Revenue Scotland

Resource Accounts
Devolved Taxes Account
2017/18 Annual Audit Report

Prepared for Revenue Scotland and the Auditor General for Scotland

13 September 2018

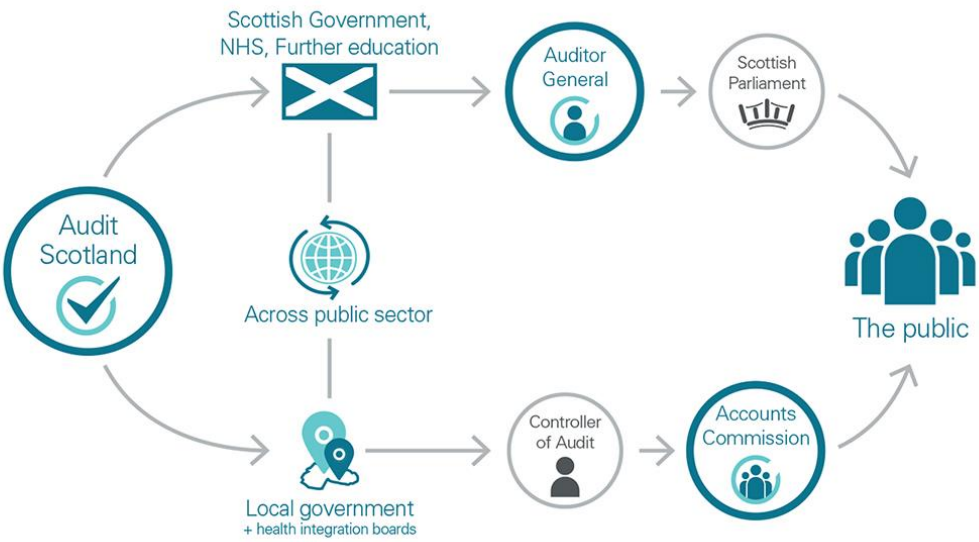
Who we are

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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2017/18 annual reports and accounts

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2 **Expenditure and income were in accordance with applicable enactments and guidance.**

3 **The other information in both the Resource Accounts and the Devolved Taxes Account is consistent with the financial statements and prepared in accordance with legal requirements.**

Financial management

4 **Revenue Scotland has arrangements in place for effective financial management. £500,000 was returned to the Scottish Government during the year. In addition, an underspend of £136,000 against the revised resource budget was achieved in 2017/18. The total underspend was due to a range of factors including the deferral of Air Departure Tax.**

5 **In 2017/18 devolved tax revenues were £51 million above the amount forecast by Scottish Ministers.**

6 **Systems of internal control operated effectively in 2017/18.**

Financial sustainability

7 **Revenue Scotland intends to develop longer term financial planning based on its 2018-2021 Corporate Plan.**

8 **There are no particular concerns about the overall financial position of Revenue Scotland.**

Governance and transparency

9 **Revenue Scotland has effective governance arrangements in place that support scrutiny of decisions made by the Board.**

10 **Revenue Scotland continues to improve the disclosures in its annual report.**

Value for money

11 **Revenue Scotland has overall arrangements in place which support effective performance management and which support the achievement of value for money and continuous improvement.**

Introduction

1. This report summarises the findings from our 2017/18 audit of Revenue Scotland's Resource Accounts and the Devolved Taxes Account.

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:

- Audits of both the Resource Accounts and Devolved Taxes Account annual reports and financial statements
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the *Code of Audit Practice 2016* as illustrated in Exhibit 1.

Exhibit 1
Audit dimensions

Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- An interim audit of Revenue Scotland's main financial systems and governance arrangements
- an audit of Revenue Scotland's 2017/18 annual report and accounts for the Resource Accounts and for the Devolved Taxes Account including the issue of an independent auditor's report setting out our opinions on each of these accounts

- a review of Revenue Scotland's preparation for GDPR and its cyber security arrangements
- consideration of the four audit dimensions.

4. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual reports and accounts that are in accordance with the accounts directions from the Scottish Ministers. The Revenue Scotland annual report and accounts for the Resource Accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report and Remuneration and Staff Report)
- Financial statements and supporting notes.

5. The Revenue Scotland annual report and accounts for the Devolved Taxes Account includes the following:

- Accountability Report (which includes the Corporate Governance Report)
- Financial statements and supporting notes.

6. Revenue Scotland is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

7. Our responsibilities as independent auditor are outlined in 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.

8. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. 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 the audit of the annual reports and accounts and consideration of the audit dimensions. 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, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

11. 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 and therefore the 2017/18 audit fee of £91,340 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Revenue Scotland by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

13. This report is addressed to both the Board 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 all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual reports and accounts

Main judgements

Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2017/18 were unqualified.

Expenditure and income were in accordance with applicable enactments and guidance.

The other information in both the Resource Accounts and the Devolved Taxes Account is consistent with the financial statements and prepared in accordance with legal requirements.

Audit opinions on the annual report and financial statements

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

15. The annual report and financial statements for both the Resource Accounts (RA) and the Devolved Taxes Account (DTA) for the year ended 31 March 2018 were approved by the Board on 12 September 2018. We reported within our independent auditor's reports on both accounts:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report (RA only), performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts directions
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

16. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

17. We received the unaudited financial statements on 14 June 2018. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

18. The working papers provided with the unaudited financial statements were of a reasonable standard. We have discussed with management a number of enhancements to the year end process including:

- the agreement and cross referencing of supporting documents to the trial balance and accounts

- availability of all necessary working papers at the commencement of the audit
- evidence to support expenditure incurred within the Resource Accounts should be provided in advance of the audit commencing.

19. Assurances have been provided that the finance team will continue to improve working papers to support the amounts and disclosures within the two sets of Annual Reports and Financial Statements.

20. The narrative provided in the performance and accountability reports was of good quality and covered all the required disclosures.

Risk of material misstatement

21. Appendix 2 provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

22. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

23. Our initial assessment of materiality for the annual reports and accounts was carried out during the planning phase of the audit and was reported in our Annual Audit Plan. Specifically, regarding the annual reports and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

24. On receipt of the annual reports and accounts we reviewed our materiality calculations and we revised them to reflect actual income and expenditure for the year as shown in Exhibit 2.

Exhibit 2
Materiality values

Materiality level	Amount RA	Amount DTA
Overall materiality: This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. **RA:** set at 1% of gross expenditure for the year ended 31 March 2018. **DTA**: set at 1% of gross tax revenue for the year ended 31 March 2018.	£55,000	£7.10 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at: **RA:** 75% of overall materiality **DTA**: 20% of overall materiality	£41,000	£1.41 million

Materiality level	Amount RA	Amount DTA
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. **RA:** This has been calculated at 2% of overall materiality. **DTA:** This has been calculated at 1% of overall materiality.	£1,000	£100,000

Source: Audit Scotland

How we evaluate misstatements

25. There were a number of adjustments to the unaudited financial statements arising from our audit. These included:

- Expenditure of £15,600 was identified which should have been accrued into the 2017/18 Resource Accounts. As a consequence, net operating costs increased by £16,000 and taxpayers' equity increased by the same amount.
- Mis-classifications and errors in the Devolved Taxes Account of £2.753 million resulted in an increase in net tax revenue for the Scottish Consolidated Fund by £713,000, and an increase in net assets of the same amount.

26. The misstatements in the DTA breached the related performance materiality levels and as a consequence we considered the need to undertake further audit testing. As the majority of misstatement arose from a single isolated issue (mis-classification of ADS repayment claims) and no other similar issues were identified during our audit, we concluded that this is not indicative of systemic misstatements within the financial statements and no further audit testing was required.

27. One misstatement which exceeded our reporting threshold for the Resource Accounts has not been amended in the audited financial statements; the effect of this is to overstate operating expenditure and understate prepayments by £1,200.

28. It is our responsibility to request that all misstatements other than those below the reporting thresholds are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the amounts are not considered material in the context of the financial statements.

29. In addition, a number of presentational adjustments to the accounts were identified and discussed with finance staff who agreed to amend the financial statements.

Significant findings from the audit in accordance with ISA 260

30. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

31. These findings include our views about significant qualitative aspects of Revenue Scotland's accounting practices including:

- Accounting policies
- Significant financial statements disclosures
- The impact on the financial statements of any uncertainties
- Misstatements in the annual report and accounts
- Accounting estimates and judgements
- Timing of transactions and the period in which they are recorded
- The effect of any unusual transactions on the financial statements
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3
Significant findings from the audit of financial statements

Issue	Resolution
1. Contingent assets: enquiries (DTA) Note 8 to the financial statements refers to contingent assets and Revenue Scotland's power to open an enquiry in relation to a taxpayer's liability to pay tax and the amount of tax due. At 31 March 2018, 23 enquiries remained open. Management were unable to assess with any certainty the amount of tax potentially due, given the nature of the enquiries.	Contingent assets related to enquiries are disclosed without quantification. We are content that this approach is reasonable.
2. Events after the reporting period (DTA) We were advised that a number of the enquires mentioned above were concluding after 31 March but before the approval of the annual accounts and the amounts involved in the assessments and penalties issued could be material. Tax assessments will be raised in 2018/19 for the amounts due. We discussed the potential disclosure of these concluding cases with the Accountable Officer and agreed they should be disclosed as a non-adjusting event under IAS 10 (Events after the Reporting Period).	The Accountable Officer has included a note in the revised financial statements covering events after the reporting date. The note refers to Revenue Scotland's compliance activity to ensure that taxpayers pay the correct amount of tax. It also refers to Revenue Scotland's powers under the Revenue Scotland and Tax Powers Act 2014 to undertake formal enquiries and issue assessments and penalties for unpaid tax and that a number of enquiries were concluded after the 31 March 2018 which resulted in the issuing of significant assessments and penalties. We are content that this disclosure is reasonable and properly reflects the situation after the year end.
3. Contingent assets: LBTT deferrals (DTA) Note 8 to the financial statements refers to contingent assets and highlights cases where a deferral of LBTT payable has been granted, where the relevant conditions have been met. Deferrals totalling £2 million have been identified. We reviewed the supporting records for LBTT deferrals granted by Revenue Scotland and identified a number of cases where review dates	We recommend that the review process and record keeping for LBTT deferrals is improved and reviews are conducted on time. Recommendation 1 (refer appendix 1, action plan)

Issue	Resolution
had passed without the records having been updated to indicate that review had taken place. We found one minor error which was corrected by management.	
4. Contingent liabilities: ADS repayments due (DTA) An Additional Dwelling Supplement (ADS) to LBTT was introduced in 2016/17. Property buyers who have included ADS in their LBTT tax return are entitled to seek a repayment of the supplement if they meet certain criteria, which include selling their previous main residence within 18 months of the purchase of their new property. We discussed the principles underpinning the accounting treatment for potential repayments of ADS within the DTA with the Accountable Officer, making reference to *IAS 37: Provisions, Contingent Liabilities and Contingent Assets*.	The Accountable Officer has concluded that, given the legal provisions for ADS repayment, the obligation to repay ADS arises at the point that the conditions for repayment are satisfied. In order to satisfy the conditions for repayment, the taxpayer needs to sell a previous main residence within 18 months and submit a valid claim for repayment. Note 6 reports repayments due to be made where the above conditions have been satisfied by the 31 March. Potential repayments that do not yet meet the conditions for repayment have been disclosed as a contingent liability, as set out in note 9 of the Devolved Tax Accounts which reports that the £29 million is an indicative figure. We are content that this approach is appropriate. We have sought and obtained written confirmation of the basis of the Accountable Officer's judgement.
5. ADS repayment checks (DTA) As part of our review of the accounting treatment of ADS repayments mentioned above, we tested a sample of repayments and found one case where a repayment of ADS had been made in error; the sale of the previous main residence had not taken place within the period stipulated by legislation. Revenue Scotland staff carried out a further review and identified another 3 errors. The amounts involved are not material.	As noted above, we are satisfied with the accounting treatment of ADS repayments. All repayments made in error are being recovered. We recommend however that Revenue Scotland reviews its processes to ensure that the relevant conditions are met prior to making ADS repayments. Recommendation 2 (refer appendix 1, action plan)
6. Contingent liabilities: Tribunal decisions (DTA) We were advised about a number of cases proceeding through the appeal process as outlined in the Resource Accounts. At 31 March 2018 decisions were awaited in four appeals and applications had been lodged for permission to appeal two decisions made by the First Tier Tribunal for Scotland. We discussed the disclosures around these cases with the Accountable Officer. Given the uncertainty about the eventual outcome, we agreed that there should be a general disclosure included within contingent liabilities for potential outcomes from on-going Tribunal cases.	The Accountable Officer has included additional narrative around contingent liabilities in the revised financial statements. The revised note refers to the process whereby those aggrieved by an appealable decision made by Revenue Scotland may dispute that decision by requesting that Revenue Scotland carry out a review and/or by making an appeal to the Tax Chamber of the First-tier Tribunal for Scotland ("FTTS"). At 31 March 2018, 6 cases were progressing through the appeals process. The note also refers to the likelihood of repayment and with all disputes there will be uncertainty as to the outcome. We are content that this disclosure is reasonable and properly reflects the status of the ongoing disputes. The Accountable Officer has given assurances that the the amount of any potential repayment is unlikely to be material as at 31 March 2018. We have sought and obtained written confirmation of the basis of the Accountable Officer's judgement.

Issue	Resolution
	Recommendation 3 (refer appendix 1, action plan)

Source: Audit Scotland

Other findings

32. We have highlighted below a number of other matters identified during our audit.

New Accounts Direction for the Devolved Taxes Account

33. In April 2018 Scottish Ministers issued a new Accounts Direction for the Devolved Taxes Account 2017/18. This corresponded to changes in the Government Financial Reporting Manual (FReM) sections 8.2.20-8.2.21 which directly refer to Revenue Scotland's Devolved Taxes Account. The format of the Account has therefore changed this year and our audit work concluded that it complied with the new Direction and the FReM.

Compliance yield

34. The Resource Accounts annual report 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. It reported this has generated £2.4 million direct compliance yield (£1.2 million taxes and £1.2 million penalties and interest) and is one of Revenue Scotland's key performance indicators. This is an increase from 2016/17 when £1.9 million was reported and is an indicator of the on-going effectiveness of Revenue Scotland's compliance work.

35. We reviewed the rationale behind the compliance disclosures in the annual report and 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.

Scottish Landfill Communities Fund

36. Revenue Scotland is responsible for regulating the Scottish Landfill Communities Fund which is a tax credit scheme designed to encourage landfill operators to make contributions to community projects. Revenue Scotland delegates its regulatory function to the Scottish Environment Protection Agency (SEPA). Contributions of £8.6 million were received from landfill operators in 2017/18 which were paid to Approved Bodies, authorised by SEPA to distribute the funds to eligible projects. Revenue Scotland receives assurances from SEPA on this work. We have reviewed the assurance statement received from SEPA for 2017/18 and have noted that no issues have been highlighted.

Follow up of prior year recommendations

37. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in Appendix 1. They are identified by the prefix b/f (brought forward).

38. Five agreed actions were raised in 2016/17. Of these:

- one has been fully implemented
- four have been partly actioned

39. Overall Revenue Scotland has made some progress in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in Appendix 1.

Part 2
Financial management

Main judgements

Revenue Scotland has arrangements in place for effective financial management. £500,000 was returned to the Scottish Government during the year. In addition, an underspend of £136,000 against the revised resource budget was achieved in 2017/18. The total underspend was due to a range of factors including the deferral of Air Departure Tax.

In 2017/18 devolved tax revenues were £51 million above the amount forecast by Scottish Ministers.

Systems of internal control operated effectively in 2017/18.

Financial performance in 2017/18

40. The main financial objective for Revenue Scotland's Resource Accounts is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. Revenue Scotland had an original resource budget of £6.121 million for 2017/18 but this was revised following the deferral of Air Departure Tax to £5.621 million in the Scottish Government's Spring Budget Revision.

41. Revenue Scotland has reported an outturn of £5.485 million (2016/17: £4.5 million) remaining within its overall revised budget for 2017/18 with an underspend of £136,000. The decision by the Scottish Government to delay implementation of Air Departure Tax and savings in fees for delegated duties and in staff costs all contributed to the underspend. The financial performance against Departmental Expenditure Limits (DEL) is shown in Exhibit 4.

Exhibit 4
Performance against DEL in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	6.121	5.621	5.485	(0.136)
Capital DEL	N/A	N/A	N/A	N/A
Total DEL	**6.121**	**5.621**	**5.485**	**(0.136)**

Source: Revenue Scotland Resource Accounts and Scottish Government Spring Budget Revision 2017-18

42. Revenue Scotland is responsible for the collection and administration of the devolved taxes. In 2017/18 tax revenues were £707 million (2016/17: £633 million) which was £51 million higher than Scottish Ministers' forecasts.

43. In addition to the taxes collected (LBTT £557 million) and SLfT (£148 million), penalties and interest totalling £1.8 million were levied for late or incorrect returns and payments.

44. Revenue Scotland is required to remit receipts from the devolved taxes to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that £697 million of cash generated during the 2017/18 period from the devolved taxes was remitted to the SCF during the year (2016/17: £636 million). Per note 7 of the financial statements, a further £68 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.

Budgetary processes

45. We reviewed Revenue Scotland's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position together with explanations of variances.

46. We concluded that Revenue Scotland has effective budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

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

Systems of internal control

47. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce 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.

48. Our findings were included in the management report presented to the Audit and Risk Committee in June 2018. We concluded that the controls tested on systems which support the production of the Resource Accounts were operating effectively. No significant control weaknesses were identified which could affect Revenue Scotland's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

49. In respect of our audit of the Devolved Taxes Account, we took limited assurance from our controls testing on the grounds of efficiency and supplemented our approach with additional year end testing.

50. Our testing of the tax collection system (Scottish Electronic Tax System or SETS) found that good progress had been made during the year in relation to Revenue Scotland's compliance activity. This activity is important in terms of preventing and detecting fraud and error in tax returns. We found no significant control weaknesses in the operation of controls in the SETS system but made a number of recommendations for management to consider.

51. In our annual audit plan we noted our intention to consider Revenue Scotland's procedures for securing an effective check on the assessment, collection and proper allocation of tax revenue as part of our planned work for 2017/18. Our audit work in this area was concluded satisfactorily.

Part 3

Financial sustainability

Main judgements

Revenue Scotland intends to develop longer term financial planning based on its 2018-2021 Corporate Plan.

There are no particular concerns about the overall financial position of Revenue Scotland.

2017/18 financial position

52. 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.

53. The financial statements show that Revenue Scotland:

- has net liabilities of £745,000, an increase of £712,000 largely attributable to increased accruals at the year end for IT costs to enhance the SETS system for LBTT lease review work and for the preparation for Air Departure Tax; the short term employee benefit accrual has also risen as the workforce has increased over the year.
- Non-current assets have decreased with no additions during the year and prepayments have also reduced; the net effect of these has been a decrease in total assets of £71,000.

54. This negative position is as a result of Revenue Scotland's small asset base: Revenue Scotland owns no land or buildings and its non-current assets are composed of fixtures and fittings only. This excess of liabilities over assets is not considered an issue in relation to the going concern of the organisation as Revenue Scotland receives all of its funding directly from the Scottish Government.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial planning

55. Revenue Scotland has an allocated Scottish Government Departmental Expenditure Limit (DEL) budget of £10.2 million for 2018/19: a £5.9 million resource budget and a £4.3 million capital budget. This represents an overall increase of £4.579 million on the final 2017/18 budget of £5.621 million and takes account of the procurement of the new tax collection system in providing a capital element.

56. The challenge for next year and beyond will be to ensure that Revenue Scotland remains within its budget as it delivers the key projects set out in its new Corporate Plan 2018-2021. Revenue Scotland will be responsible for further tax administration and collection responsibilities as new devolved taxes come on stream and changes are made to existing legislation such as LBTT First Time Buyer relief. The successful implementation of the tax system to replace SETS in the coming year is crucial if Revenue Scotland is to meet these new responsibilities. There are likely to be budget pressures on operational costs as the workload increases, with Revenue Scotland servicing a larger taxpayer base and managing a larger workforce.

57. The Scottish Fiscal Commission (SFC) took over responsibility from the Scottish Government for forecasting devolved tax revenues from April 2017 and has set out its methodology and assumptions for its forecasts of devolved tax revenues (Scotland's Economic and Fiscal Forecasts). For 2018/19 the SFC is forecasting tax receipts from LBTT and SLfT to be £728 million which is £21 million above the 2017/18 outturn.

Medium to long term financial planning

58. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

59. As a non-ministerial department 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.

60. Revenue Scotland's financial planning has therefore focused on engagement with the SG in its annual budget-setting process to ensure that it has sufficient resources made available to support any additional workload. This should not however preclude Revenue Scotland from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.

61. We recommended in our 2015/16 and 2016/17 annual audit reports that Revenue Scotland should develop longer-term financial planning to support future business strategy and demonstrate financial sustainability. Management agreed to take this forward by developing longer term financial planning as part of the development of the new corporate plan covering the period 2018-2021.

62. The Corporate Plan 2018-2021 was approved by Scottish Ministers and is available on Revenue Scotland's web site. The Plan identifies high-level estimates of additional funding requirements in future years. Continued development of longer-term financial planning is required, building on this initial work.

63. Management has recognised the need for a more strategic approach to financial sustainability and has set out the key principals that will underpin this. The organisation is currently drafting a financial sustainability strategy and we will monitor progress with this. Financial planning should be linked to the Corporate Plan's strategic objectives and annual business plans and include all key areas of the business, including staffing, IT and procurement.

Recommendation 4

We recommend that Revenue Scotland develops a longer-term financial plan to demonstrate its financial sustainability over the longer term. The plan should link to Corporate Plan strategic objectives and annual business plans and incorporate key business areas such as staffing, IT and procurement.

(refer appendix 1, action plan)

Part 4

Governance and transparency

Main judgements

Revenue Scotland has effective governance arrangements in place that support scrutiny of decisions made by the Board.

Revenue Scotland continues to improve the disclosures in its annual report.

Governance arrangements

64. As noted previously, Revenue Scotland is part of the Scottish Administration but is independent from the Scottish Government and Scottish Ministers.

65. It is accountable to the Scottish Parliament and is led by a Board consisting of five members, appointed by Scottish Ministers, who are collectively responsible 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 2017/18. It is supported by an Audit and Risk Committee and a Staffing and Equalities Committee.

66. The Chief Executive is the Accountable Officer, personally responsible for ensuring propriety and regularity in the handling of the public funds allocated to Revenue Scotland. She is accountable to the Board for day-to-day operational matters and is supported by a senior leadership team who are responsible for legal services, strategy and corporate functions and tax.

67. The Audit and Risk Committee (ARC) has three members, including one independent member who was co-opted onto the ARC. The ARC assesses its effectiveness annually in accordance with good practice. In September 2018 it concluded that it is satisfied that it meets the standards expected of a public audit committee. We attend all ARC meetings. Agendas follow a standard format and papers are circulated to members in advance, allowing adequate time for members to review. We are content that the ARC operated effectively during 2017/18 and provided an appropriate level of challenge.

68. We concluded that, overall, Revenue Scotland has effective arrangements in place that support good governance and accountability.

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.

Transparency

69. 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 such as money, people and assets.

70. Revenue Scotland's Board meetings are not open to the public because sensitive taxpayer information which is protected under the Revenue Scotland and Tax Powers Act 2014 is frequently discussed at these meetings. Edited Board minutes are however published on Revenue Scotland's web site.

71. A range of other information is also available on the website. For example, Revenue Scotland has published information on Board members and their interests, corporate publications and consultations with key stakeholders and taxpayers and their agents during the year. Open forums have been held through which interested parties can participate in discussions on tax matters. Revenue Scotland has demonstrated a willingness to disclose information openly and clearly.

72. Revenue Scotland continues to improve transparency in its annual reports and accounts. For example, further information was provided within the performance and accountability reports. We have referred in Part 5 of this report to the development of strategic objectives in the new corporate plan 2018-21 which will clearly link to key performance indicators and measures.

Risk management

73. As part of our planning work, we reviewed Revenue Scotland's risk management arrangements. The ARC is provided with regular updates on changes to the status of risks in the risk register and the Board is active in overseeing risk management. During the year the Board assessed how well risk management processes were being embedded across the organisation using the risk maturity model set out in their framework. The review concluded that Revenue Scotland should continue to focus on making the framework an integral part of the organisation. In our view Revenue Scotland has good arrangements in place for the management of risk but would note that the challenge for all organisations is to ensure that risk management is fully embraced by all staff and embedded across the organisation.

Internal audit

74. Internal audit provides the Accountable Officer and the ARC with independent assurance on risk management, internal control and corporate governance processes. The internal audit function is carried out by the Scottish Government Internal Audit Directorate (SGIAD).

75. Public Sector Internal Audit Standards (PSIAS) are mandatory for the internal auditors of all central government departments, agencies and executive NDPBs. The standards require the "chief audit executive" to provide an annual internal audit opinion and report that can be used to inform the annual governance statement.

76. The opinion provided by internal audit in 2017/18 is that of 'reasonable assurance' which is defined as controls are adequate but require improvement. There are some weaknesses in the risk, governance and/or control procedures in place but these are not of a significant nature.

77. As noted in our Annual Audit Plan, Audit Scotland's Scottish Government audit team undertook a review of the effectiveness of the internal audit function to ensure it operates in accordance with the PSIAS. Their report which was issued in July 2018 noted that the SGIAD meets some of the Public Sector Internal Audit Standards, but also does not comply with significant aspects of the standards. Their review of a sample of internal audit reports and supporting documentation found that significant improvements are required to comply with PSIAS and the Internal Audit Manual (IAM) in audit planning, audit documentation, audit reporting and management review. No internal audit reports were identified where the underlying evidence would suggest an incorrect audit opinion or conclusion. Agreed actions have been put in place to address the issues raised.

78. We intended to place formal reliance on SGIAD's work on SLfT compliance and follow-up review of LBTT tax governance and compliance. We were unable to place any formal reliance on their work as the reviews were not completed in advance of us undertaking our work. We did however use their findings to inform our audit approach.

Governance Statements

79. HM Treasury's Financial Reporting Manual (the FReM) states that Revenue Scotland must prepare an annual governance statement within the annual report and accounts for both the Resource Accounts and the Devolved Taxes Account. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and the provision of assurances around the achievement of the organisation's strategic objectives.

80. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement. The format of the DTA governance statement is specifically mentioned in the revised Accounts Direction and we assessed compliance against this more specific guidance.

81. We concluded that the 2017/18 governance statements comply with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, present a comprehensive picture of governance arrangements and associated matters.

National Fraud Initiative

82. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

83. Revenue Scotland participates in the biennial NFI exercise through its use of the Scottish Government (SG) ledger and payroll IT systems. SG provides data from its systems for the matching exercise and takes the lead in investigating matches returned. Revenue Scotland's involvement is therefore indirect and we were advised that there were no matches relating to it in the 2016/17 exercise. The 2018/19 NFI exercise is due to commence in autumn 2018.

Standards of conduct for prevention and detection of fraud and error

84. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

85. Revenue Scotland is currently revising its conflict of interest policy which is designed to encourage staff to think and behave ethically. We recommended in our 2016/17 annual audit report that Revenue Scotland should consider formalising the requirement for staff to disclose any personal involvement in a property transaction and to disclose any links with third party organisations and we are pleased to note that this has been included in the revised draft policy. Members of staff are required to sign confidentiality agreements due to the high level of sensitive personal data they handle in their work.

86. A Charter of Standards and Values is publicly available which sets out the behaviour expected from taxpayers, agents and representatives in addition to Revenue Scotland's own staff and the staff of its partner bodies.

87. Based on our review of the evidence we concluded that Revenue Scotland has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Cyber security

88. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. Revenue Scotland's ICT systems are either out-sourced to the SG or to external suppliers; the primary responsibility of management is therefore to manage these contracts and obtain appropriate assurances from suppliers over system security.

89. We concluded that Revenue Scotland is actively strengthening its cyber resilience arrangements. It completed its Cyber Essentials pre-assessment by the required date of the end of March 2018 and is on track to become a Cyber Catalyst organisation in support of the National Cyber Resilience Plan and achieve full compliance with Cyber Essentials accreditation by the end of October 2018.

General Data Protection Regulation

90. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

91. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in organisations incurring significant fines.

92. Revenue Scotland commenced a GDPR preparation project in November 2017 with regular updates provided to the Board. In May 2018 SGIAD issued a management letter following a review of Revenue Scotland's preparedness for GDPR and concluded that it had good awareness of the changes required and there were no major areas of improvement needed. Our own review of Revenue Scotland's approach to GDPR has concluded that it has taken a proactive approach but there are still areas where further work is required such as the implementation of a records management plan.

Part 5

Value for money

Main judgements

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

Performance management

Value for money is concerned with using resources effectively and continually improving services.

93. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with Revenue Scotland agree to undertake local work in this area.

94. The performance of Revenue Scotland is monitored by the Board on a quarterly basis through the provision of performance dashboard reports which highlight progress made against the 2017/18 Business Plan. In 2017/18 the KPIs have been reviewed as part of the production of the new Corporate Plan 2018-2021 to ensure that they more clearly reflect Revenue Scotland's strategic objectives.

95. Revenue Scotland's purpose and ambition are aligned with the Scottish Government's Purpose and the National Outcomes as set out 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.

96. 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.

Replacement of the Scottish Electronic Tax System (SETS)

97. SETS is a business critical system for Revenue Scotland. The current SETS contract is due to expire in August 2019. Management has undertaken a procurement project to find a suitable replacement for the SETS system and this has involved extensive consultation with staff and stakeholders to ensure that the new system will incorporate necessary enhancements for the collection and administration of the devolved taxes.

98. We have monitored progress during the year. The project has been closely monitored by the programme management team which reports regularly to the Board and has been supported by external procurement and legal advice. Due diligence work is continuing and a contract with the preferred supplier is due to be signed imminently.

99. There are risks associated with the final stages of the procurement process and these have been recognised in the corporate risk register with mitigating actions identified. For instance, if the new system is not ready in time, management has a contingency plan in place to extend the existing contract for a further 12 months. We will continue to monitor progress with the implementation of the new system.

Shared services

100. 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 human resource and financial management, estates and facilities, procurement, legal and information technology functions.

101. In accordance with the Revenue Scotland and Tax Powers Act 2014, some of Revenue Scotland's tax functions are delegated to Registers of Scotland and the Scottish Environment Protection Agency. These partner bodies have worked closely with Revenue Scotland and supported it in implementing its tax collection and administration systems.

National performance audit reports

102. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to Revenue Scotland. These are outlined in Appendix 3.

103. We have kept the ARC informed during the year about our performance reporting activities. Where appropriate, Revenue Scotland should take action to improve in areas highlighted in each report.

104. Our report Managing the implementation of the Scotland Acts was published in March 2018. The report referred to the huge and complex programme of work for the Scottish Government to implement these powers. It was noted that Revenue Scotland's arrangements for collecting devolved taxes were well established. However, the timeline for Air Departure Tax remains unclear. Air Departure Tax continues to be delayed while questions over European Commission state aid rules in relation to the Highlands and Islands exemption are resolved. A date for devolving the Aggregates Levy will be decided when legal questions about the UK tax have been resolved; management have since advised that discussions have commenced around the devolving of the aggregates levy although no timeline has been agreed.

Appendix 1
Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Contingent assets: LBTT deferrals** During our review of LBTT deferrals, we identified a number of cases where review dates had passed without the records having been updated. There was no evidence to show that the reviews had taken place. **Risk** Where amounts deferred are not timeously reviewed, there is a risk that contingent assets are overstated in the financial statements. This is also a risk that the review of deferrals results in a tax assessment which has not been declared.	We recommend that regular review of LBTT deferrals is undertaken and fully documented in order to maintain accurate records of tax revenue. Exhibit3_Point3	Work is currently in progress to finalise a process and ensure that accurate records are maintained Responsible officer: Head of Tax Agreed date: December 2018
2	**ADS repayment checks** Our testing of ADS repayments found an instance where a repayment to the taxpayer was made although the criteria for repayment had not been met. i.e. the main residence had been sold after the 18 month time limit. Revenue Scotland staff undertook further checks and found 3 more repayment errors. **Risk** There is a risk that ADS is being wrongly repaid to taxpayers when the criteria for repayment have not been met.	We recommend that Revenue Scotland reviews its processes to ensure that the legislative conditions are met prior to making ADS repayments. Exhibit3_Point5	Measures have already been put in place to address this specific issue and prevent ADS repayments being made when it is evident from the information we hold that the criteria for repayment are not met. These are being monitored to ensure that they are effective. Responsible officer: Head of Tax Agreed date: Complete

No.	Issue/risk	Recommendation	Agreed management action/timing
3	**Outcomes from Enquiry work and Tribunal decisions** There are a number of on-going enquiries being undertaken by Revenue Scotland and some taxpayer appeals being considered by Tribunals. In all instances there is significant uncertainty about the amount of tax that may be collected or repayable in future years. **Risk** We are content with the disclosures made in the DTA for these items but recognise that how these matters are reported is subject to considerable judgement each year. There is a risk that tax revenues and/or repayments reported in the financial statements may be mis-stated if future decisions were not appropriately reflected in accounting judgements.	We recommend that Revenue Scotland continues to monitor the outcomes from Tribunal decisions and its own enquiry work to ensure that its financial statements fairly and transparently reflect the impact of these activities on future tax revenues and repayments. Exhibit3_Point6	The impact of enquiry work and tribunal cases on tax revenues will be considered and updated as and when cases decisions are made by Revenue Scotland or are handed down by the Tribunal. Responsible officer: Head of Tax Agreed date: March 2019 End of year reporting and accounts preparation will take account of the latest information available. Responsible officer:Chief Accountant Agreed date: March 2019
4	**Longer-term financial planning** The Corporate Plan 2018-2021 identifies high-level estimates of additional funding requirements in future years. Continued development of longer-term financial planning is required, building on this initial work. **Risk** There is a risk that business decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of Revenue Scotland.	We recommend that Revenue Scotland develops a longer-term financial plan to demonstrate its financial sustainability over the longer term. The plan should link to Corporate Plan strategic objectives and annual business plans and incorporate key business areas such as staffing, IT and procurement. Paragraph_63	The Board has approved the broad principles that will underpin the final document. Work is underway with a view to take a draft paper to the Board by the end of the year. Responsible officer: Head of Strategy & Corporate Functions/Chief Accountant Agreed date: December 2018

No.	Issue/risk	Recommendation	Agreed management action/timing
Follow up of prior year recommendations			
b/f 1	**Preparation of Financial Statements** To assist management in their preparation of the financial statements, the FReM disclosures checklists should be completed and applied. **Risk** There is a risk to the efficiency of the accounts preparation and audit processes if FReM compliant accounts are not delivered.	Copies of the disclosure checklists were provided to management. These checklists should be applied going forwards to ensure the production of FReM compliant accounts.	The FReM checklist for the Resource Accounts was completed prior to issuing the accounts for audit but the checklist for the Devolved Taxes Account was only partially completed. We therefore recommend that both checklists are completed next year before draft accounts are produced for audit. Partially addressed: ongoing
b/f 2	**Staff disclosure of interests** Staff are required to advise their line manager if they are personally involved in a tax transaction. This is done informally by email. In addition, there is no requirement for staff to complete an annual register of interests' declaration. **Risk** There is a risk that staff could have links to third party organisations and their tax information.	Management should consider formalising the approach in relation to staff disclosing an interest in a house sale / purchase. Management should consider whether there would be benefit if extending the register of interests to cover all staff, given the nature of the business.	Revenue Scotland has revised its Conflict of Interest Policy which will be considered by its Board in 2018/19. Partially addressed: ongoing
b/f 3	**Longer-term financial planning** Revenue Scotland is developing its approach to longer term financial planning. **Risk** There is a risk that business decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of Revenue Scotland.	We recommend that Revenue Scotland develops a longer-term financial plan to demonstrate its financial sustainability over the longer term. The plan should link to Corporate Plan strategic objectives and annual business plans and incorporate key business areas such as staffing, IT and procurement.	Revenue Scotland still has some way to go in its development of longer-term financial planning. This issue is on the Board's agenda for 2018/19 and we will follow developments. Partially addressed: ongoing

No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 4	**ICT re-procurement** The current SETS contract is due to expire in 2019. This is a business critical system and it is essential that the re-procurement is successful. **Risk** There is a risk that if the timetable is not achieved, continuity of service is affected or additional unexpected costs are incurred.	Management should continue to vigorously pursue the achievement of the re-procurement timetable to ensure continuity of service.	Revenue Scotland has adhered to its timetable for re-procuring a tax administration and collection system to replace the SETS system. Due diligence work is on-going and a contract with the preferred supplier is due to be signed. The LEAP programme has been established to deliver the new system into operational use by April 2019. Partially addressed: ongoing
b/f 5	**Workforce Planning** Formal workforce planning is currently being developed. **Risk** Without effective workforce planning there is a risk that any decisions on staff matters may not be coordinated or not properly supported, leading to decisions in one area having unintended consequences in another.	Revenue Scotland should continue to develop its workforce planning to assist with future decision-making about resources and staff costs. This should facilitate forecasting of staff numbers, skill needs and costs and identify shared workforce opportunities	Revenue Scotland has made good progress in this area during the year, producing a People Strategy which encompasses strategic workforce and recruitment planning. Core skills have been identified and used to develop a Learning and Development Model to support Revenue Scotland's operational needs. Addressed

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the *Code of Audit Practice 2016*.

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Risk of management override of controls (RA/DTA) 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.	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.	We did not identify any issues as a result of this audit work that would indicate management override of controls affecting the year end position.
2 Risk of fraud over income (DTA) ISA 240 requires auditors to presume a risk of fraud where income streams, other than Scottish Government funding, are significant. 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.	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.	We did not identify any evidence of fraud in our tax testing. 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 year and were satisfied that it is designed to prevent and detect fraud in tax income. Results of cut-off testing were satisfactory.
3 Risk of fraud over tax repayments (DTA) In the public sector there is an increased risk of fraud and error where activity is undertaken by individuals or groups outside the immediate	Monitoring early intervention and compliance checks. Evaluation of internal controls over ADS repayments. Detailed testing of ADS repayments.	We reviewed compliance work carried out by Revenue Scotland in the year and were satisfied that it is designed to prevent and detect fraud in tax repayments.

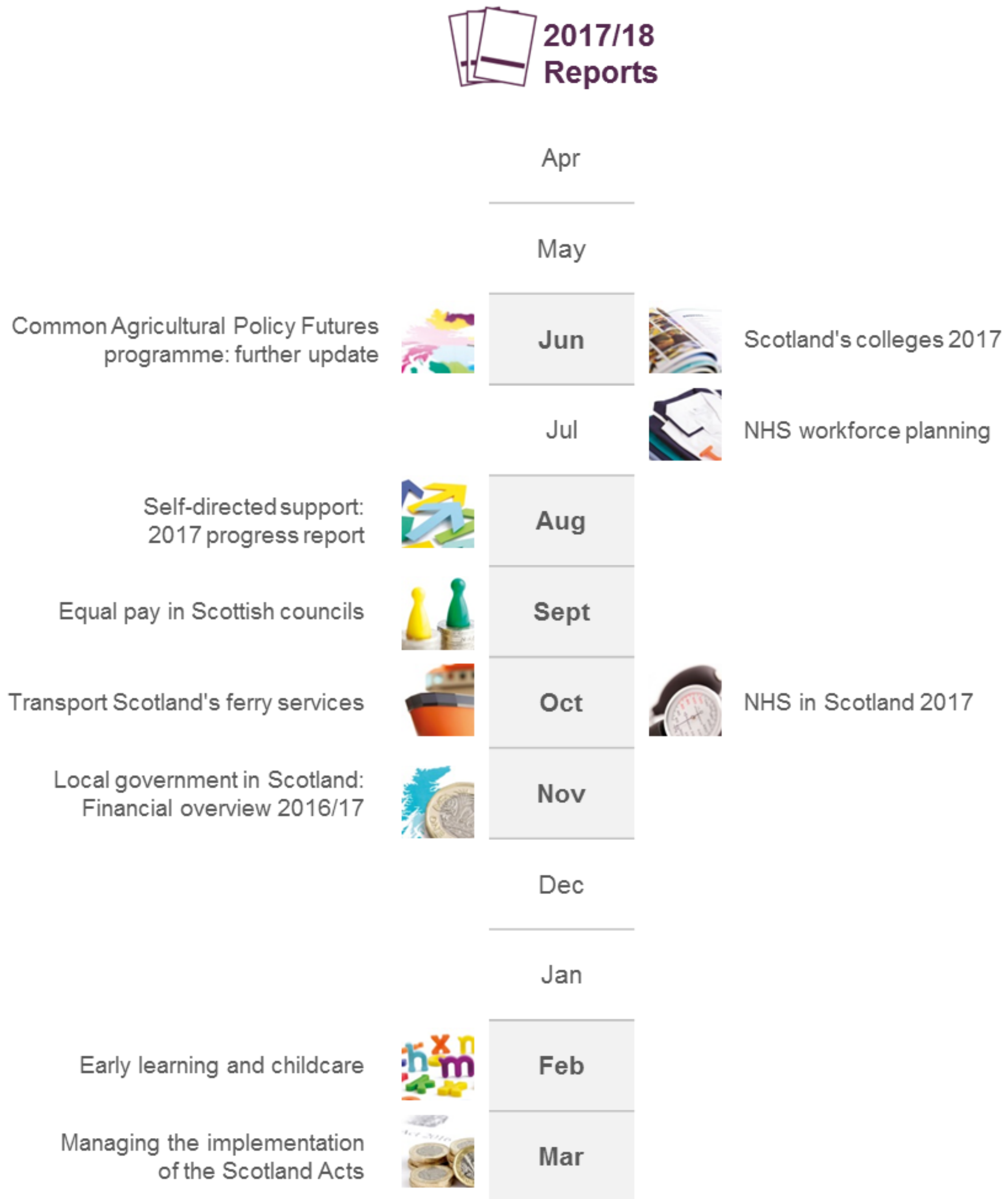
Audit Risk	Assurance procedure	Results and conclusions
control of the audited body (e.g. tax repayments). Land and Buildings Transaction Tax Additional Dwelling Supplement (ADS) has been collected by Revenue Scotland since 1 April 2016 and taxpayers can claim a repayment of ADS where certain conditions are met. £14.3m was repaid in 2016/17. There is a risk that internal controls fail to identify or prevent fraudulent activity.		We reviewed internal controls over ADS repayments and found some minor errors which Revenue Scotland is rectifying. We are recommending a tightening of controls in this area. Our detailed testing of ADS repayments found no evidence of fraud.
4 **Risk of tax revenue being misstated (DTA)** 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). 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. Internal controls over processes and procedures, together with related compliance activity, continue to be developed and refined. There is a risk that the tax revenue reported in the financial statements is misstated due to: • the incorrect assessment of tax due • the non- or delayed collection of taxes due • the incorrect allocation of taxes received.	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: the tax due has been properly assessed; the legislation has been applied appropriately; timely payment has been received; income has been correctly allocated. Review stakeholder feedback and complaints management. Review Board papers. Review working relationships with SEPA and RoS and other stakeholders.	We reviewed Internal Audit output and found no significant concerns reported. We reviewed and assessed compliance activity and suggested some improvements which we reported in our Management Report. We continue to develop our understanding of Revenue Scotland's compliance work and highlight areas where we think this could be more effective. Our substantive testing has been satisfactory. Stakeholder feedback is predominantly positive and complaints are small in number and an appropriate process is in place for handling them. Our review of Board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory with no concerns noted.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
5 **Financial sustainability (RA)** Revenue Scotland is currently drafting a new Corporate Plan for 2018-21. The Corporate Plan will include limited longer term financial information.	Review financial and workforce planning in new Corporate Plan.	We have reviewed the new Corporate Plan 2018-2021 and found that it contains details of the new People Strategy which incorporates workforce planning but does not fully

	Audit Risk	Assurance procedure	Results and conclusions
	The plan should include clear links to strategic objectives and the annual business plan. 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.	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.	address the need for longer-term financial planning. The latter has not been progressed this year: we have therefore made a further recommendation on this in this report. The People Strategy has been implemented and encompasses strategic workforce and recruitment planning. Core skills have been identified and used to develop a Learning and Development Model to support Revenue Scotland's operational needs. Our monitoring of Board and committee papers and financial performance against budget has been satisfactory with no concerns noted.
6	**Tax compliance activity (DTA)** 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. 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. There is a risk that the increasing number and complexity of cases and the resultant pressures on staff results in the: • incorrect assessment of tax due • non- or delayed collection of tax • incorrect allocation of tax.	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.	Our focused testing has been satisfactory. Our review of Board papers and evidence of Revenue Scotland's interaction with partner bodies has been satisfactory with no concerns noted. We have liaised with Internal Audit, reviewed their work during the year and no major concerns have been found. We reviewed and assessed compliance activity including the Compliance Strategies and made some recommendations for improvement which we reported in our Management Report. Our substantive testing has been satisfactory.

Audit Risk	Assurance procedure	Results and conclusions
7 Information governance (RA/DTA) 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. 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.	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.	We reviewed Revenue Scotland's approach to and consideration of cyber security and found them to be satisfactory. We have reviewed Internal Audit output and noted no concerns in this area. Our review of Board papers found that it is kept up to date with operational activities to strengthen cyber security and meet GDPR requirements. Good progress has been made towards obtaining Cyber Essentials certification. The BCP plan has been reviewed and we note it has been updated and a series of desktop exercises held with lessons learned sessions to follow up.
8 SETS: procurement and business continuity (RA) 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. 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.	Review of Board papers. Review of project and programme board papers. Regular meeting and discussion with management.	Our review of Board and other papers and discussions with management found that good progress was made during the year with the procurement project. The new contract is due to be signed in autumn 2018 with the target date for the new system to become operational in April 2019. We are satisfied that risks are being managed with contingency plans in place should the new system not be ready on time.

Appendix 3

Summary of national performance reports 2017/18



Central Government relevant reports

Common Agricultural Policy Futures programme: further update – June 2017

Transport Scotland's ferry services – October 2017

Early learning and childcare – February 2018

Managing the implementation of the Scotland Acts – March 2018

Revenue Scotland

2017/18 Annual Audit Report

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