Revenue Scotland

2023/24 Annual Audit Report



AUDIT SCOTLAND

Prepared for Revenue Scotland and the Auditor General for Scotland

September 2024

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Key messages

2023/24 annual report and accounts

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

2 Key risks arising from the audit of Revenue Scotland's annual report and accounts in our Annual Audit Plan were presented to the Audit and Risk Committee in March 2024. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

Financial management

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

4 Revenue Scotland operated within its revised budget for 2023/24.

5 Revenue Scotland collected net tax revenues of £855.5 million during 2023/24, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget.

6 There is scope for enhancing some financial systems of internal controls. However, standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.

Financial sustainability

7 Revenue Scotland has a new medium-term financial plan in place, but there is scope to develop financial scenario planning to reflect uncertainties and to support the effective delivery of services.

8 A balanced budget has been approved for the 2024/25 Resource Accounts, while the Scottish Fiscal Commission forecasts a decrease in the Devolved Taxes Account revenue of £65 million in 2024/25.

Vision, leadership, and governance

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

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

11 Governance arrangements are appropriate and Revenue Scotland operates in an open and transparent way.

12 Cyber security arrangements are appropriate and strategic IT planning continues to be developed.

Use of resources to improve outcomes

13 Revenue Scotland has developed an appropriate Best Value framework.

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

15 Revenue Scotland is working effectively with partners to meet stated outcomes and improvement objectives.

Introduction

1. This report summarises the findings from the 2023/24 audit of Revenue Scotland's Resource Accounts (RA) and the Devolved Taxes Account (DTA). The scope of the audit was set out in the Annual Audit Plan presented to the March 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Revenue Scotland's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the Audit and Risk Committee of Revenue Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. I, Pauline Gillen, have been appointed by the Auditor General for Scotland as auditor of Revenue Scotland for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of my five-year appointment.

4. My team and I would like to thank Board members, Audit and Risk Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the course of the remainder of the five-year appointment.

Responsibilities and reporting

5. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing 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. Revenue Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

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

7. Weaknesses or risks identified are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of Revenue Scotland from its responsibility to address any issues raised and to maintain adequate systems of control.

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

Auditor Independence

9. I can confirm that the audit team complies with the Financial Reporting Council's Ethical Standard. I can also confirm that I have not undertaken any non-audit related services and therefore the notional audit fee of £20,800 for the Resource Accounts and £85,760 for the Devolved Taxes Account as set out in the 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to Revenue Scotland by:

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

1. Audit of 2023/24 annual report and accounts

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

Main judgements

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

Key risks arising from the audit of Revenue Scotland's annual report and accounts in our Annual Audit Plan were presented to the Audit and Risk Committee in March 2024. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

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

11. The Board approved both the Resource Accounts and Devolved Taxes Account annual report and accounts for Revenue Scotland for the year ended 31 March 2024 on 24 September 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

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

12. The unaudited Resource Accounts and Devolved Taxes Account annual report and accounts and working papers were received by 28 June 2024 in line with our agreed timetable. We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

Overall materiality was assessed as £157,000 for the Resource Accounts and £12.8 million for the Devolved Taxes Account

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Resource Accounts	Devolved Taxes Account
Overall materiality	£157,000	£12.8 million
Performance materiality	£118,000	£7.7 million
Reporting threshold	£8,000	£385,000

15. The overall materiality threshold was set with reference to gross expenditure (RA only) and total tax revenue (DTA only) which we judged as the figures of most interest to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75 per cent (RA only) and 60 per cent (DTA only) of overall materiality, reflecting the fact there were no significant issues identified in the prior year audit impacting our audit approach.

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

Significant findings and key audit matters

18. Under ISA (UK) 260, I communicate significant findings from the audit to the Board, including my view about the qualitative aspects of the Board's accounting practices.

19. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

20. The significant findings are summarised in Exhibit 2.

Exhibit 2

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

Issue	Resolution
1. Related Party Transactions (DTA) The Devolved Taxes Account requires to be prepared in accordance with the 2023/24 FReM. The 2023/24 FReM outlines the requirement to include a disclosure in relation to related party transactions. The 2023/24 annual report and accounts for the Devolved Taxes Account presented to audit did not include a related party disclosure. We are content that the likelihood of there being a material transaction that requires to be disclosed in line with the requirements of IAS 24 Related Parties is remote, however we have recommended that a disclosure should be included similar to that in the Resource Accounts.	This was not adjusted by management in the 2023/24 annual report and accounts (DTA). However, management have agreed to address this for the 2024/25 annual report and accounts. **Recommendation 1** (Refer Appendix 1, action plan 2023/24)
2. Remuneration and Staff Report (RA) The disclosures within the Remuneration and Staff Report (RA) were reviewed against the requirements of the 2023/24 FReM issued by HM Treasury. We identified the following presentation issues: • the salary of the highest paid director within the range of staff remuneration was the mid-point	These were adjusted by management in the 2023/24 annual report and accounts.

Issue	Resolution
of their salary band and not their actual remuneration for the year; and • the full-year equivalent remuneration of board members who joined during the prior financial year was not disclosed, only their actual remuneration for the year.	
3. Pension Information (RA) Accrued pension benefits for the Senior Leadership Team were not included in the 2023/24 annual report and accounts (RA) due to an exceptional delay in the calculation of these figures following the application of the public service pension remedy. This was outwith the control of Revenue Scotland. The 2023/24 Government Financial Reporting Manual was revised to permit bodies to prepare a Remuneration Report without this information with a disclosure explaining the omission of this information in the 2023/24 annual report and accounts.	Management have included the required disclosure in the 2023/24 annual report and accounts.

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

21. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls (RA and DTA)	• Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the	**Results:** Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices, as well as review of accounting estimates and significant

Audit risk	Assurance procedure	Results and conclusions
As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in all audits.	financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries and focus on significant risk areas. • Considered the need to test journal entries and other adjustments throughout the year. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.	transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals. **Conclusion:** No incidents of management override of controls were identified in either set of accounts.
2. Risk of material misstatement caused by fraud in revenue recognition and tax repayments (DTA) ISA (UK) 240 requires auditors to presume a risk of	• Detailed testing of tax revenue transactions focusing on the areas of greatest risk. • Reviewed the design and implementation of key controls for DTA.	**Results:** Our testing of tax transactions did not identify any evidence of fraud. Our review of the design and implementation on key controls for the DTA did not identify any significant issues.

Audit risk	Assurance procedure	Results and conclusions
fraud where income streams, other than sources such as Scottish Government funding, are significant. Revenue Scotland collected £958m of tax revenue in 2022/23. Taxpayers can claim a repayment of Additional Dwelling Supplement (ADS) where certain conditions are met. £48m of ADS was repaid in 2022/23. The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA (UK) 240, there is an inherent risk of fraud.	• Evaluation of internal controls over ADS repayments. • Detailed testing of ADS repayments. • Cut-off testing of tax revenue transactions. • Reviewed the accounting policy for revenue recognition. • Monitoring early intervention and compliance work, and review of the associated control framework.	We were satisfied with the accounting treatment and internal controls over ADS repayments. No issues were identified in our detailed sample testing. We did not identify any issues in our cut-off testing of tax transactions. We reviewed the accounting policy for revenue recognition and its application to tax revenues and confirmed FReM compliance. 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. **Conclusion:** No issues were identified that indicated fraud in revenue recognition and repayments in the DTA.

There were no identified misstatements within the financial statements

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

23. We identified a presentational error within the notes to the accounts for the RA annual report and accounts where revenue commitments were understated by £0.26 million. This was corrected by the finance team, but it did not require an adjustment to the financial statements as the error was confirmed to be disclosure-related only.

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

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

25. 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 2023/24 tax returns. The data model used provided assurance for around 118,600 LBTT/ADS transactions. The model identified which tax returns had been subject to some form of relief and helped to provide assurance over the application of these reliefs.

26. The use of this data model provided assurance over 99 per cent of the number of LBTT returns and over 99 per cent of the value of all LBTT/ADS returns included in the SETS tax system for 2023/24. It helped focus the activities of the audit team to targeted testing of more complex LBTT transactions, e.g. linked transactions and complex reliefs. This has provided increased assurance over the significant risk of material misstatement of tax being misstated in the DTA.

27. For the third consecutive year, the finance team produced a working paper which reconciled the LBTT/ADS data per the SETS tax system and the data disclosed in the ledger system used to prepare the year-end DTA financial statements. This working paper gave a high level of assurance that LBTT/ADS figures disclosed in the 2023/24 DTA were complete, reliable and accurate, prior to substantive tax transactions testing by the audit team.

28. 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).

29. We identified a small number of tax returns where we were unable to recalculate the tax paid on the basis of the tax returns. This was due to the nature of how the LBTT tax returns are submitted when there are further linked transactions and how this matches up with our model. We 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. Revenue Scotland has three years to raise an enquiry into a tax return if considered to be necessary. We are content that these cases have not affected our audit opinion.

Good progress was made on prior year recommendations

30. Revenue Scotland has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 2.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

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

Revenue Scotland operated within its revised budget for 2023/24.

Revenue Scotland collected net tax revenues of £855.5 million during 2023/24, successfully implementing the Scottish Government's rates and bands flowing from the Scottish Budget.

There is scope for enhancing some financial systems of internal controls. However, standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.

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

31. The Board and Senior Leadership Team continued to receive regular and accurate financial information on the Revenue Scotland's financial position in 2023/24. Actual expenditure compared to budgeted figures are part of the dashboard reporting covering all areas of the body's performance. These reports allowed members and officers to scrutinise financial performance effectively throughout the year.

Revenue Scotland operated within its revised budget for 2023/24

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

33. Revenue Scotland has reported an outturn of £8.33 million against its overall budget for 2023/24 with an underspend of £0.04 million. The financial performance against fiscal resources is shown in Exhibit 4.

Exhibit 4
Performance against fiscal resource in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	7.71	7.87	7.83	(0.04)
Capital	0.5	0.5	0.5	-
Total	**8.21**	**8.37**	**8.33**	**(0.04)**

Source: Revenue Scotland Resource Accounts Annual Report and Accounts 2023/24

34. The small underspend in fiscal resource noted above was mainly due to targeted savings achieved with non-staff operational costs, delegated duties costs and project costs, in an attempt to help minimise a projected overspend at the year-end due to a higher than anticipated pay award for 2023/24. Temporary limitations were put in place on in-year discretionary expenditure as part of this effort to reduce the forecast overspend in operational staff costs.

35. Revenue Scotland's Resource Accounts budget was increased as part of the Spring Budget Revision to help mitigate the effect of the 2023/24 pay award being implemented.

Tax revenue collected in 2023/24 was £855.5 million

36. Revenue Scotland is responsible for the collection and management of the devolved taxes. In 2023/24, total tax revenue of £855.5 million was collected, which was £3.5 million higher than the original 2023/24 Scottish Budget estimates as shown in Exhibit 5.

37. The 2023/24 Scottish Government budget estimates for the devolved taxes was based on the Scottish Fiscal Commission's (SFC) December 2022 fiscal forecasts. In December 2023, the SFC revised these estimates and forecast an increase in expected LBTT income and a decrease in expected Scottish Landfill Tax (SLfT) income in 2023/24.

38. The SFC's revised set of fiscal forecasts for 2023/24 devolved taxes predicted £813 million for LBTT and £74 million for SLfT, totalling £887 million of tax revenues. Total outturn devolved tax revenue was £31.5 million lower than this latest forecast for 2023/24.

39. Registers of Scotland in its annual property market report 2023/24 noted a slight decrease in the volume of residential property sales in 2023/24 when compared to 2022/23, along with fewer residential sales priced over £1 million across Scotland in 2023/24. The volume of non-residential property sales also

decreased in 2023/24 compared to the previous year. These factors contributed to the decrease in LBTT in 2023/24. SLfT outturn revenue was lower in 2023/24, mainly due to indications that the amount of waste being sent to landfill was substantially lower than expected, which in turn reduced the total tax revenue figure collected.

40. Penalties and interest decreased slightly in 2023/24. Debt pursuance activity had initially been postponed by Revenue Scotland during the pandemic to help taxpayers. This created a backlog of cases to pursue in subsequent years, including 2023/24. New penalties had been issued for older tax cases, which led to a significant increase in LBTT penalties in 2023/24 compared to previous years. However, SLfT penalties decreased slightly in 2023/24. This movement is in line with expectations as there are significantly less SLfT taxpayers facing penalties compared to LBTT taxpayers.

Exhibit 5

2023/24 Devolved Taxes Revenue

Revenue net of repayment (excluding interest payable and revenue losses)	2023/24 Devolved Taxes Revenue £m	2023/24 Scottish budget estimates £m	Performance against Scottish budget estimates £m	2023/24 Revised Forecast Dec 2023 £m	Performance against revised forecasts £m	2022/23 Devolved Taxes Revenue £m
Land and Buildings Transaction Tax	784.372	773.000	11.372	813.000	(28.628)	847.836
Scottish Landfill Tax	68.372	79.000	(10.628)	74.000	(5.628)	109.699
Penalties and interest	2.714	0	2.714	0	2.714	2.797
Total	**855.458**	**852.000**	**3.458**	**887.000**	**(31.542)**	**960.332**

Source: Revenue Scotland Devolved Taxes Account 2023/24, 2022/23; Scottish Government Budget 2023/24; Scotland's Economic and Fiscal Forecasts 2023

41. Revenue Scotland is required to remit devolved tax receipts to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that in 2023/24, £878.0 million of cash generated from the devolved taxes was remitted to the SCF during the year (2022/23: £954.9 million). A further £96.5 million was due to be remitted to the SCF which reflects accrued income and amounts which were outstanding and/or uncleared at the year end.

Tax compliance activity

42. An appropriate controls framework was in place for LBTT and SLfT compliance activity in 2023/24. Authorisation and segregation of duties existed for enquiries and assessments, while quarterly meetings between Revenue Scotland and the Scottish Environmental Protection Agency (SEPA) to discuss SLfT matters continued in 2023/24.

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

44. The Resource Accounts annual report and accounts refers to a range of compliance activity undertaken by Revenue Scotland to ensure that taxes are paid as intended. Revenue Scotland measures the revenue raised as a direct result of any non-compliance activity identified. Direct compliance yield of £35.3 million was reported by Revenue Scotland in 2023/24 as one of the body's key performance indicators (KPI). This is a significant increase from the prior year whereby £10.4 million was reported. The yield varies year on year depending on the timing of cases under review and any referrals to tax tribunals.

45. We examined the records maintained by Revenue Scotland to record the outcome and impact of its compliance work and concluded that the disclosures are consistent with the assessment undertaken.

46. Designated officers for Revenue Scotland (part of the SEPA tax unit) continued to hold compliance visits of landfill sites in 2023/24, with the SLfT compliance team resuming site visits in July 2023. The SLfT compliance team has also been holding regular meetings with taxpayers in 2023/24, with the aim of obtaining overviews of business practices and keeping informed of tax issues before or as they arise. Additionally, Revenue Scotland has 'tri-national' meetings with HMRC and the Welsh Revenue Authority to discuss wider, shared issues across the UK. Revenue Scotland is part of the Joint Unit for Waste Crime, which is a multi-agency unit which meets every two months and includes HMRC, the Welsh Revenue Authority, SEPA and other national environmental agencies.

47. The 2024/25 SLfT and LBTT compliance plans were approved in April 2024 and May 2024 respectively. Revenue Scotland has been developing a new compliance strategy to supersede the previous compliance strategy. It is expected that this will be approved by the Board during the 2024/25 financial year.

There is scope for enhancing some financial systems of internal controls

48. From our review of the design and implementation of key controls within Revenue Scotland's systems of internal control (including those relating to IT) relevant to our audit approach, we identified some internal control weaknesses within key financial systems and processes. These issues have been reported in our interim management letter, presented to Audit and Risk Committee in June 2024. A summary of these recommendations and their current status is set out in Appendix 1.

A new ledger system is due to be implemented during 2024/25

49. The SEAS general ledger is due to be updated on 1 October 2024, with a move to Oracle Fusion Cloud software planned. This is a significant project and was originally scheduled for completion in October 2023.

50. In preparation for the implementation of the new systems, regular meetings between the Scottish Government implementation team and other bodies, including Revenue Scotland, have been held to discuss and prepare for this significant upgrade.

51. Revenue Scotland has taken appropriate measures to ensure they are prepared for the implementation of the new ledger system in October 2024. We will continue to review the financial management arrangements in place including transition to the new system.

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

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

53. We concluded that Revenue Scotland has appropriate arrangements for the prevention and detection of fraud, error and irregularities. We also reviewed arrangements to maintain standards of conduct, including the Board and staff code of conduct and registers of interest. We concluded that Revenue Scotland has established procedures for preventing and detecting any breaches of these standards.

3. Financial sustainability

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

Conclusion

Revenue Scotland has a new medium-term financial plan in place, but there is scope to develop financial scenario planning to reflect uncertainties and to support the effective delivery of services.

A balanced budget has been approved for the 2024/25 Resource Accounts, while the Scottish Fiscal Commission forecasts a decrease in the Devolved Taxes Account revenue of £65 million in 2024/25.

Revenue Scotland has a new medium-term financial plan in place, but there is scope to develop financial scenario planning to reflect uncertainties and to support the effective delivery of services

54. Revenue Scotland included a high-level 3-year financial plan within its Corporate Plan 2024-27 which was laid before the Scottish Parliament in March 2024. This medium-term financial plan outlines the costs which Revenue Scotland estimates it will incur as it delivers its operational and programme activities over this period.

55. There is scope for enhancing the current medium-term financial plan by setting out a range of budget scenarios using key financial assumptions, including:

- year-on-year budget funding changes
- annual staff Pay Award increases
- forecast savings or cost increases over various resource and capital expenditure areas.

56. Scenario planning would enable budgets to be modelled to reflect any uncertainties that may exist for Revenue Scotland. It would support the identification of resources required for the effective delivery of services across this period in alignment with the strategic outcomes of the Corporate Plan 2024-27.

Recommendation 2

Revenue Scotland should develop its medium-term financial planning arrangements to reflect a range of budget scenarios and financial assumptions to support the effective delivery of services.

Revenue Scotland approved a balanced budget for the 2024/25 Resource Accounts

57. In 2024/25, Revenue Scotland has been allocated a resource budget of £9.5 million and a capital budget of £1.5 million. In May 2024, the Board approved a balanced budget for 2024/25.

58. As a non-ministerial office of the Scottish Administration, Revenue Scotland has its own budget and is funded directly by block funding from the Scottish Government. Scottish Ministers consider this budget alongside the resourcing needs of other public bodies and portfolios. Revenue Scotland is separate from and independent of the Scottish Government.

The SFC forecasts a decrease in the Devolved Taxes Account revenue of £65 million in 2024/25

59. The SFC is responsible for forecasting devolved tax revenues and has set out its methodology and assumptions in Scotland's Economic and Fiscal Forecasts – December 2023 (revised version April 2024). For 2024/25 the SFC forecasts Revenue Scotland's tax receipts to be £788 million (LBTT £730 million; SLfT £58 million) which is £65 million below the 2023/24 level of £853 million.

60. The decreased SFC forecast is mainly attributable to residential LBTT and ADS, with revenue expected to decrease by £89 million in 2024/25. The SFC reports that a slight decrease in house prices and in the volume of residential sales is expected to lead to a decrease in forecast revenue in 2024/25 compared to 2023/24. The SFC does not expect house prices and transactions to return to their 2022/23 levels until 2026/27.

4. Vision, leadership and governance

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

Conclusion

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

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

Governance arrangements are appropriate and Revenue Scotland operates in an open and transparent way.

Cyber security arrangements are appropriate and strategic IT planning continues to be developed.

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

61. Revenue Scotland has published a new Corporate Plan covering the period 2024-2027. The purpose of Revenue Scotland is "to efficiently and effectively collect and manage the devolved taxes which fund public services for the benefit of the people of Scotland."

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

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

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

64. The Chief Executive and Senior Leadership Team are responsible for the delivery of services performed by Revenue Scotland as well as leading the changes to how services are accessed and delivered by the organisation.

65. The Audit and Risk Committee's (ARC) role is to provide advice and constructive challenge to the Chief Executive, and to provide support in relation to her responsibilities regarding risk management, control, governance and associated assurance to support year-end accountability. The ARC continues to have three non-executive members. We are content that the ARC operated effectively during 2023/24. ARC members and Board members continue to provide an appropriate level of challenge to senior management and work together effectively.

66. We have concluded that Revenue Scotland's senior management and non-executive directors have demonstrated effective leadership, challenge and scrutiny of operational activity and performance in 2023/24.

Governance arrangements are appropriate and Revenue Scotland operates in an open and transparent way

67. Revenue Scotland's governance arrangements have been set out in the Directors' Report and Governance Statement in both its Resource Accounts and Devolved Taxes Account annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and support robust scrutiny and challenge of decision-making processes.

68. Revenue Scotland is accountable to the Scottish Parliament and during 2023/24 was led by a Board consisting of seven members, appointed by Scottish Ministers. 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 six occasions in 2023/24 with meetings mostly held in person. The Board is supported by the Audit and Risk Committee and Staffing and Equalities Committee.

69. The Chief Executive is the Accountable Officer and has personal responsibility for ensuring propriety and regularity in the handling of the public funds allocated to Revenue Scotland. The Chief Executive is accountable to the Board for day-to-day operational matters and is supported by the Senior Leadership Team who are responsible for tax, legal services and corporate functions.

70. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources.

71. Revenue Scotland's website is clear and well structured. Board meeting minutes are available to the public along with key publications including the most recent annual report and accounts.

72. We concluded that the Board conducts its business in an open and transparent manner, however there is scope to strengthen Revenue Scotland's approach to openness and transparency by making the meeting minutes of the Audit and Risk Committee publicly available.

Cyber security arrangements are appropriate

73. Our review of Revenue Scotland's arrangements for cyber security in 2023/24 identified controls and actions in place to ensure that cyber risks were mitigated to a minimal level for the organisation.

74. As reported in our 2022/23 Annual Audit Report, Revenue Scotland IT obtained Cyber Essentials Plus assurance from all of its IT suppliers as a collective 'umbrella expression' of its own Cyber Essentials Plus position. This decision was made as a result of the current IT operating model being based on a shared service provision whereby Scottish Government Information and Technology Services (iTECS) makes the shared IT network and services available on a 'per user' subscription basis. Revenue Scotland also relies on supplied key systems from external providers. Contracts with suppliers for IT systems are subject to the Scottish Government's Cyber Security Procurement Support Tool, which determines the level of cyber accreditations required of IT suppliers through the use of a cyber risk profile matrix.

75. We concluded that Revenue Scotland's cyber security arrangements, including this current position on Cyber Essentials Plus assurance, were appropriate in 2023/24. There was sufficient Cyber Essentials Plus accreditation in place for Revenue Scotland's key IT service and system suppliers. There was evidence of Revenue Scotland and its IT suppliers carrying out the necessary cyber security incident checks to ensure that they were in the best position to deal with any issues of this nature. The cyber security incident management at Revenue Scotland was considered to be appropriate, while there is also sufficient cyber security training in place for Revenue Scotland employees.

76. Revenue Scotland maintains plans outlining its arrangements for business continuity and disaster recovery. Since Revenue Scotland depends on external IT systems and activities provided by third parties, they expect these providers to operate their own business continuity and disaster recovery arrangements.

77. Business continuity and disaster recovery plans were obtained by Revenue Scotland IT from all key IT system and service providers. These arrangements were confirmed to be adequate and provided sufficient support of

IT applications at Revenue Scotland. There was also evidence of business continuity and disaster recovery testing exercises conducted by Revenue Scotland and system suppliers during the 2023/24 financial year.

Strategic IT planning continues to be developed

78. As reported in our 2022/23 Annual Audit Report, there was a lack of action plans, timetables and investment detail in place to support existing IT strategies and the wider aims of the Revenue Scotland Corporate Plan. It was advised that the new Data and Digital Strategy would be supported by annual business plans where timelines and prioritisation of key deliverables would be detailed.

79. A new Data and Digital Strategy 2024-27 was developed and aligned with the development of the new Corporate Plan 2024-27, with the latter laid before the Scottish Parliament in March 2024. The new Data and Digital Strategy outlines a three-year vision, underpinned by six key principles and an implementation plan split into several ‘Digital and Data Missions’. These Missions focus on the delivery of digital transformation or capability improvement, and they link into different improvement areas of the new Revenue Scotland Corporate Plan.

80. Decisions around the required Revenue Scotland IT project funding, capital investment budget planning and detailed programme planning for the year have been taken over by the new Data and Digital Delivery Board. It was confirmed that supporting IT action plans for the new Data and Digital Strategy outlining detail on timelines and deliverables for IT project funding are currently under development.

5. Use of resources to improve outcomes

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

Conclusions

Revenue Scotland has developed an appropriate Best Value framework.

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

Revenue Scotland is working effectively with partners to meet stated outcomes and improvement objectives.

Revenue Scotland has developed an appropriate Best Value framework

81. 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.

82. 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. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We did not undertake any specific local work in this area in 2023/24 but concluded that appropriate arrangements were in place for securing best value based on the outcome of our other audit work.

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

83. Revenue Scotland continued to monitor key performance indicators (KPI) throughout the year with performance reported to the Board on a regular basis, through the provision of performance dashboard reports. As covered in part 4 of

the Annual Audit Report, the performance of several key objectives helps to achieve the delivery of the four strategic outcomes of Revenue Scotland's corporate plan 2024-27.

84. The Performance Report in the Resource Accounts annual report and accounts shows clear linkages between the four strategic outcomes of the corporate plan and progress and actions against the KPI underpinning these themes. Nine KPIs were introduced by Revenue Scotland to reflect priority objectives of which, eight were achieved. The other KPI, tax secured through compliance activity, is a monetary figure which does not have a formal target set. This is compared to the previous year which was an increase from £10.4 million in 2022/23 to £35.3 million in 2023/24.

85. In addition to the KPIs, eleven key strategic projects for 2023/24 are identified in the Performance Report, with four of these completed in-year. Those projects which were not completed in 2023/24 continue into 2024/25 and remain within the project parameters.

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

Revenue Scotland is working effectively with partners to meet stated outcomes and improvement objectives

87. There is an increasing recognition of the need for an increase in the pace and scale of reform needed across the Scottish public sector to help tackle the complex financial and environmental challenges facing public bodies. An important part of that reform is partnership working and collaboration with partners.

88. **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.

89. **Delegated services**: Revenue Scotland delegates services to the Scottish Environmental Protection Agency (SEPA) in relation to Scottish Landfill Tax (SLfT). As covered in part 2 of the Annual Audit Report, designated officers for Revenue Scotland (part of the SEPA tax unit) continued to visit landfill sites in 2023/24 to support tax compliance work, with the Revenue Scotland SLfT compliance team resuming site visits in July 2023. Revenue Scotland and SEPA continue to work closely in implementing tax collection.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Related party transactions (DTA) The 2023/24 annual report and accounts for the Devolved Taxes Account presented to audit did not include a related party disclosure. We are content that the likelihood of there being a material transaction that requires to be disclosed in line with the requirements of IAS 24 Related Parties is remote. **Risk** – Although the likelihood is remote, there is a risk that any material related party transactions and balances for the Devolved Taxes Account are not disclosed by Revenue Scotland in a note to the accounts.	Revenue Scotland should include a disclosure for related party transactions in the Devolved Taxes Account annual report and accounts, in accordance with FReM and IAS 24 requirements. Exhibit 2	**Accepted** Revenue Scotland agreed to conduct a full evidence-based review on this for 2024/25. This will include a review of the FReM requirement as it affects DTA and a review of potential impacts and consequences. This will be presented to and discussed with Revenue Scotland SLT and ARC/Board members and then discussed fully with Audit Scotland. Head of Finance March 2025
2. Medium-term financial scenario planning There is scope for the medium-term financial planning arrangements to be developed further at Revenue Scotland by mapping out a range of budget scenarios	Revenue Scotland should develop its medium-term financial planning arrangements to reflect a range of budget scenarios and financial assumptions to support the effective delivery of services.	**Accepted** The finance team will review and develop the medium-term financial planning model during 2024/25, by incorporating and documenting a level of scenario planning across

Issue/risk	Recommendation	Agreed management action/timing
between 2024/25 to 2027/28 using key financial assumptions. This financial scenario planning would enable budgets to be modelled to reflect any uncertainties that may exist for Revenue Scotland. It would support the identification of resources required for the effective delivery of services across this period in alignment with the strategic outcomes of the Corporate Plan 2024-27. **Risk** – There is a risk that business decisions may be taken without a clear understanding of the various budget scenarios and financial implications beyond the current financial year and how they affect the overall financial sustainability of Revenue Scotland.	Paragraph 56	budget areas within Revenue Scotland. This will also be used in conjunction with BAU budget monitoring and aligned into planning for the 2025/26 budget. Head of Finance March 2025

Follow-up of 2023/24 interim audit recommendations

Issue/risk	Impact on audit approach	Results/conclusion
1. Authorisation of journal entries (RA) As noted in previous years, there is no programme control in the SEAS general ledger system (RA) to prevent journals being posted without authorisation. Revenue Scotland has mitigating controls in place to ensure that the separate review and authorisation of journals by a second officer is documented, which helps to	All journals documented by Revenue Scotland in 2023/24 will be compared to the SEAS journals listing for the 2023/24 financial year. We will consider this finding when assessing the risks associated with the year-end substantive testing of journals.	**Results:** We compared the 2023/24 SEAS journals listing to the RA journals documented within the monthly batch journal spreadsheets maintained by the finance team. We did not identify any further instances of the mitigating control over the authorisation of journal entries not being implemented for the posting

Issue/risk	Impact on audit approach	Results/conclusion
evidence segregation of duties. We identified instances in 2023/24 where this mitigating control was not implemented as expected for the posting of journals in the RA general ledger. **Risk -** There is a risk that unauthorised journals are processed in the general ledger system. There is therefore scope for error, irregularities or manipulation of income and expenditure in the RA.		of journals in the RA general ledger. We completed a risk assessment ahead of the year-end substantive testing of RA journal entries and adjustments, where this risk over unauthorised journals being processed was considered further. No issues were identified from the risk assessment and substantive testing of RA journal entries. **Conclusion:** Satisfactory.
2. User access to general ledger (DTA and RA) Our review of user access to the Epicor Kinetic general ledger system (DTA) identified that the user access permissions for the former Chief Accountant were not removed promptly after leaving Revenue Scotland in December 2023. Our review of user access to the SEAS general ledger system (RA) identified that the Head of Finance did not have system access rights set up after joining Revenue Scotland in December 2023. Only two members of the Finance team had access to the system between December 2023 to the end of March 2024. It would be expected that the Head of Finance had user access to ensure oversight of the ledger system in line with their role.	We will review the user access listings for both ledger systems and identify which users posted journals during the year to ensure that only authorised personnel have posted to the ledger during the financial year.	**Results:** The user access listings for both ledger systems were reviewed and compared against Revenue Scotland users who posted journals during the year, as part of our substantive testing of journal entries and adjustments. There were no journal postings to the ledger systems by unauthorised personnel during the financial year. **Conclusion:** Satisfactory.

Issue/risk	Impact on audit approach	Results/conclusion
Risk: There is a risk that unauthorised personnel could access the main DTA financial application and make unauthorised changes. There is also a risk that RA ledger system adjustments are recorded without oversight from the Head of Finance.		
3. Aged debtors reconciliation – management review /authorisation (DTA) There is a monthly reconciliation between the SETS system customer accounts and the accounts receivable control accounts in the Epicor Kinetic ledger system. Our review of controls in place identified no evidence of a management review for the months of November 2023 and March 2024 inclusive. However, it was noted that these monthly reconciliations were still being performed across this period on a timely basis. **Risk -** There is a risk that the lack of effective segregation of duties in this control could result in any errors or irregularities in DTA income and expenditure being missed between the main financial applications.	There is no impact on our audit approach due to the monthly reconciliations being performed on a timely basis throughout the financial year. However, we will inspect the DTA aged debtors working papers for any significant balances at year-end.	**Results:** The year-end DTA aged debtors working papers were reviewed. It was confirmed that the year-end reconciliation between the SETS system customer accounts and the accounts receivable control accounts in the ledger system was subject to separate review and authorisation as part of the preparation of the unaudited Resource Accounts annual report and accounts. A sample of significant year-end debtor balances was selected for audit testing, with no issues identified. **Conclusion:** Satisfactory.
4. Additional transaction lines in the general ledger (RA) Our early substantive testing of non-pay expenditure	We will consider the various assurances obtained by Revenue Scotland over the financial data in the ledger system and determine if there	**Results:** The non-pay expenditure transactions within the SEAS ledger transactions report for the full 2023/24 financial year were

Issue/risk	Impact on audit approach	Results/conclusion
transactions (RA) identified instances of additional debits and credits transaction lines within the SEAS ledger transactions report when Scottish Government Accounts Payable recorded the net expenditure amount for purchase invoice payments on behalf of Revenue Scotland. **Risk -** There is a risk that the financial data within the SEAS ledger is not accurate, leading to potential misstatements of RA expenditure.	is an impact on our audit approach for the RA financial statements.	inspected for significant debit and credit transaction lines. No instances of unusual transaction lines were identified. The following assurances obtained by Revenue Scotland over the accuracy of the financial data as part of internal monitoring processes were reviewed by the audit team: • the monthly review of all SEAS ledger transactions as part of budget monitoring and control • the controls over invoiced and journalled expenditure and the separate approval of purchase orders by the finance team • the monthly payroll reconciliation control performed by the finance team, where payroll system data is compared against the SEAS ledger system transactions. This gives a form of assurance over the accuracy of expenditure transactions lines in general within the SEAS ledger. No issues were identified with the accuracy of resource expenditure in the RA annual report and accounts. No significant change to our audit approach was required. **Conclusion:** Satisfactory.

Appendix 2. Follow-up of prior year recommendations

Issue/risk	Recommendation and Management Action	Progress
b/f 1. Related parties We noted that Senior Leadership Team members' interests were provided as part of the preparation of the Resource Accounts annual report and accounts after the unaudited accounts had been received. **Risk –** The material related party transactions and balances disclosed by Revenue Scotland in its note to the accounts are incomplete or inaccurate.	**Recommendation:** The finance team should ensure that registers of interest for SLT members are formally considered as part of the related parties disclosure process. **Management Action:** Revenue Scotland will document a formal review of the SLT members' registers of interest as part of the related party disclosures in the annual accounts' preparations going forward. Head of Governance / Head of Finance Ongoing	**Complete** The SLT members' registers of interest for 2023/24 were provided in April 2024. This enabled the registers of interest to be formally considered by the finance team as part of the related parties disclosures process within the preparation of the unaudited Resource Accounts annual report and accounts.
b/f 2. Internal controls We noted areas where there is scope for improvement to the operation of certain internal controls. **Risk –** There is a risk that internal controls do not operate effectively.	**Recommendation:** Revenue Scotland should implement improvements to address the internal control weaknesses identified. **Management Action:** Revenue Scotland will remind staff of procedures to ensure that internal controls operate as designed. Head of Data & Digital December 2023	**Complete** There was sufficient evidence obtained of improvements being implemented to address the prior year internal control weaknesses identified (SETS 2 tax system user access requests and scheduled meetings with the DTA ledger system supplier). No issues were identified with the design and implementation of these controls in 2023/24.

Issue/risk	Recommendation and Management Action	Progress
b/f 3. IT Business Continuity & Disaster Recovery Assurances Since Revenue Scotland depends on external IT systems and activities provided by third parties, these providers are expected to operate their own business continuity and disaster recovery arrangements. **Risk –** Business continuity and disaster recovery arrangements for IT systems and services are not up to date.	**Recommendation:** Revenue Scotland should obtain business continuity and disaster recovery assurances from all key IT system and service providers. **Management Action:** Discussions on business continuity, disaster recovery and cyber security will form standing agenda items in our regular service management meetings and assurances will be fully documented. Head of IT Ongoing	**Complete** Business continuity and disaster recovery assurances were obtained by Revenue Scotland from all key IT system and service providers in 2023/24. These arrangements were confirmed to be adequate and provided sufficient support of IT applications at Revenue Scotland.

Revenue Scotland

2023/24 Annual Audit Report

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