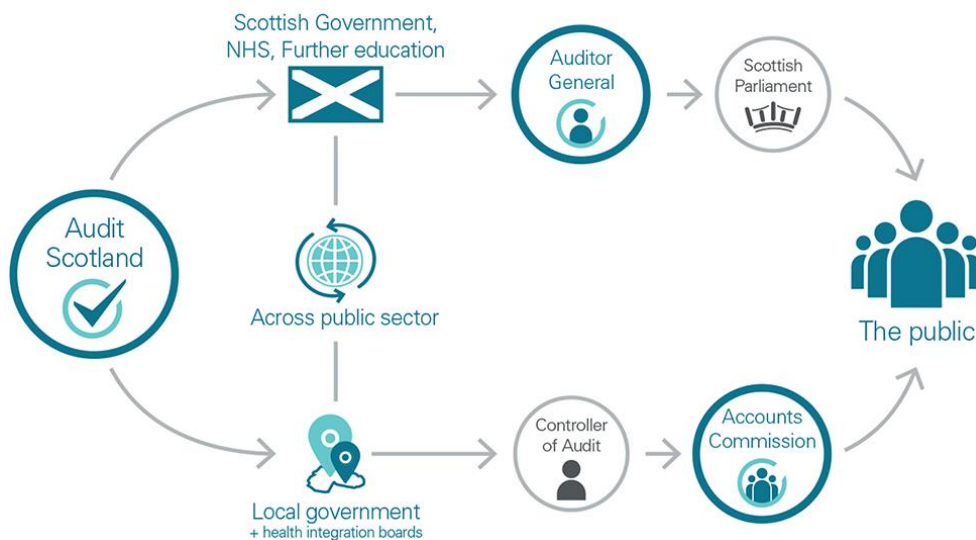
Prepared for by Revenue Scotland

March 2019

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.

Contents

Risks and planned work	4
Audit scope and timing	9

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. It outlines the work necessary to allow us to provide an independent auditor's report on the financial statements of both the Resource Accounts (RA) and the Devolved Taxes Account (DTA), as well as to meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. Revenue Scotland 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. Revenue Scotland has a range of investigatory powers, which allow 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.


Adding value


4. We aim to add value to Revenue Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We intend to help Revenue Scotland promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

5. Based on our discussions with staff, attendance at audit and risk 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 in [Exhibit 1](#). We have highlighted which of those apply to the RA and DTA.

Exhibit 1 2018/19 Key audit risks


 Audit Risk	Source of assurance	Planned audit work
Financial statements 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</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"> • Controls testing of financial systems for RA. • Walkthrough testing of controls for RA and DTA. • Review of arrangements and policies for

	Audit Risk	Source of assurance	Planned audit work
	<p>management override of controls to change the position disclosed in the financial statements.</p> <p>Extended staff absence has presented capacity challenges for the finance team. There is a potential risk that financial controls may not have operated effectively</p>		<p>preventing and detecting fraud.</p> <ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals, prepayments and accounting adjustments at the year-end. • Evaluation of significant transactions that are outside the normal course of business.
2	<p>Risk of fraud over income and tax repayments (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. Revenue Scotland collected devolved taxes in excess of £705m in 2017/18.</p> <p>The Code of Audit Practice and Practice Note 10 also require auditors to consider the risk of fraud over certain types of public sector expenditure where activity is undertaken by individuals or groups outside the immediate control of the audited body (e.g. tax repayments).</p> <p>In particular, LBTT's Additional Dwelling Supplement (ADS) has been collected by Revenue Scotland since 1 April 2016 and taxpayers can claim a repayment of ADS where certain conditions are met. Nearly £30m of ADS was repaid in 2017/18.</p> <p>The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Adoption of accounting policies in compliance with the FReM.</p> <p>Early intervention and compliance checking.</p> <p>Year-end closedown procedures.</p>	<ul style="list-style-type: none"> • Detailed testing of tax revenue transactions focusing on the areas of greatest risk. • Review of accounting policy for revenue recognition. • Monitoring early intervention and compliance checks. • Cut-off testing. • Evaluation of internal controls over ADS repayments. • Detailed testing of ADS repayments.
3	<p>Risk of tax revenue being misstated</p> <p>Revenue Scotland has a range of investigatory powers which allows it to make enquiries into submitted tax returns. Penalties may also be</p>	<p>Oversight by the Board.</p> <p>Regular communications with partner bodies SEPA and RoS.</p>	<ul style="list-style-type: none"> • Review compliance activity and case progress. • Continue to understand and update our

	Audit Risk	Source of assurance	Planned audit work
	<p>imposed for failures in terms of liability or in submission of returns.</p> <p>There are a number of on-going enquiries being undertaken by Revenue Scotland and some taxpayer appeals against penalties are being considered by Tribunals.</p> <p>Internal controls over processes and procedures, together with related compliance activity, continue to be developed and refined.</p> <p>In addition, mid-year tax rate changes require to be applied and 2018/19 is the first year in which taxpayers will submit triennial returns for leased properties.</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 delayed or non-collection of taxes due • the incorrect allocation of taxes received. 	<p>Regular communications with other stakeholders.</p> <p>Internal Audit review of Enquiries and Penalties</p>	<p>knowledge on the key processes in place.</p> <ul style="list-style-type: none"> • Substantive testing to ensure that: <ul style="list-style-type: none"> – the tax due has been properly assessed – the legislation has been applied appropriately (including review of triennial returns for leased properties and application of revised tax rates) – timely payment has been received – income has been correctly allocated. • Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied. • Consider Internal Audit's work on Enquiries and Penalties. • Review Board papers. • Review working relationships with SEPA and RoS and other stakeholders.

Wider dimension issues and risks

4	<p>Financial sustainability</p> <p>The Corporate Plan 2018-2021 identifies high-level estimates of additional funding requirements in future years. Continued development of longer-term financial planning is required, building on this initial work.</p> <p>There is a risk that business decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of Revenue Scotland.</p>	<p>Development of the People Strategy.</p> <p>Oversight by Board and Staffing and Equalities Committee.</p> <p>Quarterly strategic review of workforce planning.</p> <p>Financial reporting to Board and Senior Leadership Team.</p>	<ul style="list-style-type: none"> • Review progress towards the preparation of longer-term financial plans. • Review Board and Committee papers. • Monitor financial performance against budget.
5	<p>Tax compliance activity (DTA)</p> <p>Systems and processes to assess, collect and allocate tax revenues continue to be developed and refined. This development will be</p>	<p>Board oversight of tax collection and compliance activity.</p> <p>Regular communication with SEPA and RoS.</p>	<ul style="list-style-type: none"> • Focused testing of assessment, collection and allocation of tax revenues (as outlined at point 3 above). • Review Board papers.

	Audit Risk	Source of assurance	Planned audit work
	<p>crucial as further taxes are devolved to Scotland.</p> <p>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 increasing number and complexity of cases impacts on the effectiveness of compliance activity.</p>	<p>Regular reporting of tax statistics to stakeholders and Parliament.</p> <p>New compliance strategies.</p> <p>Internal Audit review of Enquiries and Penalties</p>	<ul style="list-style-type: none"> Review working relationships with SEPA, RoS and other stakeholders. Review compliance activity including the new strategies. Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied including consideration of impairment. Consider Internal Audit's work on Enquiries and Penalties.

Source: Audit Scotland

Replacement Tax System

6. Revenue Scotland has procured a replacement for the current Scottish Electronic Tax System (SETS). The new system is planned to become operational from July 2019. We will continue to monitor Revenue Scotland's progress in implementing this new system throughout the year to ensure there are no issues with the planned timescale, budgeted cost or required quality of the system. We shall also review how the costs of this system have been accounted for in the 2018/19 financial statements.

Reporting arrangements

7. 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.

8. 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 management to confirm factual accuracy.

9. 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 both the Resource Accounts and Devolved Taxes Accounts annual reports and financial statements. 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 during the audit.

10. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	13 February 2019	20 February 2019
Interim Management Report	8 May 2019	15 May 2019
Annual Audit Report including ISA 260 requirements	11 September 2019	18 September 2019
Independent Auditor's Report	As soon as practicable after the Board meeting on 18 September 2019 (TBC)	n/a

Source: Audit Scotland

Audit fee

11. The agreed audit fee for the 2018/19 audit of Revenue Scotland is £93,990 (2017/18 £91,340): this is split across the Resource Accounts £20,580 (2017/18 £20,000) and the Devolved Taxes Account £73,410 (2017/18 £71,340). This split recognises the relative complexity of the Devolved Taxes Account. 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 annual report and financial statements with a complete working papers package on 22 July 2019.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and 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 out with 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 annual report and 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 auditors 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.

16. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and 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

Annual report and financial statements

17. The statutory financial statements audit will be the foundation and source for most 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 that 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 an opinion on both the Resource Accounts and the Devolved Taxes Accounts as to whether:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report (RA only), performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts directions.

Other information in the annual report and financial statements

19. We also review and report on other information published within the annual report and financial statements, including the performance report and accountability report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

20. We also read and consider any information in the annual report and financial statements other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

21. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

22. We calculate materiality at different levels as described below. The calculated materiality values for Revenue Scotland are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	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: It has been set at 2% of gross expenditure for the year ended 31 March 2019 based on the budgeted resource expenditure for 2018/19. 	£118,000
<ul style="list-style-type: none"> Devolved Taxes Accounts: It has been set at 1% based on the total forecast tax revenue for the year ended 31 March 2019, based on the Scottish Fiscal Commission's December 2018 forecast. 	£7.05 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: 75% of planning materiality. 	£89,000
<ul style="list-style-type: none"> Devolved Taxes Accounts: 20% of planning materiality. 	£1.41 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 has been calculated at:	
<ul style="list-style-type: none"> Resource Accounts: 2% of planning materiality. 	£2,000
<ul style="list-style-type: none"> Devolved Taxes Accounts: 1% of planning materiality (rounded). 	£100,000



Source: Audit Scotland

Timetable

23. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#) which takes account of the planned SETS implementation date.

Exhibit 4 Annual report and financial statements timetable

 Key stage	 Date
Meeting with management to clarify working papers expectations. Issue working papers checklist to management.	By end March 2019
Latest submission date of unaudited annual report and financial statements with complete working papers package	22 July 2019
Latest date for final clearance meeting with management	By 6 September 2019
Issue of proposed Annual Audit Reports and proposed independent auditor's reports to the Accountable Officer	11 September 2019

 Key stage	 Date
Consideration of unaudited financial statements by the Audit & Risk Committee; Board meeting to approve the financial statements	18 September 2019 (tbc)
Independent auditor's report signed	As soon as practicable after Board meeting

Internal audit

24. Internal audit is provided by the Scottish Government Internal Audit Directorate and is overseen by the Director of Internal Audit.

25. Audit Scotland's Scottish Government audit team plans to carry out a review of the effectiveness of the internal audit function to ensure that 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. We will report any significant findings to management and the Audit and Risk Committee on a timely basis.

Using the work of internal audit

26. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively. In particular, we shall consider Internal Audit's work on Enquiries and Penalties and their follow up on matters raised in 2017/18.

Audit dimensions

27. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Financial sustainability

28. 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 Revenue Scotland'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. Over our five-year appointment, we shall consider:

- 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

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We shall consider 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, including tax compliance activities
- whether Revenue Scotland can demonstrate the effectiveness of 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.

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. Over our five-year appointment we shall consider:

- 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 consider over our five-year appointment whether:

- 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 the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must 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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

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

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 (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out 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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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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