

Revenue Scotland

Resource Accounts / Devolved Taxes Account
2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Revenue Scotland and the Auditor General for Scotland

November 2022

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Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2021/22 are unqualified and unmodified.
- 2 Expenditure and income in the financial statements were in accordance with applicable enactments and guidance.
- 3 The annual report and accounts for the Resource Accounts and the Devolved Taxes Account are consistent with the financial statements and have been prepared in accordance with legal requirements.

Financial management

- 4 Revenue Scotland has appropriate and effective financial management arrangements in place. The Resource Accounts shows small underspends in fiscal and capital resources.
- 5 Revenue Scotland collected net tax revenues of £934 million during 2021/22, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget.

Financial sustainability

- 6 There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2022/23 and a medium-term financial plan is in place.
- 7 Revenue Scotland is piloting a hybrid working model as part of its future operating model plans.

Governance and transparency

- 8 Appropriate governance arrangements were in place during 2021/22 and supported effective working.

Value for money

- 9 Revenue Scotland has appropriate arrangements in place to support effective performance management, with five out of the seven key performance indicators which have targets, achieved in year.
- 10 Revenue Scotland has appropriate arrangements in place to help advance equalities.

Introduction

1. This report summarises the findings from our 2021/22 audit of Revenue Scotland's Resource Accounts (RA) and the Devolved Taxes Account (DTA).
2. The scope of our audit was set out in our Annual Audit Plan, which was presented to the 2 March 2022 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:
 - an audit of both the Resource Accounts and the Devolved Taxes Account annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2021/22 have been:
 - an audit of Revenue Scotland's 2021/22 annual report and accounts for both the Resource Accounts and for the Devolved Taxes Account, including the issue of independent auditor's reports setting out our opinions
 - a review of Revenue Scotland's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic continued to have an impact on audited bodies during 2021/22. There were no specific risks related to the pandemic in our annual audit plan for Revenue Scotland. We reviewed our assessment of the key risks in advance of the year-end financial statements audit. We considered that our risk assessment remained relevant, and there were no new or emerging risks that affected our audit.

Adding value through the audit

5. We add value to the body through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts directions from the Scottish Ministers for the Resource Accounts and Devolved Taxes Account.

7. Revenue Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. 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 management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

11. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. 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. The 2021/22 notional audit fee of £100,230 (2020/21: £98,230) as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both 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.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

15. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, Audit Scotland's Audit Services Group will continue to be the appointed auditor for Revenue Scotland.

17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

18. We would like to thank Board members, ARC members, Executive Directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2021/22 are unqualified and unmodified.

Expenditure and income in the financial statements were in accordance with applicable enactments and guidance.

The annual report and accounts for the Resource Accounts and the Devolved Taxes Account are consistent with the financial statements and have been prepared in accordance with legal requirements.

Our audit opinions on the annual report and accounts are unqualified and unmodified

19. The annual report and accounts for both the Resource Accounts and the Devolved Taxes Account for the year ended 31 March 2022 were approved by the board on 31 October 2022. The Accountable Officer then approved the annual report and accounts for both the RA and DTA on 1 November 2022. As reported in the independent auditor's reports:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 (RA only), foreword (DTA only) and governance statements were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The DTA and RA annual report and accounts were provided on time

20. We received the unaudited annual report and accounts by 1 August 2022 in line with our agreed audit timetable.

The Devolved Taxes Account working papers were improved from previous years and of a good standard

21. The finance team have continued to make improvements to the accounts working papers this year, in response to our audit recommendation. In particular, the working papers supporting the payables and receivables balances in the DTA were improved and of a good standard. Lead schedules were prepared which clearly outlined the individual balances, transactions and adjustments within the DTA. Revenue Scotland finance staff were supportive in providing walkthroughs of these working papers and explanations where necessary.

22. These improvements to the working papers enabled the audit team to more easily understand and assess the complex information underlying the disclosures within the DTA.

Overall materiality was £127,000 for the Resource Accounts and £9.34 million for the Devolved Taxes Account

23. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts to reflect actual income and expenditure in-year and is summarised in [Exhibit 1](#).

Exhibit 1 Quantitative materiality values

Materiality level	Resource Accounts	Devolved Taxes Account
Overall materiality	£127,000	£9.34 million
Performance materiality	£95,000	£3.27 million
Reporting threshold	£5,000	£95,000

Source: Audit Scotland

24. In determining performance materiality, we considered the following factors:

- our understanding of Revenue Scotland
- the nature and extent of misstatements identified in previous years
- issues identified through our risk assessment processes.

25. The overall scope of the audit was adapted to incorporate the significant assessed risks of material misstatement included within [Exhibit 3](#).

We have significant findings to report on the annual report and accounts

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. Qualitative aspects include accounting policies, accounting estimates and financial statements disclosures.

27. The significant findings from our audit are summarised in [Exhibit 2](#) below and include those in relation to qualitative aspects. Where a finding has resulted in a recommendation to management, a cross-reference to the action plan in [Appendix 1](#) has been included.

Exhibit 2 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Contingent Assets (DTA)</p> <p>Note 8 to the accounts discloses £116 million of contingent assets in respect of decisions by Revenue Scotland that have been appealed to the tax tribunal and which have not yet been finalised.</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>No revenue has been recognised in the DTA in respect of these cases as the outcome is uncertain due to the ongoing tribunal cases.</p> <p>A number of tribunal cases were ongoing during 2021/22 and beyond the issue of the audited accounts.</p>	<p>We confirmed that the accounting treatment for these cases was appropriate and consistent with the approach established in previous years.</p> <p>We liaised with management about the progress of tribunals and the potential impact of decisions, including the potential for adjusting events after the reporting period.</p> <p>We tested a sample of tribunal cases that were disclosed as contingent assets and confirmed that these were disclosed accurately and in accordance with the policy.</p> <p>We agreed with management's assessment that no tax revenue should be recognised until a final decision has been reached by the tribunal/court and all potential appeals have been exhausted.</p> <p>We have sought and obtained written confirmation from the Accountable Officer that the disclosure has been reasonably based and reflects the status of cases currently progressing through the appeals process.</p>
<p>2. Contingent Assets: LBTT Deferrals (DTA)</p> <p>Note 8 to the financial statements refers to contingent assets and highlights cases where a deferral of Land and Buildings Transaction</p>	<p>From the sample testing we carried out on LBTT deferrals, we are satisfied that there is no overstatement of the value of contingent</p>

Issue	Resolution
<p>Tax (LBTT) payable on a land transaction has been granted, where the relevant conditions have been met. Deferrals totalling £6.5 million have been identified in the 2021/22 DTA.</p> <p>We reviewed the supporting records for LBTT deferrals granted by Revenue Scotland and identified 44 cases with a total tax deferred of £3.01 million, where review dates had passed without the records having been updated to indicate that review had taken place.</p> <p>Without documenting records of these reviews, there is a risk that Revenue Scotland does not identify where tax is no longer eligible for deferral. This may result in the estimation of contingent assets being overstated in the DTA.</p>	<p>assets disclosed in the annual report and accounts.</p> <p>We recommend that the review process and record keeping for LBTT deferrals is revised to ensure that reviews are conducted on time and appropriately evidenced.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>

Source: Audit Scotland

The main risks of material misstatement were identified at our planning stage

28. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements that we identified in our 2021/22 Annual Audit Plan issued in March 2022. It 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 financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls (RA/DTA)</p> <p>International Standard on Auditing (UK) 240 requires that audits are planned to consider that management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Assess the design and implementation of controls over journal entry processing, and test journals to focus on significant risk areas.</p> <p>Walkthroughs of key controls for the RA and DTA.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess accounting estimates, including any changes to the</p>	<p>We did not identify any issues in our audit work on journals or accounting estimates.</p> <p>Our testing of accruals, prepayments and year-end accounting adjustments did not identify any errors.</p> <p>Our substantive testing on income and expenditure did not identify any significant transactions outside the normal course of business.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>otherwise appear to be operating effectively. This is presumed to be a significant risk in all audits.</p>	<p>methods and underlying assumptions compared to the prior year.</p> <p>Substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accruals, prepayments and accounting adjustments at the year-end.</p>	<p>Conclusion: No issues were identified that indicated management override of controls in relation to either set of accounts.</p>
<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 £624 million of tax revenue in 2020/21.</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>Taxpayers can claim a repayment of Land and Building Transaction Tax (LBTT) Additional Dwelling Supplement (ADS) where certain conditions are met. £44 million of ADS was repaid in 2020/21.</p> <p>The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA (UK)</p>	<p>Detailed testing of tax revenue transactions focusing on the areas of greatest risk.</p> <p>Walkthroughs of key controls for the RA and DTA, and focused testing on key controls.</p> <p>Evaluation of internal controls over ADS repayments.</p> <p>Detailed testing of ADS repayments.</p> <p>Cut-off testing.</p> <p>Review of accounting policy for revenue recognition.</p> <p>Monitoring early intervention and compliance work, and review of the associated control framework.</p>	<p>Our testing of tax transactions did not identify any evidence of fraud.</p> <p>Our walkthroughs and focussed testing 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 (Government Financial Reporting Manual) 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. Revenue Scotland completed prior year LBTT and SLfT compliance activity that had been delayed due to the impact of Covid-19.</p>

Audit risk	Assurance procedure	Results and conclusions
240, there is an inherent risk of fraud.		Conclusion: No issues were identified that indicated fraud in revenue recognition and repayments in the DTA.
3. Risk of tax revenue being misstated (DTA)	Review compliance activity and case progress, and the associated control framework.	We reviewed and assessed LBTT and SLfT compliance activity and noted that there were no delays in progressing the compliance plans this year. The control framework was reviewed and was confirmed to be operating effectively.
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 submission of returns.	Review and build knowledge in the key processes for compliance work	We continue to develop our understanding of Revenue Scotland's compliance work and highlight areas where we think this could be more effective.
There are a number of ongoing enquiries being undertaken by Revenue Scotland and some taxpayer appeals are being considered by Tribunals. In 2020/21, £113 million of contingent assets were recognised in respect of tribunal cases.	Substantive testing to ensure that:	Our substantive testing over tax revenue transactions and receivables balances was satisfactory.
Internal controls over processes and procedures, together with related compliance activity, continue to be developed and refined.	<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. 	Stakeholder feedback is predominantly positive, and complaints are small in number and an appropriate process is in place for handling them.
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.	Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied.	Our review of board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory with no concerns noted.
	Review of Board papers.	We reviewed management's assessment of the tribunal cases and the disclosures in the annual report and accounts. We are content these are satisfactory.
	Review working relationships with SEPA and other stakeholders.	Conclusion: No issues were identified which indicated that tax revenue was misstated.

There were no identified misstatements above our reporting thresholds

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

30. There were no misstatements identified in the unaudited accounts for the DTA and the RA that exceeded our reporting thresholds.

Our audit identified a number of other findings

DTA Payables balances

31. Last year, we reported that our audit testing had identified a number of DTA payables balances arising from errors on tax returns and other anomalies, 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 recommended that Revenue Scotland introduced a regular check of payables balances to ensure those which stem from errors were being investigated in a timely manner.

32. We are pleased to report that management have introduced processes for investigating outstanding payables balances within the finance team. New functionality within the tax system was introduced in January 2022 which allowed staff to create transactions against tax returns more than 12 months old, to help clear payables balance errors. The finance team have been investigating tax payables balances and working with the tax operations team and taxpayers/agents to correct erroneous tax returns. This work has carried into the 2022/23 financial year and continues to be a work-in-progress.

33. We recognise the work to date and encourage management to maintain these investigatory processes to help ensure that errors on tax returns are corrected and corresponding payables balances are reduced in the DTA.

Recommendation 2

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.

Additional Dwelling Supplement (ADS) repayments risk based checks

34. In 2020/21, we identified that ADS repayments were being carried out temporarily on a risk basis, before full checks were resumed in September 2021. From our testing in 2021/22, we concluded that all testing was satisfactory, and full checks were in place for our sample.

35. An analysis of ADS repayments to identify areas of higher risk, followed by introduction of an evidenced based risk methodology would be an effective way

for Revenue Scotland to carry out checks of ADS repayments. Revenue Scotland is currently reviewing options around a risk based methodology.

Compliance Yield

36. 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.

37. Revenue Scotland reported £0.72 million direct compliance yield and is one of Revenue Scotland's key performance indicators (KPI). This is a decrease from 2020/21 (£0.96 million), and below levels in previous years (2017/18, £2.37 million; 2018/19, £1.03 million). The yield will vary year on year depending on the timing of cases under review and any referrals to tax tribunals. We have also noted that Revenue Scotland has renewed compliance work following the pause during most of 2020/21 in recognition of the impact of Covid-19 on taxpayers.

38. We reviewed the rationale behind the compliance disclosures in the annual report and accounts and examined the records maintained by Revenue Scotland to record the outcome and impact of its compliance work. We identified that there was an error in the reported compliance yield figure, and this was investigated by Revenue Scotland and amended. We are now satisfied that the disclosures are consistent with the assessment undertaken. This work was discussed with officers and we noted that some enhancements are scheduled for recording compliance yield during 2022/23.

Aggregates levy

39. The Scottish Government has published its legislative programme for the year ahead which includes a Scottish Aggregates Levy. The Scottish Government opened a consultation on this in September 2022. When enacted, this will implement the devolution of power to tax aggregates provided for in the Scotland Act 2016. This will be administered by Revenue Scotland and is expected to apply from 2025.

Air Departure Tax (ADT)

40. The Air Departure Tax (Scotland) Act 2017 received Royal Assent on 25 July 2017. On 23 April 2019, the Scottish Government deferred the introduction of ADT. This continues to be deferred at present.

Additional Dwelling Supplement (ADS) – Scottish Government consultation

41. During 2021/22, the Scottish Government sought evidence and views on the operation of LBTT and ADS. The consultation period ran until March 2022. Revenue Scotland will require to work with Scottish Government colleagues in tax policy should any legislative change result from this consultation.

We used data analytics to help our work in LBTT and ADS

42. For the second consecutive year, we used data analytics as part of our planned audit approach. Data analytics is defined by the International Auditing

and Assurance Standards Board (IAASB) as “the science and art of discovering and analysing patterns, deviations and inconsistencies ... in the data underlying ... an audit ... for the purpose of planning and performing an audit.” Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

43. 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 tax returns. The model used provided assurance for around 134,000 LBTT/ADS transactions and also identified which tax returns had been subject to some form of relief and helped to provide assurance over the application of these reliefs.

44. The use of this data model provided assurance over 99% of the number of LBTT returns and over 95% of the value of all LBTT/ADS returns included in the SETS tax system for 2021/22. 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 risk of material misstatement of tax being misstated.

45. 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 21/22 DTA were complete, reliable and accurate, prior to substantive tax transactions testing by the audit team.

46. 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).

47. We identified a small number of tax returns where we were unable to recalculate the tax paid on the basis of the tax returns, which is due to the nature of the LBTT tax being self-assessed. We have flagged these cases to Revenue Scotland’s compliance team, who have carried out a high-level review of these cases. The compliance team has identified that these cases will support compliance intelligence and risk-based compliance work. We are content that these cases have not affected our audit opinions.

Good progress was made on prior year recommendations

48. Revenue Scotland has made good progress in implementing our prior year audit recommendations. For the action not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

Revenue Scotland has appropriate and effective financial management arrangements in place. The Resource Accounts showed small underspends in fiscal and capital resources.

Revenue Scotland collected net tax revenues of £934 million during 2021/22, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget.

Revenue Scotland operated within its revised budget in 2021/22

49. 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.

50. Revenue Scotland has reported underspends in its Resource Accounts against both its fiscal and capital resource for 2021/22. There was an outturn of £6.34 million against its resource budget for 2021/22 with an underspend of £0.26 million. The financial performance against budget is shown in [Exhibit 4](#).

Exhibit 4

Performance against budget in 2021/22

Performance	Budget £m	Outturn £m	Over/(under) spend £m
Fiscal Resource	6.596	6.338	(0.258)
Capital Resource	0.500	0.299	(0.201)
Total outturn	7.096	6.637	(0.459)

Source: Revenue Scotland Resource Accounts Annual Report and Accounts 2021/22

51. The underspend in fiscal resource (£0.26 million) primarily relates to recruitment processes being slower than expected, hence new starters joining later, and tax tribunal hearing and outcomes being delayed, therefore legal costs were lower than expected in year. Capital resource had an underspend of £0.20 million and this related to IT hardware ordered in 2021/22 which was not delivered until 2022/23 and SETS upgrades taking longer than expected.

52. A capital investment programme board was established in late 2021/22 to provide assurance to the senior leadership team and the board. The aim of the programme is that capital expenditure is invested in line with the strategic digital objectives in the 2021-2024 corporate plan.

The Resource Accounts record net assets of £2.1 million

53. 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. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets. The financial statements show that Revenue Scotland has net assets of £2.148 million (2020/21: £2.203 million).

Tax revenue collected in 2021/22 was £934 million

54. Revenue Scotland is responsible for the collection and administration of the devolved taxes. In 2021/22, total tax revenue of £934 million was collected, which was £259.7 million higher than the original 2021/22 Scottish Budget estimates as shown in [Exhibit 5](#).

55. The 2021/22 Scottish Government budget estimates for the devolved taxes was based on The Scottish Fiscal Commission (SFC)'s [January 2021 fiscal forecasts](#). During 2021/22 the SFC revised these estimates and forecasted an increase in expected LBTT and SLfT income in 2021/22.

56. The SFC's revised set of [fiscal forecasts](#), published alongside the 2022/23 Scottish Government budget in December 2021, revised estimates upwards for 2021/22 devolved taxes to £720 million for LBTT and £123 million for SLfT, totalling £843 million of tax revenues. This was attributed to the continued success of the vaccination programme and consequently economic recovery being faster and smoother than expected. Total outturn devolved tax revenue was £91 million greater than this latest forecast for 2021/22. Registers of Scotland in its annual property market report 2021/22 noted an increase in the number of houses sold and an increase in the average house price, both of which would contribute to the increase in LBTT.

57. We noted that penalties and interest had increased significantly from 2020/21 to 2021/22. During 2020 to support taxpayers, debt pursuit and issuing of penalties were suspended, and then resumed in November 2020. As processes have returned to normal for the whole of 2021/22, this increase is in line with expectations.

Exhibit 5

2021/22 Devolved Taxes revenue

Revenue net of repayments, excluding interest payable and revenue losses	2021/22 Devolved Taxes Revenue £m	2021/22 Scottish budget estimates £m	Performance against Scottish budget estimates £m	2021/22 revised forecasts (December 2021) £m	Performance against revised forecasts £m	2020/21 Devolved Taxes Revenue £m
Land and Buildings Transaction Tax	807.183	586.000	221.183	720.000	87.183	517.534
Scottish Landfill Tax	125.248	88.000	37.248	123.000	2.248	106.528
Penalties and interest	1.245	0	1.245	0	1.245	0.138
Total	933.676	674.000	259.676	843.000	90.676	624.020

Revenue Scotland Devolved Taxes Account 2021/22, 2020/21; Scottish Government Budget 2021/22, 2022/23; Scotland's Economic and Fiscal Forecasts 2021

58. Revenue Scotland is required to remit receipts from the devolved taxes to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that in 2021/22, £874.2 million of cash generated from the devolved taxes was remitted to the SCF during the year (2020/21: £606.8 million). A further £116 million was due to be remitted to the SCF which reflects the amounts which were outstanding and/or uncleared at the year end.

Budget processes and reporting were appropriate

59. Revenue Scotland's budget processes continued to be appropriate. There was a limited financial impact on Revenue Scotland's budget from the Covid-19 pandemic, with £0.067 million (2020/21: £0.230 million) identified as directly related Covid-19 expenditure. The majority of this expenditure was on management consultants to assess future operating models for Revenue Scotland.

60. The senior leadership team and the board continued to receive regular and accurate financial information on the body's financial position. Actual expenditure compared to budgeted figures are part of the dashboard reporting covering all areas of performance. We noted that these provide an effective summary of Revenue Scotland's performance.

Financial systems of internal control are operating effectively

61. Our audit work involves identifying and inspecting the key controls within the systems we regard as significant in producing the financial statements. Our objective is to gain assurance that Revenue Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements for both Resource Accounts and Devolved Taxes Account.

62. Our findings from the review of systems and internal controls were reported in the progress report presented to the Audit and Risk Committee in June 2022. The findings outlined in this report informed our year-end audit testing and additional testing was carried out where required. Some minor weaknesses were identified for the Devolved Taxes Account and Resource Accounts in relation to evidencing of supervisory controls and segregation of duties and we carried out increased substantive testing at year end to gain the necessary assurances.

63. Overall, we concluded that while there were some specific minor weaknesses identified in the system of internal control, no significant internal control weaknesses were identified during the audit that would 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.

Compliance activity for LBTT and SLfT is up to date for 2021/22

64. [Exhibit 6](#) sets out the wider dimension risk we identified in our 2021/22 audit relating to tax compliance activity, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 6

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. 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 crucial as further taxes are devolved to Scotland. There continues to be a number of challenging, complex and time-consuming cases identified, particularly where</p>	<p>Focused testing of assessment, collection, and allocation of tax revenues.</p> <p>Review Board papers.</p> <p>Review working relationships with SEPA and other stakeholders.</p> <p>Review compliance activity and the associated control framework.</p>	<p>Our review of board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory.</p> <p>We reviewed LBTT and SLfT compliance activity and noted that there were no delays in progressing the compliance plans this year. The control framework was reviewed and was confirmed to be operating effectively. Prior</p>

Audit risk	Assurance procedure	Results and conclusions
<p>the application or interpretation of legislation is in dispute.</p> <p>In our 2020/21 annual audit report, we noted that compliance work was behind schedule for LBTT, and that Scottish Landfill Tax (SLfT) work was caught up after year end following suspensions of compliance work during the early stages of the Covid-19 pandemic.</p> <p>There is a risk that the increasing number and complexity of cases impacts on the effectiveness of compliance activity.</p>	<p>Ongoing review of tax tribunal decisions</p> <p>Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied including consideration of impairment.</p>	<p>year compliance activity that had been delayed due to the impact of Covid-19 was completed in the current year.</p> <p>We reviewed relevant tax tribunal decisions throughout the year and were kept informed by management on progress with ongoing tax cases.</p> <p>Our substantive testing has been satisfactory. We raised one recommendation relating to the review and record keeping for LBTT deferrals.</p> <p>Conclusion: No issues were identified with tax compliance activity.</p>

Source: Audit Scotland

65. Revenue Scotland is up to date with compliance activity as of March 2022. We reviewed LBTT and SLfT compliance work and noted that there were no delays in delivering compliance plans this year. This is an improvement on previous years when new compliance work was suspended in the early days of the Covid-19 pandemic and then fell behind schedule.

66. An appropriate controls framework was in place for LBTT and SLfT compliance activity in 2021/22. Authorisation and segregation of duties existed for enquiries and assessments, while quarterly meetings between Revenue Scotland and SEPA continued in 2021/22 to discuss SLfT matters.

67. Revenue Scotland developed its resourcing for LBTT and SLfT compliance activity. This has enabled legacy issues to be managed more effectively by the LBTT compliance team. A number of compliance projects were progressed throughout the year. The increased capacity enabled the LBTT compliance team to deal with tasks more efficiently and target higher risk areas for focused review.

68. Revenue Scotland has still to develop its new compliance strategy to cover the period to 2024. This work is due to begin imminently. This delay is offset by the approval of the LBTT compliance plan for 2022/23 by the Senior Leadership Team. The SLfT compliance plan for 22/23 has been drafted but is still subject to approval.

We considered the work of internal audit in year

69. Revenue Scotland's internal audit function is carried out by the Scottish Government's Directorate for Internal Audit and Assurance (SGDIAA). The

Public Sector Internal Audit Standards (PSIAS) require the chief internal auditor to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2021/22 is that of substantial assurance, which is defined as “controls are robust and well managed”. The internal audit team completed all planned work for 2021/22.

70. We reviewed the body’s internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We assessed that we could place reliance on the work of internal audit. We have taken cognisance of the reporting in year to support our wider dimensions audit responsibilities and our audit intelligence, including their reports on Capability and Capacity, Debt Management Arrangements, and Equalities and Diversity (2022/23 report).

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

71. Revenue Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

72. We concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities. We have reviewed the arrangements in place to maintain standards of conduct including the Conflicts of Interests’ Policy and the revised Board Code of Conduct (June 2022).

73. We concluded that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. We are not aware of any specific areas that we are required to bring to your attention.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2022/23 and a medium-term financial plan is in place.

Revenue Scotland is piloting a hybrid working model as part of its future operating model plans.

Revenue Scotland approved a balanced budget for the 2022/23

74. In 2022/23, Revenue Scotland has been allocated a resource budget of £6.65m and capital budget of £0.8m. In May 2022, the board approved a balanced budget for 2022/23.

75. 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 Scottish Fiscal Commission forecasts a decrease in the Devolved Taxes Account revenue of £16 million in 2022/23

76. Since April 2017, the SFC has been responsible for forecasting devolved tax revenues and has set out its methodology and assumptions in [Scotland's Economic and Fiscal Forecasts – May 2022](#). For 2022/23 the SFC is forecasting Revenue Scotland's tax receipts to be £918 million (LBTT £797 million; SLfT £121 million) which is £16 million below the 2021/22 outturn of £934 million.

77. This decreased SFC forecast is mostly attributable to residential LBTT, which revenue expected to decrease by £10 million in 2022/23. The SFC reports that the effect of higher inflation and increased interest rates could result in the availability of credit being restricted by mortgage lenders.

Revenue Scotland has a medium-term financial plan in place

78. Revenue Scotland included a high-level 3-year financial plan within its Corporate Plan 2021-2024, which was published on its website in November

2021. This outlines the costs which Revenue Scotland estimates it will incur as it carries out its operational and programme activity.

79. The new corporate plan is supported by a 5-year financial strategy and plan 2021-2026. We noted in our 2020/21 report, that we were pleased that a medium-term plan is in place and provides for future scenarios which include the introduction of further devolved taxes. It also makes a number of assumptions on future financial pressures and risks associated with the plan.

80. The current financial challenges exacerbated by the pandemic and those which pre-existed in the Scottish public sector, increase the need for medium-term financial planning. Therefore, having this medium-term strategy will help Revenue Scotland identify the resources, both financial and in terms of staff, needed for its work. Linked to the financial strategy are the new workforce plan and work on the future operating model. These are key building blocks to support achievement of the strategic objectives of Revenue Scotland.

Revenue Scotland has introduced a pilot for a hybrid working model as part of wider work on the future operating model

81. The restrictions introduced in response to the pandemic required Revenue Scotland to introduce new ways of working. SETS 2 was made available to staff working remotely. Following an equality impact assessment, Revenue Scotland removed the facility to make tax returns on paper and to make cheque payments. As pandemic restrictions have been removed, Revenue Scotland currently has moved to a hybrid model.

82. Revenue Scotland worked with management consultants during 2021/22 to develop an options appraisal to consider future operating models: fully remote, fully office-based and a hybrid model. A number of criteria: service, organisation, people, scalability, value for money and green recovery are the basis on which different types of models have been appraised to determine which operating model produces the best business performance. The Revenue Scotland Board committed to piloting a hybrid model from June 2021. Regular staff pulse surveys are taking place, and an evaluation of the hybrid model is scheduled for March 2023 to ensure there is an evidence basis for determining the most appropriate future operating model.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Appropriate governance arrangements were in place during 2021/22 and these supported effective working.

The governance arrangements and controls operating throughout 2021/22 have been appropriate

83. Revenue Scotland is accountable to the Scottish Parliament and during 2021/22 was led by a board consisting of six members, appointed by Scottish Ministers. A new chair was appointed on 1 August 2021. 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 eight occasions in 2021/22. Meetings are mainly held remotely through MS Teams, which allowed them to continue throughout the Covid-19 pandemic, and this has continued as restrictions have been lifted, with some in person meetings resuming in 2022. The board is supported by an Audit and Risk Committee and a Staffing and Equalities Committee.

84. 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 a senior leadership team (SLT) who are responsible for tax, legal services and corporate functions.

85. We noted that after a successful recruitment campaign, three new non-executive directors took up posts on the Revenue Scotland Board in June 2022. At the same time, two non-executive directors' appointments concluded, having held these roles since the formation of Revenue Scotland. This has resulted in some changes to the membership of the committees supporting the board, after year end.

86. We have concluded that overall, Revenue Scotland has appropriate governance arrangements in place.

The Audit and Risk Committee continues to provide a good level of challenge

87. 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 members.

88. We attend all ARC meetings. Agendas follow a standard format with papers being circulated to members in advance, allowing adequate time for members to review. We are content that the ARC operated effectively during 2021/22. We are pleased to report that the ARC members continue to provide an appropriate level of challenge and work effectively with Audit Scotland and management.

Risk management arrangements are effective

89. Revenue Scotland has a detailed Risk Management Framework, which is published on its website and is due to be reviewed by the end of 2022/23. Risks are managed in a corporate risk register, with more detailed risk cards for each risk. Revenue Scotland's ARC considers the risk register at every meeting including deep dives into specific risks.

90. We noted that ARC members had a strategic session on the risk register in August 2022 to ensure the risks detailed are appropriate for meeting the strategic objectives in the Corporate Plan 2021-2024. We concluded that there is an effective and appropriate risk management procedure in place which is subject to continuous review and improvement.

The performance report was of a good standard

91. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of Revenue Scotland's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

92. The performance report continues to be of a good standard, and we comment on the performance measures in Section 5. Our audit work identified minor suggestions for improvement to the performance report, and these were agreed with management. We are content that it complies with the 2021/22 FReM.

93. Revenue Scotland has included five-year trends covering both the resources used by Revenue Scotland and the tax revenue generated in an appendix supporting the performance report. There has been work in year to improve the visual impact of the reports which along with more infographics make the annual report and accounts accessible.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Revenue Scotland has appropriate arrangements in place to support effective performance management, with five out of the seven key performance indicators which have targets, achieved in year.

Revenue Scotland has appropriate arrangements in place to help advance equalities.

Revenue Scotland has developed an appropriate framework to help it deliver best value

94. 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.

95. 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 the new three-year corporate plan together with an annual business plan.

96. We noted that the work on the future operating model has been designed with value for money as one of the key criteria for decision making.

Revenue Scotland continues to work with third parties to deliver services

97. 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.

98. During 2021/22, the senior leadership team approved bringing some human resources services in house to better support Revenue Scotland staff. This relates primarily to HR related casework and should allow Revenue Scotland to better support line managers and staff.

99. Delegated services: Revenue Scotland continue to delegate services to the Scottish Environmental Protection Agency (SEPA) with regard to Scottish Landfill Tax. SEPA staff have begun visits to landfill sites to support the compliance work relating to SLfT, after it was suspended during the pandemic. Both Revenue Scotland and SEPA continue to work closely in implementing tax collection.

Arrangements are in place to support effective performance management

100. The board monitors Revenue Scotland's performance on a quarterly basis through the provision of performance dashboard reports, which highlighted progress made against the 2021/22 Business Plan. The dashboard has continued to evolve in year and provides an effective overview across areas of performance including tax returns and revenues, KPIs, strategic projects and performance against budget.

101. The performance report shows clear linkages between the four strategic themes detailed in the Corporate Plan 2021-2024 and progress and actions against the KPIs underpinning these themes. The four broad strategic themes which reflect Revenue Scotland's purpose and ambition are clearly aligned to the Scottish Government's outcomes and purpose detailed in the National Performance Framework. In addition, the collection and administration of the devolved taxes is an important contributor to the successful delivery of Scotland's Economic Strategy.

102. Ten new KPIs were introduced by Revenue Scotland in 2021/22 to reflect new priority objectives, but one relating to the environment has been set aside so further work can be carried out in this area. One further KPI is in development relating to service users' feedback.

103. Of the remaining eight KPIs, five were achieved, one was partially achieved and one not achieved. The other KPI, tax secured through compliance activity, does not have a formal target set and is compared to the previous year which was a decrease from £0.96m in 2020/21 to £0.72m in 2021/22 (see paragraph [37](#)).

104. In addition to the KPIs, ten key projects for 2021/22 are identified in the performance report, with six of these completed in-year. The projects which were not completed in 2021/22 continue into 2022/23 and remain within project parameters.

105. We concluded that Revenue Scotland has overall arrangements in place which support effective performance management, and which support the achievement of value for money and continuous improvement.

Revenue Scotland has appropriate arrangements in place to help advance equalities

106. Public bodies are required to demonstrate compliance with the Equality Act 2010. As part of our audit work during 2021/22, we considered the arrangements that Revenue Scotland has in place thus far to comply with the Act.

107. We considered the Equalities and Diversity internal audit report issued in September 2022 by the SGDIAA, which gave an overall reasonable assurance opinion. We discussed the scope and findings of the report with the SGDIAA and carried out a high-level review of the equalities' arrangements in place at Revenue Scotland.

108. Based on this, we concluded that Revenue Scotland has appropriate arrangements in place to help advance equalities within the organisation and in its external activities. The senior leadership team has a strong commitment to equalities and diversity and are proactive in promoting initiatives for the benefit of employees and taxpayers. Revenue Scotland also reported a nil gender pay gap as of March 2022.

109. The most recent equalities and mainstreaming report was published in August 2022, in line with legislative requirements. SGDIAA has highlighted that the mainstreaming reports could better highlight the how work on equalities makes a real difference to people. Revenue Scotland is currently developing an Equalities Strategy, which will tie in with its mainstreaming report and its People Strategy.

National performance audit reports

110. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 2](#).

111. We provide regular progress reports and updates to the Audit and Risk Committee where we reference national performance reports that may be of interest to members.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>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>Exhibit 2</p>	<p>More robust spreadsheet controls and increased resource will be applied to this work.</p> <p>Responsible officer: Head of LBTT Compliance</p> <p>Agreed date: November 2022</p>
<p>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>Paragraph 31. -33.</p>	<p>The investigation of historical credit balances will continue whilst developing internal procedures to process corrections and system developments to limit errors arising in the future.</p> <p>Responsible officers: Chief Accountant and Head of Tax Operations</p> <p>Agreed date: March 2023</p>

Follow-up of 2020/21 Annual Audit Report prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Working Papers</p> <p>We identified issues with agreement and cross-referencing of supporting documents to the trial balance and accounts, particularly in respect of payables and receivables in the DTA.</p> <p>Risk - The audit is delayed, and the audit opinion may be impacted by the poor quality of working papers.</p>	<p>Revenue Scotland should identify where further improvements can be made to working papers relating to debtors and creditors.</p>	<p>Management continued to make improvements to the accounts working papers this year. The working papers supporting the payables and receivables balances in the DTA were improved and of a good standard.</p> <p>Lead schedules were prepared which clearly outlined the individual balances, transactions and adjustments within the DTA.</p> <p>Revenue Scotland's finance staff were supportive in providing walkthroughs of these working papers and explanations where necessary.</p> <p>Complete</p>
<p>2. Payables Controls</p> <p>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. These amounts have not been investigated by Revenue Scotland on a regular basis.</p> <p>Risk - There is a risk that failure to investigate these balances could lead to the DTA payables balance being overstated.</p>	<p>Revenue Scotland will introduce a regular check of payable balances to ensure those which stem from errors are being investigated in a timely manner.</p>	<p>Management introduced new functionality within the tax system in January 2022 which allowed staff to create transactions against tax returns more than 12 months old, to help clear payables balance errors.</p> <p>The finance team have been investigating tax payables balances and correcting erroneous tax returns since the end of the 2021/22 financial year. This work has carried into 2022/23 and continues to be a work-in-progress.</p> <p>In Progress, cross refer to recommendation 2 above.</p>
<p>3. ADS repayments</p>	<p>Revenue Scotland should carry out an analysis of ADS</p>	<p>Revenue Scotland revised its processes during 2021/22 to</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Not all checks for 570 ADS repayments were undertaken during 2020/21. This backlog arose due to Covid-19 pressures. A risk-based methodology was introduced temporarily during 2020/21 and then previous procedures resumed in autumn 2021.</p> <p>Risk - The risk-based methodology does not target the highest areas of risk.</p>	<p>repayments to identify where areas of higher risk exist. A model should be developed to ensure that risk-based sampling targets higher risk repayments.</p>	<p>ensure that 'home checks' were performed on 100% of ADS repayment claims.</p> <p>Our sample testing of ADS repayments confirmed that Revenue Scotland had performed these checks prior to authorising refunds to taxpayers submitting the claims.</p> <p>Revenue Scotland has yet to move to a risk-based sampling approach for repayments. Further work is being undertaken to determine if a change in risk-based methodology can be achieved and be effective in future. This will include an analysis of system capability and resources.</p> <p>Complete</p>
<p>4. Compliance activity</p> <p>Compliance activity is a key aspect of protecting tax revenues. Proactive compliance was paused during Covid-19. However, there have been delays with this work. SLfT work was completed post year-end, however, LBTT work for 2020/21 has only recently begun.</p> <p>Risk - there is a risk that Revenue Scotland's compliance work is not effective, and the compliance plans for the year are not delivered in full.</p>	<p>Revenue Scotland should ensure that compliance plans are appropriately targeted at risks and there are sufficient resources dedicated to this work.</p>	<p>Revenue Scotland is up to date with compliance activity as of March 2022. We reviewed LBTT and SLfT compliance work and noted that there were no delays in delivering compliance plans this year.</p> <p>Resourcing was developed for LBTT and SLfT compliance activity. This has enabled legacy issues to be managed more effectively by the LBTT compliance team.</p> <p>A number of compliance projects were progressed through the year. The increased capacity enabled the LBTT compliance team to deal with tasks more efficiently and target higher risk areas for review.</p> <p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>5. Procurement</p> <p>Revenue Scotland have had staff turnover in procurement and contract management. New staff require training to ensure they can carry out this role effectively.</p> <p>Risk – Without appropriate training, staff may be unable to manage contracts effectively and not obtain best value in contracts.</p>	<p>Revenue Scotland should ensure that new staff involved in procurement have received sufficient training. This will allow them to manage procurement activities effectively and permit increased management oversight over corporate projects.</p>	<p>Contract management training for staff commenced in September 2022. New policies and procedures on procurement are being finalised and embedded in staff training. A contracts register is in place.</p> <p>Complete</p>

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Revenue Scotland

2021/22 Annual Audit Report

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