Public Audit Committee

2nd Report, 2013 (Session 4)

Interim framework for auditing the Scottish rate of income tax

Published by the Scottish Parliament on 25 April 2013
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Public Audit Committee

Remit and membership

Remit:

The remit of the Public Audit Committee is to consider and report on—

(a) any accounts laid before the Parliament;

(b) any report laid before or made to the Parliament by the Auditor General for Scotland; and

(c) any other document laid before the Parliament, or referred to it by the Parliamentary Bureau or by the Auditor General for Scotland, concerning financial control, accounting and auditing in relation to public expenditure.

(Standing Orders of the Scottish Parliament, Rule 6.7)

Membership:

Colin Beattie
Bob Doris (from 10 January 2013)
Willie Coffey
James Dornan
Iain Gray (Convener)
Mark Griffin
Colin Keir
Mary Scanlon (Deputy Convener)
Tavish Scott
Sandra White (4 September 2012 until 10 January 2013)

Committee Clerking Team:

Senior Assistant Clerk
Jane Williams

Assistant Clerk
Jason Nairn

Committee Assistant
Parminder Kaur
Public Audit Committee

Interim framework for auditing the Scottish rate of income tax

The Committee’s interim report to the Parliament is as follows—

INTRODUCTION

1. With the passing of the Scotland Act 2012 (“the 2012 Act”), a number of new powers have been devolved to the Scottish Government and the Scottish Parliament. Some of the most significant relate to the finance provisions of the 2012 Act and include provisions to set a new Scottish rate of income tax (“SRIT”).

2. The Public Audit Committee (“the Committee”) recognised that with the new powers for a SRIT there will also be a change to the existing audit framework in Scotland. This report sets out the Committee’s initial views of those new audit proposals for the SRIT and invites views on a number of questions from interested parties and stakeholders.

3. A list of the questions on which the Committee is seeking views is set out in Annexe A to this report along with information on how to submit a consultation response to the Committee.

4. It is the Committee’s intention that, after considering the consultation responses received on its interim report, it will publish its final report before seeking a Parliamentary debate and if possible, Parliamentary endorsement of the key aspects of its proposed audit framework for SRIT. The Committee has also included in this report comments on the audit arrangements for certain other financial powers which will be available to the Scottish Government under the 2012 Act such as the borrowing powers and the cash reserve.

5. The audit arrangements for the Scottish Land and Buildings tax and Landfill tax (also devolved under the 2012 Act) will be scrutinised and commented on by the Public Audit Committee outwith this report.

6. The Committee would like to thank all those who have contributed to its evidence sessions on the audit arrangements for the SRIT and in particular for the open manner in which they provided their views. This written and oral evidence has been valuable in informing the Committee’s initial views and in identifying those areas where the proposals have yet to be finalised.
7. All of the written and oral evidence received to date can be found on the Committee’s web page at—

http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/56760.aspx

THE SCOTLAND ACT 2012

8. Under the 2012 Act, the basic, higher and additional rates of income tax levied by the UK Government would be reduced by 10 pence in the pound for those defined as Scottish tax payers. The Scottish Parliament would then determine and set one single rate of income tax (SRIT) across all tax bands. The rest of the income tax structure remains a reserved matter and will continue to be determined by the UK Parliament. As a result the SRIT is not a devolved tax but rather a tax rate set by the Scottish Parliament which will replace part of the UK income tax.

9. The power to set the SRIT will be devolved from April 2016. The SRIT will be collected by Her Majesty’s Revenue and Customs (HMRC) and will utilise the existing pay-as-you-earn (PAYE) and Self-Assessment tax collection systems.

10. The Regulatory Impact Assessment which accompanied the 2012 Act sets out the estimated costs of implementing and operating the SRIT. These are estimated by the UK Government as—

- £40-45 million implementation costs to provide the likely changes to HMRC’s main PAYE and Self Assessment IT systems and the operation processes to support those;
- £4.2 million annual running costs thereafter.

11. These costs are for a ‘low visibility’ system whereby one income tax payment is identified on Scottish tax payers’ payslips and P60s and which would therefore allow a single UK PAYE system to be operated. These costs are to be met by the Scottish Government.

12. The Command Paper which accompanied the 2012 Act, entitled “Strengthening Scotland’s Future”, outlined the arrangements that the UK Government propose to put into place to ensure accountability in relation to HMRC implementing and operating the SRIT.

- The UK Government will invite the Comptroller and Auditor General as head of the National Audit Office (NAO) to prepare a report to the Scottish Parliament on HMRC’s administration of the SRIT.
- The Scottish Parliament will receive a report on the administration of the Scottish income tax receipts, as part of the National Audit Office (NAO)’s annual report on HMRC’s overall performance.
- Scottish Parliamentary Committees will be able to request HMRC Accounting Officers to give evidence.
• An HMRC Additional Accounting Officer will be made specifically accountable for the collection of the Scottish rate of income tax.

• The UK Government will also inform Scottish Ministers in writing of HMRC Commissioner appointments.

13. There are three phases to the introduction of the SRIT—

• **Implementation** when HMRC set up and test the systems and processes to collect the SRIT and Scottish tax payers are identified. This phase operates from now until April 2016.

• **Transition** when the SRIT will be notionally operational. This phase is likely to operate from April 2016 for at least 2 years and will cease once there is clear evidence that the new forecasting and collection systems are operating correctly. During this phase there will not be any reconciliation of tax receipts to the original tax forecasts and the UK Government will bear the risk of any deviation of outturn from forecast tax receipts if the Scottish Parliament chooses to levy a SRIT of 10 pence.

• **Operation** which is when the SRIT will be fully operational. There will be an annual deduction to the block grant with the total budget derived by the Barnett formula adjusted going forward to make this deduction permanent.

14. At its business planning meeting on 6 September 2012, the Public Audit Committee agreed to seek evidence as to how these audit arrangements might work in terms of Parliamentary scrutiny and to inform its own views as to what audit arrangements it considers would be appropriate.

15. Given the different changes that may arise during the different phases, this report comments primarily on the operational and transitional phases before commenting on any additional issues specifically related to implementation (and finally on any issues solely related to the transitional phase).

**KEY STAKEHOLDERS**

16. There are a number of stakeholders with an accountability role in relation to the SRIT, these are set out below together with details of their current role (and that proposed by the Scotland Act 2012).

**The Scottish Parliament**

17. The Scotland Act 1998 requires that the Scottish Parliament provide for the consideration of all accounts laid in the Scottish Parliament whether by the Auditor General for Scotland (AGS), the Scottish Government or by other public bodies. In practice the Public Audit Committee considers all reports laid in Parliament by the AGS including those which relate to the accounts of an individual body.

18. The Committee provides scrutiny of all AGS reports laid in the Parliament. Under Standing Order Rule 6.7 the Committee can provide scrutiny of any reports or accounts laid in Parliament, or referred to it by the AGS or Parliamentary
bureau concerning financial control, accounting and auditing in relation to public expenditure.

19. Under the Scotland Act 2012, the SRIT will be set, each year, through a resolution passed by the Parliament on the basis of a proposal made by the Scottish Government. It will also be for the Scottish Parliament to scrutinise the expenditure by the Scottish Government and HMRC on the implementation, administration and collection of the SRIT.

**The Scottish Government**

20. Each year the Scottish Government is required to provide the Scottish Parliament with its draft spending proposals for the next financial year. These are then subject to scrutiny by the Parliament which has the opportunity to suggest alternative spending proposals prior to the Budget Bill being introduced. In addition, the Scottish Government is also responsible for publishing its expenditure for the previous year by laying its annual accounts in the Parliament (the Scottish Consolidated Accounts) together with an audit report on that expenditure by the AGS.

21. The Scottish Government will need to propose a new SRIT every year, with a resolution passed by the Scottish Parliament in such time as to allow the taxes to be collected at the start of each tax year (starting in April 2016 and from April each year thereafter).

22. The Scottish Government also produces audited accounts which will include audited figures for income it receives such as the level of block grant allocated by the UK Government (part of which will, in future, be raised through the SRIT). These accounts will also include any borrowing powers or the cash reserve utilised by the Scottish Government as well as the expenditure it has incurred in delivering its policies.

**The Auditor General for Scotland and Audit Scotland**

23. The Auditor General for Scotland (AGS) role was created under the Scotland Act 1998 and is supported by the staff of Audit Scotland. The AGS is responsible for auditing directorates of the Scottish Government, government agencies, NHS bodies, further education colleges, Non Departmental Public Bodies and from April 2013, all police and fire services in Scotland.

24. In general, Scottish Ministers, the Lord Advocate and every other person to whom sums are paid out of the Consolidated Fund in a financial year must prepare accounts of their expenditure and receipts for that year to be audited by the AGS. However, there is provision in the Public Finance and Accountability (Scotland) Act 2000 that cross-border public agencies need not prepare accounts to be sent to the AGS if other legislation elsewhere specifies different audit arrangement such as identifying another designated auditor.

25. Under the Scotland Act 1998, the AGS and those who exercise functions on her behalf (such as Audit Scotland) are not subject to the control or direction of any member of the Scottish Government or the Scottish Parliament.
26. Annual financial audit reports are produced for all of the public bodies that the AGS is responsible for auditing including the Scottish Government (the Scottish Consolidated Accounts).

27. In addition to annual audit reports, the AGS can also publish performance audit reports which examine particular value for money issues, either on individual organisations or across a sector.

28. The AGS is required to lay reports in Parliament which are then scrutinised by the Committee (and which may also be considered by other relevant Committees). The 2012 Act makes no changes to the role of the AGS or Audit Scotland.

**HM Revenue and Customs**

29. HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act 2005. It is the principal UK revenue-collecting department and its purpose is to make sure that money is available to fund the UK’s public services, by collecting UK taxes.

30. It reports to the UK Parliament through Treasury Ministers. The remit of the House of Commons Treasury Committee includes examining the expenditure, administration and policy of HMRC. HMRC’s Chief Executive is its Accounting Officer and is accountable to the UK Parliament for HMRC’s performance in collecting taxes. This performance is reported annually in HMRC’s annual accounts including—

- An annual report commenting on aspects of HMRC’s performance;
- A financial statement regarding the Resource Accounts (HMRC’s administrative and programme spend); and
- A financial statement regarding the Revenue Accounts, (also known as the Trust Statement), which reports on the tax and duties collected by HMRC.

31. As set out in the section above entitled “The 2012 Act”, there are a number of changes to the way in which HMRC operates as a consequence of this Act.

**The Comptroller and Auditor General and the NAO**

32. The National Audit Office (NAO) scrutinises public spending on behalf of the UK Parliament and its audit of central government has two main aims. By reporting the results of audits to the UK Parliament, it holds government departments and bodies to account for the way they use public money, thereby safeguarding the interests of taxpayers. In addition, its work aims to help public service managers improve performance and service delivery.

33. The audit and inspection rights are vested in the head of the National Audit Office, the Comptroller and Auditor General (C&AG). The staff of the NAO undertake these tasks on his behalf.
34. The C&AG is an Officer of the House of Commons. Both he and his staff at the NAO (some 860) are totally independent of government and are not subject to the control or direction of the UK Government or Parliament. NAO staff are not civil servants and the NAO does not report to any Minister.

35. The C&AG has a role in reporting to the UK Parliament on taxation issues, specifically—

- Auditing the financial statements – the Trust Statement and the Resource Accounts.
- Reviewing and reporting the effectiveness of HMRC’s procedures and controls in relation to each of the taxes and duties collected by HMRC (under the Exchequer and Audit Departments Act 1921), this is a separate report on HMRC’s annual accounts.

36. The C&AG also specifically undertakes value for money reports on HMRC and has recently reported on—

- HMRC: Customer Service and performance (18 December 2012);
- Tax Avoidance: Tackling marketed avoidance schemes (21 November 2012);
- Settling large tax disputes (14 June 2012).

37. The 2012 Act makes no changes to the way C&AG and the NAO undertakes its role although the Command Paper which accompanied the Bill did highlight a role for the NAO in relation to auditing aspects of the SRIT.

**MEMORANDUM OF UNDERSTANDING**

38. As part of the implementation arrangements for the SRIT, a Memorandum of Understanding (MoU) was drafted setting out the arrangements between HMRC and the Scottish Government for implementing and operating the SRIT.

39. A copy of this draft MoU was provided by the Cabinet Secretary for Finance, Employment and Sustainable Growth to the Public Audit Committee (PAC) on 15 November 2012. Following evidence sessions with the key stakeholders on 21 and 22 November 2012, the Committee made a number of recommendations to the Cabinet Secretary regarding areas where it would wish to see the draft MoU amended. The draft MoU was agreed at the Joint Exchequer Committee on 14 February 2013. The draft MoU and the Committee’s response (dated 7 December 2012), the agreed MoU and the written evidence received by the Committee are all available on the Committee’s webpage at—

http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/56760.aspx

40. This report builds on the work the Committee has undertaken on the draft MoU. Whilst the Committee welcomes the commitment from the Scottish
Government and HMRC to address some of the Committee’s concerns raised in respect of the draft MoU, the Committee has reiterated its draft MoU remarks (such as those relating to SRIT performance information) in this report where it remains committed to further progress being made.

PROPOSALS FOR AUDITING THE SRIT

Auditing HMRC

41. Section 2 of the Exchequer and Audit Departments Act 1921 requires the C&AG “to examine the accounts of HM Revenues and Customs (the Department) 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 that they are being duly carried out”. The C&AG is also required by the Act to examine the correctness of the sums brought to account, and to report the results of the House of Commons. This report is alongside the C&AG’s audit opinion on the Department’s Trust Statement account, and the C&AG’s audit opinion on the Department’s Resource Account.¹

42. In written evidence to the Committee the NAO set out the legislative basis for its work in auditing HMRC, explaining that HMRC is also governed by the Commissioners for Revenue and Customs Act 2005 which prohibits disclosure of HMRC’s information except under specific circumstances. In that regard—

“As Audit Scotland is not HMRC’s auditor, nor does it have any statutory right of access to HMRC information through legislation, it would be for HMRC’s commissioners to determine what, if any, information it was able to share with Audit Scotland.”²

43. In oral evidence the C&AG confirmed that he would report to the Scottish Parliament on HMRC’s effectiveness in administering and collecting the SRIT as “Audit Scotland does not have access rights to HMRC. It is therefore inevitable, unless there is a much bigger change, that we [the NAO] will be doing that part of the work for the foreseeable future.”³

44. However, he then went on to confirm, that—

“If the Scottish Parliament would like to get assurance directly from Audit Scotland, I would have no objection to providing Audit Scotland with assurance and it then reporting overall.”

45. The AGS in oral evidence reiterated that Audit Scotland’s powers and responsibilities do not include access to HMRC but that —

“We can contribute to the overall assurance in those areas by reviewing the assurance and control mechanisms that the Scottish Government puts in

¹ Para 4, Report by the Comptroller and Auditor General on HM Revenue and Customs 2011-12 Accounts, issued under Section 2 of the Exchequer and Audit Departments Act 1921, 28 June 2012.
² National Audit Office, written submission, 1 March 2013.
place with HMRC through the draft memorandum of understanding and by commenting on the level of assurance that is received from HMRC and the NAO. We can also audit any expenditure that the Scottish Government incurs during the set-up phase as part of the audit of the Scottish Government’s accounts. We can also, to an extent, audit the set-up and running costs that are incurred by HMRC, assuming that those are invoiced to the Government in line with the memorandum of understanding.”

46. In considering its relationship with the NAO, the AGS explained that Audit Scotland had pre-existing arrangements with the NAO across a range of detailed audit work such as recent work on European funding. In that case Audit Scotland worked with the audit institutions from the UK towards a single report and a single opinion on European funding issues. Audit Scotland then commented that there are a number of possible models involving it undertaking work and making judgements, but under each of the models Audit Scotland would be reliant on information shared and gathered by the NAO.

47. The AGS observed though, that “it was not clear on what basis I could report to the Scottish Parliament on a report produced by the Westminster Comptroller and Auditor General”.

48. In terms of transparency of any joint working relationship between Audit Scotland and the NAO, the AGS acknowledged that there would be real value in setting out clearly in a document the agreement reached between the NAO and Audit Scotland.

49. The Committee concurs with this view.

Models for auditing HMRC by the NAO and Audit Scotland

50. In considering who audits HMRC’s administration and collection of the SRIT the Committee identified a range of options which do not require any legislative change, some of which might augment the current proposal of the C&AG remaining as auditor of HMRC.

Option 1: the current proposal with NAO as sole auditor of HMRC

51. As presently proposed the C&AG through the NAO would provide additional audit assurance on the resource and trust accounts of HMRC in relation to the SRIT.

52. In evidence to the Committee, the C&AG explained that he would be happy to use his discretionary powers to report on Scottish tax, although in the medium term “there would need to be a legislative basis on which I could do that”. He then commented that “I do not want to say that I would always bind myself to exercise

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5 Public Audit Committee, Official Report, 22 November 2012, Col 1002.
my discretion to do that, as that would put me in the position of giving preference to one bit of tax over another".  

53. Given the C&AG’s concerns, the Committee welcomes the announcement in the Budget 2013 that the UK Government will include legislation in the Finance Bill 2014 to require the NAO to report annually to the Scottish Parliament on HMRC’s administration of the SRIT. This legislation is intended to ensure that the auditing and reporting arrangements envisaged during the passage of the 2012 Act can be fully implemented.

54. Under this option the Committee could also monitor the audit arrangements for the SRIT once it becomes operational, and subsequently consider whether any changes should be recommended.

**Option 2: Audit Scotland providing additional assurance to NAO’s audit of HMRC**

55. In oral evidence the C&AG commented that in addition to the NAO undertaking the audit of HMRC (as set out in option 1) —

> “if…the Scottish Parliament wanted to get its assurance primarily from Audit Scotland, I would have no problem with providing my assurance to Audit Scotland and putting it in a position to provide assurance to the Scottish Parliament.”

56. The C&AG added that “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.” In written evidence to the Committee, the AGS confirms that at present she has no right of access to information held by UK bodies such as HMRC.

57. In written evidence, the AGS provided different examples of how Audit Scotland and the NAO currently work together and these are set out below. The Committee considers that these examples suggest ways in which the NAO and Audit Scotland might work together in auditing the SRIT.

**Whole of Government Accounts**

58. In relation to the Whole of Government Accounts (which consolidate the accounts of the vast majority of public bodies across the UK), the NAO are the lead auditors. Scottish bodies participate by agreement between HM Treasury and the Scottish Government with Audit Scotland adapting the NAO’s instructions for auditors to accommodate Scottish circumstances. These instructions are then issued to auditors of Scottish bodies, who provide audit opinions that the packs are correctly completed and are consistent with the audit accounts. These

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12 HM Treasury and HMRC Overview of Tax Legislation and Rates, March 2013, paragraph 2.47.
14 National Audit Office, written submission, 1 March 2013.
16 Auditor General for Scotland, written evidence, 1 March 2013.
opinions are then taken into account by the NAO in reporting to the UK Parliament on the Whole of Government Accounts.

59. The work between the NAO and Audit Scotland is governed by a Memorandum of Understanding which sets out the roles and responsibilities of each party.

**European Funding**

60. The European Union requires an annual audit in each Member State of expenditure funded through the Common Agricultural Policy. In the UK the administration and accounting for those funds is a devolved matter and expenditure in Scotland is included in the Consolidated Accounts of the Scottish Government. The rules however require a single audit opinion for UK and the NAO provide that opinion. Therefore all the UK national audit agencies work together under a common set of instructions, prepared by the NAO to contribute to the overall opinion given by the C&AG. In this example Audit Scotland reports to the NAO and its reports are also available to the EU and its auditors.

**Forestry Commission**

61. Following devolution of forestry services, separate accounts are provided for the Commission’s activities in Scotland. In addition, although audits are prepared by each national agency (such as Audit Scotland), as the Commission’s central finance systems remain in Scotland, Audit Scotland also provide assurance on the central systems for the NAO and Wales Audit Office. This work is undertaken in accordance with the terms of an annual letter.

62. Under this option Audit Scotland’s role could include assuring the Scottish Parliament that the NAO’s procedures for auditing HMRC are robust, or working with the NAO to provide additional commentary on any annual audit reports. The Committee’s initial view is that whilst it has no firm views as to how Audit Scotland might work with the NAO, it would not support a role for Audit Scotland in “auditing” the NAO’s work on the SRIT. The Committee considers that this would represent unnecessary duplication and would be of limited value.

**Option 3: Legislative change: Audit Scotland and the NAO as auditors of HMRC**

63. In the case of the Forestry Commission, although it is a UK cross-border public body, Audit Scotland is the designated auditor of the Forestry Commission under statute and the agency reports directly to Scottish Ministers.

64. In evidence to the Committee, the C&AG observed that "it is true that the balance right now probably lies with the National Audit Office, but, if in time, it is thought to be more appropriate for the fronting to shift over, we are more than happy to go along with that."\(^{17}\)

65. Given the 2012 Act provides for the Scottish Parliament to create its own taxes (in certain circumstances and subject to UK Government approval), it is possible that in future HMRC could be responsible for collecting and administering...

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\(^{17}\) *Public Audit Committee, Official Report, 21 November 2012, Col 927.*
a solely Scottish tax (in addition to the SRIT). Under the current arrangements the NAO would be auditor of such taxes with little or no role for Audit Scotland.

66. In light of this and in consideration of any future constitutional changes, the Committee questioned whether it would be more appropriate for Audit Scotland and the AGS to have a direct audit relationship with HMRC in relation to those Scottish taxes administered and collected by HMRC. To give effect to this option, legislation would be required to be passed by the UK Parliament.

67. Given the UK Government has already committed to legislation\textsuperscript{18} to require the NAO to report direct to the Scottish Parliament on HMRC’s administration of the SRIT, this provides an opportunity for any wider legislative change recommended by this Committee or the Scottish Parliament to be also considered.

| Question 1: | The Committee would welcome views on the relationship between Audit Scotland and the National Audit Office in auditing the SRIT. In particular please comment on the benefits and disadvantages of the options set out above. |
| Question 2: | Please comment on the merits or otherwise of legislative change to provide for Audit Scotland to have a direct auditing role of HMRC in relation to Scottish taxes. If you would support legislative change, to what extent and in what circumstances might this power be appropriate? |

HMRC – PERFORMANCE INFORMATION AND ACCOUNTS

68. In evidence to the Committee, the C&AG identified that a key challenge for HMRC will be ensuring that there is auditable information that is clear and separate. In that regard, as the Scottish Government will be responsible for paying any identifiable costs attributable to SRIT, HMRC will require to be clear about the costs its incurs. The C&AG observed that —

“having to separate it out will be new, and we need to give ourselves a reasonable run up to be able to do that securely. It would be a real pity to produce an account on which I could not give a clean opinion on the first go-around”\textsuperscript{19}

69. Similarly the AGS commented that “we are not clear about the level of detail that will have to be set out in those [HMRC] accounts and, in turn, the level of audit coverage that my NAO counterpart will be required to provide and therefore the assurances that the Scottish Parliament can have in that respect”\textsuperscript{20}

70. In that regard the AGS observed that “perhaps there should be a separate document in HMRC’s accounts that would be the focus of the NAO’s audit and of any assurance provided to the Scottish Parliament”\textsuperscript{21}

71. The AGS noted that now is the right time to be discussing the additional information needed by the Scottish Parliament. In evidence the AGS and Audit

\textsuperscript{18} UK Government Budget Bill 2013, HC 1033, March 2013, paragraph 2.39.
\textsuperscript{19} Public Audit Committee, Official Report, 21 November 2012, Col 929.
\textsuperscript{20} Public Audit Committee, Official Report, 22 November 2012, Col 991.
\textsuperscript{21} Public Audit Committee, Official Report, 22 November 2012, Col 993.
Scotland identified a range of information that the Parliament may find valuable in undertaking its scrutiny role and which should be readily and separately identifiable for Scotland, such as—

- Compliance collection rates in Scotland (including comparison to the rates for the UK’s income tax base);
- Levels of write offs; and
- HMRC’s performance in collecting the SRIT.22

72. In its oral evidence HMRC explained that—

“To the extent that we can provide information, we will...and to the extent that our systems are capable of producing such information there is no reason why I should not come and talk to the Committee or, through the NAO, make sure that there is proper scrutiny” 23

73. In its response on the draft MoU the Committee agreed with the AGS and C&AG about the need for sufficient level of detail to be reported by HMRC and C&AG in order to enable effective scrutiny by the Parliament. The Committee set out the areas on which HMRC currently reports its performance in its annual accounts and invited the Scottish Government to explore with HMRC the costs of HMRC providing similar information in relation to the SRIT. The areas identified by the Committee are—

- Compliance
- Prosecution rates
- Error and fraud levels
- The tax gap (the difference between all tax theoretically due and that actually collected)
- Proportion of tax debt arising in the year that is cleared within 90 days (referred to as the ‘debt roll rate’)
- Taxes written off and tax dispute settlements.

74. HMRC subsequently reiterated that its systems will be designed to identify the revenue from the Scottish rate, which will be paid to the Scottish Government to fund its expenditure, and identified separately in the HMRC annual Trust Statement. HMRC systems will also identify the direct costs of operating the Scottish rate which are payable to the Scottish Government under paragraph 4.2 of the MoU and this expenditure will be shown separately in the HMRC Resource Account.24

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24 HM Revenue and Customs, written submission, 31 January 2013
75. However HMRC also acknowledged that there may be costs associated with disaggregating performance data held at the UK level to be able to also report at the Scottish tax payer level. Those costs would fall on the Scottish Government although it would be for HMRC to decide whether it could prioritise the resource and opportunity costs of the people who would have to do the work. The Scottish Government explained that there were benefits in agreeing early the management and accounting information it would require so that the computer systems could be designed from the beginning to produce it.

76. In its response dated 31 January 2013, HMRC commit to discussing with the Scottish Government the costs and implications of reporting on the areas identified by the Committee (in paragraph 73 of this report) in time for the Scottish Government to respond to the Committee in June 2013 on the progress made. It is the Committee’s intention that it will publish the Scottish Government’s response once received so that respondents can include any comments on this information in their consultation response.

77. The Committee remains of the view that the provision of this performance information by HMRC to the Scottish Parliament is an integral part of the Scottish Parliament being able to effectively scrutinise HMRC’s expenditure of Scottish Government funds in administering and collecting the SRIT. This is especially the case as HMRC acknowledged if the SRIT were changed (from 10 pence) then costs would arise which may also require to be met by the Scottish Government.

**HMRC Extract**

78. In paragraph 6.2 of the MoU, it is explained that following the audit of the HMRC accounts, HMRC would provide an extract, covering all matters relating to the SRIT, to the Scottish Parliament. This extract and any subsequent oral evidence to Scottish Parliamentary Committees would be provided by the Additional Accounting Officer (AAO) with responsibility for the Scottish rate of income tax for HMRC. More details on the role of the AAO are provided later in this report.

79. In written evidence, the C&AG explains that if HMRC were to present separate financial statements relating to the SRIT, then he would be able to provide a separate audit opinion on these. In relation to the “extract” proposed by HMRC, the C&AG makes clear that —

“If…it were to consist of simply the figures 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”.

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**Question 3:** The Committee would welcome views on the range and type of performance information that should be reported to the Scottish Parliament by HMRC in relation to its performance in administering and collecting the SRIT. In particular, the Committee would welcome views on the merits or otherwise of the criteria identified in paragraph 73.

**Question 4:** How should any performance information be reported to the Parliament, for example directly by HMRC (and available for comment by the National Audit Office); or by the Scottish Government based on information provided to it by HMRC (which would then also be available for comment by Audit Scotland) or by another mechanism?

**Question 5:** To what extent should the proposed extract provided by HMRC to the Scottish Parliament include financial information such as losses, assets and liabilities so that the NAO would be able to provide an annual audit opinion on the extract?

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**AUDIT AND PERFORMANCE REPORTS TO THE SCOTTISH PARLIAMENT**

80. The UK Government’s Command Paper entitled “Strengthening Scotland’s Future” invites the C&AG to prepare a report to the Scottish Parliament on HMRC’s administration of the SRIT. It also confirms that the Scottish Parliament will receive a report on the administration of the SRIT receipts as part of the NAO’s annual report on HMRC’s overall performance.

81. The Committee therefore welcomes the announcement in the Budget 2013 that the UK Government will introduce legislation to require the NAO to report annually to the Scottish Parliament on HMRC’s administration of the SRIT.28 However it is less clear whether such legislation would enable HMRC to lay reports in the Scottish Parliament.

82. In written evidence, HMRC explain that having examined Standing Orders, it would not be able to lay the extract in the Scottish Parliament. Although, it would be happy to consider suggestions for the most convenient way of providing this information to the Parliament (for example by sending it to the Conveners of the Public Audit and Finance Committees).

83. Standing Order Rule 14.1 sets out the rules relating to laying of reports and other documents in the Scottish Parliament. Rule 14.1.4 provides that—

> “No report or other document shall be laid before the Parliament unless it is required or authorised to be laid under an enactment or otherwise or it is laid by a member of the Scottish Government.”29

84. Standing Order Rule 14.3.3 provides that in the Rules “document means anything in which information is recorded in any form”. The 2012 Act does not

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require HMRC to lay audit reports relating to the SRIT in the Scottish Parliament albeit that appears to be the intention having regard also to the Command Paper which accompanied the Bill (which resulted in the 2012 Act). In addition paragraph 6.2 of the MoU clearly states that “HMRC will provide an extract, covering all matters relating to the SRIT, to the Scottish Parliament”.

85. In relation to any additional performance information on the SRIT (as set out paragraph 73), HMRC comments that its practice is that any wider performance information, not included within is annual accounts, is published on the HMRC website. HMRC anticipates that any further SRIT analysis would be made available in the same way.\footnote{HM Revenue and Customs, written evidence, 27 February 2013.}

86. Having considered Standing Orders, the Committee is of the view that Standing Orders would not preclude reports by HMRC being laid in the Scottish Parliament. It is the Committee’s view that the MoU agreed between the Scottish and UK Governments (entered into between the Scottish Government and HMRC) may serve as a reference point for such authorisation as is required by Rule 14.1.4.

87. The Committee notes that a report could also be laid (indirectly) by a member of the Scottish Government.

88. Under section 41 of the Scotland Act 1998, “the publication under the authority of the Parliament of any statement shall be absolutely privileged”. As such, the Committee recognises that there are additional benefits in HMRC and the NAO being able to lay reports in the Parliament.

89. In considering the extract identified within the MoU, any additional performance information provided by HMRC as well as any accompanying audit opinion or report by the NAO, the Committee noted that there were a range of ways that this information could be provided to the Scottish Parliament.

Option A: Laying reports in the Parliament

90. The UK Government has already committed to legislation\footnote{UK Government Budget Bill 2013, HC 1033, March 2013, paragraph 2.39.} to require the NAO to report direct to the Scottish Parliament on HMRC’s administration of the SRIT. The Committee considers this provides an opportunity for also considering whether such legislation should also provide for the HMRC extract and any associated SRIT performance reports from HMRC and the NAO to also be laid in the Scottish Parliament (in addition to the audited annual accounts).

Option B: Providing information by way of a letter or other document to the Parliament.

91. In terms of the extract HMRC have suggested that one mechanism for providing this information to the Scottish Parliament may be by way of a letter to the Conveners of the Finance and Public Audit Committees.
92. Information can also be provided to the Scottish Parliament by other mechanisms such as to the Presiding Officer (as in the case of a breach of subordinate legislation laying requirements, Rule 10.3A) or via the Scottish Parliament’s Information Centre (in the case of corrections made to the Official Report).

**Option C: Website publication**

93. In its written evidence, HMRC explain that in relation to the provision of any wider performance data on the operation of SRIT, it would propose to publish any information, not appearing in the annual accounts, on its website (as is its current practice).

94. Similarly the Public Audit Committee could publish on its web pages, the HMRC extract, any additional performance information provided by HMRC or audit opinions or reports provided by the NAO.

| Question 6: The Committee would welcome views on the merits of the different mechanisms listed above by which the HMRC and the NAO could provide reports such as SRIT extract and additional performance information to the Scottish Parliament? |

**HMRC Additional Accounting Officer with responsibility for the collection of the SRIT**

95. In its response to the draft MoU the Committee welcomed the appointment by HMRC of an additional accounting officer (AAO). This role, whilst not a statutory role, would undertake to report to the Scottish Parliament on HMRC’s performance in administering and collecting the SRIT.

96. The Committee recognised that the AAO does not have a direct reporting line to the Scottish Parliament in the way that Scottish accountable officers do. In evidence the Scottish Government commented that although there was no formal or statutory reporting line from the AAO to the Committee, these arrangements should work well "providing that the work required to develop the SRIT project moves smoothly and that tax itself, once operational, does not give rise to any major or unforeseen difficulties".  

97. HMRC explained that it could not confirm whether, in the event of significant issues arising in connection with SRIT, the AAO would be able to report to the Parliament, outwith its formal relationship with the Scottish Government.

98. HMRC confirmed to the Committee that the appointment of the AAO brings with it an explicit obligation to maintain professional standards and to show integrity, impartiality and honesty in decision-making and reporting, as part of the framework of accountabilities which govern the use of public money in the UK. In

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that regard HMRC are clear that if the AAO was to show some bias or did not act impartially, he would be failing in his professional duty as an Accounting Officer.\textsuperscript{33}

99. HMRC then confirmed that HM Treasury would not support the Committee’s proposal that in due course consideration be given to the AAO having a statutory duty to report directly to the Scottish Parliament.

100. The Scottish Government has however confirmed that should the AAO not provide evidence to a Committee when requested, then this would be an issue which it would take up with the JEC.\textsuperscript{34}

101. Separately the Committee has confirmed that section 23 of the Scotland Act 1998, which provides for the Parliament to compel witnesses and documents in certain circumstances, would not apply to either the AAO or to HMRC. This view is taken on the basis that the subject area (Fiscal, economic and monetary policy), and the body administering it, HMRC, are reserved. As a consequence the section 23 “test” of being a “subject for which any member of the Scottish (Government) has general responsibility” is not likely to be met. The Committee also notes that the MoU acknowledges that the SRIT does not represent a devolved tax.\textsuperscript{35}

102. On balance the Committee is persuaded that, given the AAO commitment to attend Committee meetings and the Scottish Government’s views regarding the use of the dispute resolution procedure (see paragraphs 128-131), the current accountability arrangements for the AAO are adequate.

**AUDIT SCRUTINY OF OTHER FINANCIAL INFORMATION**

**Economic data – Scottish Government**

103. In evidence the Scottish Government confirmed that, in addition to audit information, it would be seeking a range of management information from HMRC about the operation of the tax, including information about the trends on tax collected over time which would give an insight into the economy's performance.\textsuperscript{36}

104. Paragraph 7.1 of the MoU explains that HMRC must provide information to the Scottish Government that will enable Scottish Ministers and officials to discharge their duties in respect of Parliamentary accountability, scrutiny, rate setting and forecasting in relation to the SRIT. This is in addition to information provided by HMRC to the Scottish Government throughout the year concerning actual tax receipts and any issues arising relating to compliance or other matters relevant to the collection of the SRIT (paragraph 6.3 of the MoU).

105. Whilst the Committee recognises that the Scottish Government may require information in order to discharge its duties to the Parliament, it is of the view that this tax trend information would be of value to the Parliament in providing a context in which to scrutinise HMRC’s performance. For example, the Committee heard

\textsuperscript{33} HM Revenue and Customs, written evidence, 31 January 2013

\textsuperscript{34} Scottish Government, written evidence, 13 February 2013.

\textsuperscript{35} Memorandum of Understanding on the Scottish Rate of Income Tax, Version JEC1, 14 February 2013, introduction.

\textsuperscript{36} Public Audit Committee, Official Report, 22 November 2012, Col 1018.
that approximately 98% of tax receipts are collected without any compliance intervention as it is collected through PAYE returns, VAT and corporation tax. In that regard HMRC noted that the Parliament may be interested in the remaining 2%.

106. However the Committee notes that these percentages are based on the range and type of UK tax payers. If changes in the Scottish economy resulted in a lower percentage of tax payers paying tax through PAYE, VAT or corporation tax then this may impact on SRIT collection levels. Similarly if a different rate of SRIT was set by the Scottish Parliament compared with UK income tax levels, then this could impact on HMRC's tax collection performance.

107. **The Committee welcomes the commitment from the Scottish Government that it will consider what information it may be able to provide to the Scottish Parliament in relation to an annual summary of trends in tax collection outwith that of the HMRC annual report.**

108. The Committee also notes that Audit Scotland would have access to all the information provided to the Scottish Government. Although the AGS observed that at present she would not expect to formally audit and report on this information on an annual basis, she added that, “it will be an important consideration in any reports on the Scottish public finances that I may prepare”.

**Question 7:** The Committee would welcome views on what, if any, information relating to the trends in tax collection the Scottish Government should provide the Scottish Parliament? When should such information should be provided (such as at the same time as the NAO reports on the HMRC’s annual accounts)?

**Question 8:** More generally the Committee would welcome views on how any commitments to provide additional information to the Scottish Parliament by the Scottish Government, or HMRC (and which are not currently contained in the MoU or Section 33 implementation reports) should be made public. Options might include through:

a) publication on the Public Audit Committee’s webpage of the relevant correspondence confirming the information to be provided;

b) some form of an agreement between the Public Audit Committee (or the Parliament) and the relevant stakeholder;

c) the agreed MoU between the Scottish Government and HMRC updated to reflect any relevant commitments.

**Borrowing powers and the cash reserve**

109. From April 2015 (when a Scottish Land and Buildings transactions tax and Landfill tax will be introduced), the Scottish Government will be able to borrow up

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to £200 million in any one year with a cumulative limit of £500 million to deal with the situation when outturn tax receipts are less than forecast.

110. Borrowing will be from the National Loans Fund and Scottish Ministers will be required to repay their loans within a maximum of four years. HM Treasury have the power to revise the borrowing limits upward or downward through secondary legislation.

111. The 2012 Act also provides new capital borrowing powers from April 2015. The Scottish Government will be able to borrow up to 10% of the capital budget any year with a cumulative limit of £2.2 billion. Capital borrowing can be from the National Loans Fund, via the Secretary of State for Scotland, or from commercial banks. Scottish Ministers will in principle have access to loans over a much longer period than the standard ten years considered by the National Loans Fund.

112. There is a power within the 2012 Act to raise the statutory borrowing limits and as a result the annual borrowing limits can be increased administratively. The UK and Scottish Governments will review the limits at Spending Reviews through the Joint Exchequer Committee.

113. In addition, the 2012 Act provides for the UK Government to amend the way in which Scottish Ministers can borrow to include bond issuance, without the need for further primary legislation. The UK Government will conduct a review of the costs and benefits of bond issuance over other forms of borrowing, and will consider extending Scottish Ministers' powers where this does not undermine the overall UK fiscal position or have a negative impact on total UK borrowing.

114. The 2012 Act also provides for the creation of a Scottish cash reserve for when actual receipts are higher than that forecast. Monies in the cash reserve can be used to pay for potential future deficits, thus being a tool to manage differences between forecast and actual tax receipts over the long term. Scottish Ministers can already make discretionary payments into the Scottish Cash Reserve, up to an overall total of £125m, to help manage any variation in Scottish income tax receipts compared to forecasts in the initial phase of the new system.

115. In evidence to the Committee, the AGS explains that both capital and revenue borrowing will appear in the accounts of the Scottish Government and/or the Scottish Consolidated Fund and will therefore be subject to audit annually as part of the audit of these accounts. Any significant matters arising would be reported through the annual audit report to the Scottish’s Government’s Audit and Risk Committee and the AGS has power under the Public Finance and Accountability (Scotland) Act 2000 to report on any matters arising to the Parliament.

116. In relation to the use of the Scottish cash reserve, the AGS observes that although this information will be an important consideration in any report on the Scottish Finances prepared by the AGS, it will be more closely related to the budget setting process than the annual accounts. In that regard the level of detail provided by the Scottish Government regarding its availability, the Budget Exchange Mechanism and through borrowing, and the way these are planned to
move over the financial year may be matters which the Finance Committee wishes to consider.\textsuperscript{39}

117. The Committee welcomes the AGS’s confirmation that capital and revenue borrowing will be subject to Audit Scotland scrutiny as part of the annual audit process. This provides the Committee with reassurance that any matters of significance can be brought to the Parliament for scrutiny.

118. In relation to the use of the cash reserve, the Committee notes the AGS comments regarding the level of detail provided as part of any budget scrutiny by the Parliament. The Committee will ensure that these comments are brought to the attention of the Finance Committee.

\textbf{Transparency of the Scottish Consolidated Accounts}

119. Another aspect the Committee considered was the ease with which the Scottish Consolidated Accounts will enable the Parliament and the Public Audit Committee to identify income arising from the SRIT as well as any use of the borrowing powers, and cash reserve.

120. \textbf{The Committee welcomes the AGS’ confirmation that borrowing by the Scottish Government for capital or revenue would be reported in its accounts and/or the accounts of the Scottish Consolidated Fund. This would include identification between amounts due to be repaid within one year and those due to be repaid after more than one year. In addition the AGS observes that it would be good practice for a supporting note to the accounts to analyse this between borrowing for capital and other purposes.}\textsuperscript{40}

121. The Committee notes that the cash reserve would not appear directly in any set of accounts, and that it is unclear whether the income derived from the SRIT would be separately identifiable from that received from the block grant. \textbf{The Committee will seek clarification from the Scottish Government on whether it proposes to identify, within its accounts, actual income from SRIT as separate from income from the block grant.}

122. The Committee also agreed to bring the AGS’ other comments on these issues to the attention of the Finance Committee as they relate to the future budget scrutiny process.

\textbf{Implementation arrangements}

123. Section 33 of the 2012 Act requires that an annual implementation and operation report for the SRIT must be made by the Secretary of State for Scotland in the UK Parliament and must also be provided to Scottish Ministers to be laid in the Scottish Parliament. Section 33 requires that Scottish Ministers also lay an annual implementation and operation report in the Scottish Parliament and provide a copy to the Secretary of State for Scotland to be laid in the UK Parliament. The first of these reports is due in May 2013. These reports will continue to be laid

\textsuperscript{39} Auditor General for Scotland, \textit{written evidence}, 1 March 2013

\textsuperscript{40} Auditor General for Scotland, \textit{written evidence}, 1 March 2013.
annually until either April 2020 or later than 2020 (in which case it would be the first anniversary of the day on which the last of the provisions of Section 33 comes into force).

124. Section 33 of the 2012 Act set out that reports under this section should contain—

“(a) a statement of the steps which have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards the commencement of the provisions of this Part,

(b) a statement of the steps which the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the commencement of the provisions of this Part,

(c) an assessment of the operation of the provisions of this Part which have been commenced,

(d) an assessment of the operation of any other powers to devolve taxes to the Scottish Parliament or to change the powers of the Scottish Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,

(e) the effect of this Part on the amount of any payments made by the Secretary of State under section 64(2) of the 1998 Act (payments into the Scottish Consolidated Fund), and

(f) any other matters concerning the sources of revenue for the Scottish Administration (within the meaning of section 126(6) of the 1998 Act) which the maker of the report considers should be brought to the attention of the Parliament of the United Kingdom or the Scottish Parliament.”

125. The MoU sets out information on the cost and implementation responsibilities of the Scottish Government and HMRC as well the mechanism by which decisions regarding options for developing IT and administrative systems for the SRIT will be reached. In its response to the Committee’s comments on the draft MoU, HMRC confirm that, in addition to costs, the annual implementation report will include information on any significant decisions made about the design and implementation of the SRIT, and the options considered and rejected by the implementation programme.41

126. The Committee welcomes HMRC’s commitment to include this information in the implementation reports. The Committee believes this will provide valuable information about the value for money decisions taken by HMRC and the Scottish Government.

41 HM Revenue and Customs, written evidence, 31 January 2013
127. The Committee also welcomes the Scottish Government’s commitment to provide the Committee with a further update 6 months after each Section 33 report.42

Dispute resolution
128. In its comments on the draft MoU the Committee recommended that the dispute resolution procedure be amended to include procedure for resolving disagreements arising in relation to the performance of HMRC in setting up, administering and collecting the SRIT.

129. In his response the AAO explains that it would be preferable to discuss the handling of such dispute once the arrangements for monitoring and reporting on performance have been agreed. He then goes on the confirm that JEC minutes will be published and it is by this mechanism that the Scottish Parliament will be notified of any decisions by the JEC on financial disputes relating to the SRIT.

130. The Committee welcomes the Scottish Government’s commitment to notify the Scottish Parliament of any occasions when the JEC makes a decision arising from the dispute resolution mechanism.43

131. The Committee will continue to discuss with the Scottish Government the timing and format of any such notification.

| Question 9: The first implementation report is due to be laid in the Scottish Parliament in May 2013. The Committee would welcome comments on the adequacy and range of information contained within the first implementation report. |

Transitional arrangements and forecasting
132. As has been noted, the 2012 Act provides for transitional arrangements to operate from April 2016 when the system of forecasting Scottish tax levels and subsequently adjusting the block grant will be tested for accuracy.

133. That said, the Office for Budget Responsibility (OBR) has already started providing forecasts of Scottish income tax, landfill tax, stamp duty land tax and aggregates levy receipts in March 2012. They update these forecasts twice a year (at the Budget and in the autumn) alongside each Economic and Fiscal Outlook. The forecasts have a five-year horizon.

134. The most recent forecast, published in March 2013, is available on the OBR’s website.44

135. With regard to Scottish income tax, the OBR forecasts will be important in several phases—

• During the transitional phase (from April 2016 until at least April 2020): there will be an annual deduction of income tax revenues from the Scottish block grant based on OBR forecasts. This will not be reconciled with actual receipts and thus any deviation of the outturn from the forecast will not impact on the Scottish budget if the Scottish Parliament chooses to levy a SRIT of 10 pence.

• For calculating the block grant adjustment: when the transition phase ends some of the block grant will be exchanged for Scottish income tax revenues. Outturn tax revenue data and OBR forecasts will be used to calculate this block grant reduction. The Governments have agreed to use the “Holtham approach” to guide this calculation, requiring recalculation annually. Block grant adjustments will also be necessary in the event of any change to the structure of the UK income tax system. OBR estimates will be used to calculate necessary adjustments in this circumstance.

• After the transitional phase: when the Scottish rate is fully operational OBR forecasts will be used to calculate UK Government payments to the Scottish budget corresponding to Scottish income tax receipts. Actual receipts will be reconciled with the OBR forecast, with a corresponding transfer either to or from the Scottish budget to the UK Government after actual receipts are known – usually 2 years after the end of relevant tax year. The accuracy of OBR forecasts will underpin Scottish Government resource borrowing requirements and the adequacy of the proposed borrowing limits.

136. In written evidence the AGS confirms that Audit Scotland and the AGS will have access to the information supplied to the Scottish Government by the Office of Budget Responsibility. This provides the Committee with reassurance that, should the AGS choose to report on Scottish finances, then any risks or concerns arising in relation to OBR forecasting information provided to the Scottish Government could also commented upon.

Question 10: The Committee would welcome comments on any other aspect of this report or on any aspects of the audit arrangements for the SRIT not contained within this report.
ANNEXE A: CALL FOR EVIDENCE

Scottish Rate of Income Tax Auditing framework – call for evidence background

The Scotland Act 2012 (“the 2012 Act”) devolves a number of new powers to the Scottish Government and the Scottish Parliament. Some of the most significant relate to the finance provisions of 2012 Act and include provisions to set a new Scottish rate of income tax (“SRIT”).

The Scottish Parliament’s Public Audit Committee recognised that with the new powers for a SRIT there will also be a change to the existing audit framework in Scotland. It has therefore published an interim report on its proposed framework for auditing the Scottish Rate of Income Tax.

The Committee report welcomes views on a number of questions identified throughout the report, as well as your views on the proposed audit framework.

The questions contained within the report and on which the Public Audit Committee seeks your views are as follows:

**Question 1:** The Committee would welcome views on the relationship between Audit Scotland and the National Audit Office in auditing the SRIT. In particular please comment on the benefits and disadvantages of the options set out above.

**Question 2:** Please comment on the merits or otherwise of legislative change to provide for Audit Scotland to have a direct auditing role of HMRC in relation to Scottish taxes. If you would support legislative change, to what extent and in what circumstances might this power be appropriate?

**Question 3:** The Committee would welcome views on the range and type of performance information that should be reported to the Scottish Parliament by HMRC in relation to its performance in administering and collecting the SRIT. In particular, the Committee would welcome views on the merits or otherwise of the criteria identified in paragraph 73.

**Question 4:** How should any performance information be reported to the Parliament, for example directly by HMRC (and available for comment by the National Audit Office); or by the Scottish Government based on information provided to it by HMRC (which would then also be available for comment by Audit Scotland) or by another mechanism?

**Question 5:** To what extent should the proposed extract provided by HMRC to the Scottish Parliament include financial information such as losses, assets and liabilities so that the NAO would be able to provide an annual audit opinion on the extract?

**Question 6:** The Committee would welcome views on the merits of the different mechanisms listed above by which the HMRC and the NAO could provide reports such as SRIT extract and additional performance information to the Scottish Parliament?
**Question 7:** The Committee would welcome views on what, if any, information relating to the trends in tax collection the Scottish Government should provide the Scottish Parliament? When should such information should be provided (such as at the same time as the NAO reports on the HMRC’s annual accounts)?

**Question 8:** More generally the Committee would welcome views on how any commitments to provide additional information to the Scottish Parliament by the Scottish Government, or HMRC (and which are not currently contained in the MoU or Section 33 implementation reports) should be made public. Options might include through:

a) publication on the Public Audit Committee’s webpage of the relevant correspondence confirming the information to be provided;
b) some form of an agreement between the Public Audit Committee (or the Parliament) and the relevant stakeholder;
c) the agreed MoU between the Scottish Government and HMRC updated to reflect any relevant commitments.

**Question 9:** The first implementation report is due to be laid in the Scottish Parliament in May 2013. The Committee would welcome comments on the adequacy and range of information contained within the first implementation report.

**Question 10:** The Committee would welcome comments on any other aspect of this report or on any aspects of the audit arrangements for the SRIT not contained within this report.

**Public Audit Committee – next steps**

After considering the consultation responses, the Committee intends to publish its final report before seeking a Parliamentary debate and if possible, Parliamentary endorsement of the key aspects of its proposed audit framework for SRIT. The Committee has also included in this report comments on the audit arrangements for other financial powers which will be available to the Scottish Government under the 2012 Act such as the borrowing powers and the cash reserve.

All submissions to the Public Audit Committee should be provided by **no later than Monday 1 July 2013**.

**How to submit written evidence**

Before making a submission, please read the Parliament’s policy on treatment of written evidence by subject and mandatory committees.

Written submissions should normally be limited to around 4 sides of A4. Longer submissions should be accompanied by a short summary of the main points. Submissions should be set out in numbered paragraphs. Where the submission refers to existing published material, it is preferable to provide hyperlinks or full citations (rather than extensive extracts).
Anyone wishing their evidence to be treated confidentially should contact the Public Audit Committee clerking team at the email address or phone number below before submitting their evidence. It will then be for the Committee to decide whether or not to accept the submission on the basis that it will not be published (though it will be seen in full by the Committee). However, the Parliament is required to consider requests for information under freedom of information legislation and we are therefore unable to guarantee that the evidence will never be released.

The Committee welcomes written evidence in English, Gaelic or any other language. If possible, written submissions should be submitted electronically (preferably in word processing format i.e. Microsoft Word or Apple Pages) by email to: pa.committee@scottish.parliament.uk

If you are unable to provide your submission in electronic format, hard copy written submissions should be sent to:

Public Audit Committee  
Room T3.60  
Scottish Parliament  
Edinburgh  
EH99 1SP

Contact

Any queries about written submissions should be addressed in the first instance to the Public Audit Committee clerking team at the above email address or (0131) 348 5390.
ANNEXE B: EXTRACT FROM THE MINUTES OF THE PUBLIC AUDIT COMMITTEE

16th Meeting, 2012 (Session 4), Wednesday 21 November 2012

Scotland Act 2012: The Committee took evidence on the audit arrangements for the Scottish rate of income tax powers arising from the Scotland Act 2012 from —

Mr Edward Troup, Second Permanent Secretary, and Sarah Walker, Deputy Director and Head of Devolution Team, HM Revenue and Customs;
Amyas Morse, Comptroller & Auditor General, National Audit Office.

17th Meeting, 2012 (Session 4), Wednesday 22 November 2012

Scotland Act 2012: The Committee took evidence on the audit arrangements for the Scottish rate of income tax powers arising from the Scotland Act 2012 from—

Caroline Gardner, Auditor General for Scotland;
Russell Frith, Assistant Auditor General, and Mark Taylor, Assistant Director, Audit Services Group, Audit Scotland;
Alistair Brown, Deputy Director, and Jonathan Sewell, Principal Policy Analyst, Finance Directorate, Scottish Government.

Consideration of approach - Scotland Act 2012 (in private): The Committee considered and agreed its approach to the evidence received on the audit arrangements for the Scottish rate of income tax powers arising from the Scotland Act 2012. The Committee agreed to provide a response to the Cabinet Secretary for Finance, Employment and Sustainable Growth on the Memorandum of Understanding.

18th Meeting, 2012 (Session 4), Wednesday 5 December 2012

Scotland Act 2012 (in private): The Committee considered a draft response to the Cabinet Secretary for Finance, Employment and Sustainable Growth on the draft Memorandum of Understanding between HMRC and Scottish Government officials in relation to the Scottish rate of income tax. The Committee agreed its response, and arrangements for its issue and publication.

2nd Meeting, 2013 (Session 4), Wednesday 30 January 2013

Scotland Act 2012 (in private): The Committee considered and agreed its approach to reporting on the audit arrangements for the Scottish rate of income tax powers arising from the Scotland Act 2012.
5th Meeting, 2013 (Session 4), Wednesday 27 March 2013

Scotland Act 2012 (in private): The Committee considered and agreed a draft interim report on a proposed audit framework for the Scottish Rate of Income Tax and arrangements for its publication. The Committee also agreed its approach and timescales for consulting on its report.
ANNEXE C: ORAL EVIDENCE AND ASSOCIATED WRITTEN EVIDENCE

Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Public Audit Committee’s webpages, at:
http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29860.aspx

16th Meeting, 2012 (Session 4), Wednesday 21 November 2012

ORAL EVIDENCE

Mr Edward Troup, Second Permanent Secretary; and Sarah Walker, Deputy Director and Head of Devolution Team, HM Revenue and Customs.
Amyas Morse, Comptroller & Auditor General, National Audit Office.

17th Meeting, 2012 (Session 4), Wednesday 22 November 2012

ORAL EVIDENCE

Caroline Gardner, Auditor General for Scotland.
Russell Frith, Assistant Auditor General; and Mark Taylor, Assistant Director, Audit Services Group, Audit Scotland.
Alistair Brown, Deputy Director; and

WRITTEN EVIDENCE

Auditor General for Scotland, 4 March 2013 (449KB pdf)
Comptroller and Auditor General, National Audit Office, 5 November 2012 (247KB pdf)
Comptroller and Auditor General, National Audit Office, 1 March 2013 (751KB pdf)
Chair of the Committee of Public Accounts, House of Commons, 4 March 2013 (97KB pdf)
Cabinet Secretary for Finance, Employment and Sustainable Growth, dated 13 February 2013 (70KB pdf)
Cabinet Secretary for Finance Employment and Sustainable Growth, 14 March 2013 (292KB pdf)
HM Revenue and Customs, 13 November 2012 (68KB pdf)
HM Revenue and Customs, 31 January 2013 (47KB pdf)
HM Revenue and Customs, 27 February 2013 (145KB pdf)
Correspondence from the Permanent Secretary of HM Treasury to the Chief Executive and Permanent Secretary, HM Revenue and Customs, 27 February 2013 (261KB pdf)
Correspondence from the Chief Executive and Permanent Secretary to the Second Permanent Secretary and Tax Assurance Commissioner, HM Revenue and Customs, 1 March 2013 (116KB pdf)
Public Audit Committee to the Cabinet Secretary for Finance, Employment and Sustainable Growth, 7 December 2012 (177KB pdf)
Public Audit Committee to HM Revenue and Customs, 7 December 2012 (63KB pdf)
Scottish Government, 15 November 2012 (126KB pdf)

DRAFT MEMORANDUM OF UNDERSTANDING

Draft Memorandum of Understanding with Scottish Government and HM Revenue and Customs, 15 November 2013 (357KB pdf)
Agreed Memorandum of Understanding, JEC Version 1, 14 February 2013 (234KB pdf)
Members who would like a printed copy of this *Numbered Report* to be forwarded to them should give notice at the Document Supply Centre.