Revenue Scotland

Resource Accounts / Devolved Taxes Account
2019/20 Annual Audit Report

AUDIT SCOTLAND

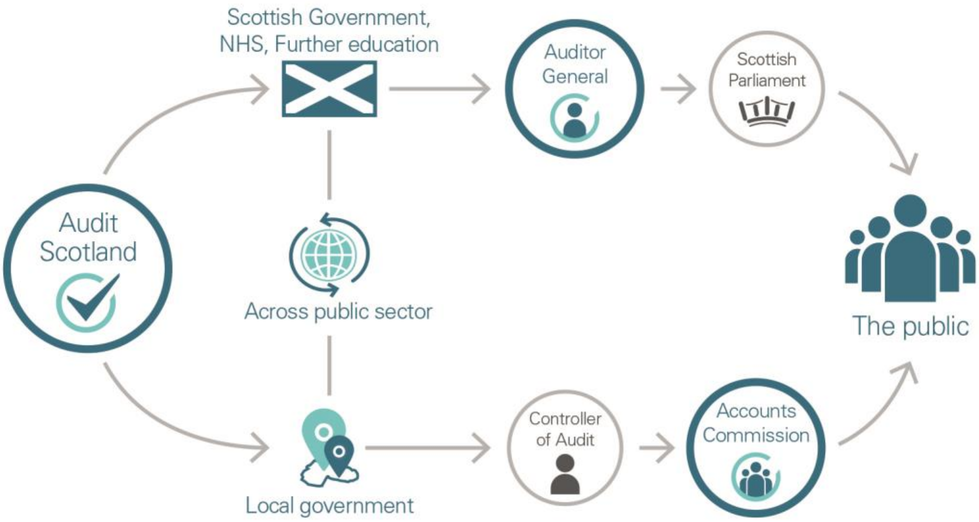
Prepared for Revenue Scotland and the Auditor General for Scotland

20 November 2020

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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2019/20 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 Our audit was delayed as a result of the Covid-19 pandemic. We worked with management to deliver the audit to the revised timescale.

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 both the resource and capital budgets which the Scottish Government confirmed could be managed within the overall budget for the Scottish Administration.

5 In 2019/20 devolved tax revenues were £30m lower than anticipated in the Scottish Budget 2019.

6 We amended our approach to the audit of the Devolved Taxes Account. We increased our direct substantive testing because we were unable to rely fully on existing supervisory controls and segregation of duties. The audit approach was also affected by the impact of remote working.

Financial sustainability

7 Revenue Scotland continues to develop longer term financial planning. This will now form part of a wider project and will link into the new corporate plan and people strategy.

8 There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2020/21.

Governance and transparency

9 Revenue Scotland has effective governance arrangements in place.

10 Revenue Scotland was pro-active in dealing with the changes to its operating environment and establishing the required governance arrangements to effectively respond to the impact of Covid-19.

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 Five out of eleven key performance indicators were not achieved although performance continues to improve in a number of the indicators compared to 2018/19.

Introduction

1. This report summarises the findings from our 2019/20 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 2020 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of both the Resource Accounts and the Devolved Taxes Account annual report and accounts.
- 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 2019/20 have been:

- an audit of Revenue Scotland's 2019/20 annual report and accounts for both the Resource Accounts and for the Devolved Taxes Account, including the issue of an independent auditor's report setting out my opinions on each of these accounts.
- a review of the key financial systems
- consideration of the four audit dimensions.

4. In common with all public bodies, Revenue Scotland has had to respond to the global coronavirus (Covid-19) pandemic. This impacted on the final weeks of the financial year and will continue to have significant impact going forward. We have reported on this at paragraphs 94 to 102.

5. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. We held discussions with management following the lockdown to discuss the impact of the pandemic on both Revenue Scotland's business and the audit.

6. Our audit planning work took place prior to the pandemic. We reviewed our assessment of the key risks in advance of the year-end, financial statements audit and concluded that our risk assessment remained relevant, and there were no new or emerging audit risks as a result of the pandemic.

7. Our interim audit work was ongoing at the time of Covid-19 lockdown measures being implemented. Both Audit Scotland and Revenue Scotland staff transitioned to home working at this point. We sought to be pragmatic in our requests during this time and to give Revenue Scotland staff time to prioritise essential non-audit work.

8. As noted in our management report submitted to the May 2020 Audit and Risk Committee, our interim audit was necessarily extended into April. Our audit approach to the devolved taxes account was revised, and a fully substantive approach was adopted for these systems. Additional substantive testing was carried out during the financial statements audit to ensure sufficient assurance was obtained over these account areas.

Adding value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- 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.

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

Responsibilities and reporting

11. Revenue Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts directions from the Scottish Ministers for both the Resource Accounts and the Devolved Taxes Account.

12. 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.

13. 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. As public sector auditors we give independent opinions on the annual report and accounts.

14. 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. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016* and supplementary guidance.

15. This report raises matters from our audit. 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 Revenue Scotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

16. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

17. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

18. 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 2019/20 audit fee of £95,850 (2018/19 £93,990) as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

19. 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.

20. We would like to thank all Revenue Scotland staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual report and accounts

Main judgements

Our audit opinions on both the Resource Accounts and the Devolved Taxes Account for 2019/20 were unqualified.

Expenditure and income in the financial statements were in accordance with applicable enactments and guidance.

Our audit was delayed as a result of the Covid-19 pandemic. We worked with management to deliver the audit to the revised timescale.

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

Our audit opinions on the annual reports and accounts are unmodified

21. The annual report and accounts for both the Resource Accounts (RA) and the Devolved Taxes Account (DTA) for the year ended 31 March 2020 were approved by the board on 18 November 2020. 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 in accordance with the financial reporting framework
- 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 (RA only) and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

22. We identified some minor issues in obtaining copies of information which was held in Revenue Scotland's offices which could not be accessed due to the Covid-19 lockdown restrictions. However, the completeness and accuracy of accounting records was largely unaffected by the Covid-19 outbreak. We did not consider these to be material to our audit opinions.

The annual report and accounts were signed off in line with revised timetables, but this was later than originally planned

23. Finance staff provided a good level of support during the year-end audit.

24. We kept in regular communication with management and revised the initial planned audit timetable to delay the audit by six weeks. We received unaudited annual report and accounts for both the RA and the DTA on 21 August 2020, which was in line with the revised timetable. Working papers to support the financial statements were provided throughout the following week. The performance report, accountability report and governance statement provided at the outset of the audit were incomplete. A near-final version of unaudited accounts was received on 30 October. The governance statement in particular required further update following our review.

25. Due to the challenges of remote working, including physical limitations on access to records, the sign-off date was extended. The annual report and accounts were certified on 20 November 2020, two months later than originally planned.

26. The working papers were of a reasonable standard. We identified scope for improvement in the working papers for the DTA, which is something we have raised in previous years. We have agreed to hold a wash-up meeting with management following the completion of the audit to discuss areas for improvement and lessons learned from both Revenue Scotland and our perspectives. This will include a request to more clearly agree and cross-reference supporting documents to the trial balance and accounts, particularly in respect of payables and receivables.

27. We issued the Financial Reporting Manual (FReM) disclosure checklists for management to complete. These checklists help ensure that all relevant areas have been addressed within the annual report and financial statements. Only those for the financial statements were completed in advance. We have recommended that management complete both checklists in advance of the 2020/21 financial statements audit.

Recommendation 1

Management should review the year-end DTA working papers to improve their clarity and linkages to the figures reported in the financial statements. All disclosure checklists should be completed in advance of the audit.

Overall materiality was £7.175m for the Devolved Taxes Account and £125k for the Resource Accounts

28. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

29. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate. We revised them to reflect actual income and expenditure in the year, as shown in Exhibit 2. The revised materiality levels did not impact on our planned audit approach.

Exhibit 2
Materiality values

Materiality level	Resource Accounts	Devolved Taxes Account
Overall materiality	£125,000	£7,175,000
Performance materiality	£95,000	£1,435,000
Reporting threshold	£3,000	£70,000

Source: Audit Scotland 2019/20

The main risks of material misstatement were identified at the planning stage

30. A description of those assessed risks of material misstatement in the annual report and accounts and any wider dimension audit risks that were identified during the audit planning process is included at Appendix 2. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

31. We undertook our audit planning work prior to the Covid-19 pandemic. In line with auditing standards and professional advice, including the Financial Reporting Council's COVID-19 bulletin published in March 2020, we reviewed our assessment of audit risks and the planned audit work in advance of the year-end audit and concluded that both remained relevant.

32. We did, however, decide to postpone the completion of some of our planned wider scope work, largely relating to a review of the procurement of the new Scottish Electronic Tax System (SETS). We held meetings with management to begin our work in this area and we will look to complete this and report during the 2020/21 audit.

33. We also agreed to defer our planned use of data analytics to increase our substantive testing until a later date. We will liaise with management at the end of the audit to discuss how to progress this approach.

Significant findings from the audit of the annual report and accounts

34. 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. We have no significant findings to report around the qualitative aspects of the body's accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised 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 £113m 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. A number of tribunal cases were ongoing during 2019/20 and beyond the issue of the audited accounts.	We confirmed that the accounting treatment for these cases was consistent with the approach agreed last year. We liaised with management in detail about the potential impact of tribunal judgements including whether this would be an event after the reporting period. We tested a sample of tribunal cases that were disclosed as contingent assets and confirmed that these were disclosed accurately and in accordance with the policy. 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.

2. 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. This was later extended to 36 months under the Coronavirus (Scotland) (No2) Act 2020.

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 previous years.

In 2018/19, management agreed to consider whether a provision should be recognised for these potential repayments based on the pattern of repayment in previous years. Revenue Scotland postponed this assessment due to impact of the Covid-19 pandemic across the year end period.

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 18/36 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 2020.

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 £36m is an indicative figure (2018/19: £29m). We are content that this approach is appropriate.

We have sought and obtained written confirmation of the basis of the Accountable Officer's judgement.

3. 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.

As a result, Revenue Scotland suspended issuing any new daily penalties until an agreed process could be embedded. The issuing of daily penalties was restarted in January 2020 but was subsequently paused as a result of Covid-19.

We agreed with management that these penalties should not be recognised in the 2019/20 DTA as they have not yet been issued which agrees with the guidance in the FReM.

There is a risk that delays in issuing daily penalties could affect their recoverability. There is also a risk that some cases could be time barred.

The board has recently approved a decision to recommence the issuing of daily penalties.

4. 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 £4.3m have been identified.

We reviewed the supporting records for LBTT deferrals granted by Revenue Scotland and identified 20 cases with a total tax deferred of £1.941m, where review dates had passed without the records having been updated to indicate that

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.

Recommendation 2
(refer Appendix 1, action plan)

review had taken place. This does not affect the total amount disclosed in the annual accounts.

This matter was also raised in 2017/18 and 2018/19.

Source: Audit Scotland

Identified misstatements of £89k (Resource Accounts) and £2.472m (Devolved Taxes Account) were adjusted

35. There were a number of adjustments to the unaudited accounts which were processed by management. These included:

- **DTA – Debtors/Creditors.** Management identified that there were £1.4m credit balances in debtors. We confirmed that these were interlinked and were the result of a fault in the system that required a manual adjustment. Management adjusted the accounts to reduce the receivables and payables amounts by £1.4m**.**

- **DTA - Payment to Scottish Consolidated Fund.** During 2019/20, Revenue Scotland made payments totalling £724.588m to the Scottish Consolidated Fund. However, due to an error in posting an opening balance journal twice, the amount paid to the Scottish Consolidated Fund was overstated by £608,000.

- **DTA.** Impairment of tax receivables of £293,000 had not been recognised. Management adjusted the financial statements to recognise this impairment.

- **RA – Capitalisation of Call Handling System.** Revenue Scotland purchased a call handling system in 2016/17 which was initially treated as revenue expenditure. Management reassessed this treatment and advised that as there are plans to incur further enhancement expenditure on this system, it should have been more properly capitalised. Management restated the accounts to show a carrying amount of £41,000.

36. Total misstatements identified in the Resource Accounts were £89,000. The net effect was to increase net expenditure by £7,000 and increase net assets by £41,000.

37. Total misstatements in the Devolved Taxes Account were £2.472m. The net effect was to reduce net revenue by £733,000 and net assets by £127,000.

38. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate systematic error. 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 senior officers and materiality. Management adjusted for all misstatements identified above the reporting threshold. As such, there are no unadjusted misstatements.

Our audit identified a number of other findings

39. Our audit identified a number of other matters to draw to your attention.

New IT Systems

40. 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. At the same time, Revenue Scotland also introduced a new financial ledger for its DTA.

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

42. The RA records intangible assets of £2.93m of which £2.89m refers to the new IT systems. We substantively tested these assets and confirmed these were accurately capitalised.

43. We also reviewed the implementation of the new system as part of our audit this year, including substantively testing the migration of data and opening balances. No particular issues were found. Revenue Scotland has introduced a continuous improvement project for the new SETS 2 system and staff recommendations have been sought for suggested improvements.

Impairment

44. The 2019/20 accounts recorded the impairment of SLfT receivables of £10.367m (total £10.860m) (notes 3.2 and 4.2 of the DTA). This largely relates to assessments and determinations of unpaid tax, penalties and interest that Revenue Scotland issued in June 2018 that were recognised in 2018/19. Revenue Scotland continues 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 the accounting of this impairment.

Compliance yield

45. 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.

46. Revenue Scotland reported this has generated £0.86m direct compliance yield (£0.48m taxes and £0.38m penalties and interest) and is one of Revenue Scotland's key performance indicators. This is a decrease from previous years (2017/18 - £2.366m; 2018/19 £1.03m). The yield is likely to vary year on year depending on the timing of cases under review and any referrals to the tax tribunals. We have also noted some delays in Revenue Scotland's compliance work, which may contribute to this reduction (refer paras 65 to 68).

47. 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

48. 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 £6m were received from landfill operators in 2019/20 which were paid to Approved Bodies, authorised by SEPA to distribute the funds to eligible projects. This is a reduction from the 2018/19 figure of £7.7m but is in line with Scottish Fiscal Commission estimates (£6.2m). 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 2019/20 and no issues have been highlighted.

Air Departure Tax (ADT)

49. The Air Departure Tax (Scotland) Act 2017 received Royal Assent on 25 July 2017. On 23 April 2019, the Scottish Government deferred the introduction of ADT beyond April 2020. We will continue to monitor developments in this area.

Prior-Year Recommendations

50. The body has made some 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 both the resource and capital budgets which the Scottish Government confirmed could be managed within the overall budget for the Scottish Administration.

In 2019/20 devolved tax revenues were £30m lower than estimated in the Scottish Budget 2019.

We amended our approach to the audit of the Devolved Taxes Account. We increased our direct substantive testing because we were unable to rely fully on existing supervisory controls and segregation of duties. The audit approach was also affected by the impact of remote working.

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

Revenue Scotland overspent its revenue budget by £43k and its capital budget by £36k in 2019/20

51. 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.

52. Revenue Scotland reported a resource Departmental Expenditure Limit (“DEL”) outturn of £7.067m in its Resource Accounts, which is an overspend of £43,000 against its budget of £7.024m. This overspend is due to legal fees relating to the increased number of tribunals. Performance against the capital DEL highlights an overspend of £36,000 which occurred as a result of additional costs from the new SETS system. We assess Revenue Scotland’s budgetary controls and reported at paragraphs 59-62 below).

53. Scottish Government Finance Directorate confirmed that this relatively small overspend (£79,000) can be managed within the Scottish Administration’s overall position. The financial performance against DEL is shown in Exhibit 4.

Exhibit 4
Performance against DEL in 2019/20

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	6.3	7.024	7.067	0.043
Capital DEL	1.4	1.791	1.827	0.036
Total DEL	7.7	8.815	8.894	0.079

Source: Revenue Scotland Resource Accounts 2019/20; Scottish Government Spring Budget Revision 2019/20

The Resource Accounts record net assets of £2.0m

54. 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.

55. The financial statements show that Revenue Scotland has net assets of £2.019m (2018/19: £0.675m net). This increase of £1.334m is largely attributable to the addition of the SETS 2 IT system as an intangible asset, which went live in July 2019.

56. Revenue Scotland also included a £212,000 provision for legal fees. These relate to potential costs incurred by taxpayers in cases, where Revenue Scotland withdrew prior to a hearing taking place. This was as a result of deficiencies in the identification of a designated officer as set out in paras 108 to 114.

Tax revenue collected in 2019/20 was £717m

57. Revenue Scotland is responsible for the collection and administration of the devolved taxes. In 2019/20, total tax revenue of £717.1m was collected, which was £29.9m lower than the 2019/20 Scottish Budget estimates as shown in Exhibit 5.

Exhibit 5
2019/20 Devolved Tax Income

Revenue net of repayments, excluding interest payable and revenue losses	2019/20 Devolved Tax Revenue £m	2019/20 Scottish Budget Estimates £m	Performance Against Scottish Budget Estimates £m	2018/19 Devolved Tax Revenue £m
Land and Buildings Transaction Tax	597.368	643.000	(45.632)	554.185
Scottish Landfill Tax	118.959	104.000	14.959	148.517
Penalties and Interest	0.735	0	0.735	3.135
Total	717.062	747.000	(29.938)	705.837

Source: Revenue Scotland Devolved Taxes Account 2019/20 and 2018/19; Scottish Government 2019/20 Budget

58. Revenue Scotland is required to remit receipts from the devolved taxes to the Scottish Consolidated Fund (SCF). The Devolved Taxes Account shows that in 2019/20, £724.588m of cash generated from the devolved taxes was remitted to the SCF during the year (2018/19: £714.700m). A further £41m 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 are effective although we identified some scope for improvement

59. We reviewed Revenue Scotland's budget-setting and monitoring arrangements for the Resource Accounts. Regular budget monitoring reports are presented to the Senior Leadership Team (SLT) and the Board. We noted that senior management and members receive regular, timely and up to date financial information on the financial position. The body has appropriate budget setting and monitoring arrangements.

60. However, as reported in our interim report, we noted that no commentary to outline reasons for variances or corrective action to be taken is included in budget monitoring reports. Management noted that a verbal explanation of variances is provided to SLT, with actions recorded and more detailed quarterly reports are provided to the Board. We also noted that, during the year, the Board received some additional financial information on variance analysis and aged debt.

61. Introducing these changes would improve the robustness of budgetary control and help to inform management's decision-making. We will monitor progress in this area during our 2020/21 audit.

62. Notwithstanding this, we concluded that Revenue Scotland has effective budgetary processes that allow the board and management to carry out effective scrutiny of its finances.

We amended our audit approach to the Devolved Taxes Account due to the impact of remote working and control weaknesses identified

63. 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 the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

64. Our findings were included in our management report presented to the Audit and Risk Committee in May 2020. We noted Revenue Scotland's control environment was operating effectively for the Resource Accounts. Due to the impact of remote working and control weaknesses identified, in particular in relation to supervisory controls and segregation of duties, we were only able to take limited assurance over the controls operating for the Devolved Taxes Account. We modified our approach accordingly and undertook increased substantive testing.

Compliance activity reduced during 2019/20

65. The tax gap is the difference between the amount of tax that should, in theory, be collected by Revenue Scotland against what is collected. Revenue Scotland undertakes compliance work in order to limit the tax gap. In accordance with the FReM, Revenue Scotland does not account for the tax gap in the DTA.

66. In 2019/20, we considered the performance of Revenue Scotland's LBTT compliance function. We were unable to conclude our work on SLfT compliance due to the impact of the Covid-19 pandemic.

67. Revenue Scotland takes a risk-based approach to compliance and compliance activity. It has published a 2019-21 Compliance Strategy which will be considered annually by Revenue Scotland to align with the risk framework as part of the business planning process.

68. The annual detailed plans included timetables for work to take place during 2019/20. The 2019/20 LBTT compliance work is significantly behind schedule. We noted that 2018/19 random sampling work has not been completed and 2019/20 random sampling work has not been started. However, we note that other compliance work is underway, although this has been delayed. These delays in compliance work is largely as a result of compliance staff assisting on a number of unique competing priorities and projects during 2019/20. In addition, in March 2020, Revenue Scotland decided to suspend elements of its compliance work as a result of the Covid-19 pandemic and the recognition of the additional burden this work could have on taxpayers. We have been advised that management consider it unlikely that the planned programme of compliance work will be achieved by the end of March 2021 and the targets may need to be reconsidered.

Recommendation 3

Revenue Scotland should ensure that there is sufficient capacity in the compliance team to complete the planned compliance work.

69. We reviewed the compliance reporting of some comparable tax collecting bodies in similar jurisdictions (HMRC, Ireland, North America, Australia and New Zealand). From this review, we identified some good practice, which included:

- estimation and reporting of the value of the tax gap (i.e. tax uncollected by Revenue Scotland due to tax evasion or avoidance).
- reporting of the cost of compliance activities and return on investment for tax enquiries carried
- disclosing the number of tax enquiries carried out.

70. Revenue Scotland should consider whether there would be benefit in adopting more extended compliance reporting as it continues to develop its own approach.

We considered the work of internal audit

71. Revenue Scotland's internal audit function is carried out by Scottish Government's Directorate for Internal Audit and Assurance (SGDIAA). The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2019/20 is that of reasonable assurance, which is defined as adequate controls being in place around risk management, governance and internal control but require some improvement.

72. We reviewed the body's internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit.

73. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication.

74. We placed reliance on aspects of internal audit's work on the Conduct of Reviews and the review of Designated Officer decisions.

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

75. 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.

76. 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.

77. 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.

78. We had planned to review Revenue Scotland's processes for preventing fraud and corruption in the procurement function. However, due to the impact of the Covid-19 pandemic on the audit, we decided to delay this work and will follow-up this area in due course.

Part 3

Financial sustainability

Main judgements

Revenue Scotland continues to develop longer term financial planning. This will now form part of a wider project and will link into the new corporate plan and people strategy.

There are no concerns about the overall financial position of Revenue Scotland. A balanced budget has been approved for 2020/21.

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

Budgeted net expenditure for the Resource Accounts is £6.6m

79. Revenue Scotland has an allocated Scottish Government Departmental Expenditure Limit (DEL) budget of £6.6m for 2020/21: a £6.1m resource budget and a £0.5m capital budget. The 2020/21 draft budget was approved by the Board in March 2020.

80. 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 - February 2020. For 2020/21 the SFC is forecasting Revenue Scotland's tax receipts to be £757m (LBTT £641m; SLfT £116m) which is £39m above the 2019/20 outturn.

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

Work continues to develop a longer-term financial plan

82. 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.

83. Due to the implementation of SETS 2, there have been delays to the development of longer-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 corporate plan and the Medium-Term Financial Strategy.

84. Revenue Scotland is planning to develop a revised Corporate Plan, People Strategy and Financial strategy for 2021/22. These plans will all be interlinked and inter dependent. The intention is that financial strategy will be presented to the board in early 2021.

Recommendation 4

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.

Covid-19 will have significant consequences for public spending in Scotland

85. Audit Scotland published a briefing paper in August 2020, Covid-19: Implications for public finances in Scotland. This paper highlights the unprecedented impact of the pandemic on public finances. Scottish and UK governments have responded quickly, providing additional funding for public services and support for individuals, businesses and the economy.

86. Between March and July 2020, the Scottish Government announced over 90 spending and tax measures to help support business, public services and individuals during the pandemic. These measures totalled over £5.3bn, and an additional £4.8bn additional spend on Covid-19 related measures is estimated for 2020/21.

87. Revenue Scotland will need to continue to closely monitor the impact of the Covid-19 pandemic on its financial sustainability which may impact the level of funding received from the Scottish Government.

Part 4

Governance and transparency

Main judgements

Revenue Scotland has effective governance arrangements in place.

Revenue Scotland was pro-active in dealing with the changes to its operating environment and establishing the required governance arrangements to effectively respond to the impact of Covid-19.

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.

Governance and transparency arrangements were appropriate

88. Revenue Scotland is accountable to the Scottish Parliament and is led by a Board consisting of seven 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 ten occasions in 2019/20. It is supported by an Audit and Risk Committee and a Staffing and Equalities Committee.

89. 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, corporate functions and tax.

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

Risk management arrangements are effective

91. Revenue Scotland's Audit and Risk Committee considers the risk register at every meeting. As part of its quarterly review of risk in October 2019, members asked for a formal review of risk across the organisation in recognition of the changing risk profile.

92. A workshop was held with members and a revised range of risks, risk register and risk cards were presented to the board for consideration. A further workshop was held with all risk owners in order to strengthen and define the risks identified. The continued development of the risk profile was impacted by Covid-19. Attention focussed on incident management and a specific risk register was created for this purpose. A revised risk register has been developed which combines the Covid-19 risks with the risks previously identified.

93. We concluded that there is an effective and appropriate risk management procedure in place which is subject to continuous review and improvement.

Governance arrangements were established in response to Covid-19

94. In response to the Covid-19 pandemic, the existing governance structure was reviewed.

95. Management implemented the business continuity plan and established an Incident Management Team (IMT). The IMT consisted of the Senior Leadership Team (SLT) and wider management within Revenue Scotland. Initially, the IMT met daily but the frequency of meetings reduced as the revised working arrangements became embedded within Revenue Scotland's 'business as usual' operations. The IMT has now been disbanded and its functions have been subsumed by the Senior Leadership Team. A record was kept of decisions taken by the IMT.

96. As discussed at paragraph 7 above, in March 2020, as a result of the Covid-19 lockdown measures, Revenue Scotland transitioned to home-working for most of its staff.

97. Revenue Scotland moved quickly to enable the Scottish Electronic Tax System and other systems to be accessed remotely. All staff had been allocated laptops two years previously as a result of lessons learned from winter storms in 2018, which prevented staff from accessing the office. All board, committee and management meetings now take place remotely using electronic video conferencing software.

98. At the start of the pandemic, a number of decisions were taken to allow Revenue Scotland to focus on its core remit, and in recognition of the wider impact of the pandemic on taxpayers. All debt pursuit and issuing of penalties was suspended. New compliance work (paras 65 to 68) was also suspended. As such, there is a backlog of cases that management will require to prioritise and process. Management have advised that both the issuing of penalties and compliance work has resumed.

99. As a result of the Covid-19 pandemic, management is developing a Futures Programme, which is a lessons-learned programme. It will consider the benefits and challenges of the new ways of working and how these can be developed, such as whether staff will continue to work from home in the longer-term, once restrictions have been lifted. Management is currently reviewing the Business Continuity Plan, and the lessons learned exercise will assist with this.

100. A briefing paper was published by Audit Scotland in July 2020: Covid-19: emerging fraud risks. This paper sets out a range of fraud risks emerging as a result of the pandemic, and what public bodies might do to help reduce these risks. It aims to raise awareness of these risks with public bodies and their auditors; and support them in identifying and managing these risks, ensuring that sound governance and controls are in place.

101. We considered that Revenue Scotland has been pro-active in dealing with the changes to its operating environment and establishing the required governance arrangements to effectively respond to these changes.

102. However, the scale and pace of change as a result of Covid-19, and the continuing impact of this, poses a risk to the control environment of Revenue Scotland and all other public bodies. As we reported at paragraph 64 above, we identified some high-level controls weaknesses in the DTA. We have discussed this with management, who agreed on the need to review controls in light of its new working methods. Management should ensure that processes remain effective, and that there is sufficient, and well-documented governance in place to inform and support decision making.

Recommendation 5

During this period of uncertainty as a result of Covid-19, Revenue Scotland should ensure that processes and controls remain effective and that governance arrangements inform and support decision making. Financial controls should be reviewed and strengthened to provide management with assurance over the effectiveness of the controls.

The Audit and Risk Committee provides a good level of challenge

103. The Audit and Risk Committee's (ARC) role is to provide advice and constructive challenge to the Chief Executive, and to provide support in relation to her responsibilities regarding risk management, control, governance and associated assurance to support year-end accountability.

104. The ARC has three members. An additional independent member was co-opted onto the ARC to provide experience of internal audit and risk. 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.

105. We are content that the ARC operated effectively during 2019/20. We are pleased to report that the ARC members provided an appropriate level of challenge and worked effectively with Audit Scotland and management.

106. In August 2020, Audit Scotland published Covid-19: Guide for audit and risk committees. This report notes that the pandemic has highlighted some of the key strengths of public-sector bodies, including agility and partnership working, however it has also exacerbated many pre-existing risks and challenges. It highlights the crucial role of audit and risk committees in providing effective scrutiny and challenge. The report focuses on the short-term challenges facing public bodies in the response phase of the pandemic and highlights key areas for focus which include internal controls and assurance, financial management and reporting, governance and risk management.

107. We shared this with the Audit and Risk Committee in October 2020. Audit and Risk Committee members welcomed this report and agreed to review its suggested questions in order to further enhance the level of scrutiny and challenge by the committee.

Designated authority

108. The Chief Executive has power to undertake investigations and enquiries into tax returns. In practice, this power is delegated to relevant staff within Revenue Scotland's compliance teams. During 2019/20, management identified that there was a small number of decisions taken by staff who had not been formally assigned designated authority.

109. A number of these cases were due to be heard at the first-tier tax tribunal and upon recognition of the issue, Revenue Scotland withdrew their defence in affected cases. In the 2019/20 Resource Accounts, management has recorded a provision for potential costs to taxpayers as a result of these issues (£212,000).

110. Management instructed an external expert and internal audit to undertake a review of the matter. In addition, Revenue Scotland has undertaken a full review of all cases affected.

111. The expert concluded that Revenue Scotland responded with openness and propriety and noted that the approach taken to address the issue was proportionate and even-handed and it demonstrated Revenue Scotland's ambition to be a learning organisation, focused on continuous improvement.

112. However, these reviews identified several improvements required within Revenue Scotland to:

- ensure there was sufficient understanding of the statutory basis of its powers and the necessity to operate within the limits of its powers.
- address procedural failures such as the absence of a clear process for making, recording and reviewing designations and a failure to check what was happening in practice. Internal Audit noted the need to consider wider reviews within Revenue Scotland.

113. Relevant taxpayers have been notified and decisions were cancelled and where appropriate reissued to correct the deficient designation in the initial decisions. No significant issues with the application of the law or guidance in these decisions was identified.

114. Revenue Scotland continues to implement the recommendations of the reviews. We have also discussed the need for regular review of the appropriateness of delegated authority and the need for management review of documentation to support decision-making.

Openness and transparency

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

116. For confidentiality reasons due to the discussion of sensitive taxpayer information, Revenue Scotland's Board meetings are not open to the public. The confidentiality of this information is protected under the Revenue Scotland and Tax Powers Act 2014. Edited board minutes are published on Revenue Scotland's website.

117. A range of other information is also available on the website, including details of board members; corporate publications and consultations with stakeholders, taxpayers and their agents. Over the course of our audit appointment, we have concluded that Revenue Scotland continues to improve transparency in its annual report and accounts.

The performance report is of a good quality

118. 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 annual report and accounts. The purpose of the report is to provide information on the organisation, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance, and is essential in helping stakeholders understand the financial statements. The performance report is therefore an opportunity for the organisation to 'tell its story' and enhance openness and transparency.

119. We concluded that the performance report met the requirements of the 2019/20 FReM, but that improvements could be made. These were discussed with management and some revisions were made to the performance report in the audited accounts. Further enhancements could be made by increased use of diagrams and infographics and by better linking individual sections of the report.

120. Annex 5 of the 2019/20 FReM provides additional good practice guidance on narrative reporting. The annex refers to the use of trend data, balanced reporting, use of plain English, use of infographics and going beyond the minimum reporting requirements. Revenue Scotland has adapted some of the above but there is scope to improve further by including, for example, more infographics and trend reporting. This could improve accessibility and maximise its potential as a means of communicating performance and ‘telling the story’ to stakeholders.

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.

Five out of eleven key performance indicators were not achieved although performance continues to improve in a number of the indicators compared to 2018/19.

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

A range of processes help to embed best value

121. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

122. 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.

Services are delivered by third parties on behalf of Revenue Scotland

123. 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.

124. In accordance with the Revenue Scotland and Tax Powers Act 2014, some of Revenue Scotland's tax functions are delegated to Scottish Environment Protection

Agency in respect of the collection of SLfT. Until July 2019, some functions were delegated to Registers of Scotland to assist with the processing of paper-based tax returns. Revenue Scotland has now taken responsibility for the processing of these returns since 24 July 2019.

125. These partner bodies have worked closely with Revenue Scotland and supported it in implementing its tax collection and administration systems.

Arrangements are in place to support effective performance management

126. 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 2019/20 Business Plan.

127. 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.

128. 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; one was not applicable and four were not achieved. The remaining KPI related to a benchmark of tax secured through compliance activity. The 2019/20 performance was below the 2017/18 baseline, although there was a significant amount of tax dependent up on the outcome of tribunals (£110m, as noted in Exhibit 3 above).

129. We note the generally improving performance of the KPIs. This is on top of a number of competing and time-consuming projects during the year such as the introduction of SETS2, the introduction of the Scottish Tax Education Programme, complex litigation cases and designated officer issues.

130. 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.

National performance audit reports

131. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which are of direct interest to the body. These are outlined in Appendix 3.

132. We provide regular progress reports and updates to the Audit and Risk Committee where we reference national performance reports that may be of interest to members.

Appendix 1

Action plan 2019/20

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 in advance of the audit commencing. **Risk.** The audit is delayed, and the audit opinion may be impacted by the poor quality of working papers.	Management should review the year-end working papers to improve their clarity and linkages to the figures reported in the financial statements. All disclosure checklists should be completed in advance of the audit. We will meet with management after the audit has completed to have a wash-up meeting to discuss potential improvements in the audit. This will consider better ways of working for both Revenue Scotland and Audit Scotland to improve the audit in 2020/21. Paragraphs 26, 27	Management will review the DTA working papers and will seek to improve these for 2020/21. The disclosure checklists will be completed in advance of the audit commencing. Chief Accountant / Head of Governance June 2021
2	**Contingent assets: LBTT deferrals (DTA)** We identified 20 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 identifies unpaid tax.	Management should review the process and record keeping for LBTT deferrals is reviewed to ensure that reviews are conducted on time. **Exhibit 3, point 4**	Management action will be taken to ensure that review dates for LBTT deferrals will be met. Head of LBTT December 2020
3	**Compliance Activity** The 2019/20 LBTT compliance work is significantly behind schedule and the planned work was not completed. In March 2020, Revenue Scotland decided to suspend much of its compliance work	Revenue Scotland should ensure that there is sufficient capacity in the compliance team to complete the planned compliance work in 2020/21. Paragraphs 65-68	It is unlikely that we will be able to meet the compliance targets by the end of March 2021. Management action will be undertaken to better balance available resource with

No.	Issue/risk	Recommendation	Agreed management action/timing
	as a result of the Covid-19 pandemic and the recognition of the additional burden this work could have on taxpayers. **Risk.** There is a risk that Revenue Scotland's compliance work is not effective and the target yield is not met.		priorities set for compliance activity. Head of LBTT January 2020
4	**Longer-term financial planning** Longer term financial planning continues to develop. **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 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. Paragraphs 82-84	This work is ongoing and planned to be approved by the Board along with the Corporate Plan and People Strategy in 2021 as part of the strategic narrative for the organisation. Head of Corporate Functions and Chief Accountant March 2021
5	**Internal Controls: impact of Covid-19** The scale and pace of change as a result of Covid-19, and the continuing impact of this, poses a risk to the control environment of Revenue Scotland and all other public bodies. In our interim report, we identified some high-level controls weaknesses in the DTA. We have discussed this with management, who agreed on the need to reconsider controls in light of its new working methods.	Revenue Scotland should ensure that processes and controls remain effective. Governance arrangements should continue to inform and support decision making during the period of uncertainty as a result of Covid-19. Financial controls should be reviewed and strengthened to provide management with assurance over the effectiveness of the controls. Paragraph 102	Particular attention is being paid to the additional risks arising from remote working. Controls in the Devolved Tax Accounts are regularly reviewed and continue to be improved following changes in the SETS tax system. Some of the issues identified by Audit Scotland in the interim report have already been addressed. The remaining issues will be address by the end of this financial year. Chief Accountant/ Head of Tax Operations Ongoing
Follow up of prior year recommendations			
b/f 1	**Working Papers** We identified issues with agreement and cross referencing of supporting documents to the trial balance and accounts, particularly in	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	We again raised some matters in relation to the working papers and completion of disclosure checklists.

No.	Issue/risk	Recommendation	Agreed management action/timing
	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.	and the disclosure checklists should be completed in advance of the audit commencing	Refer to point 1 above
b/f 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.	We identified some instances again where review dates had passed without the deferral records being updated. Refer to point 2 above
b/f 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.	Longer term planning continues to develop. Refer to point 4 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 to our wider responsibility under the *Code of Audit Practice 2016*.

Risks of material misstatement in the financial statements			
1	**Risk of material misstatement caused by management override of controls (RA/DTA)** Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.	Controls testing of financial systems for DTA. 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 on the operation of controls over reconciliations, IT access controls and journal authorisation. Due to this and the impact of Covid-19, we were unable to rely on the controls in place and undertook substantive testing at year-end. No further issues identified Refer to paras 63,64 above
2	**Risk of material misstatement caused by fraud in income recognition and expenditure (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 collected £706m of tax revenue in 2018/19. 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 individuals or groups outside the immediate control of the	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 LBTT 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. We reported delays in the compliance programme. We were unable to review SLfT compliance due to impact of Covid-19. Results of cut-off testing were satisfactory.

	audited body (e.g. tax repayments). Taxpayers can claim a repayment of LBTT's Additional Dwelling Supplement (ADS) where certain conditions are met. Over £32m of ADS was repaid in 2018/19. 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.		Refer to paras 65-68 above
3	**Risk of tax revenue being misstated (DTA)** 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 are being considered by Tribunals. In 2018/19, £114m of contingent assets were recognised in respect of tribunal cases. 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 outcomes of compliance activity, reviews and tribunal cases not being appropriately reflected.	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 has been properly assessed • the legislation has been applied appropriately • 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 conduct of reviews and designated officer review. Review of 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 LBTT compliance activity and noted the delay in progressing the compliance plan. 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. We discussed with management the possible impact on the annual accounts depending on when Tribunal decisions might be made. Refer to exhibit 3, point 1 above
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
4	**Financial sustainability (RA)** 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.	Review progress towards the preparation of longer-term financial plans. Review Board and Committee papers. Monitor financial performance against budget.	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 longer-term financial plan which is due to be presented to the board in early 2021.

	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.		Refer to paras 82-84 above
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 continues to be a 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. 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 conduct of reviews.	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. We have noted the delay in completing the planned compliance work. Our substantive testing has been satisfactory. Refer to paras 65-68 above

Appendix 3

Summary of national performance reports 2019/20

Central Government relevant reports

Social security: Implementing the devolved powers – May 2019

Enabling digital government – June 2019

Scotland's City Region and Growth Deals – October 2019

Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models – Jan 2020

Early learning and childcare: follow-up – March 2020

Revenue Scotland
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