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The Scottish Parliament  
Edinburgh  
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SCOTTISH RATE OF INCOME TAX - AUDIT ARRANGEMENTS

Thank you for your letter of 25 February in which you asked for clarification on a number of points in advance of the Public Audit Committee publishing its interim consultation report on the above subject. I have included further information on these points below.

Summary of audit work

HM Revenue & Customs (HMRC) publishes two financial statements in its Annual Report: the Resource Accounts, which covers the administrative and programme spend (such as Child Benefit and Tax Credits) of the Department, and the Trust Statement, which covers tax and duties collected by the Department. These accounts are prepared under the Government Resources and Accounts Act 2000 and the Exchequer and Audit Departments Act 1921 respectively.

The National Audit Office (NAO) carries out the audit of these financial statements in line with International Standards on Auditing. The Exchequer and Audit Departments Act 1921 also require the Comptroller & Auditor General (C&AG) to "ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue and satisfy himself that any such regulations and procedure are being duly carried out". The findings from my work, which are set out in a separate report on HMRC's annual accounts, are based on a review of procedures and controls operated by HMRC in relation to each of the taxes and duties that the Department collects.

The C&AG also reports to Parliament on the result of Value for Money audit work under the National Audit Act 1983. Recent reports I have presented to Parliament relating to HMRC include Progress on Reducing Costs and Customer Service Performance.

The C&AG's and the NAO's right of access to HMRC information is based on the above legislation. In addition, HMRC is governed by the Commissioners for Revenue and Customs Act 2005, which prohibits disclosure of HMRC information except under specific circumstances. As Audit Scotland is not HMRC's auditor, nor does it have any statutory right of access to HMRC information through other legislation, it would be for HMRC's Commissioners to determine what, if any, information it was able to share with Audit Scotland.
Providing assurances to Audit Scotland

You asked for further information about the comments I made to the Committee (Column 933, Official Report, 21 November). I noted that the National Audit Office has a very good relationship with Audit Scotland and we would be more than happy to work with Audit Scotland in any appropriate way. I went on to say that "...if... the Scottish Parliament would like to get its assurance directly from Audit Scotland, I would have no objection to providing my assurance to Audit Scotland and putting it in a position to provide assurance to the Scottish Parliament".

The NAO is happy to support the work of Audit Scotland and to support it in its objective of providing assurance to the Scottish Parliament on the operation of the Scottish Rate of Income Tax. Once we have confirmed Audit Scotland’s access rights to HMRC information and systems, we will discuss how best we can work together to provide this assurance.

The form of the audit opinion and reporting to the Scottish Parliament

If HMRC were to present separate financial statements relating to the Scottish Rate of Income Tax, I would be able to provide a separate audit opinion on these. A set of financial statements is a prerequisite for an audit carried out under International Standards on Auditing. It is not clear what the “extract” that HMRC have committed to provide to the Scottish Parliament would comprise. If, for example, it were to consist of simply the figures as disclosed in the HMRC Trust Statement and Resource Accounts, without complete information on related losses, assets and liabilities, and other information associated with a financial statement, we would not be able to provide a formal audit opinion and would expect such an extract to be clearly described as "unaudited". We recognise, however, the need for audit assurance on the extracted information, and would be happy to discuss with the Scottish Parliament and HMRC what form such assurance could take.

These issues would not prevent the C&AG reporting on the performance of HMRC in administering SRIT, but, as I noted in the evidence I gave on 21 November, there is currently no legislative basis for me to report to the Scottish Parliament. However, we are aware that HMRC is investigating the possibility of introducing enabling legislation in time for the operation of the Scottish Rate of Income Tax (SRIT).

Laying in Scottish Parliament

We would expect the legislation referred to above, if enacted, to enable the C&AG’s report on the operation of SRIT to be laid in the Scottish Parliament as well as the UK Parliament.

So in summary, from our perspective, there are three important issues to clarify before we can finalise the audit arrangements for the SRIT: the form of the financial information that HMRC will provide (which will determine the nature of my audit); my powers to report to the Scottish Parliament, and the access that Audit Scotland will have to HMRC’s information and systems.

I hope that these answers are helpful to the Committee and I look forward to reading your report.

[Signature]

AMYAS E MORSE