

Revenue Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Revenue Scotland
March 2018

Who we are

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

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



About us

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

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

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

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Risks and planned work

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

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

3. Revenue Scotland is responsible for the collection and management of Scotland's two devolved taxes, Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT). Both LBTT and SLfT are self-assessed taxes. Revenue Scotland has a range of investigatory powers which allows it to make enquiries into submitted tax returns. Penalties may also be imposed for failures in terms of liability or in submissions of returns. Scottish Ministers are responsible for setting rates, bands and thresholds relating to the devolved taxes, subject to the approval of the Scottish Parliament.

Audit risks

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

Exhibit 1

2017/18 Key audit risks

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

Audit Risk	Source of assurance	Planned audit work
		<ul style="list-style-type: none"> • Focused testing of accounting adjustments at the year-end. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income (DTA)</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams, other than Scottish Government funding, are significant.</p> <p>Revenue Scotland's role is to collect and administer devolved taxes on behalf of the Scottish Government. The value and complexity of tax revenue means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Adoption of accounting policies in compliance with the FReM. • Early intervention and compliance checking. • Year-end closedown procedures. 	<ul style="list-style-type: none"> • Detailed testing of tax revenue transactions focusing on the areas of greatest risk. • Review of accounting policy for revenue recognition. • Monitoring early intervention and compliance checks. • Cut-off testing.
<p>3 Risk of fraud over tax repayments (DTA)</p> <p>In the public sector there is an increased risk of fraud and error where activity is undertaken by individuals or groups outside the immediate control of the audited body (e.g. tax repayments).</p> <p>Land and Buildings Transaction Tax Additional Dwelling Supplement (ADS) has been collected by Revenue Scotland since 1 April 2016 and taxpayers can claim a repayment of ADS where certain conditions are met. £14.3m was repaid in 2016/17.</p> <p>There is a risk that internal controls fail to identify or prevent fraudulent activity.</p>	<ul style="list-style-type: none"> • Early intervention and compliance checking. • Segregation of duties. • Internal Audit follow up work on LBTT compliance report. 	<ul style="list-style-type: none"> • Monitoring early intervention and compliance checks. • Evaluation of internal controls over ADS repayments. • Detailed testing of ADS repayments.
<p>4 Risk of tax revenue being misstated (DTA)</p> <p>Revenue Scotland is responsible for the collection and management of Scotland's two self assessed devolved taxes, Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT).</p> <p>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</p>	<ul style="list-style-type: none"> • Oversight by the Board. • Regular communications with partner bodies SEPA and RoS. • Regular communications with other stakeholders. • Internal Audit review of SLfT compliance. 	<ul style="list-style-type: none"> • Liaise with Internal Audit in regard to its review of tax compliance work. • Review compliance activity and case progress. • Continue to understand and update our knowledge on the key processes in place. • Substantive testing to ensure that: <ul style="list-style-type: none"> – the tax due has been properly assessed – the legislation has been

Audit Risk	Source of assurance	Planned audit work
<p>in terms of liability or in submissions of returns</p> <p>Internal controls over processes and procedures, together with related compliance activity, continue to be developed and refined.</p> <p>There is a risk that the tax revenue reported in the financial statements is misstated due to</p> <ul style="list-style-type: none"> • the incorrect assessment of tax due • the non- or delayed collection of taxes due • the incorrect allocation of taxes received. 		<p>applied appropriately</p> <ul style="list-style-type: none"> – timely payment has been received – income has been correctly allocated. <ul style="list-style-type: none"> • Review stakeholder feedback and complaints management. • Review Board papers. • Review working relationships with SEPA and RoS and other stakeholders.

Wider dimension risks

<p>5 Financial sustainability (RA)</p> <p>Revenue Scotland is currently drafting a new Corporate Plan for 2018-21. The Corporate Plan will include limited longer term financial information.</p> <p>The plan should include clear links to strategic objectives and the annual business plan.</p> <p>There is a risk that without longer-term financial and workforce planning the financial implications of business decisions, including decisions on staff matters, may not be clear and the sustainability of Revenue Scotland (in terms of resources, skills and costs) weakened.</p>	<ul style="list-style-type: none"> • People Strategy. • Oversight by Board and Staffing and Equalities Committee. • Quarterly strategic review of workforce planning. • Financial reporting to Board and Senior Leadership Team. 	<ul style="list-style-type: none"> • Review financial and workforce planning in new Corporate Plan. • Review progress towards the preparation of longer term financial plans. • Review implementation of the People Strategy, recruitment and staffing levels. • Review Board and Committee papers. • Monitor financial performance against budget.
<p>6 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.</p> <p>As a consequence of this better understanding, the volume of tax compliance activity has increased and there has been an increase in the number of challenging, complex and time consuming cases identified particularly where the legislation is unclear.</p>	<ul style="list-style-type: none"> • Board oversight of tax collection and compliance activity. • Regular communication with SEPA and RoS. • Regular reporting of tax statistics to stakeholders and Parliament. • Internal Audit review of tax compliance work. • New compliance strategies. 	<ul style="list-style-type: none"> • Focused testing of assessment, collection and allocation of tax revenues. • Review Board papers. • Review working relationships with SEPA, RoS and other stakeholders. • Review of Internal Audit work and liaise with them on any findings. • Review compliance activity including the new strategies. • Substantive testing as outlined at point 4 above.

Audit Risk	Source of assurance	Planned audit work
<p>There is a risk that the increasing number and complexity of cases and the resultant pressures on staff results in the:</p> <ul style="list-style-type: none"> • incorrect assessment of tax due • non- or delayed collection of tax • incorrect allocation of tax. 		
<p>7 Information governance (RA/DTA)</p> <p>Cyber incidents pose an increasing threat to organisations. The Scottish Government has produced new guidance for public bodies which includes an action plan for implementation in due course. The EU General Data Protection Regulation (GDPR) comes into force in 2018 and presents new requirements for data management and compliance.</p> <p>There is a risk that Revenue Scotland is not fully prepared to meet the threat from cyber-attack on its systems. There is also a threat that the organisation does not have appropriate procedures and processes in place to meet the requirements of the GDPR.</p>	<ul style="list-style-type: none"> • Revenue Scotland participation in cross-cutting Internal Audit/PWC audit. • Internal Audit review of cyber security and GDPR readiness. • Board oversight. • Cyber Essentials certification being sought. • BCP testing. 	<ul style="list-style-type: none"> • Review of Revenue Scotland's approach to and consideration of cyber security. • Review of Internal Audit work. • Review Board papers. • Follow up progress with certification and BCP testing.
<p>8 SETS: procurement and business continuity(RA)</p> <p>Revenue Scotland is procuring a replacement for the Scottish Electronic Tax System (SETS) which is a business critical system. The new system will become operational in 2019 and it is essential that the project runs to plan.</p> <p>There is a risk that any delays to the procurement of the new system could impact on continuity of service to taxpayers and lead to additional costs.</p>	<ul style="list-style-type: none"> • In line with the approved business case, a Project Board was established to take forward procurement and future scoping which involved representatives from Scottish Government policy and procurement as well as specialist legal input. • Regular reports are provided to the Board. • The process has been subject to Scottish Government Office of the Chief Information Officer (OCIO) technical assurances in the form of Gate 1 [business justification] and Gate 2 [pre-procurement]. • In advance of appointment of the successful contractor a Programme Board has been established to 	<ul style="list-style-type: none"> • Review of Board papers. • Review of project and programme board papers. • Regular meeting and discussion with management.

Audit Risk	Source of assurance	Planned audit work
	<p>oversee the required programme of work. This meets on a regular basis and involves external representatives.</p> <ul style="list-style-type: none"> A Strategic Gateway review focused on assuring the investment decision (Gate 0/3) is planned for May 2018. 	

Reporting arrangements

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

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

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

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	21 February 2018	28 February 2018
Interim Management Report	31 May 2018	20 June 2018
Annual Audit Report including ISA 260 requirements	5 September 2018	12 September 2018
Signed Independent Auditor's Reports	As soon as practicable after the Board meeting on 12 September 2018	N/A

Audit fee

8. The agreed audit fee for the 2017/18 audit of Revenue Scotland is £91,340 (2016/17: £90,200); this is split across the Resource Accounts £20,000 (2016/17 £20,000) and the Devolved Taxes Account £71,340 (2016/17 £70,200). This split recognises the relative complexity of the Devolved Taxes Account. In determining the audit fee we have taken account of the risk exposure of Revenue Scotland, the

planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 11 June 2018.

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

Responsibilities

Audit and Risk Committee and Accountable Officer

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

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

Appointed auditor

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

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

Audit scope and timing

Financial statements

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

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

15. We will give an opinion on the Resource Accounts and on the Devolved Taxes Account as to whether:

- they give a true and fair view of the financial position of Revenue Scotland and its expenditure for the year (Resource Accounts)
- they give a true and fair view of the state of affairs of the collection of taxes, related expenditure and disbursements and its net revenue for the year (Devolved Taxes Account)
- they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements (both sets of accounts)
- expenditure and income is regular (both sets of accounts)
- the information included in the performance and accountability reports meets requirements for their preparation and is consistent with the financial statements (both sets of accounts).



Materiality

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

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

Exhibit 3

Materiality values

Materiality level	Amount
<p>Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements.</p>	
<ul style="list-style-type: none"> • Resource accounts: Set at 1% of gross expenditure for the year ended 31 March 2018 based on the revised budget for 2017/18. 	£56,000
<ul style="list-style-type: none"> • Devolved taxes account: Set at 1% of total forecast tax revenue for the year ended 31 March 2018 based on the Scottish Fiscal Commission forecast for 2017/18. 	£6.94 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at:</p>	
<ul style="list-style-type: none"> • Resource accounts: 75% of planning materiality 	£42,000
<ul style="list-style-type: none"> • Devolved taxes account: 20% of planning materiality 	£1.4 million
<p>Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at:</p>	
<ul style="list-style-type: none"> • Resource accounts: 2% of planning materiality (rounded) 	£1,000
<ul style="list-style-type: none"> • Devolved Taxes Account: 1% of planning materiality (rounded) 	£100,000



18. We review and report on other information published with the financial statements including the performance report and accountability reports which include the annual governance statement and the remuneration and staff report. Any issues identified will be reported to the Audit and Risk Committee as appropriate.

Timetable

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

Exhibit 4

Financial statements timetable

 Key stage	 Date
Meeting with officers to clarify working papers expectations	February 2018
Latest submission date of unaudited annual accounts with complete working papers package	11 June 2018
Latest date for final clearance meeting with Chief Executive, Head of Strategy	By end August 2018

and Corporate Functions and Chief Accountant

Issue of Annual Audit Report including ISA 260 report to the Accountable Officer	By 5 September 2018
Consideration of unaudited financial statements by the Audit & Risk Committee; Board meeting to approve the financial statements	12 September 2018
Independent auditor's report signed	As soon as practicable after Board meeting
Target date for laying and publishing the annual report and accounts	30 September 2018

Internal audit

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

Adequacy of Internal Audit

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

Areas of Internal Audit reliance

22. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- SLfT compliance review
- LBTT tax governance and compliance (follow up)

23. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Performance reporting
- Management of delivery partners (including shared service review)
- Cyber security review
- Budget management (follow up)
- Business continuity planning (follow up)

Audit dimensions

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

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

25. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on Revenue Scotland's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. Over our five-year appointment, we shall consider:

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

Financial management

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We shall consider over our five-year appointment:

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

Governance and transparency

27. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. Over our five-year appointment, we shall consider:

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

28. In 2017/18, we intend to review Revenue Scotland’s approach to cyber security and general information governance. We shall also consider progress towards the procurement of the replacement SETS system together with any potential impact on business continuity.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We shall consider over our five-year appointment whether:

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

Independence and objectivity

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

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

Quality control

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

33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

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

Adding Value

35. Through our audit work we aim to add value to Revenue Scotland. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Revenue Scotland has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Revenue Scotland

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