Correspondence from Convener to Tax Assurance Commissioner and Second Permanent Secretary, HM Revenue and Customs, dated 29 January 2014.

Thank you for your letter dated 27 November 2013 and your subsequent oral evidence to the Committee on the proposed amendment to the Finance Bill 2014. The Public Audit Committee agreed that it would respond to the consultation and accordingly I have set out below the Committee's views.

1. The Public Audit Committee welcomes the draft amendment as providing a clear legislative underpinning to Scotland Bill 2012’s white paper proposal that the Comptroller and Auditor General (C&AG) should report annually to the Scottish Parliament on HMRC’s administration of the Scottish rate of income tax (SRIT).

2. In considering the specific terms of the draft amendment the Committee notes that whilst subsection 1 sets out clearly the matters upon which the C&AG is required to report to the Scottish Parliament it does not explicitly require him to give an audit opinion. In evidence to the Committee the C&AG explained that—

   "If the [Scottish] Parliament finds it helpful to have our opinion, we can express it in as clear a way as we possibly can, in addition to what is required of us by statute, so as to try and fit in with what the Parliament finds helpful, commensurate with what evidence we have."

3. In that regard the C&AG recognised that the draft amendment requires the NAO to provide a narrative report to the Scottish Parliament although that would be supplemented by further certification as far as the C&AG can do so with the Scottish specific evidence available from HMRC.

4. At present it is not clear what Scottish specific data about the management and collection of SRIT will be provided by HMRC (and which would therefore be available for any commentary by the C&AG). In addition, the C&AG explained that whilst the narrative report could address whether the calculation of the SRIT had been undertaken accurately his narrative report would not be able to certify that it had been collected accurately.

5. The Committee welcomes the commitment of the C&AG to, as far as the data permits, report to the Scottish Parliament on wider grounds than is set out in the draft amendment. The Committee also notes that subsection 6 of the draft amendment requires HMRC to provide the C&AG with such information as may reasonably be required for preparing a report. The C&AG’s commitment together with subsection 6 will, the Committee hopes, encourage HMRC to continue to develop and report on a wider range of Scottish specific data rather than only reporting on those matters set out in subsection 1.

6. That said, the Committee would recommend that consideration be given to strengthening the draft amendment to enable the C&AG to give assurance to the

---

1 Public Audit Committee, Official Report, 15 January 2014, Col 1993
Scottish Parliament that the information provided by HMRC on the administration and collection of the SRIT is reasonably stated. If required, the draft amendment could provide for a transitional period during which time HMRC could work towards the provision of sufficient Scottish specific data to meet this requirement. This would supplement the NAO’s annual narrative report and would provide the Scottish Parliament with overall assurance that the information provided by HMRC appears sound.

Economy, Efficiency and Effectiveness reports
7. The Committee notes that the draft amendment provides that the C&AG “may” include in his narrative reports to the Scottish Parliament an assessment of the economy, efficiency and effectiveness with which HMRC has used its resources in carrying out relevant SRIT functions. In evidence the C&AG confirmed that this word "may" provided him with discretion not to report on this aspect of SRIT if he had nothing further to add to that already contained in his narrative report—"If there is nothing more that I can look at, there is no point in doing what is, in effect, a value for money -type report every year." 3

8. The Committee understand this position and notes that implicit with the C&AG’s evidence is confirmation that where possible the C&AG would seek to provide the Scottish Parliament with additional commentary on the economy, efficiency and effectiveness of HMRC administration of SRIT. The Committee would also reiterate its comments about the role of the C&AG, along with the Scottish Parliament, in encouraging HMRC to, over time, seek to enhance and report on wider Scottish specific performance and collection data.

9. The Committee welcomes the C&AG’s commitment to appear before the Public Audit Committee to give evidence on his annual narrative report should the Committee wish. 4 We also acknowledge his confirmation that, should issues arise with his report to the Scottish Parliament, then the C&AG would want to speak to the Public Audit Committee about those issues. 5

Commencement date
10. The Committee supports subsection 2 which would bring the draft amendment into effect for the financial year ending March 2015. This will provide the Committee and the Scottish Parliament with an opportunity to consider and provide any comments on the content and format of the report. More generally the Committee notes that the draft amendment provides for the C&AG to report by no later than 31 January of the financial year following that to which the report relates. The Committee understands from the NAO that in practice it anticipates reporting to the Scottish Parliament at the same time it reports on HMRC’s annual accounts to the UK Parliament, in late June or early July. The Committee welcomes this earlier reporting timescale as it will better enable the content of the C&AG’s narrative report to also inform the Scottish Parliament’s budget scrutiny process.

HMRC reporting to the Scottish Parliament

---

5 Public Audit Committee, Official Report, 15 January 2014, Col 2001-02
11. Finally, in evidence the C&AG confirmed that his narrative report would be based on "an abstract" of HMRC’s accounts as well as how SRIT income has been separated from HMRC’s wider income tax collection. In that regard HMRC also confirmed that HMRC’s annual accounts will contain "a separate report on how much SRIT is due to you".

12. The Committee would observe that whilst the C&AG’s narrative report will require to be laid, the corresponding HMRC abstract (or separate report as identified by HMRC) will not. This would place the Committee and the Scottish Parliament in the somewhat unusual position of being able to scrutinise the C&AG narrative report without the corresponding HMRC information upon which that narrative is based being laid with that report. The Committee welcomes HMRC’s confirmation that "if it would be helpful then it would lay in the Scottish Parliament those reports which are required by the memorandum of understanding between the Scottish Government and HMRC".

13. The undertaking to provide an extract from HMRC’s accounts to the Scottish Parliament is referred to in the Memorandum of Understanding. HMRC have confirmed that they expect this extract to reproduce the relevant figures from HMRC’s resource account and trust statement which relate to SRIT revenues and expenditure on administering SRIT. The Committee understands from HMRC that this extract would be laid at the same time as the NAO report.

14. The Committee welcomes this additional clarification from HMRC. However the Committee would recommend that legislative force should be given in the draft amendment to HMRC’s commitment to lay in the Scottish Parliament the corresponding HMRC extract, upon which the NAO has based his narrative report. This would place C&AG and HMRC reporting to the Scottish Parliament on SRIT on a similar footing to HMRC’s current reporting requirements to the UK Parliament where HMRC’s annual accounts along with the auditor’s opinion are both laid in the UK Parliament. It would also provide transparency as to which SRIT information informed the NAO report.

I would reiterate my thanks to you, your colleague Sarah Walker and the C&AG for giving evidence to the Committee. The Committee welcomes the openness and frankness with which you discussed the development of the audit arrangements for SRIT. We will shortly begin considering our report on these matters and we will ensure that we send you a copy for consideration at the time of publication.

Should you require any further information please do not hesitate to contact the Clerk, Jane Williams on 0131 348 5390 or by email at pa.committee@scottish.parliament.uk.

Yours sincerely

Hugh Henry MSP, Convener

---

6 Public Audit Committee, Official Report, 15 January 2014, Col 1993
8 Public Audit Committee, Official Report, 15 January 2014, Col 2010