Revenue Scotland

Resource Accounts
Devolved Taxes Account
2018/19 Annual Audit Report

AUDIT SCOTLAND

Prepared for Revenue Scotland and the Auditor General for Scotland

20 September 2019

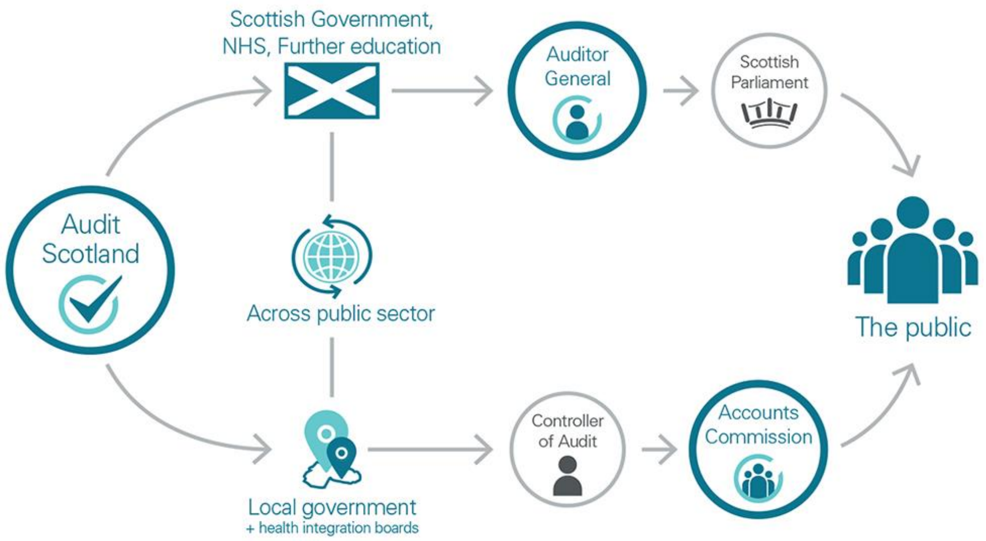
Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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2018/19 annual report and accounts

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2 **Expenditure and income in the financial statements 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 effective budgetary processes that allow the Board and management to carry out effective scrutiny of its finances. There was a small overspend against the resource budget which was agreed with Scottish Ministers. There was an underspend of £400,000 against the capital budget.**

5 **In 2018/19 devolved tax revenues were £12 million above the amount forecast by the Scottish Fiscal Commission.**

6 **There were no significant control weaknesses identified which could affect the organisation's ability to record, process, summarise and report financial and other relevant data. There were some weaknesses in the operation of internal controls during 2018/19, which were largely due to staff absence.**

Financial sustainability

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

8 **There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2019/20.**

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 and has provided clear linkages around performance and the Scottish Government's national performance framework.**

Value for money

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

12 **Seven out of eleven key targets were achieved in 2018/19.**

Introduction

1. This report summarises the findings from our 2018/19 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 2019 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 accounts
- consideration of the four 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 2018/19 have been:

- a review of Revenue Scotland's main financial systems
- an audit of Revenue Scotland's 2018/19 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
- consideration of the four dimensions of public audit.

Adding value through the audit

4. We add value to Revenue Scotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help Revenue Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report 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, Remuneration and Staff Report)
- Financial statements and supporting notes.

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

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

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

9. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2016*, and supplementary guidance and International Standards on Auditing in the UK.

10. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,

- the financial position and arrangements for securing financial sustainability.

11. 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.

12. This report raises matters from the audit of the annual report 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.

13. 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 any outstanding actions from last year and progress against these.

14. 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 2018/19 audit fee of £93,990 (2017/18 £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.

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

16. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts

Main judgements

Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2018/19 were unqualified.

Expenditure and income in the financial statements 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 accounts

17. The annual report and accounts for both the Resource Accounts (RA) and the Devolved Taxes Account (DTA) for the year ended 31 March 2019 were approved by the Board on 19 September 2019. We reported within the independent auditor's report on both accounts that:

- 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 issued by Scottish Ministers
- the audited part of the remuneration and staff report (RA only), performance report (RA only) and governance statements were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The 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.

18. 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

19. We received the unaudited annual report and accounts on 29 July 2019, which was one week later than originally planned. This later submission date was agreed with the audit team. Finance staff provided good support to the audit team.

20. The working papers provided with the unaudited financial statements were of a reasonable standard. We have discussed with management a number of suggested enhancements to the year-end process including the agreement and cross referencing of supporting documents to the trial balance and accounts, particularly in respect of payables and receivables in the DTA. Further, we issued Financial Reporting Manual (FReM) disclosure checklists for the DTA and RA, but only those for the DTA accounts were completed. We have raised these matters in previous years.

21. The year-end audit was deliberately delayed to allow the introduction of the new Scottish Electronic Tax System (SETS) and DTA financial ledger to progress without audit pressures on finance staff. As a consequence, the timetable for completion was shorter than in previous years. However, our audit was impacted by staff leave and the reliance on certain key individuals. We will discuss further with management as part of our planning work for the 2019/20 audit.

Recommendation 1

Management should review the roles and responsibilities of finance staff to ensure no 'single point of failure'. The year-end working papers should be reviewed for clarity and the disclosure checklists should be completed in advance of the audit commencing.

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

Risk of material misstatement

23. Appendix 2 provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

24. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

25. 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 and involves considering both the amount and nature of the misstatement.

26. 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

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

Exhibit 2
Materiality values

Materiality	Resource Accounts	Devolved Taxes Account
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. • **Resource Accounts:** 2% of gross expenditure for the year ended 31 March 2019 based on the unaudited 2018/19 accounts. • **Devolved Taxes Accounts:** 1% based on the total tax revenue for the year ended 31 March 2019, based on the unaudited 2018/19 accounts.	£124,000	£7.093 million

Materiality	Resource Accounts	Devolved Taxes Account
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 • **Resource Accounts:** 75% of planning materiality. • **Devolved Taxes Accounts:** 20% of planning materiality.	£93,000	£1.419 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the reporting threshold amount. This has been calculated at: • **Resource Accounts:** 2% of planning materiality. • **Devolved Taxes Accounts:** 1% of planning materiality (rounded).	£2,000	£100,000

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

28. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

29. The significant findings 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.

Qualitative aspects of the audit

30. Qualitative aspects of the audit include our consideration of accounting policies, significant disclosures or misstatements. Significant findings in relation to qualitative aspects are included in Exhibit 3.

Exhibit 3
Significant findings from the audit of financial statements

Issue	Resolution
1. Contingent Assets (DTA) Note 8 to the accounts discloses £113.7m of contingent assets in respect of decisions by Revenue Scotland that have been appealed to the tax tribunal which have not yet been settled. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. No income has been recognised in the DTA in respect of these cases as the outcome is uncertain due to the ongoing tribunal cases.	We liaised with management in advance of the audit to agree the accounting treatment. We are content with the approach taken by management. We have sought and obtained written confirmation from the Accountable Officer that the disclosure has been reasonably based and reflects the status of cases currently progressing through the appeals process.

Issue	Resolution
2. Contingent assets: LBTT deferrals (DTA) Note 8 to the financial statements refers to contingent assets and highlights cases where a deferral of Land and Buildings Transaction Tax (LBTT) payable has been granted, where the relevant conditions have been met. Deferrals totalling £3.4 million have been identified. We reviewed the supporting records for LBTT deferrals granted by Revenue Scotland and identified 22 cases with a total tax deferred of £610,000, where review dates had passed without the records having been updated to indicate that review had taken place. This does not affect the total amount disclosed in the annual accounts. This matter was also raised in 2017/18.	We recommend that the review process and record keeping for LBTT deferrals is reviewed to ensure that reviews are conducted on time and appropriately evidenced. Appendix_1, Recommendation 2
3. 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, referring to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The approach taken was consistent with 2017/18.	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 in the accounts refers to repayments due to be made where the above conditions have been satisfied by 31 March 2019. 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 (2017/18: £29million). We are content that this approach is appropriate. We have sought and obtained written confirmation of the basis of the Accountable Officer's judgement.
4. Daily Penalties (DTA) In July 2019, the Upper Tier Tax Tribunal published two decisions in which it found that Revenue Scotland was entitled to issue daily penalties, but that penalties previously raised had not been issued in the correct form. Revenue Scotland repaid the daily penalties (£900) issued in both circumstances. Revenue Scotland's Board decided that there would not be any general repayment in respect of other such daily penalty cases on the basis that no appeal had been made. This matter has been disclosed in Note 10 Events After the Reporting Date in the DTA accounts.	Management advised that there is no expected repayment of other such cases. As such, we are content that there is no requirement for a contingent liability to be disclosed in the accounts.

Issue	Resolution
5. SLFT Tonnage Differences (DTA) We identified two Scottish Landfill Tax (SLFT) returns where tax calculated was inconsistent with tonnages declared by the taxpayers on a supplementary schedule. Management subsequently advised that these inconsistencies (potentially £1.5 million) are investigated when identified and are not representative of a system issue.	Management confirmed that these differences are being investigated. Management advised that the new system (SETS 2) will prevent this issue from happening as the system will automatically calculate tax due based on variables entered by the taxpayer on their return. We concluded that the accounts were not materially misstated.

Source: Audit Scotland

How we evaluate misstatements

31. There were no material adjustments to the unaudited annual report and accounts arising from our audit. There were a number of adjustments to the unaudited accounts. These included:

- **DTA Payment on Account:** A payment on account of £2.179 million was incorrectly recognised as income and a debtor in the unaudited accounts; it had also been deducted from contingent assets. An adjustment was required to derecognise this income and the debtor and add it back to the contingent assets. This payment on account has now been recognised as a creditor in the accounts.

- **RA Intangible Asset:** The £1.28 million asset under construction was incorrectly disclosed as a tangible asset but was subsequently reclassified as an intangible asset.

- **DTA Accrued Income:** £693,000 of accrued income was incorrectly recognised when it was in fact deferred LBTT. This should have been treated as a contingent asset but was not included in the deferrals tracker. Management adjusted the accounts to derecognise the £693,000 receivable and income and to recognise a contingent asset for this amount.

- **DTA Contingent Liability:** As a result of our audit work regarding paper ADS claims, management identified that there were £587,000 claims for ADS repayment received in April and May 2019 and subsequently repaid. As a result, the contingent liabilities figure was reduced by £587,000.

- **DTA Tax Not Collectable:** The gross income and subsequent impairment of receivables was understated by £293,000. This related to a determination of tax that had been issued to a taxpayer but had been omitted from the unaudited accounts.

32. There were no unadjusted misstatements above our reporting thresholds. The net effect of adjustments to the DTA was to decrease

- net revenue for the Scottish Consolidated Fund by £3.740 million in the Statement of Revenue and Expenditure

- the balance due to the Scottish Consolidated Fund by £3.740 million in the Statement of Financial Position.

33. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from management and materiality. There are no uncorrected misstatements in either the RA or DTA accounts.

Other findings

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

Air Departure Tax (ADT)

35. The Air Departure Tax (Scotland) Act 2017 received Royal Assent on 25 July 2017. This tax has not yet been implemented. On 23 April 2019, the Scottish Government deferred the introduction of ADT beyond April 2020.

36. As part of the preparations for the introduction of ADT, Revenue Scotland spent £0.95 million on preparations for the implementation of ADT during 2017/18. The costs included £0.733 million on staff costs and £0.22m on an additional ADT ICT module for the existing Scottish Electronic Tax System (SETS 1). Following the decision to defer the introduction of ADT and the introduction of a new SETS system, the £0.22 million spent on upgrading SETS 1 does not have continuing value, in that Revenue Scotland will not be able to use this module on SETS 2. The performance report within the Resource Accounts refers to this investment.

Impairment

37. Revenue Scotland recognised an impairment of its year-end SLFT receivables of £9.814 million (total £10.354 million) (notes 3.2 and 4.2 of the DTA). This relates to assessments and determinations of unpaid tax, penalties and interest that Revenue Scotland issued in June 2018. Revenue Scotland's management continue to seek repayment of the outstanding debts. This impairment has been charged to Revenue Losses in the Statement of Revenue and Expenditure. We are content with how this impairment has been accounted for.

Compliance yield

38. 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 £1.03 million direct compliance yield (£0.36 million taxes and £0.66 million penalties and interest) and is one of Revenue Scotland's key performance indicators. This is a decrease from 2017/18 when £2.366 million was reported. The yield is likely to vary year on year depending on the timing of cases under review and any referrals to the tax tribunals.

39. 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

40. 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 £7.7 million were received from landfill operators in 2018/19 which were paid to Approved Bodies, authorised by SEPA to distribute the funds to eligible projects. It is recognised that the level of contributions will reduce going forward as the level of waste sent to landfill decreases. Revenue Scotland receives assurances from SEPA on this work. We have reviewed the assurance statement received from SEPA for 2018/19 and have noted that no issues have been highlighted.

New IT Systems

41. Until July 2019, Revenue Scotland used the Scottish Electronic Tax System (SETS 1), supplied by European Dynamics. In July 2019, this was replaced by

SETS 2, which is supplied by Northgate Public Services Ltd. Revenue Scotland closed down SETS 1 on 18 July 2019 and SETS 2 went live on 24 July 2019. Revenue Scotland also introduced a new financial ledger for its DTA.

42. The RA shows an intangible asset under development of £1.228m, which represents the total capitalised cost of the new system as at 31 March 2019.

43. Revenue Scotland extended the SETS 1 contract with European Dynamics to August 2019. This allowed time for the new Northgate system to be implemented. SETS 1 has been archived to allow management to maintain an audit trail of pre-July 2019 tax records.

44. During our audit, we noted that tax staff experienced difficulties in accessing some tax records. Management subsequently advised that these were initial problems with the new system and the SETS 2 configuration has now been resolved to allow SLFT staff to access attachments on the Case Management System (CMS) that were originally created on SETS 1. We will review the implementation of this system more fully during our 2019/20 audit.

Follow up of prior year recommendations

45. Revenue Scotland has made reasonable progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

Part 2
Financial management

Main judgements

Revenue Scotland has effective budgetary processes that allow the Board and management to carry out effective scrutiny of its finances. There was a small overspend against the resource budget which was agreed with Scottish Ministers. There was an underspend of £400,000 against the capital budget.

In 2018/19 devolved tax revenues were £12 million above the amount forecast by the Scottish Fiscal Commission.

There were no significant control weaknesses identified which could affect the organisation's ability to record, process, summarise and report financial and other relevant data. There were some weaknesses in the operation of internal controls during 2018/19, which were largely due to staff absence.

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

Financial performance in 2018/19: Resource Accounts

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

47. Revenue Scotland has reported an outturn of £6.220 million in its Resource Accounts compared to its Resource Departmental Expenditure Limit (DEL) of £6.210 million. Scottish Ministers have confirmed that that they are content with this small overspend (£10,000) against budget.

48. Performance against the Capital DEL highlights an underspend of £0.400 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in Exhibit 4.

Exhibit 4
Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource DEL	5.900	6.210	6.220	0.010
Capital DEL	4.300	1.600	1.200	(0.400)
Total DEL	10.200	7.800	7.420	(0.390)

Source: Revenue Scotland Resource Accounts; 2018/19 Grant in Aid Letter; Scottish Government Spring Budget Revision 2018/19

2018/19 financial position: Resource Accounts

49. The Statement of Financial Position 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.

50. The financial statements show that Revenue Scotland has net assets of £0.627 million (2017/18: £745,000 net liabilities), an increase of £1.372 million largely attributable to the recognition of an intangible asset under construction in respect of the SETS 2 IT system, which went live in July 2019. Trade payables reduced from £941,000 to £725,000, due to a large number of accruals in respect of the IT costs of SETS 2 at 31 March 2019, which reduced in 2018/19.

Financial performance in 2018/19: Devolved Taxes Account

51. Revenue Scotland is responsible for the collection and administration of the devolved taxes. In 2018/19, tax revenues were £706 million (2017/18: £707 million) which was £12 million higher than the Scottish Fiscal Commission's forecasts in the 2018/19 Budget Act.

52. In addition to the taxes collected LBTT(£555 million) and SLFT (£151 million), penalties and interest totalling £3.1 million were levied for late or incorrect returns and payments.

53. Revenue Scotland is required to remit receipts from the devolved taxes to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that £714.7 million of cash generated during the 2018/19 period from the devolved taxes was remitted to the SCF during the year (2017/18: £697.3 million). A further £50 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

54. We reviewed Revenue Scotland's budget setting and 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.

55. In our interim management report (May 2019) we reported that regular budget monitoring reports are presented to the Senior Leadership Team (SLT) and the Board. While SLT reports are detailed, no commentary is provided outlining reasons for variances or corrective actions to be taken. This would help inform management's decision-making. Management advised that SLT members provide challenge to budget monitoring reports, including seeking explanations on variances, and additional information is presented as required. Management agreed to put in place a formal process to record the variances and subsequent discussions. We will follow this up as part of our 2019/20 audit.

56. We concluded that Revenue Scotland has effective budgetary processes that allow the board and management to carry out effective scrutiny of its finances.

Systems of internal control

57. 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.

58. Our findings were included in our management report presented to the Audit and Risk Committee in May 2019. We identified a number of control weaknesses, relating to reconciliations, IT access controls and journal authorisation. We also acknowledged that a number of the weaknesses relate directly to absence of key finance staff.

59. Overall, we concluded that whilst there were weaknesses identified in the system of internal control, no significant control weaknesses were identified which could affect Revenue Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

60. Our testing of the SETS tax collection system found there has been further progress during the year in Revenue Scotland's compliance activity. However, some compliance activity is still at an early stage, and compliance work on 2018/19 remains ongoing. Management advised that further improvements are planned from April 2019 onwards. This is important in terms of preventing and detecting fraud and error in tax returns.

61. 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 2018/19. Our audit work in this area was concluded satisfactorily.

Internal audit

62. Internal audit provides the Accountable Officer and the Audit and Risk Committee with independent assurance on risk management, internal control and corporate governance processes. Revenue Scotland's internal audit function is carried out by the Scottish Government Internal Audit Division (SGIAD). We did not plan to place any specific reliance on the work of internal audit for the purposes of the audit of the financial statements. However, we reviewed Internal Audit's work on Enquiries & Penalties as part of our wider dimension audit.

63. We reviewed SGIAD's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. No issues were identified.

Standards of conduct for prevention and detection of fraud and error

64. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption, and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

65. 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. Members of staff are required to sign confidentiality agreements due to the high level of sensitive personal data they handle in their work.

66. 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 are required to bring to your attention.

Dependency on key suppliers

67. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

68. Revenue Scotland's uses a number of Scottish Government systems and are therefore covered by their arrangements. As noted above, the critical tax system (SETS) was outsourced to a third party, European Dynamics up to July 2019 and has since been replaced by a new system supplied by Northgate Public Services Ltd.

69. Revenue Scotland had a number of controls in place to manage its relationship with European Dynamics, including:

- a business continuity plan
- regular service reports from the supplier were received
- IT service delivery using a supplier management plan was monitored
- a replicated SETS database was held at offsite and an escrow with validation service had been established should SETS fail
- an IT Governance Board was in place to manage IT systems.

70. We will review the steps taken to manage the key supplier relationship with the SETS 2 supplier during our 2019/20 audit.

Part 3

Financial sustainability

Main judgements

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

There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2019/20.

Financial planning

71. Revenue Scotland has an allocated Scottish Government Departmental Expenditure Limit (DEL) budget of £7.610 million for 2019/20: a £6.2 million resource budget and a £1.410 million capital budget. This is broadly in line with the 2018/19 outturn. The capital budget will be utilised for the continued development of the SETS 2 tax system and the new financial ledger. The 2019/20 draft budget was approved by the Board in May 2019.

72. Since April 2017, the Scottish Fiscal Commission (SFC) has been responsible for forecasting devolved tax revenues and has set out its methodology and assumptions in Scotland's Economic and Fiscal Forecasts – May 2019. For 2019/20 the SFC is forecasting Revenue Scotland's tax receipts to be £715 million (LBTT £616 million; SLFT £109 million) which is £8 million above the 2018/19 outturn.

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.

Changing landscape for public financial management and medium to long term financial planning

73. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

74. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning. The second MTFS was published in May 2019 and sets out the key financial challenges and opportunities that lie ahead and provide the context for the upcoming Spending Review and the Scottish Budget later in the year.

75. 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.

76. We recommended in our previous 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.

77. The Corporate Plan 2018-2021 was approved by Scottish Ministers and is available on Revenue Scotland's website. 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.

78. Due to the implementation of SETS 2, there have been delays to the development of long-term financial plans. The financial strategy was discussed at the June 2019 Board Strategy session which further developed the organisation's approach and placed this more directly in the context of the new strategy plan and the MTFS.

79. Management has recognised the need for a more strategic approach to financial sustainability and has set out the key principles that will underpin this (previously discussed and agreed by the Board in April 2018) . 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 3

Revenue Scotland should continue to develop 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.

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 and has provided clear linkages around performance and the Scottish Government's national performance framework.

Governance arrangements

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

81. Revenue Scotland 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 nine occasions in 2018/19. It is supported by an Audit and Risk Committee and a Staffing and Equalities Committee. Following a review of the Board's effectiveness, a further two members were appointed to the Board in July 2019.

82. The Chief Executive is the Accountable Officer and is 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.

83. 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 2019 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 2018/19 and provided an appropriate level of challenge.

84. 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.

Openness and transparency

85. 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.

86. 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 website.

87. 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 on SLFT, LBTT as well as a presentation of statistics through which interested parties can participate in discussions on tax matters. Revenue Scotland has demonstrated a willingness to disclose information openly and clearly.

88. Revenue Scotland continues to improve transparency in its annual reports and accounts. For example, further information was provided within the performance and accountability reports and there was good linkage into the National Performance Framework.

Performance report

89. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the RA annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

90. We reviewed Revenue Scotland's performance report and confirmed that the information was of a good standard and provided a good level of detail on the performance of the organisation during 2018/19.

Governance Statements

91. 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.

92. 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 Accounts Direction and we assessed compliance against this more specific guidance.

93. We concluded that the 2018/19 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.

Cyber security

94. 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.

95. We are pleased to note that Revenue Scotland received Cyber Essentials Plus accreditation in October 2018.

Part 5

Value for money

Main judgements

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

Seven out of eleven key targets were achieved in 2018/19.

Best value

96. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value . Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement. Achieving and demonstrating continuous improvement in performance and outcomes is a core requirement for all public bodies

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

97. The Chief Executive of Revenue Scotland is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate best value. The annual report and accounts outline how a range of best value attributes and practices are embedded across the organisation. These include:

- corporate governance arrangements which reflect the roles and structures within the organisation
- the development of a three-year strategic plan together with an annual business plan
- budgets and resources are regular monitored
- a systematic risk management approach
- arrangements are in place to monitor the achievement of outcomes.

Performance management

98. 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 2018/19 Business Plan.

99. 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.

100. The Performance Report discloses performance against the 11 Key Performance Indicators (KPIs) outlined in the 2018-21 Corporate Plan. Revenue Scotland exceeded its target for five of these; achieved a further two and did not achieve three. The remaining KPI related to a benchmark of tax secured through compliance activity. The 2018/19 performance was below the 2017/18 baseline, although there was a significant amount of tax dependent up on the outcome of tribunals (£114 million, as noted in Exhibit 3 above).

101. 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.

Shared services

102. 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 resources and financial management, estates and facilities, procurement, legal and information technology functions.

103. 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

104. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of direct interest to Revenue Scotland. These are outlined in Appendix 3.

105. 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.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Working Papers** We identified issues with agreement and cross referencing of supporting documents to the trial balance and accounts, particularly in respect of payables and receivables in the DTA. Disclosure checklists were not fully completed. Our audit was impacted by staff leave and the reliance on certain key individuals. **Risk:** The audit is delayed, and the audit opinion may be impacted by the poor quality of working papers.	Management should review the roles and responsibilities of finance staff to ensure no 'single point of failure'. The year-end working papers should be reviewed for clarity and the disclosure checklists should be completed in advance of the audit commencing. **Paragraphs 19-21**	The Finance Team will review the format of working papers with Audit Scotland to ensure these meet their requirements. **Responsible officer:** Chief Accountant **Agreed date:** March 2020
2	**Contingent assets: LBTT deferrals (DTA)** We identified 22 cases where review dates had passed without the deferral records having been updated to indicate that review had taken place. **Risk:** 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.	Management should review the process and record keeping for LBTT deferrals is reviewed to ensure that reviews are conducted on time. **Exhibit 3**, point 2	Work is underway to review processes to ensure that reviews are undertaken at the appropriate dates. **Responsible officer:** Head of Tax **Agreed date:** January 2020

No.	Issue/risk	Recommendation	Agreed management action/timing
3	**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.	Revenue Scotland should develop 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 79**	An approach to developing a draft financial strategy was discussed at the June 2019 Board Strategy session. This built upon the principles discussed and agreed by Board in April 2018. We will continue to develop and finalise this during the financial year. **Responsible officers:** Head of Strategy & Corporate Functions/Chief Accountant **Agreed date:** March 2020
Follow up of prior year recommendations			
b/f 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.	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 **2018/19 update** Further issues were identified in 2018/19. Refer to **Exhibit 3** and **Recommendation 2** above.

No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 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.	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 **2018/19 update:** No issues identified – complete.
b/f 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	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.	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 **2018/19 update:** We reviewed the Tribunals trackers and confirmed that these have been accounted for correctly in the 2018/19 DTA – see **Exhibit 3** above. Complete.

No.	Issue/risk	Recommendation	Agreed management action/timing
	appropriately reflected in accounting judgements**.**		
b/f 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.	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 **2018/19 update:** Due to the implementation of SETS 2, there have been delays to the development of long-term financial plans. Management presented a session on financial strategy at the June 2019 Board Strategy session. Refer to **Recommendation 3** above.

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 to change the position disclosed in the financial statements. Extended staff absence has presented capacity challenges for the finance team. There is a potential risk that financial controls may not have operated effectively	Controls testing of financial systems for RA. Walkthrough testing of controls for RA and DTA. Review of arrangements and policies for preventing and detecting fraud. Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals, prepayments and accounting adjustments at the year-end. Evaluation of significant transactions that are outside the normal course of business.	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. We identified a number of issues as a result of extended staff absence during our interim audit on the operation of controls over reconciliations, IT access controls and journal authorisation. We performed substantive testing at year-end to provide additional assurance. No further issues identified.
2 Risk of fraud over income and tax repayments (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. Revenue Scotland collected devolved taxes in excess of £705m in 2017/18. The Code of Audit Practice and Practice Note 10 also require auditors to consider the risk of fraud over certain types of public sector expenditure where activity is undertaken by	Detailed testing of tax revenue transactions focusing on the areas of greatest risk. Review of accounting policy for revenue recognition. Monitoring early intervention and compliance checks. Cut-off testing. Evaluation of internal controls over ADS repayments. Detailed testing of ADS repayments.	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 and tax repayments. Results of cut-off testing were satisfactory.

Audit Risk	Assurance procedure	Results and conclusions
individuals or groups outside the immediate control of the audited body (e.g. tax repayments). In particular, LBTT's Additional Dwelling Supplement (ADS) has been collected by Revenue Scotland since 1 April 2016 and taxpayers can claim a repayment of ADS where certain conditions are met. Nearly £30m of ADS was repaid in 2017/18. The value and complexity of tax revenue and related tax repayments mean that, in accordance with ISA 240, there is an inherent risk of fraud.		
3 Risk of tax revenue being misstated Revenue Scotland has a range of investigatory powers which allows it to make enquiries into submitted tax returns. Penalties may also be imposed for failures in terms of liability or in submission of returns. There are a number of on-going enquiries being undertaken by Revenue Scotland and some taxpayer appeals against penalties are being considered by Tribunals. Internal controls over processes and procedures, together with related compliance activity, continue to be developed and refined. In addition, mid-year tax rate changes require to be applied and 2018/19 is the first year in which taxpayers will submit triennial returns for leased properties. There is a risk that the tax revenue reported in the financial statements is misstated due to: • the incorrect assessment of tax due • the delayed or non-collection of taxes due • the incorrect allocation of taxes received.	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 (including review of triennial returns for leased properties and application of revised tax rates) • timely payment has been received • income has been correctly allocated. Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied. Consider Internal Audit's work on Enquiries and Penalties. Review Board papers. Review working relationships with SEPA and RoS and other stakeholders.	We considered internal audit's findings 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, including cut-off testing before and after the mid-year tax rate changes. 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.

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
4 Financial sustainability 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. 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.	• Review progress towards the preparation of longer-term financial plans. • Review Board and Committee papers. • Monitor financial performance against budget.	Due to the implementation of SETS 2, there have been delays to the development of long-term financial plans. Management presented a session on financial strategy at the June 2019 Board Strategy session and they fully intend to take this forward. 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.
5 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. 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 impacts on the effectiveness of compliance activity.	• Focused testing of assessment, collection and allocation of tax revenues (as outlined at point 3 above). • Review Board papers. • Review working relationships with SEPA, RoS and other stakeholders. • Review compliance activity including the new strategies. • Review of action taken in relation to enquiries, penalties and taxpayer appeals and accounting treatment applied including consideration of impairment. • Consider Internal Audit's work on Enquiries and Penalties.	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, considered 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.

Appendix 3

Summary of national performance reports 2018/19

Central Government relevant reports

Scottish Fire and Rescue Service: an update – May 2018

Scotland's colleges 2018 – June 2018

The National Fraud Initiative in Scotland 2016/17 – July 2018

Forth Replacement Crossing – August 2018

Major project and procurement lessons – August 2018

Superfast broadband for Scotland: further progress update – September 2018

Revenue Scotland

2018/19 Annual Audit Report

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