

# Revenue Scotland

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Revenue Scotland

May 2020

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Revenue Scotland. This work included assessing the key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2019/20 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek 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
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We have also, under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on a review of the procurement of the new Scottish Electronic Tax System (SETS 2), a review of Revenue Scotland's compliance work and a review of financial management.

## Covid 19

4. Public bodies are under exceptional pressure as they manage the impact of the pandemic and guidance and deadlines for financial reporting have been amended to reflect this. The extension of these deadlines will impact on timings for audit work and reporting.

5. Our approach to audit will be flexible, pragmatic and consistent. Sound financial management and effective governance are more important than ever, and audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances. Our work needs to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector. We continue to prioritise quality and independence.

6. We began our interim audit on-site in early March 2020. In accordance with the developing Covid 19 guidance, we began to work from home from the middle of March. Staff within Revenue Scotland also started to transition towards home working at that point. We sought to be pragmatic in our audit requests during this time and to give Revenue Scotland staff time to prioritise essential non-audit work.

7. These changes to both our and Revenue Scotland's day-to-day working has impacted our ability to undertake our planned audit in accordance with the original approach and timescale. As such, our audit work extended into April 2020. In some instances, Revenue Scotland staff have been unable to provide some evidence which was held in paper format and therefore unobtainable.

8. We remained in regular dialogue with management throughout this period to discuss the interim audit and the potential impact on the year-end financial statements audit.

9. We are grateful to management for their cooperation to allow us to progress our audit work during this difficult time.

## Conclusion

10. Our walkthrough of the key financial systems is largely complete. We identified several controls weaknesses as summarised in [Exhibit 1](#) below. We are content that Revenue Scotland's control environment is operating effectively for the Resource Accounts. As a result of the impact of Covid 19, and the controls issues identified, we will take limited assurance over the controls operating for the Devolved Taxes Account. We have decided to modify our audit approach to take a substantive approach for the Devolved Taxes Account. We identified some less significant issues which were discussed with management so that appropriate actions could be taken.

11. Our work on the wider dimension audit (financial sustainability, tax compliance activity, value for money) is ongoing. Based on the work undertaken to date on the wider dimension audit, we have not identified any areas of concern which require reporting at this stage. We shall report our findings from our wider dimension work in our Annual Audit Report.

## Work summary

12. Many of Revenue Scotland's controls for the Resource Accounts are undertaken by the Scottish Government. We will rely on the work undertaken by the Scottish Government external audit team and consider the implications of any findings for our audit work.

13. We reviewed the key controls operating within Revenue Scotland. We undertook testing in both the Resource Accounts (RA) and the Devolved Taxes Account (DTA). Revenue Scotland procured two new systems during 2019/20: a replacement for the Scottish Electronic Tax System (SETS) and a new financial ledger for devolved taxes (Epicor). The new systems went 'live' in July 2019. Our testing covered both the old and new DTA systems.

14. Due to the impact of working remotely and the controls weaknesses identified, we have decided to modify our planned audit approach and adopt a substantive approach to our audit of the devolved taxes account. We will continue to adopt a substantive approach to our audit of the resource accounts.

15. As a result of the delays of working remotely, we were unable to undertake planned substantive testing of tax returns. Our substantive testing of data migration from SETS 1/SEAS top SETS 2/Epicor is ongoing. The remaining substantive testing will be completed as part of our year-end financial statements audit. We will work with management to identify potential solutions to enable us to access relevant evidence/ information remotely.

16. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

## Risks identified

17. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

18. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Revenue Scotland.

## Exhibit 1

### Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer/ target date
<p><b>1. DTA – General ledger user access rights</b></p> <p>In July 2019, Revenue Scotland introduced a new general ledger for its DTA. This general ledger has a relatively small number of users, mainly within the Finance team.</p> <p>Finance staff have wide access rights within the financial ledger.</p> <p><b>Risk.</b> Access permissions to the DTA general ledger should be reviewed to ensure that staff have user access rights which are appropriate to their role.</p>	<p>Access covers a wide range of menu items within the system currently while staff gain an understanding of the various options.</p> <p>As our understanding of the system increases, we will undertake a review of access to ensure staff have the most appropriate access for their roles.</p>	<p>Chief Accountant</p> <p>October 2020</p>
<p><b>2. DTA Management review of ledger controls</b></p> <p>Management review and oversight is a key control to ensure segregation of duties which, in turn, mitigates against the risk of material misstatement due to fraud or error.</p> <p>Our audit testing confirmed that there is no management review or oversight of:</p> <ul style="list-style-type: none"> <li>• journals posted to the Epicor general ledger or the predecessor SEAS general ledger</li> <li>• the reconciliations between SETS 1 to SEAS or SETS 2 to Epicor</li> <li>• changes to the chart of accounts (i.e. creating new general ledger codes).</li> </ul> <p>We are aware that there has been a large reduction in the level of reconciling items between the financial ledger and the tax system since the introduction of SETS 2 in July 2019.</p> <p><b>Risk.</b> The lack of management review of key controls, together with the wide-ranging user access identified at point 1 increases the risk of misstatement.</p> <p><b>Planned audit work.</b> We will:</p> <ul style="list-style-type: none"> <li>• increase our substantive testing of journals from across the financial year</li> <li>• review a range of reconciling items from the tax system (SETS 1/2) and the general ledger (SEAS/Epicor) reconciliations.</li> <li>• Review a sample of changes to the chart of accounts.</li> </ul>	<p>Access to the finance system is limited to the Finance team and the volume of manual journals created by staff is minimal since the introduction of SETS2. We do not view this as a significant risk but we will undertake a review of authorisation procedures.</p> <p>Reconciliation of the data interface between SETS2 &amp; Epicor is performed daily by a member of the Finance team who brings any discrepancies to the attention of her line managers. Any differences are rare and resolved the same day. Management will consider ad-hoc reviews of the reconciliation.</p> <p>The initial chart of accounts established the minimum requirement of general ledger accounts. As we have become used to the system it became apparent that a few additional account codes were required. These have been set up by the Chief Accountant after discussion with Finance staff. Controls over setting up new codes will be reviewed.</p>	<p>Chief Accountant/Finance Manager</p> <p>September 2020</p> <p>Chief Accountant/Finance Manager</p> <p>September 2020</p> <p>Chief Accountant/Finance Manager</p> <p>September 2020</p>

Issue identified	Management response	Responsible officer/ target date
<b>3. DTA – Debt management</b>		
<p>There have been delays in debt management processes in 2019/20 which have been as a result of work pressures.</p>	<p>Tax Operations are now working on improving debt management following systems development</p>	<p>Head of Tax Operations</p>
<p>We also found that Revenue Scotland undertakes a reconciliation of the SETS 2 outstanding balances to the AR control account balances on Epicor. Whilst this is an effective control, it would be strengthened if there was evidence of management review.</p>	<p>The reconciliation of debt balances between SETS2 and Epicor has been carried out initially by the Chief Accountant. This has been as a result of the need to develop aged debts reports with MI and ensure that these are robust. That work is now complete and responsibility for reconciling the month end balances will pass to the Finance team members enabling review to take place.</p>	<p>Chief Accountant/Finance Manager</p> <p>June 2020</p>
<p><b>Risk.</b> There is a risk that debt repayment becomes more difficult to achieve the longer the debt continues. As a consequence, the receivables balance disclosed in the DTA financial statements may be overstated.</p>	<p>The Finance Manager undertakes an impairment review at the end of the year. This is reviewed by the Chief Accountant. This review seeks to ensure there is no overstatement of receivables.</p>	
<p><b>Planned audit work.</b> We will undertake substantive testing of the year-end receivables balance disclosed in the DTA financial statements.</p>		

#### Audit dimensions - issues and risks

#### 4. Financial Management: Budget Monitoring-

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.

**Risk.** There is a risk that management decisions to address budget variances are not actioned. Revenue Scotland's financial management could be strengthened if SLT finance reports were accompanied by commentary to flag significant variances and resultant management action.

The Chief Accountant provides a regular report showing resource expenditure against budget and verbally explains this to SLT. Where any action is required this is recorded in the decision log

Detailed quarterly written reports are provided to the Board and presented by the Chief Accountant. Board members challenge the Chief Accountant and a formal minute is documented approving the report.

We believe that the documentation of actions in the SLT decision/action log is sufficient to ensure that action is taken when required.

Source: Audit Scotland

19. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Revenue Scotland

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