



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 15 January 2014

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PUBLIC AUDIT COMMITTEE

1st Meeting 2014, Session 4

CONVENER

*Hugh Henry (Renfrewshire South) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Bob Doris (Glasgow) (SNP)

James Dornan (Glasgow Cathcart) (SNP)

*Colin Keir (Edinburgh Western) (SNP)

*Ken Macintosh (Eastwood) (Lab)

*Tavish Scott (Shetland Islands) (LD)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Angela Cullen (Audit Scotland)

Caroline Gardner (Auditor General for Scotland)

Christina McKelvie (Hamilton, Larkhall and Stonehouse) (SNP) (Committee Substitute)

Fraser McKinlay (Audit Scotland)

Amyas Morse (National Audit Office)

Mr Edward Troup (HM Revenue and Customs)

Sarah Walker (HM Revenue and Customs)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 1

Scottish Parliament

Public Audit Committee

Wednesday 15 January 2014

[The Convener *opened the meeting at 09:32*]

Decision on Taking Business in Private

The Convener (Hugh Henry): Good morning and welcome to the Public Audit Committee's first meeting in 2014. I ask members and the public to switch off all electronic devices. We have received apologies from James Dornan and Willie Coffey. Christina McKelvie has been delayed in traffic, but will join us as a substitute.

Does the committee agree to take items 7 to 9 in private?

Members *indicated agreement.*

Scotland Act 2012

09:33

The Convener: Agenda item 2 is discussion of the Scotland Act 2012, which the committee discussed some time ago, before I rejoined it. This morning, we welcome to the committee Amyas Morse, who is the Comptroller and Auditor General at the National Audit Office, and, from Her Majesty's Revenue and Customs, we welcome Mr Edward Troup, who is the second permanent secretary, and Sarah Walker, who is deputy director and head of the devolution team. Would Mr Troup or Mr Morse like to make opening comments?

Mr Edward Troup (HM Revenue and Customs): It is good to be here again. Thank you for introducing me and my colleagues. Quite a bit has happened since I appeared before the committee with Sarah Walker and Amyas Morse a year or so ago. We are happy to update the committee on the details.

At the higher level, our working relationship with the Scottish Government continues to be extremely good. After this meeting, I will spend time with colleagues in revenue Scotland. We feel that progress on implementing the Scottish rate of income tax is definitely on track. The office of Government commerce gave us an amber/green rating for project progress over the summer, so we feel that we are in good shape.

However, as the committee will know, this is new territory for the United Kingdom, and we are conscious of both the committee's interest and the wider interests of the UK in getting it right. I am happy to be here to answer questions—especially the ones that I know the committee has about concerns about our performance. Through Amyas Morse's and my appearing at the committee, we can reassure you about what we are doing.

The Convener: Thank you.

Amyas Morse (National Audit Office): At the previous committee meeting that we attended, I was kindly given the opportunity to make an opening statement, so I will not go over the ground again. However, I would like to reiterate that I have a good working relationship with Audit Scotland and that I am prepared to co-operate closely with it to ensure that the committee gets the form of assurance that it finds most useful. I do not see any difficulty in considering any of the options for that. The committee is aware of the fact that I have statutory access, which is not easy to change, although I see no difficulty in our establishing our working arrangements. To date, we have co-operated very well on a range of issues.

The Convener: Thank you. Mr Troup said that things are going well and that you have been given a green light in terms of preparedness. The changes will kick in in just over two years. In terms of Government planning, two years is not long. I am not criticising you, but if you look at many of the major Government projects that have been planned and designed across a range of departments—whether it is HMRC or defence, or for all sorts of procurement—there has been disaster after disaster, in particular when it comes to information technology systems. We can come back to that later. I expect that officials learn as they go and that there is an attempt to ensure that mistakes are not repeated. However, how can we have confidence that in less than two years the most significant change—as far as Scotland is concerned; perhaps for the UK, too—to collection and disbursement of taxation will take place?

Although you say that preparedness is good and that you have a green light, we have a response from the Scottish Government dated 7 January that states that for many issues the detail remains under discussion and not all aspects have yet been defined and agreed—and yet we have only two years.

Mr Troup: I think that there are two ways to respond to that. First, I make the point that collection of the Scottish rate of income tax is deeply embedded in, and is an integral part of, our wider collection of income tax—which members will know is principally under the pay-as-you-earn system, although about 10 per cent of receipts come in through self-assessment. Both are big systems, but they are existing systems. We have had challenges with them over the years but they are currently running extremely well and smoothly. We are therefore not piggybacking but are just using the existing structure of the PAYE and self-assessment systems. The principal requirement under the Scottish rate of income tax is simply to require from those systems the amount of the receipts from PAYE or self-assessment that should be allocated to Scottish taxpayers, from whom the Scottish rate is drawn.

I do not want to say that the process is simple—nothing in national-scale systems is ever simple—but in the context of the scale of the IT systems that we are already running successfully, this is a very manageable task. Amyas Morse may want to comment from the NAO's perspective on our performance.

The second point is about our record and performance in IT delivery. I gave either this committee or the Finance Committee some figures on that when I appeared at a meeting last year. In 2012-13, 96 per cent of our IT projects were delivered on time; so far this year we are up to 93 per cent. The balance has not gone wrong; we

have just delayed projects a bit to allow for further testing. So far this year, 100 per cent of the major IT projects that have been delivered have been delivered on time and without defects. We currently have a good performance record on our IT.

I do not ever want to give the committee the sense that I am relaxed and am not concerned about the matter—I am the additional accounting officer and I am concerned, but I do not see the IT challenges as being cause for concern or as a significant risk.

The Convener: Has HMRC had difficulties in commissioning major IT projects in the past five to 10 years?

Mr Troup: I do not have all the statistics in front of me. In the past year or so, we have rolled out real-time information, which has been one of the biggest changes to the PAYE system in a generation. Although that has not been 100 per cent implemented—the programme has not been completed—the performance to date has been well above our expectations and the change has been successfully delivered.

Amyas Morse may want to say something about that specifically or about IT more generally.

Amyas Morse: I do not deny it for a minute and it would be pointless to say that it is not true, because there have, over the past five years, definitely been hitches in the context of big technology changes. In fairness, HMRC persisted through those hitches—primarily under the leadership of Lesley Strathie, who did a great job in weathering a lot of those storms—and ultimately came out with a really modern and good PAYE system that works pretty well.

The most reassuring thing that I can say is that the core systems are in a stable state at the moment, as far as I can see. There is no massive change to anything that you should be worried about relying on. Mr Troup's comment that a grandiose IT project is not involved is probably the most reassuring thing of all, whatever view you take. In fairness, the IT position in HMRC has reached a good, stable place. It has been through some tribulations over the past years, but it has come through them, largely speaking, and we have learned quite a lot. It would be unfair to say less than that. To be pragmatic, I would say that my main point is that a big IT development is not needed.

Sarah Walker (HM Revenue and Customs): We always expected that the IT development for the Scottish rate of income tax would start in the next financial year, after April 2014. There is no point in doing that too early, because all the other changes in the PAYE system have to be intercepted. If things are done too soon, things will

have to be changed again, because other things in the system will change. We are well on track to having an IT requirement in place by April this year. Although we say that some issues are still under discussion, they will not have a major effect on IT implementation.

The Convener: How significant will the new IT system be in order for it to cope with the changes? I think that Mr Morse and Mr Troup have suggested that it will not be “grandiose” or huge.

Sarah Walker: The new system will be much smaller than the real-time information system and the PAYE rebuild that we did two or three years ago. Much of it had already been worked out to deal with the Scottish variable rate, which has been in legislation since 1998, although it has never been used, so we already had a pretty clear understanding of how the system would work in PAYE.

It is clear that there are some differences with regard to the Scottish rate, which we are dealing with now. The main difference involves our being able to attach an identifier to the tax codes of Scottish taxpayers, which will trigger employers to deduct tax at a different rate. We always expected to have to do that for the Scottish variable rate.

The other things that need to be done are to do with the accounting and ensuring that we can track money through into the money that is paid over to the Scottish Government. Again, we understand how that works; it is pretty well understood.

09:45

Mary Scanlon (Highlands and Islands) (Con):

I appreciate that you are still discussing many issues with officials and that there are still many aspects to be defined and agreed. The last time you were here, we discussed compliance, prosecution rates, error and fraud levels, tax gaps and debt. Mr Troup talked about how much of the receipts will be allocated to Scotland. I appreciate that I cannot ask you about the discussions that you are having with officials, but how much information is it appropriate for us to have, as an audit committee? You will appreciate that this is new to us as well. Does Scotland need to know about compliance and prosecution rates, error and fraud levels, tax gaps, taxes that are written off and tax disputes or is just one sum necessary? I am not sure how much information is essential or appropriate, so I seek your guidance.

Mr Troup: That is definitely an issue for continuing dialogue; I wrote to the convener about it before Christmas. To step back a little, the question is really about how much information you need to be distinguished from the general information about all of those things, which

appears in our accounts, which we report our performance on, and which the NAO scrutinises.

I will put a bit of context around the question in relation to how income tax works. Ninety per cent of income tax comes in through PAYE. Broadly speaking, those moneys just come in. The other 10 per cent of income tax comes in through self-assessment. Of the total UK income tax receipts, 99 per cent comes in without any intervention from us because we are a compliant nation—or nations. Tax is paid because there is confidence in the integrity of the system and so on. In relation to that 99 per cent, your questions are probably simply about accounting. Are we ensuring that we give to Scotland the appropriate amount of the aggregate £200 billion or so that we get? That is an accounting process that we need to get absolutely right and which Amyas Morse and the NAO need to be happy is right.

The question about compliance, prosecutions and debts really relates only to that last 1 per cent, where we apply compliance activity in order to ensure that we get the tax in. We have improved our compliance processes nationwide. Our performance on reducing the tax gap, compliance yield and so on is published. Our performance has improved over the past few years and it is on an improving trend. As regards how much of that relates to the different categories of compliance, again you can look at the aggregate tax gap numbers, but when you look at that 1 per cent, there is a certain amount of compliance work through employers who have misapplied PAYE—they do not put expenses through, they put the wrong codes through or whatever. We have a successful yield from that employer compliance work.

However, it is extremely difficult for us to disaggregate that figure between Scottish and non-Scottish taxpayers. That is certainly the case when it comes to UK-wide employers. Although the committee is interested in it because it is about getting in additional money, which would add to the PAYE receipts, it is hard for us to disaggregate it. The bulk of your reliance must be on our general employer compliance work, on which there are data and information that we can disaggregate.

There is also direct compliance work with the self-assessment population—individuals who file returns and do not put things on the form, put in the wrong things, claim the wrong expenses or just do not file. In those cases, it is possible—with a bit of work and some changes to our systems—to get some information about Scottish taxpayers as opposed to UK taxpayers. In the course of discussions with the Scottish Government, we can look at providing some more information on that, albeit that there will be a marginal cost for that.

Mary Scanlon asked for guidance. The question for the committee is how much extra value the information would give you. It would give comfort about that 1 per cent of aggregate compliance, in addition to the 99 per cent, and you would get some extra information that would reassure you, over and above the core reassurance that we as a department and the Administration act even-handedly. We have no interest in applying compliance processes differently in England, Wales, Scotland and Northern Ireland. Indeed, under the new set-up, we will have at least as much skin in the game in receipts from Scottish taxpayers as you have, because you will have 10p and we will have a further 10p—or a further 35p—plus all the national insurance.

That is the question for the committee. We can do a bit on the self-assessment population, but we cannot do much on the PAYE population because of the nature of PAYE. However, at the highest level, the overall reassurance comes from the fact that it is the 99 per cent that really matters to you. I am sorry to have given such a long answer, but I hope that it has given you some thoughts to work with.

Mary Scanlon: I appreciate that it would not be in line with the canons of taxation to spend so much money trying to understand that 1 per cent if it did not give us any additional understanding of the operation. However, the question was more about understanding whether our economy is different and whether people here behave differently from people elsewhere in the United Kingdom.

Given that discussions are on-going—I note that you are off to see revenue Scotland today—at what point in the next two years will you be able to give us more detailed information? When will everything be decided and agreed between HMRC and revenue Scotland in relation to that information and any other information that would be appropriate to the Parliament?

Mr Troup: I will let Sarah Walker make detailed comments on timing but, in a sense, that will never be finally decided. We will go into implementation of the Scottish rate of income tax with a view of what information we will share with you from our existing systems, and what you want to pay for.

However, it will be an active relationship and engagement. I absolutely expect that we will change the information that we give as we see what is useful to you and what it is possible for us to provide. Our department is changing as we move into a more digital world. In three or four years, we might find that it is possible to give more information; we would certainly want to do that. The process will not be finally settled, although clearly we want to go into implementation of the

Scottish rate with you having a clear sense of what information we will provide.

Mary Scanlon: That was helpful. Thank you.

Mr Troup: I ask Sarah Walker to answer on timing.

Sarah Walker: Under section 33 of the Scotland Act 2012, we are obliged to publish an annual report on implementation of that act. The next report will be published before 1 May. By then, we will have come to a pretty clear view about the design of the processes that we will operate to make the Scottish rate of income tax work. For instance, that will include how we will identify Scottish taxpayers, how we will contact them and how we will deal with address changes during the year. That will give us a basis on which to refine the cost estimates, which we know the committee is interested in, and which we are clearly interested in, too. At that point, once we have a clearer idea of the process, we will go into the next phase of our discussions on performance information. I do not think that we have a clear target date to have that agreed. Particularly where IT changes are not required—I do not think that many will be—there is no time pressure. Really, that is a matter for us to discuss with the Scottish Government.

Tavish Scott (Shetland Islands) (LD): I want to go back to the point that Mr Troup made about companies. Let us take Boots the Chemist, which operates on a UK-wide basis. I do not know where it runs its payroll and PAYE services but, for the sake of argument and given the nature of the company, I presume that it is south of the border, in Basingstoke or wherever. What is your observation to the committee? Are you saying that we—and for that matter you—will not be able to accurately assess how much of the Boots the Chemist PAYE allocates to Scotland? It will know how many employees it has in Scotland and, no doubt, we can ask it. How do we tie together the number of Boots employees in Scotland and the amount of money that revenue Scotland will gain from PAYE from Boots?

Mr Troup: Can I not talk about any named taxpayer, even though I would not necessarily know anything about their individual affairs?

Tavish Scott: Of course.

Mr Troup: A national retail employer will by definition have employees round the country. The employer compliance work will go into their core PAYE system and look at the way in which expenses are posted, the way codes are allocated and whether the update codes that they receive from us are properly allocated. Often a bit of employer compliance work will disclose that a particular form of benefit in kind, such as the cars, has been misposted; a particular category of

expense may have been treated as non-taxable; the arrangement for dealing with a particular class of expenses is not in the agreement—there are a lot of agreements with individual taxpayers—or has not been properly applied; or amounts have just not been put through. That will take the aggregate information off their PAYE system and from that we will compute an adjustment to their liability. That will produce a compliance settlement that will result in both a payment to us, with an appropriate adjustment to our receipts, as well as, one would expect, an agreement from the business to change its practices in future.

As part of that compliance work we would not normally disaggregate the compliance yield between Scottish and non-Scottish taxpayers. It is possible to do so but, given the way in which payments to you are accounted for, the question is whether, for that last 1 per cent—and remember that that is settled up 12 months after the end of the period and often such compliance activities will take place later on, so in a sense you will already be accepting payment with a best estimate of an aggregate of what that 1 per cent comprises—it will be worthwhile for each of those national employer compliance settlements to put in what would be additional systems to report back how much of compliance intervention is allocated to Scottish and non-Scottish taxpayers.

It is not that that could not be done, because in a sense anything could be done. That is the trade-off, however, and I come back to my response to Mary Scanlon about the 1 per cent. What is the context for this?

Tavish Scott: I take that point and it is very fair. I presume that therefore the point to Mr Morse might be that, as the Scottish Parliament's and Scottish Government's check on HMRC's ability to do its job properly, we might ask him to pick a couple of examples or use, for example, a couple of the UK companies in the North Sea oil sector that have more employees in Scotland than they do in London but still run their systems out of London. For the sake of argument, we might be interested in the compliance record of such organisations. Would it be reasonable to ask the NAO to look into that and report on that basis?

Amyas Morse: I will step back a little bit and say two things. My work on the financial audit of HMRC and looking at its systems and controls will be on an aggregate basis. It is a little bit difficult for me to say, "Well, I'll tilt that around as part of my ordinary work." I do not want to hold out that that is necessarily straightforward to do.

As I listened to the discussion it occurred to me that it was an interesting proposition for members of this Parliament to say, "What Mr Troup is saying is entirely correct and reasonable." On the other hand, it is also taking quite a lot on trust to ask,

"Wouldn't you like to test some of this stuff somehow?" I realise that you might want to understand what it might cost for HMRC to be able to give you some additional information, what it could extract, and that it could spend a certain amount of money on testing whether that information was useful to you or not, rather than just say, "Oh, no. Thanks very much; we're fine." You might do either thing and neither of them is illogical. If you did ask for specific information, I would be happy to examine and audit it.

However, I have to do my examination based on the fact that I am auditing the whole of HMRC, so you would probably have to do something in addition to that for me to be able to cover that issue. If you chose to do that, we would look at any such additional information and give whatever assurance we were able to give, depending on the quality of that information.

10:00

Tavish Scott: I am trying to give an example of a UK company. When you look at HMRC's record on its compliance work and at its ability to gain more revenue through that work, would you look at it, as you have just illustrated, on a UK-wide basis, or would you look at it in the context of Scotland's interests?

Amyas Morse: We do not tend to go taxpayer by taxpayer, so if we found that there was a record of failure or weakness in controls, we would pick that up and examine it over a range, but we do not generally go top to toe in a particular taxpayer and check how HMRC is dealing with that particular one, because we are doing financial audit work. We might do a sample of companies if we were examining some aspect of HMRC from a value-for-money point of view, but we would be looking at the overall efficiency and effectiveness of the system. It is not unheard of, but it is unusual for us to examine a series of specific taxpayers. Because we are looking at the whole system, we do not typically tend to do that.

Mr Troup: I am trying to think of ways to be helpful, but it is quite hard. It comes back to the question of what information you want. Would you like to know that PAYE is not complied with by Scottish taxpayers as well as it is by English taxpayers?

Amyas Morse: Or vice versa.

Mr Troup: Or vice versa, remembering that the audit is about employers, rather than the individual taxpayers. Or do you want some reassurance that we are not differentially dealing with PAYE compliance? Almost by definition, we are not, because in the case of the company that you gave we would be looking at the company, not at its Scottish or English employees.

If you want comfort on the integrity of our compliance, that comes back to what the NAO can generally tell you about our overall activities. We publish performance information about what we get from employer compliance, and if you have a specific interest in employer compliance, I am happy to come up and talk to you, with information from my compliance colleagues, and to tell you how last year's employer compliance activities have looked.

Tavish Scott: I will turn the question the other way, instead of asking about a UK-wide company, or about English companies versus Scottish companies or Welsh companies. Does your compliance work have any geographic consideration whatsoever, and do you think that it might in the future?

Mr Troup: No, there is none at all. As you know, we have a risk-based approach, which is data driven in that we use some quite sophisticated data tools—and we hope to get even more sophisticated with them—to identify taxpayers who we think look more high risk. We literally generate lists of business names in a particular region, because there are some characteristics coming out of the system that tell us that they are more high risk, and we will want to ask them some questions. We also look at the higher-risk taxpayers in terms of size and type. As you probably know, our large businesses have a much more attentive regime from us than small businesses, which we deal with more on a risk-and-sample basis.

There is no deliberate geographical consequence of that but, hypothetically, if we were to say—and I do know how the risk ratings of different industries go—that there was a particular area of risk in the oil industry, for example, that might well have geographical consequences, and we might find ourselves looking at more companies for that particular category of risk that are based in Aberdeen than are based in Aberystwyth. Geographical consequences can flow from our risk-based approach.

Tavish Scott: Your approach is more sectoral, in that sense.

Mr Troup: Absolutely. Risks take us to sectors and types of companies; they do not take us to regions. The only thing that we do regionally is regional campaigns. That is partly because we have finite resources. Having campaigns in different areas helps to raise levels of compliance. I know from colleagues that we had a campaign around the scrap metal industry in the north-east and north-west of England, where there were particular problems. That was quite effective. We have had campaigns against barristers in London. We have launched—but have not yet concluded—

a campaign against the fishing industry, which has necessarily had quite a lot of Scottish impact.

Tavish Scott: I am kind of aware of that one.

Mr Troup: If we are going to the fishing industry, we go for the appropriate location.

Tavish Scott: I have a question about Sarah Walker's point about the systems in relation to the variable tax rate. I absolutely take your point, Ms Walker, that it has not been used up until now. The difference coming in involves a 10p rate, which the Scottish finance secretary of the day will have to set.

In the hypothetical circumstance—this is a couple of years away, and it is hypothetical—in which the finance secretary of the day decides to vary the rate, how will the system cope with that? It strikes me as pretty straightforward if taxation rates and so on are the same across the UK but, as soon as there are variances, that will create a greater challenge for you. How do we assess that you are doing your job adequately, so that we can see the revenue returns?

Sarah Walker: The mechanics of it are fairly straightforward. The rate should be set in the autumn of the year when the Scottish Government budget is published. I think that we have an agreement that that has got to be done by 1 December—or we would like it to be done by then. That allows us to incorporate it in the tax codes that are issued around Christmas each year to employers. We then give employers instructions about the rate at which they should deduct, and that then applies. As regards the 99 per cent that is automatic, that is within our normal coding system.

If the tax rates in Scotland are different from those in the rest of the UK, the risk basis for compliance work, which Edward Troup was talking about, will have to take into account the fact that there is now an incentive for people to want to be classified as being on one side or the other of the border. If there was a sudden flood of people reporting changes of address, that would be a risk, and we would need to look into that. There might be more people with two addresses who tell us that they are now spending more time or living in the other one, for instance.

There will be issues there, and one of the things that we need to develop in our compliance approach is how we would deal with that situation. We have all sorts of data sources for checking people's addresses and that is one of the things that we are considering doing for the initial set-up of the system in 2015. Clearly, we will be discussing that approach with the Scottish Government, too.

Tavish Scott: Your data systems would start to ping up, as it were, when thousands of people, or a statistically significant number of people, changed their circumstances to take advantage of any changes.

Sarah Walker: Exactly. If thousands and thousands of people suddenly tell us that they have moved from one side of the border to the other, that would certainly alert us.

The Convener: I will return to what we were discussing earlier. Mr Morse, you said that you audit all systems. That raises the question of what, if anything, you would be reporting to the Scottish Parliament.

Amyas Morse: Specifically for the Scottish Parliament, we would give our report, as required by the legislation, on the abstract and on how it has been abstracted from the whole system. How has the Scottish rate of income tax been separated? Are the calculations sound, as far as we can tell? For any other information that you ask for, how have the calculations been done? We will provide a report on that. That is what is required of us by the legislation and that is what we will do.

If the Parliament finds it helpful to have our opinion, we will 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. What decides the level of assurance that we can give you is how much Scotland-specific information is available to us. That will be the limiting factor.

The draft finance bill calls on us to report in a particular style, providing a narrative report to you that gives a view on the accuracy of the sums that are brought to account by HMRC. I will supplement that with further certification as far as I am able to do, based on the evidence that I have. I will try to have an open dialogue with you, so that if you want more specifics when we do the report we can provide them, by working with Audit Scotland or by ourselves, depending on what information you decide to require of HMRC.

The Convener: But if you are certifying that the whole system is efficient—

Amyas Morse: We will be doing two things—I apologise; I am about to start speaking auditese. First, we certify that the accounts—in other words, the whole accounts of HMRC, of which Scottish income tax is a part, of course—are a true and fair view. We also certify regularity, which means that we express an opinion on whether the funds that the Parliament voted to allocate to the administration of the tax system have been applied as the Parliament intended.

In addition, we will be required to provide you with a narrative-type report on the Scottish rate of income tax.

The Convener: Will that narrative include comment on whether the calculation and collection of the Scottish rate of income tax has been done accurately?

Amyas Morse: It will certainly include comment on how the tax has been calculated. I cannot say whether it will offer blanket certification that that has been done accurately, but it will certainly address that question.

Mr Troup: I—

The Convener: I am sorry. I want to ask a final question before I let you in. How will we know whether all the Scottish income tax that has been identified and assessed is being collected? Who will make that calculation or decision?

Mr Troup: May I try to help here? Our accounts will contain a separate report on how much is due to you. I have been looking at the relevant clause in the finance bill that will shortly be introduced, which you have probably seen in draft. I do not want to put Amyas Morse on the spot too much, but the bill requires him to do things. It says that he must prepare a report on matters, one of which is

“the correctness of the sums brought to account by HMRC which relate to”

the Scottish rate of income tax. The report must also comment on

“the accuracy and fairness of the amounts which are reimbursed to HMRC”,

that is, the charges that we put to you. There will be clear obligations.

A subsequent subsection—it is subsection (4) of proposed new section 80HA of the Scotland Act 1998—says that Amyas Morse’s report

“may”—

so this is for him to decide—

“also include an assessment of the economy, efficiency and effectiveness with which HMRC has used its resources in carrying out relevant functions.”

I hope that the committee likes those words, and I hope that we will act with economy, efficiency and effectiveness. It is a matter of choice as to whether Amyas reports on that.

Amyas Morse: The “may” is important, because it means that it is at my discretion. I do not want to be churning out a report on the subject to you every year if there is nothing to add to what I have already said in my general report. In other words, 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. It would just not be

worth your while to have such a report. On the other hand, if issues arise that need such a specific report—and we will have a dialogue about that—I will be happy to do it.

The Convener: Okay. Mr Troup, in response to Tavish Scott you talked about how the Scottish element of tax will be collected. Are there additional costs with regard to the collection and identification of the Scottish element of tax that will pertain to large employers who are based in England but who have a significant Scottish workforce?

Mr Troup: Costs for us or the employer?

The Convener: Costs for the employer.

10:15

Sarah Walker: Employers should have a large part of that functionality in their payroll systems because they were required to be ready for the Scottish variable rate. All that they will need to do is to be able to recognise the fact that we have sent a tax code with an S on it—that identifies the employee as a Scottish taxpayer—and, if necessary, apply a different tax rate to that calculation.

Employers are not required to decide whether their employees are Scottish taxpayers; they are obliged simply to operate the code that will identify what we believe to be an employee's status. Therefore, it should not be a big change for employers to apply the Scottish tax codes. As I say, a lot of them will have that function built into their systems, so we do not think that it will be a big deal for employers or a big extra cost.

Mr Troup: I do not think that we can guarantee that there will be no additional costs. Most of the PAYE software packages update automatically every year, and the change will be built into the current PAYE software package. The coding notice will come out—everybody gets one—and the ones that we are talking about will have an S on them. In a sense, businesses will do nothing different for Scottish employees than they will for English employees, which is to take a code received from us, put it in their systems and apply the results. Therefore, there should not be any significant cost; rather, it will be marginal.

The Convener: I have a question on collecting and aggregating the amount due to the Scottish Government from the Scottish rate of income tax. Will it simply be a proportion of the aggregate taxation that you collect in as assessed, or will it be the aggregate of all the individual taxpayers with the S code?

Mr Troup: It will be the latter for the simple reason that, when we get a lump sum of PAYE from an employer, we need to know which

employees that relates to so that, at the end of the year, we are able to reconcile whether any particular employee has overpaid, underpaid or accurately paid their tax liability for the year, which is something we do every year. Our PAYE system will be quite clear how much PAYE has been accounted for each individual.

The Convener: For each individual.

Mr Troup: For each individual Scottish taxpayer and to add that up in our systems.

The Convener: Okay. Thank you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I have three questions.

First, we have explored the issue that there is a certain lack of information about the disaggregation of information and so forth and that that creates some limitations. I understand that, at a UK level, the NAO would probably give overall reassurance across the UK without necessarily being specific with regard to the Scottish part.

What I am struggling with—I know that this issue has been touched on before—is how the Scottish Parliament and the Scottish Government will get a reassurance that the PAYE and self-assessment systems are operating even-handedly across the UK. Who will give that reassurance?

Mr Troup: That comes back to my answer to the first question that the committee put, which is that 99 per cent of the changes will come in automatically. We are talking about an overall system, so in that sense, as long as the systems are working and we are putting the S codes against the right taxpayers, the question of even-handedness is not even applicable.

The issue of even-handedness, to the extent that it is applicable, takes us to our compliance activity and the assurance that we are not selectively adding to the 99 per cent preferentially by going off to the employers with principally English employees or by going principally against English self-assessors. We will not do that. As I said, you have the overarching reassurance that we have as much skin in the game for a Scottish individual as you do, if not more.

The matter comes back to the wider point of our responsibility as a tax administration. We have a responsibility to all the nations of the UK for whom we are collecting tax to do so in an even-handed way. The discussion so far has shown that it is quite difficult—because it involves proving a negative, in a sense—to demonstrate that we will not do that in a way that disadvantages the 1 per cent of Scottish taxpayers.

Amyas Morse: We review the controls on the system as a whole, so if the system made it easy for somebody at the centre to say, “You know

what—we'll reclassify money," I would expect us to look at that. We would look not just at Scotland versus England but at the overall controls on PAYE and on the revenue. There are checks and balances in revenue that are intended to prevent what has been suggested from being done, if anyone were to try to do it.

Most of the audit work that we do is designed to test the control environment and ensure that it is strong enough. Nothing is impossible, but what has been described is unlikely to happen if there are good controls against it.

Colin Beattie: I understand what you say and where that comes from. Purely from an audit point of view, a bit of an act of faith is required in relation to the accuracy of the Scottish portion of the 99 per cent. I do not know whether we are stuck on getting a general reassurance because of limitations in the system but, from sitting round this table, I think that there is a weakness from an audit point of view.

Amyas Morse: I do not want to oversell anything, but I will look at the dynamics. There are two aspects—the examination of the overall system, and the calculation of the portion that is attributable to Scottish income tax. We at the NAO have an obligation not only to examine the overall system but to report on how accurately and reasonably the calculations have been made of the portion that relates to Scotland, which we have just heard about.

One aspect is assurance about the overall system, and Scotland's risk that anybody can interfere with that system is no different from anybody else's. The other bit is taking out the Scottish piece, which is very much in Scotland's specific interest. The committee will need to look at our work and decide whether it is satisfied with that. I have indicated our willingness to collaborate with Audit Scotland. It cannot do the audit work, but it can collaborate with us on looking at how we have done the work and it can give you its extra reassurance that we have done the work reasonably.

I am more than happy with that approach, and I am absolutely open to anything of that sort. I said when I previously appeared before the committee, and I repeat, that I continue to be willing to do anything such as that work to give the Parliament additional assurance.

Mr Troup: Another external check is that the Office for Budget Responsibility will forecast the receipts from the Scottish rate for any particular year. If we ended up diverging significantly from that, a question would be raised about why that had happened, and we and the committee would want to understand the answer. That might not tell members exactly what they want to know, but it

would be a flag against us somehow doing something untoward.

Amyas Morse: That would place us on inquiry.

Colin Beattie: My next question is a spin-off from my first question. At the heart of the issue is the identification of Scottish taxpayers. That is the most important thing in the initial stages. Will any additional audit process cover that aspect in the first year or two? Once the system is bedded in and running, it will be fine, but Scottish taxpayers will have to be identified and everything will have to be put in place in the first year or two.

Mr Troup: Your question is about what we are doing and whether what we do to identify Scottish taxpayers at the outset will be audited. I do not know whether Sarah Walker wants to say something or whether Amyas Morse wants to say whether the NAO will look at how we identified Scottish taxpayers.

Amyas Morse: We will certainly look at it to see whether it is reasonable, makes sense and appears to have been applied properly. That does not mean that we will go around checking every single bit of it—let me be plain: I am not offering that—but we will look at the approach and ask whether the way in which it has been done seems reasonable, careful and to the standard that we would expect for such a sensitive matter.

Mr Troup: I would be happy to come back and explain to the committee, as we undertake the process in 2015-16, how it is going and what our experience has been. I will probably be able to supply the committee with some information about the numbers that we have identified, the number of cases where it has not been self-evident that people are Scottish residents and what processes we have applied in following up—in other words, the sort of things that Amyas Morse might ask if he were coming in to do a full audit.

I do not see why I should not be able to come back and give the committee that reassurance during the course of the identification process. All that we can do at the moment is to tell the committee what we are going to do. We are already doing some address matching at a data level, but we are obviously some way away from going out and engaging with the population.

Colin Beattie: What Mr Troup has proposed to do would be very useful, and it would be backed up by Mr Morse's reassurances, for want of a better word. I think that that would give a lot of comfort.

Mr Troup: Just to be clear, I do not think that Amyas Morse is committing to do an audit of what we are doing. I am just offering to come to talk to the committee about what we are doing.

Colin Beattie: I have taken it that Mr Morse is talking about an audit of the processes that allow for the identification of taxpayers.

Amyas Morse: Yes, but let me be clear: I carefully picked my words to say that we will look at the process to see whether it is reasonable. That does not mean that we will check every bit of it. I said that quite clearly at my previous committee appearance, so I am just repeating myself.

I know that the committee appreciates this, but it is worth spelling out that the process is not the only factor. There are two factors that might be a bit distorted in the first place. Mr Troup has mentioned them both at different points. One of them would be if there were some procedural shortfall in the way in which identification is done. The other one would be that people might try to get themselves on either side of the line, depending on where their tax advantage lies. They might not do that, but they might. It will take time for all that to be nailed down closely, because people might have a reasonable argument for their position.

There will therefore be a bit of dust, so to speak, being thrown up in the initial year. It is most unlikely that everything will be absolutely perfect, because there are various factors that will need to be sorted as quickly as possible. If I am managing the committee's expectations sensibly, I have to say that, even with everybody's best exertions, it is likely that the situation will be a little opaque in the first year but that it will become clearer as we go forward. I think that it is reasonable to say that.

Colin Beattie: My third question picks up on what Mr Morse has said previously in connection with producing and auditing the accounts. In the past, HMRC's accounts have been qualified for various reasons over some years. Would it be conceivable that an audit of SRIT might be qualified? What would the implications of that be?

Amyas Morse: Whenever we do an audit, it is always conceivable that an opinion on anything could be qualified. Your question is a bit hypothetical, so I am not going to think up some reasons in advance of the fact about why I might qualify an SRIT audit. I think that that is a bridge too far.

What I can say is that the reasons for qualification have always been quite specific. They have not been to do with general lack of control or big audit issues; they have generally been regularity qualifications. That is to say that there has been qualification when there has not been absolute clarity on what tax release and analysis might be being claimed. It has generally been related to that sort of fraud and error area, in which the tolerance is much lower for the burden

of proof for regularity opinion than it would be for a true and fair opinion that we would see for a company or any other body.

The fact that there has been a qualification is significant, of course, but it does not mean that the records were not in a good state of control. Sometimes imponderables simply come out of the system that mean that we cannot be certain that the funding that Parliament has voted has all been applied to the level of accuracy that we would have liked. That can happen.

10:30

Colin Beattie: If there was such a qualification, how would it be escalated in respect of the Scottish Parliament? Obviously, you would highlight it, but to whom would you highlight it in the Scottish Government? What would the process be?

Amyas Morse: First of all, if there was a qualification, we would express it formally on the record. It would then be a matter of public knowledge that we had qualified.

Mr Troup: The question is hypothetical. Obviously, our effort goes into ensuring that the accounts are accurate and there are no such qualifications.

I am sorry: I am not the principal accounting officer, so I have not had to deal with the Public Accounts Committee face to face on what happens with qualifications on our accounts, but I think that that is ultimately where such a matter would go back to. Is that right?

Amyas Morse: Well, yes—

Colin Beattie: I will explain where I am coming from. I am trying to find out how the matter would come to this committee, because it must come to it ultimately. If a qualification were escalated, I presume that it would be escalated to the Scottish Government and Parliament and that it would eventually come to the committee, but what is the process?

Amyas Morse: May I just clarify something? For most purposes that we are talking about, I am committed to providing a narrative-style report, as I have said. I understand that that report would go to this committee in the first instance—I think that that is right. If I had serious concerns about the quality of the calculations on separation of the Scottish rate of income tax, I would come and personally report to the committee and tell it that. Is that clear?

Colin Beattie: That is clear.

Amyas Morse: That is rather more germane than saying, "Let me describe a process to you." I will not describe a process; rather, I am telling you

that, if I had serious concerns, I would come and tell the committee about them. I would address a report to you and, if it contained such concerns, I would expect to, and would, come and speak to you specifically and personally about them. Even though the question is hypothetical, I give the committee that assurance right now.

Mr Troup: I have not thought this through, but it is almost certainly the case that issues would arise under the memorandum of understanding if matters that related to our accounting for the Scottish rate were qualified. I have discussed with the committee before the fact that many processes under the memorandum of understanding involve escalating matters up eventually to the Joint Exchequer Committee if, in dialogue with the Scottish Government, we cannot resolve whatever those issues are. That is the administrative process that would bring a matter back to ministers and the Government on your side.

Colin Beattie: I am not sure that that point has been clarified in the past. How the committee becomes involved when there is such a qualification is quite important.

The Convener: I think that the report has to be laid before Parliament no later than 31 January of the financial year that follows the one to which the report relates. If the report is laid before Parliament, that gives the committee an opportunity.

Colin Beattie: I guess that we are all trying to get clarification. The report would come to us only when it had been laid annually.

The Convener: That is correct.

Amyas Morse: Yes.

Colin Beattie: Okay. I think that that is clear in my mind.

Mr Troup: In the very unlikely event of qualification, it is almost certain that, if something had got that far, it would have come up through the memorandum of understanding. Something would have caused concern between us and the Scottish Government about that before then. You need to ensure that you have formal oversight, but in practice I think that a lot of engagement would have happened before that hypothetical situation occurred.

Amyas Morse: I am sorry to keep coming back in, but I will do so one final time.

It is far more likely in practice that, if I was concerned that the committee needed to have something clarified and my view of it diverged from that of HMRC, I would want to come and talk to the committee about it. To be frank, that is not likely to be a qualification, but it might be some matter of clarity or emphasis that I am worried

about and I am not quite comfortable that the committee has the full picture on.

I do not really think that that would happen deliberately but, if it did, I would feel that I was under a duty to come and tell you about it. I would also liaise with Audit Scotland about it just to be clear.

Colin Beattie: Thank you.

Ken Macintosh (Eastwood) (Lab): I will return to the issue of accountability, but first I will pursue the same line as every other member has pursued about identifying Scottish taxpayers, and particularly about the figures that you are using. You said that 90 per cent of income tax is generated through the PAYE system—is that 90 per cent of taxpayers who pay through PAYE, or does 90 per cent of the tax take come through PAYE?

Mr Troup: The figures are slightly rounded. The 90 per cent refers to the tax take, but it is also broadly true for the number of taxpayers. Broadly there is 10 per cent under self-assessment, and that broadly relates to the number of taxpayers, too. I do not think that there is a material difference in the average amount of tax that is paid by a PAYE taxpayer and a self-assessment taxpayer.

Ken Macintosh: The contribution that is made by high-net-worth individuals who pay tax is increasing. Although it is smaller in Scotland, I would have thought that it would still be disproportionate.

Mr Troup: For that small number, yes. However, remember that self-assessment includes all those who are self-employed, who form the overwhelming numerical bulk of self-assessment taxpayers. Their incomes are quite dispersed and quite a lot of them have rather low incomes because there are some small businesses.

Ken Macintosh: Indeed. You suggested that you would be able to identify 99 per cent—

Mr Troup: I am sorry; I hope that I have not confused the committee. The 90:10 figure is about the mechanism through which we collect tax. There is then a numerical statement about whether for the entirety of that population that cash comes in as a result of us just sitting there, running some good systems and allowing people to file PAYE returns, or whether it requires us to go out and chase the money down. That is the 99 per cent to 1 per cent; 99 per cent of all the money comes in without us doing anything other than running some good systems and generating confidence in the integrity of the system.

Ken Macintosh: I was a bit confused by the fact that you cannot necessarily disaggregate national insurance from income. You are saying that you

will be able to accurately identify to within 1 per cent the amount of money that is raised in income tax in Scotland. It will not be an estimate.

Mr Troup: The 99 per cent will come in by the time that we have to account to you for it, and we will know exactly what we have got in because that will just be actual receipts. We will have just sat there and the money will have come in. That will be a fact. The money will have come in and, as long as our systems are correctly identifying Scottish taxpayers, that number will simply drop out as a percentage of the effectively voluntary receipts—"voluntary" is not quite the right word—or those that have come in without our intervention or action, and we will be able to say, "This is what we have had."

Ken Macintosh: I want to give you two hypothetical situations to check how the system will operate.

If the Scottish tax rate were to change, there is a concern that it might generate tax flight of one sort or another. If there were to be a tax rate cut, it might generate tax flight to Scotland from the rest of the UK. Would you be able to identify the amount of tax flight in such a situation?

Mr Troup: That is a separate question. At the end of the period to which that change related, we could certainly say how much had come in, and I do not think that the proportions would be materially different from the 99 per cent of the total that we would expect. The total figure might be more or less than it was in the previous year and we would take into account a number of factors such as changes in the economy, in the number of people who are employed and in the profitability of businesses. Buried within the figures would also be the question whether people have chosen to take jobs in England rather than in Scotland, or in Scotland rather than in England, in response to the tax rates.

We do quite a lot of work on trying to understand what is going on in the tax system. The only thing that I can say with confidence is that, even well after the event, we can never be sure how much of any particular change was due to a change in the tax rate or to other economic factors.

It will be very difficult to pin down what you call tax flight. Indeed, is it tax flight if somebody who is sitting in Northumberland and is given the choice of a job in Edinburgh or Manchester says that they would quite like the job in Manchester? If it so happens that the tax rate there is lower or higher, they will take that into account. He or she probably does not know whether that is tax flight and we certainly do not know.

Ken Macintosh: People have choice of residence in some cases as well.

In another scenario, imagine that the Scottish Government wishes to pursue a much more rigorous anti-tax-avoidance strategy here in Scotland and wishes to gain the benefits of being tougher on tax. Would we be able to identify whether such a policy had been a success?

Mr Troup: First, you can be tough on avoidance only in relation to those taxes that you have responsibility for—the land and buildings transaction tax and the landfill tax. You can certainly do that. Whether that tough policy is producing results is then a matter for revenue Scotland.

In relation to the taxes for which the UK tax administration is responsible in Scotland—the capital gains tax, inheritance tax and corporation tax—we will not adopt a different anti-avoidance strategy in Scotland from that in England. That will also be true of income tax, which will be comprised of the Scottish rate as well as the English rate. We will not take a different approach to avoidance in Scotland from that which we take in any other part of the UK. The Scottish Government might want us to do that but, under the current set-up, you cannot tell us to do it and it is not something that we would want to do. This is a national tax system, albeit that the Scottish rate is embedded in part of its operation.

Ken Macintosh: Okay. In another hypothetical scenario, imagine that the Scottish Government did not rely on HMRC to pursue such a policy but used other techniques or other policies—I cannot imagine quite what they would be. Given that Scotland prides itself on having a more collectivist approach, we might decide to pursue a more moral economy and encourage greater individual and collective responsibility in Scotland. Would you be able to assess and measure that?

Mr Troup: That is seriously hypothetical, but there are all sorts of behavioural techniques that can be applied to test the consequences of softer—what we tend to call upstream—actions. I am sure that there are techniques that could be applied to that seriously hypothetical question. Whether it would be appropriate for us to apply our resources to determining whether actions that you had taken had had some impact on our tax collection is an interesting point. We might well be interested, because we might think that it sounds like a good idea. If ministers go around persuading everybody to pay their taxes by giving tub-thumping speeches about how important it is and that appears to have an effect, we might be interested because we might want to encourage others to do the same. We might evaluate it or we might not. I would not be overoptimistic that we would be able to draw particularly firm conclusions, simply because this is an enormously

difficult area in which to pin down consequences to actions.

Ken Macintosh: There could be other actions such as insisting that everybody publishes their own tax details, for example, but I will move off that area of questioning.

Sarah Walker: Given that we are focusing on the 1 per cent of income tax that is not collected automatically, I will just add that the amount of that tax will be forecast by the OBR before the year starts. That will be the immediate effect on the Scottish block grant adjustment. It will take account of any behavioural assumptions that it might want to make about how the Scottish behaviour might affect the recoverability of that last 1 per cent.

A year after the end of the relevant year, we will make a final determination of the amount of revenue from the SRIT in our accounts. Most of that 1 per cent will not have been collected at that point. We will have to make an estimate of the amount of that that we would eventually collect. If there was a reason to think that that would be different from the generality of the UK, clearly we would take that into account. However, at the moment, the data that we have is all at the UK level and we would expect to use UK-level assumptions.

Ken Macintosh: There are two issues. One is how you come to a fair assessment initially; the other is that we then have the ability to measure change should there be a policy difference. That is the key point that I was trying to establish.

Moving on to accountability, do you regard yourself, Mr Morse, as accountable to this Parliament and to this committee under the new system?

Amyas Morse: I shall certainly be addressing a report to you, so in that regard, yes. Obviously I am not under your broader direction, but I would be making a report addressed to you, and I have a statutory pathway to enable me to do that now.

10:45

Ken Macintosh: The amendment that we are talking about clearly places a legal obligation on you to publish a report.

Amyas Morse: Yes, it does.

Ken Macintosh: But there is no legal obligation on you to appear before this committee, for example.

Amyas Morse: That is true, but as a matter of fact, every time that you have invited me so far I have come, and I would do. I would not worry about the legal obligation. It would be difficult for me to do other than to appear, and I certainly give

you my assurance that I and my successors would appear if you invited us.

Ken Macintosh: On that point, I was interested in your earlier comment that you would wish to expand on any observations in a narrative report. Would you expect to appear annually before the committee to talk about the report that you publish?

Amyas Morse: That would be up to the committee, but if you asked me to come I would.

Ken Macintosh: As I understand it, there is no legal relationship with the Auditor General for Scotland; certainly, none is mentioned in the amendment. Will your relationship be underpinned by a memorandum of understanding?

Amyas Morse: Absolutely. If that is appropriate, we would be happy to enter into it. In fact, it always would be appropriate, because in such circumstances you need to be very clear about everybody's terms of reference. However well you co-operate, you cannot just rely on that; you need some clarity.

Ken Macintosh: Absolutely. You need to know the limits.

So, you expect to enter into a formal memorandum of understanding. This may be a question for you or for Mr Troup, but would you expect the Auditor General for Scotland to have access to individual taxpayers' accounts or to be able to identify individual accounts?

Mr Troup: No.

Amyas Morse: No.

Ken Macintosh: Specifically not?

Mr Troup: No. There is no gateway by which to make those available to the Auditor General.

Ken Macintosh: At the moment, am I right in thinking—

Amyas Morse: May I just take you back one step? If you decide that you would like some additional assurance from the Auditor General for Scotland on our work, I have already indicated that I would be happy to do it. I am not recommending it or the opposite; I am simply saying that if that is what you decide you would find helpful, in whatever terms you would find it helpful, we would want to be co-operative. Once we knew what that was and had worked out a practical way to make it work, we would probably want to record that in the memorandum. It is conditional on your wishing that in the first place.

Ken Macintosh: I have a couple of issues, but the main one is about ensuring that the committee understands the legal limits. There is clearly good will on both sides, but—

Amyas Morse: Once we have entered into a memorandum, that would have an effect, and I would not expect that anybody would be able to depart from that. Whether or not it had statutory force, it would certainly have strong moral force, and it would be difficult for anybody not to comply with it.

Ken Macintosh: No, indeed. However, as I say, the relationship is new and tricky to develop.

Amyas Morse: I understand that.

Ken Macintosh: Neither HMRC nor the National Audit Office is directly accountable to this Parliament, yet you are responsible for a lot of the revenue that this committee will scrutinise, so the relationship is complex and we must ensure that we are clear about it. The role of the Auditor General is also an important one for us, because the Auditor General is accountable to this Parliament.

Mr Troup and Miss Walker are the embodiment of a separate operation. HMRC has established a clear area within its organisation that is responsible for devolved taxes. Would the NAO authorise or appoint a person with individual responsibility for Scotland, or a devolved operation such as that which HMRC has established?

Mr Troup: Sarah Walker is responsible and I am responsible, but I would not like you to think that we are part of a unit of HMRC that is labelled “Scotland and nothing else.”

Ken Macintosh: You have other responsibilities.

Mr Troup: I have a lot of other responsibilities, and Sarah Walker has other responsibilities. That does not mean that we are not devoting the right amount of resources to the matter. However, we are not partitioning off part of the department and saying, “This is the Scottish bit of the department.”

Ken Macintosh: That is reassuring. You are multitasking.

Mr Troup: It is the efficient use of public resources.

Ken Macintosh: The key point is that we know that HMRC—you, as individuals, and your offices—are directly responsible for Scotland. Would the NAO appoint such a person?

Amyas Morse: We would do so, and that person would change from time to time, as is the case with any other area that we look at—we look at a whole lot of things. Someone would be nominated to lead on the matter and report to me, and that person would be identified to Audit Scotland, who no doubt would also have nominated a person to lead on the matter, who would change from time to time. That is just how things are arranged in practice.

If Audit Scotland found that we were constantly changing the person and it could not get the assurance that it sought, I am sure that it would let you and the NAO know that things were unsatisfactory. However, in general, that is how we conduct our engagements. People develop expertise through continuing engagement, but it is also important to have some rotation in what people do. A balance must be struck between the two.

Ken Macintosh: Indeed. However, HMRC has taken a route whereby there is a named officer in charge of the area. You have not reached that stage yet.

Amyas Morse: Please bear in mind that as far as I am concerned—I suspect that the Auditor General for Scotland feels similarly—this is a personal role, so the only person who is really accountable to you is me. Others assist me and do work under my instructions. That is the way to look at the matter, rather than to think that there is someone else who is the primary point of contact—although at a working level that is a different matter, of course.

Ken Macintosh: If there were differences of opinion between the Scottish Government and the UK Government about the level of tax raised in Scotland, what would your role be in commenting on or resolving the differences? Would you have a role?

Amyas Morse: No, I do not think that I would have a role. Once those differences had worked themselves out, I presume that a rate would be applied, and then my job would be to comment on whether it had been applied accurately—and on all the other things that are required of me by legislation. My job is not to get involved in the policy discussion about what the rate should be. That is none of my business.

Mr Troup: I presume that Mr Macintosh’s question was about differences of opinion about not just the rate but the amount, for example if we paid over an amount that the Scottish Government said should be different. Even so, Amyas Morse would say either that he agreed with us or that he agreed with you, which would not resolve the issue, because there might still be a difference between the Scottish Government and HMRC about the amount that was due.

Clearly, Amyas and the NAO’s view on what was the right amount might be pretty persuasive, but equally it might relate to a more subtle part of the dispute. In such a case I think that we would just go back to the memorandum of understanding, because something in that memorandum would not have been done in the way that one of the parties expected it to be done. We would go back to the mechanism for

escalation of disputes, to which I referred; a dispute ultimately goes to the Joint Exchequer Committee and becomes a minister-to-minister matter between the two Governments. As I said to the committee last year, I do not know what happens in those circumstances—it is well above my pay grade. The dispute would have to be resolved minister to minister and Government to Government.

Amyas Morse: I want to be clear and remind members of the response that I gave to Mr Beattie. If I was concerned about a difference of understanding or a material issue that was germane to the Public Audit Committee, I would tell you about that when I came to report to you. We try to travel a pretty straight road. If there was something that we thought that you needed to know about—even if we were not able to resolve the matter but felt that information would help you to understand it better—we would be clear and explicit with you about it.

Ken Macintosh: Mr Troup, does HMRC intend to appear annually before this committee?

Mr Troup: I was asked this before. I think that I said that as long as you did not call me up every week I would be happy to come up with reasonable frequency and give an account of what we are doing, although I am not directly answerable to the Scottish Parliament.

The Convener: According to the memorandum of understanding and the Scottish Government's November 2013 implementation update, HMRC will send an extract of its accounts, covering all matters relating to the Scottish rate of income tax, to the Scottish Parliament. Separately, the National Audit Office annual audit report will be laid before Parliament. There is a difference, however, between sending something to the Parliament and laying it before the Parliament. What will be the force of the extract report from HMRC?

Mr Troup: That is part of the operational matter that is covered by the memorandum of understanding between us and the Scottish Government, which says how we will administer the tax. If you have looked at the memorandum of understanding, you will have seen that it contains a whole lot of provisions. In a sense, it is like a commercial agreement: we have our obligations under the agreement; there are things that will happen if there are disputes; there are payments that you will make to us for things that we provide; and so on. We expect to comply with all those things, on which we already have good engagement with the Scottish Government. Ultimately, if there was a breakdown in agreement on what was happening in that respect, it would not be for me to be summoned by the Parliament;

it would be a matter for escalation through the layers of governance.

The Convener: So you will send an extract of your accounts to the Scottish Government, presumably with a copy to the Scottish Parliament. In procedural terms, if the National Audit Office report is laid before the Scottish Parliament, that gives the committee the opportunity to look at it, but we would not necessarily have the right to examine something that you simply sent to either the Scottish Government or the Scottish Parliament—that would require the Scottish Government to lay a report before the Parliament. Essentially, we would probably not be able to examine your reports unless something else was done—and it would only be an extract of your accounts. If we had concerns, we could certainly talk to Mr Morse about his views on how HMRC was operating, but if the committee had concerns about how you were implementing, collecting or disbursing, we would have no way of considering that formally.

Mr Troup: I will let Sarah Walker speak about the details, but the important point is that we have an agreement with the Scottish Government and we are performing for the Scottish Government, which, in a sense, is managing the Scottish side of the agreement. We would not want to get into a situation—and the Scottish Government would not want to get into this situation—where you were managing the agreement, which is an agreement between us and the Scottish Government. That does not mean, however, that we are not prepared to come and talk to you—I am very much prepared to come and talk to you.

The Convener: Forgive me, but I am clear in my own mind that there is a difference between managing an agreement and having political oversight of the way in which systems operate. As things stand, I cannot see a mechanism for this committee to comment on the effectiveness, efficiency or robustness of the processes. I cannot see a formal mechanism for the relevant material to be laid before Parliament and then before the committee.

Mr Troup: If it would be helpful for us to say that we will lay before the Parliament the formal reports that come under the memorandum of understanding, we would be very happy to do that. I do not think that that would make any practical difference as, once we put those reports in, I am very happy to come and talk to you anyway. If it would reassure the committee, however, I am happy to say that we would lay—although I am not sure what is connoted by that word, other than giving you a bit more ability to ask us questions—

The Convener: Forgive me if it appears that I am being pedantic, but we do not actually have the authority to go into subjects that are not laid

before us in the Scottish Parliament by the Auditor General, on behalf of Audit Scotland, or laid by the Scottish Government. The fact that you have produced a report does not necessarily give us the authority to consider it. There needs to be a mechanism for triggering our consideration.

11:00

Mr Troup: As I said, I am not quite sure what the word “lay” connects to in this context. If it means sending the committee a copy of the report, I am happy to do that. Ultimately, it is a matter for the committee to discuss with the Scottish Government in order for the committee to ensure that it has what it needs and that the Government is happy with that. However, I repeat that I am always happy to come to talk to the committee—although not weekly.

The Convener: We can certainly explore that further. I think that there needs to be consistency between looking at what the National Audit Office is doing and looking at what HMRC is doing.

Can I just clarify a point that might appear trivial? You talked about the difference between the Scottish rate and the English rate. Are there going to be differences then in Northern Ireland and Wales?

Mr Troup: There is a proposal to give to the Welsh Government the power to introduce a similar Welsh rate of income tax, but that is only a proposal and I think that it would first have to be adopted by the Welsh Government and then put to a referendum. There is no equivalent proposal in relation to Northern Ireland.

The Convener: So until Wales makes a decision, it will be Scotland and the rest of the UK.

Mr Troup: Yes.

The Convener: Okay.

Bob Doris (Glasgow) (SNP): I echo what the convener has just said about the report. It sounds pedantic, but the committee has a pretty strict remit that, under our rules of engagement, allows us to scrutinise something or does not allow us to scrutinise it. Under the technical definition of laying, we are allowed to scrutinise in an appropriate manner that keeps us within our remit. The point seems pedantic, but it is quite important in taking the work of the committee forward.

Moving on, I hope that I am not going to damn the witnesses with faint praise, but I have written in my notes that I am “cautiously reassured”. At first look, it seems that, although the tax system can be complicated, if we get the systems, mechanisms and tax codes right, it becomes incredibly simple. If we have the processes right, it just happens. This is therefore about getting the

processes and structures right. I hope that Mr Troup is doing that and that Mr Morse is part of the checks and balances in scrutinising that it is done effectively.

Members have mentioned Audit Scotland in relation to where the checks and balances might lie in scrutinising what will be a UK-wide report on how income tax is collected in the nations and regions of the UK. Obviously, the committee is incredibly familiar with Audit Scotland; it regularly lays quite detailed reports before us. Mr Morse, has the National Audit Office had detailed discussions with Audit Scotland about how you might conduct a joint exercise when assuring yourself that the Scottish rate of income tax has been collected robustly, routinely and efficiently as part of the wider UK system? I am sure that Audit Scotland would have something meaningful to say as part of that process. Have discussions taken place about where Audit Scotland might fit into the process?

Amyas Morse: Yes, they have, although they can always be more detailed, and if it is clear that that is what you would like to happen, they will probably take on yet another level of detail. It is quite important to emphasise how they might work. I will probably not put this as well as Audit Scotland would, but primarily we should do most of the auditing, with Audit Scotland looking over our shoulder, and would ask, “Does this seem reasonable? Are you comfortable with it?” The discussions would be along those lines. I think that that would provide the committee with very valuable reassurance and would be the most practical way for the discussions to work.

I may not have done them full justice, but that is what I think the discussions so far have led us toward. I am confident that that procedure would be manageable and would provide the committee with a degree of assurance from Audit Scotland as well as from us. My position remains as it was when I came to the committee in 2012, which is that I am more than happy to co-operate in arrangements of that kind. I have no reservations about doing that.

Bob Doris: I suppose that what I am trying to tease out is whether Audit Scotland will audit the auditors or whether it will sit within a piece of partnership work with the National Audit Office and say—

Amyas Morse: Audit Scotland will not be able to do all the things that we do, because it does not have the statutory access that we have to HMRC’s records, but it will be able to look at how we do things. That is common among auditors. This is not some amazing new arrangement, as it is something that often happens. We have group audits in the private sector. Often, there is a group auditor and subsidiary auditors and they satisfy

one another that they can all take assurances from one another's work. I do not find the procedure a difficult or odd one to put into effect, and I think that we could do it in such a way that you would find it seamless.

Bob Doris: That is helpful and I accept everything that you say, but what I am trying to tease out is this. The National Audit Office and Audit Scotland can sit down together and have discussions—I am sure that we will hear from Audit Scotland on this in due course—and the National Audit Office can say, "This is how we run these procedures. Here are our audits and our mechanisms, and this is how the Scottish rate of income tax fits in. What are your thoughts on that?" At that point, Audit Scotland could say, "Tickety-boo—that looks good and we're happy with it", or it might say that things should be tweaked in one way or another and ask whether the NAO would take that on board and then run its audit. That would not be Audit Scotland looking over your shoulder; it would be partnership working, or—

Amyas Morse: That sounds pretty much like what I expect us to do. It is not as if we will do the work, then tell Audit Scotland that we have done it and say, "Is it all right?" That is not my idea of collaboration. We will have a discussion with Audit Scotland—this is normal in the auditing profession—about what we propose to do, say what challenges and risks we see in it and take on board any suggestions Audit Scotland has that are germane. If we do not agree, we will have a discussion about that, see what concerns Audit Scotland has and what is practical and what is not, and then carry out the bits that only we can carry out according to what we have agreed. We will then explain what we have done and what we found and go forward in that way. That is the way in which we will do it, which is pretty much what you said.

Bob Doris: I am still on my initial question. I think that you keep pre-empting where you think that I am going with it.

Amyas Morse: I do not think that you are going to get much further.

Bob Doris: What I am trying to tease out is this. You said that what I described is kind of what you anticipate will happen. Audit Scotland will sit down with the NAO—I am sure that you already work closely together in partnership in many ways, so there is no turf war here; it is just a question of two respected organisations getting on with it—and you will say, "Here's how we do the UK tax audit and scrutiny and here's how we lay our reports. The Scottish rate of income tax is on the horizon, and here's how it fits in."

At that point, as I was saying, Audit Scotland might say, "Fantastic—that's great," or it might say, "Maybe you could do just a little bit more here." Would it say that privately or publicly? Would it give a seal of approval ahead of that, or would it look over your shoulder—that was your expression; it would not have been mine—after you have done the work and, if you like, audit the auditors?

Amyas Morse: I think that for Audit Scotland to be "looking over our shoulder" means—

Bob Doris: I will just say a little bit more and give an example before you answer, because this is important.

I will go off at a bit of a tangent. Audit Scotland did a detailed audit of waiting lists in Scotland. It went into the health boards and said, "Right—show us your waiting list data. Show us the computer systems, all the empirical evidence that you have and the pathways." Audit Scotland looked at that information as auditors and had something meaningful to say about it. However, if we think about where Audit Scotland will fit into the auditing of the Scottish rate of income tax, we can see that it will not have access to data at the taxpayer level and will not be able to run through the National Audit Office's internal systems. I have an issue with that. I am not sure whether Audit Scotland is looking to be able to do that—I am just thinking out loud—

Amyas Morse: It is not a question of whether Audit Scotland is looking to be able to do that. Statutorily, it cannot have that information.

Bob Doris: Absolutely, but—

Amyas Morse: We have to find a way of working whereby Audit Scotland can be satisfied that everything that we do is sound. In other words, we will talk about it beforehand, as we are doing it and after we have done it.

Normally, when we do something like this, if somebody expresses concerns at an early stage, the chances of our overlooking those concerns or saying that we do not take them seriously are low. If someone asks us to do a bit more of something or says that we should do something differently, we would have a professional discussion about that and, most likely, we would find an agreed path. People do not disagree for fun; they disagree for some technical and professional reason. Therefore, I expect that we would resolve any issue together and come to a pathway that both could agree on. If Audit Scotland did not agree, it would tell you so.

Bob Doris: The great thing about statute is that it can be changed—it just takes new legislation to do so. Just because something cannot be done now, that does not mean that it cannot be done in

future, although I accept that you operate with the current statute.

I am sorry for continuing with this straightforward point, but let us look at the issue another way. On 31 January, the National Audit Office will lay—or give or provide—a report. After that, there will be no statutory duty for the National Audit Office to come to the Parliament. I am delighted that, as HMRC has done, the National Audit Office has said that it is more than willing to come along, so the argument about whether there should be a duty to appear might become an abstract one. You have said that you will do so, and I take that in the spirit in which it is intended. I am sure that Audit Scotland will do the same.

I am trying to understand the dynamic of our scrutiny role. Should we expect to have Audit Scotland and the National Audit Office sitting at an evidence session with the report before us and Audit Scotland saying that it signed off all the information before the National Audit Office went through its procedures and produced the report, so it is happy with it? Alternatively, will Audit Scotland say that it suggested this and that but could not quite persuade HMRC or the National Audit Office? I am trying to tease out the dynamic.

The Convener: It is not for Mr Morse to tell us what Audit Scotland proposes to do. He is constrained to advising us on his role. Separately, we can expect the Auditor General for Scotland at some point to tell us how she believes that she and Audit Scotland will operate. We can consider the issue at that time.

Amyas Morse: Thank you, convener—that is absolutely right. The only thing that I would add is that I expect that we will both be as open as possible. There will not be a secret disagreement that the committee does not know about—I have no interest in that at all. I expect Audit Scotland, which has a direct relationship with you, to be forthright with you about what it thinks on every aspect. If you want us to talk to you directly, that is fine, or if you want to talk to Audit Scotland separately, to be assured that there is nothing that it would have liked to have said if we had not been there, that is fine, too. You could have whatever procedure you want to give you comfort.

Bob Doris: I have no further questions. I appreciate your forbearance with that line of questioning.

Amyas Morse: Not at all.

Bob Doris: I am just interested in the dynamic. Audit Scotland is to be involved at the coal face and will work with you in partnership on what the procedures will look like, but you also talked about Audit Scotland looking over your shoulder. I am interested in how it can do both those things. We can discuss that dynamic with Audit Scotland.

Amyas Morse: I think that what you take from the phrase “looking over our shoulder” is a little different from what I take from it. I do not regard your questions as requiring forbearance on my part at all. Such co-operation is familiar to people in the accounting profession, and there are strong conventions on how to carry it out. I do not find the idea that we will do that strange or difficult. However, whatever Audit Scotland and the Auditor General say that they want to do, I would say that the process will be conducted with the committee in the most open and explicit way. You will be aware of any degree of friction or disagreement or anything that is unresolved. There is no desire on anybody’s part to push anything on anyone. I do not think that that will occur.

Bob Doris: That is helpful—thank you.

The Convener: I want to clarify a few points with Mr Troup on compliance issues. I understand from what was said that it would be difficult to separate the Scottish rate of income tax from national insurance and capital gains tax.

Mr Troup: Not capital gains tax, no. Capital gains tax is self-assessed, which means that, with some additional work on our systems, we can differentiate capital gains tax compliance.

The Convener: So, which are we talking about? There is the Scottish rate of income tax and national insurance. Is there anything else?

11:15

Mr Troup: The Scottish rate of income tax, the rest of income tax and national insurance will all be collected together through the PAYE system. It is for that reason, and because it is through employers, that it is difficult to disaggregate the impact of compliance activities on individual taxes.

The Convener: How will you separate out the amount collected through the Scottish rate of income tax and national insurance?

Sarah Walker: For a compliant taxpayer, it will be very clear through PAYE; it will be separately identified in the way that I described, with the S code. In the case of self-assessment, part of the process will involve identifying the person as a Scottish rate taxpayer.

We are talking about the compliance activity with an employer after the end of the year where that has not worked. At the end of a compliance inquiry, we usually settle for a single amount and we do not necessarily disaggregate that between tax and national insurance.

In a self-assessment inquiry, we do not always separate out the different elements, which, in some circumstances, might include capital gains tax. It is probable that, after the one-year point,

when we have struck that final figure for the revenue from the Scottish rate, we will still be doing compliance inquiries. Some of those will have a Scottish rate element. We will estimate that at the one-year point.

The Convener: Do you believe that you will have access to clear and reliable data?

Mr Troup: From employers or for Scottish taxpayers?

The Convener: Both.

Mr Troup: I think so, subject to Amyas Morse's caveats in relation to the identification of taxpayers. We are dealing in aggregate with something like 40 million individuals throughout the UK, and probably 2.6 million in Scotland. There are always uncertainties at the margins because individual circumstances change—taxpayers die and businesses come into and go out of existence—but there is no reason to think that the data that we have for Scottish taxpayers will be any less clear and accurate than data for any other subsection of the population that we have to deal with.

The Convener: Okay. You mentioned the timetable for the implementation of the Scottish rate of income tax, and Sarah Walker spoke about the IT systems. You will probably start the work in April this year and you believe that the systems will be in place in time. What are your other key milestones?

Mr Troup: Sarah Walker may want to add to this. We have to get our own internal processes in place to cover some of the things that we have described. On the volume of people and activities, the biggest process is the identification of Scottish taxpayers. As we have previously discussed in the committee, we do not propose to do that until we are well into 2015.

There are discussions about the communications plan with the Scottish Government. Before we engage directly with individuals to confirm whether they are Scottish taxpayers, the biggest activity will be building up to that with some sort of communications plan, involving advertising and publicity.

I go back to something that was said at the beginning. Once we have done that, most of the other activities will be behind the veil so far as the public is concerned. It will be just a matter of us ensuring that the IT systems are in place so that the consequences of being a Scottish taxpayer are reflected in PAYE codes and picked up in receipts. That will be far and away the biggest activity. The start-up costs are quite significant because of the amount of effort required to identify the 2.6 million taxpayers.

The Convener: You say that the start-up costs are significant. Have you identified what they will be?

Mr Troup: We will give an update on that in April. We have not changed our estimate of £40 million to £45 million and I give the cautious reassurance that we do not expect the figure to be more than that. The committee can read into that a little optimism that the figure will be below that.

The Convener: The Scottish rate of income tax will apply from the start of the tax year 2016-17— from 5 April 2016 or thereabouts. When will the Scottish Government need to decide whether to set a different tax rate for that to kick in at the start of that tax year?

Mr Troup: The decision will absolutely have to be made before that tax year begins. The timetable envisages the decision being made by 30 November in the previous year. We discussed that last year—that might have been with the Finance Committee rather than this committee.

The decision would not have to be made by 30 November, but if it was not made by then, we could not issue coding notices on time, which would have consequences for employers. We can reissue coding notices—I am afraid that we do so from time to time when Governments change decisions or whatever—but that has cost implications. As such costs would be directly referable to a decision about the Scottish rate, they would come back to Scotland.

As long as we have a decision by 5 April, we can implement it. If we do not have it by 30 November, it will cost more and create more visible disruption, because people will get more than one coding notice.

The Convener: Good practice would be to have the decision by November.

Mr Troup: Best practice would mean 30 November.

The Convener: Our budget timescale is different. The date has implications for how the Government determines its budget and for the Parliament.

Mr Troup: Absolutely—we understand that. It is open to the Government not to make a decision until 1 March or whatever, but we would be clear about the cost and operational consequences of that.

The Convener: I call Colin Keir—I am sorry for missing him earlier.

Colin Keir (Edinburgh Western) (SNP): A lot of the issues have been covered, but I am still a bit shaky on the fact that the Scottish rate is a geographic tax that is not being set up in a geographic way, other than through tax codes. If a

future settlement keeps things as they are politically and we have to proceed on that basis, what would be the dispute resolution mechanism if a dispute arose because a future Scottish Government in a devolved settlement complained that the figures were not right? How would that be manifested in reporting on the system by the NAO? Would Audit Scotland have a place in any reporting mechanism?

Mr Troup: I do not want to cut the discussion short, but we have covered that fairly thoroughly in previous answers, albeit in a slightly fragmented way. Such disputes would be between us and the Scottish Government about the operation of the memorandum of understanding. As I said, they would ultimately be escalated to the Joint Exchequer Committee to become minister-to-minister issues between the two Governments.

Colin Keir: As the discussion was fragmented, some of what was said might not have been taken in, but I appreciate the position. I just want to be clear. We will have a Scottish rate of income tax, but there does not appear to be an equivalent system, short of the coding. I know that you have mentioned that, but I am trying to understand the difficulties for reporting. I have not quite settled that in my mind, but that is my problem.

Mr Troup: The arrangement is unusual and novel. Other countries might do something similar, but this is the first time that we have done such a thing in the United Kingdom. It is important that you as representatives understand the concept, because residents of Scotland will have to understand what is going on. That might relate to our publicity and communications campaign in 2015. Members will not want to alarm Scottish residents and voters into thinking that they are paying a new tax. There will be interesting communication challenges in getting over exactly what is happening, given that not much will be visible, unless or until the rate is changed. We will have to do quite a lot.

Colin Keir: I was thinking of various ministers' assessments when considering future budgets.

Sarah Walker: Without making this any more complicated, it is important to distinguish between any disagreement about the correctness of the amount that we report in our accounts, which is about our accounts and the NAO's opinion, and, separately, a disagreement between ministers about the amount that gets passed on to the Scottish Government through the block grant mechanism. It is that decision that would get escalated through the—

Colin Keir: I am trying to keep the discussion to auditing matters, rather than drift into the work of the Finance Committee, so thank you.

The Convener: I thank Mr Morse, Mr Troup and Sarah Walker for attending the committee. Income tax is a very technical issue that can also be very dry. However, it is clearly one of huge significance for Scotland and the rest of the United Kingdom. I do not doubt that the committee and the Parliament will return to it. As Mr Troup explained, the territory is new—it has not been done here before. With that in mind, I realise that we are in an interim situation, but I thank the panel members for their contribution.

Mr Troup: Thank you. It is right to leave with a message that is cautiously reassuring, which is rather better than being gung ho.

The Convener: Judging by his language, Mr Doris is a frustrated civil servant.

Section 23 Report

“Scotland’s key transport infrastructure projects” and Major Capital Projects (Update)

11:26

The Convener: We move on to agenda item 3. We have a response from the Scottish Government on the Auditor General for Scotland’s report “Scotland’s key transport infrastructure projects”. A report in the new format will come in the spring. Do members think that further action is required? I would have thought that it is a question of noting the response and referring it to the Infrastructure and Capital Investment Committee.

Ken Macintosh: The response came out of a series of meetings and reports and marks a welcome change of attitude from Sir Peter Housden, quite apart from anyone else.

However, missing from the response is a comment on the important issue of the 5 per cent limit that the Government has set on future borrowing. Mr Swinney’s November budget statement included further detail, but the matter is not included in the response.

The Auditor General commented on a parallel issue in the key infrastructure projects report. She illuminated the fact that, although we are given some information, that information is not broken down in a way that allows us to scrutinise it. In other words, although there is a graph that shows the Government’s estimates of future spending remaining under the 5 per cent limit, it does not give the information that would allow us to check or audit that.

There are various questions about how the 5 per cent limit is agreed. For example, it includes local government commitment and resource but not departmental expenditure limit in the calculations.

There are a number of issues that at the very least need to be explored with the cabinet secretary. What is the mechanism for doing that?

The Convener: My understanding is that that issue will be addressed in the new format, which we will see in March. Is that right?

Jane Williams (Clerk): At the end of last year, the information on the 5 per cent target appeared in the annex to the budget documents. The intention is that the Government will in its budget report each year include an annex indicating where the 5 per cent runs with regard to commitments for major capital projects.

Ken Macintosh: I agree that the information was published in this year’s budget documents, so it is available now. I am suggesting that we would wish to exercise audit scrutiny over those figures. The process for doing so is not clear to me because the figures do not allow for that scrutiny—they are top-level figures that are not broken down.

Even if we do not scrutinise the figures, it would be useful if the Auditor General had greater access to the information and was able to scrutinise the figures to reassure Parliament that the Government is not exceeding its 5 per cent target.

That seems to be part of the infrastructure and major capital projects issue and I just wanted to check how we will take that forward. I do not want us to move on from it now and think that it is done. I would like to know whether we are going to explore it further. I suggest that we write to the cabinet secretary and ask whether he will provide further information to us or, more importantly, to the Auditor General, so that we can have further analysis.

11:30

The Convener: We can seek clarification on that point from the cabinet secretary, Sir Peter Housden or relevant accountable officers.

Ken Macintosh: Okay.

I have one other point. The new reporting mechanism on major capital projects includes the new hubcos and the work of the Scottish Futures Trust. However, the trouble with the hubcos and the Scottish Futures Trust is that they are not subject to audit scrutiny, so the situation is slightly unsatisfactory. I welcome our getting that information and being provided with assurances about the progress of the projects and the spend on them, but, as I understand it, we do not have a mechanism to take things any further. In other words, we cannot ask the Scottish Futures Trust for an explanation—we cannot ask it to open its books.

I would welcome the opportunity to explore with the Government its thoughts on our role. It is providing us with information, but frankly we are quite limited in the questions that we can ask. If we have any questions about the projects, whom do we direct them to? Would we expect the Scottish Futures Trust, for example, to come to the committee to give evidence about progress? We are talking about £2.5 billion of public money, which is a substantial sum.

Do not get me wrong: I am very pleased that the projects are now reported on regularly, but just

having them reported on, with no audit, is a bit odd.

The Convener: We could ask the Scottish Government how it believes that those projects should be scrutinised, but perhaps we need to speak further with Audit Scotland because we cannot initiate an inquiry or investigation at our own hand—that depends on the work that Audit Scotland does.

We can seek clarification from Audit Scotland and the Auditor General about how Audit Scotland intends to look at the issue, and we can ask the cabinet secretary—I am not sure which; Nicola Sturgeon, perhaps—what scrutiny the Government believes that there should be of those projects and how ministers should be accountable. However, I am quite clear that we cannot initiate any work ourselves.

Tavish Scott: I have exactly the same two issues. As long as they are taken forward, that is fine.

The Convener: We will hold on to the decisions on those until we get the clarification that we seek. I hope that we will be able to make those decisions at our next meeting.

I suggest that we take a break before we get into item 4.

11:33

Meeting suspended.

11:40

On resuming—

Audit Scotland Performance Audit Programme 2014

The Convener: Item 4 on our agenda is the Audit Scotland performance audit programme for 2014. I welcome to the committee Caroline Gardner, the Auditor General for Scotland; Fraser McKinlay; and Angela Canning. I invite the Auditor General to brief the committee.

Caroline Gardner (Auditor General for Scotland): We are grateful to have the chance to brief the committee today on the programme of performance audits for 2014, which is being prepared for me and the Accounts Commission by Audit Scotland.

As the committee is aware, the performance audit programme is part of the wider public audit model that we carry out across Scotland, together with annual audits of Scotland's public bodies, overview reports of particular sectors such as health and further education, best value reports on councils, audits of community planning partnerships, and reports on the national fraud initiative.

The performance audit reports are an important part of the work of Audit Scotland and one that this committee is most familiar with. They underpin the committee's role in holding public bodies to account for their use of public money. They support improvement in public services and are used by the public sector and other bodies in developing their own strategies.

That means that the way in which we develop the programme is a big part of our work and is important for us. It is something that we pay a lot of attention to and put a lot of resources into. It involves considering a wide range of information and intelligence to help us select the audits that are the most relevant and will add the most value, and it builds on the close links between Fraser McKinlay and his team, who lead our performance audit work, and the auditors who carry out the annual audits of over 180 of Scotland's public bodies, so that we are clear on the key risks that the public sector faces.

Members of the public also raise with us issues of interest and concern directly, which we take seriously, and we keep up to date with developments in public policy, review national statistics about performance and talk regularly to the Scottish Government and people working across the public sector about the challenges that they face and the way that they see public services developing in future. This activity is an

important part of our work and helps us to ensure that the performance audit programme is relevant and really adds value in areas that matter to people across Scotland.

The 2014 performance audit programme reflects the environments in which the public sector is operating, including, obviously, continuing financial pressures, growing fiscal autonomy, demographic change, public sector reform and the priorities of the Scottish Government. The programme also focuses very carefully through the lens of our own four audit dimensions, which are our particular way of looking at public services, focusing on financial sustainability, the transparency of financial and performance reporting, governance and financial management and value for money.

We believe that the programme that is set out in your briefing paper gives a good balance across the public sector, focusing on the big issues and the risks that it faces. We have taken a strong focus on public finances and economic growth, through areas such as education, skills and investment, and we have also included audits that will follow up issues that were raised in previous audit work, to help measure improvement and impact.

You will see that the paper before you covers the full range of performance audits, including those that Audit Scotland carries out in local government on behalf of the Accounts Commission, and the audits that are carried out jointly for me and the commission.

The committee can expect to hear evidence from us on the performance audits that are carried out, either for me as Auditor General or jointly for me and the commission. Those include an update on accident and emergency performance, a report on self-directed support, a report on local progress against our last public finances report, a final report later this year on Glasgow's Commonwealth games, and a report on court efficiency.

11:45

I will also bring overview reports to the committee on the national health service and colleges later in the year, and I will brief the committee on other work done on my behalf when that is appropriate, particularly on any issues arising from the annual audits of public bodies. Those will be the audits that are undertaken during 2014. We plan to publish four reports by the end of June 2014, with the remainder being published by the end of March next year.

We are, as everybody is, mindful of the independence referendum later this year and the related moratorium on publications. That means that we do not plan to publish reports between mid-July and the September referendum, although

audit work will obviously continue during that period. We have highlighted indicative timings for publication in the appendix to the committee's paper.

It is also worth noting that we aim to keep the programme flexible so that we can respond to any significant issues of public interest that arise during the year. That means that the programme may be subject to change.

Finally, this committee plays a vital role in ensuring that public bodies are held to account for their use of public money. We are always keen to hear the committee's views on our planned areas of audit work and on any topics that the committee would like us to consider, including for future programmes. As I said, developing the programme is an on-going process and it would be good to come back to the committee later in the year to get its thoughts on potential topics after 2014.

At this stage, convener, we are happy to answer any questions that you and your colleagues have about the programme and the future direction of our work.

The Convener: Thank you. Will you be looking from an audit performance perspective at how effective the changes to Scotland's colleges have been?

Caroline Gardner: That is certainly on our radar. You will know that, through the annual overview reports that we have produced in the past two years on the audits of the individual colleges, we have kept a clear focus on the objectives of reform and the way in which the changes being made are moving towards them. We will be keeping an eye on the right point at which we should step back and look at the overall value for money that is being achieved and the success with which the Government's objectives are being implemented. I am not in a position yet to give you a firm date for that, but it is certainly something that continues to be on our radar.

The Convener: Okay. You list the Accounts Commission as doing some work on school education. Given the significance of education to the Parliament, is that something that this committee would have the opportunity to look at, given that it is the Accounts Commission that is doing that work?

Caroline Gardner: I will ask Fraser McKinlay to answer that as he is controller of audit and reporting on local government to the Accounts Commission.

Fraser McKinlay (Audit Scotland): I am sure that, as has happened in the past, if the committee would like the Accounts Commission to come and do a briefing on its audit, it would be delighted to do so. If this committee would like the Account

Commission to give a briefing on its report on school education at the appropriate point, I am sure that that would be fine.

Mary Scanlon: I have two issues to raise. The first one is on the Accounts Commission—so this is probably for Fraser McKinlay—and borrowing and treasury management.

In the time that I have been in Parliament, it has always shocked me that local government can, according to the Chartered Institute of Public Finance and Accountancy prudential code, basically borrow as much as it wants. I am very concerned about the levels of council borrowing and debt in the Highlands, and I am even more concerned about the amount of money that council tax payers pay in interest, which gets bigger every year and obviously means that there is less money for council services.

I do not have an update on this, but an answer to a parliamentary question stated that between 2010 and 2011 the increase in local government borrowing was about £1 billion—I know that there has been a different way of accounting from 2010, so I am just going from there. I do not have the up-to-date figures, but given how cautious we are everywhere else in Scotland and within Scottish budget efficiency savings here and there, at what stage would Audit Scotland be concerned about the level of local government debt?

The most recent figure that I have states that the debt was £14 billion in 2011. I appreciate that I am not up to date on the figure, but I am personally concerned about it. At what stage would Audit Scotland or the Accounts Commission raise concerns about the increasing level of local government debt and that there are no limits on it whatsoever?

Fraser McKinlay: In a sense, that is exactly why the Accounts Commission has asked us to look at that topic for the past couple of years in the Accounts Commission's local government overview report. In the past, we have routinely brought the report to the committee for a briefing, and we would be delighted to do that again this year in the spring. We have tracked the increase in borrowing and levels of debt in councils, which has been very marked.

In fact, last year the Accounts Commission called on CIPFA to review the prudential code for borrowing—which was set quite a long time ago; I forget exactly when—because our sense was that the world is now a very different place. That is what Caroline Gardner was talking about when she mentioned local audit work feeding into a national performance audit. That is exactly why the topic has been looked at.

Mary Scanlon: The debt was £14 billion in 2011. What was the figure for 2013?

Fraser McKinlay: I am afraid that I do not have that information to hand, but we can certainly provide it. We will publish the local government overview for the present year in February. All the information will be in there.

Mary Scanlon: That is helpful. I am pleased that you are keeping an eye on the issue and that you share some of my concerns.

There is another point that I want to ask about.

The Convener: I have a further question, which relates to the question that I asked about education. Historically, the committee has not been able to look at the performance of councils, even when the accounts of a council have not been signed off, but given the generality of the report, would we be able to scrutinise the bigger picture in Scotland?

Fraser McKinlay: You can scrutinise it in a broad sense, in that, for as long as I have been involved in it, the Accounts Commission has given the committee a briefing on the local government overview. The difference between that and getting a report from Caroline Gardner lies in what the committee can do on the back of them. We provide a briefing, as opposed to something on which the committee can take further evidence. As I said, we would be happy to come and provide a briefing on this year's report once it has been published in February.

The Convener: The issue is how far we can go. It is not our role to hold an individual council to account, but if there were examples of councils behaving in an exemplary fashion, we would want to hear about that. Equally, if there were councils that were behaving in a highly risky fashion, I would have thought that that would be worthy of further comment. It would not be a case of holding individual councils to account. The issue is how we move from a briefing to more detailed scrutiny on an issue of wider concern.

Caroline Gardner: At the moment, the responsibility sits with the Accounts Commission rather than with the committee, as you know. I think that there are good and understandable reasons for that, given the separate line of democratic accountability that councils have. It is clear that there is a grey area between the overall picture of local government and how that feeds back into the Scottish Government's responsibilities. I think that a briefing is the right way into the issue, but it is probably one that should be kept under review as the committee plans its work for the future.

The Convener: Okay.

Mary Scanlon: My second point relates to the fact that—rightly, in my view—we have heard quite a bit about the new single police force. I have

welcomed that information, but the integration of the previous fire and rescue services into the Scottish Fire and Rescue Service seems to have gone under the radar. I note that you are to produce a report on that this winter, which will be almost two years since the merger took place.

There is a document to which I would like to draw the witnesses' attention—it is the best one that I could get on the fire service. It is entitled, "An Overview of the Scottish Fire and Rescue Service", and it was produced in October. In the summary, it states:

"During the development of this inspection report, we paid particular attention to the former Highlands and Islands Fire and Rescue Service area."

I raised many concerns about the Highlands and Islands Fire and Rescue Service and I have no doubt that Tavish Scott did so, too. Despite the fact that there are serious concerns about the service in that area, we will not even hear about what is happening there.

The report also says:

"We have identified a number of issues that require ongoing monitoring to ensure that the special measures in place"

are not affected. It goes on to say that

"Operational Risk Information available to firefighters has not yet reached a satisfactory standard. The current service-wide project to address this issue should be encouraged and sufficient resources made available"

and that

"it is not yet clear that the Service will be able to deliver a permanent increase in training".

I have heard from front-line firefighters who are worried about training. As a Highlands and Islands MSP, I would be failing in my duty if I did not bring that to your attention.

As Fraser McKinlay will know, there was a very critical report on the Highlands and Islands Fire and Rescue Service prior to the merger. In fact, personnel were brought in from Grampian, Tayside and Lothian to help the service. My concern is that the service is floundering again, as highlighted in the October report by Her Majesty's fire service inspectorate in Scotland. The service is not getting the support that it needs and there are operational risk factors.

Forgive me for saying so, but the fire and rescue service almost seems to be on the back burner, given that we have heard so much about the police service integration. The fire service is also an emergency service that I think we all feel very passionate about. We should be concerned if the service does not have the resources—there are operational risks. My question is: why do we have to wait a year and nine months in order to get a report on the reform of fire and rescue, in

particular in relation to the Highlands and Islands, given that we have had so much on the police?

Caroline Gardner: The answer is that you do not necessarily have to wait. We set out an either/or choice in the paper—a choice that I am in the process of making—between doing a follow-up piece of work on the police reform agenda and moving on to have a look at the fire service instead. At the moment, having sat down with the team and having done our own review of our recent work on the police reform, my thinking is tending towards doing something on fire. If we make that decision, we will be reporting on the fire service in the winter of this year. You will see on page 6 of the paper—

Mary Scanlon: I know, but that will still be a year and nine months after the merger, whereas we have had a lot of information on the police merger. I am highlighting concerns.

Caroline Gardner: Sure. It is really a matter of focusing on where we can add value. As you have said, there are clearly some issues in Highlands and Islands in particular. Across the fire service there were also some significant challenges in bringing the single fire service together—in the same way as there have been with the police—as well as specific professional issues. We are starting work now to ensure that we are in a position to provide some assurance to the committee and to provide more information towards the back end of this calendar year about how everything is going.

Angela Cullen (Audit Scotland): We work closely with the inspectorates in this area and we were very aware that HMFSI was doing that overview report.

Mary Scanlon: It is the inspectorate that is raising the concerns.

Angela Cullen: Yes, and we were very aware that HMFSI was doing that work. As regards the timing, we agreed that we would allow HMFSI to do its overview work to help develop its work programme and decide what to do individual inspections on. We agreed that we might come in on the back of its report and do a review of fire reform. The timing was deliberate. As the Auditor General said, we do not necessarily need to wait until December this year to publish a report, but we certainly did not want to start it until—

Mary Scanlon: Given the serious concerns that have been raised about Highlands and Islands by the fire inspectorate, are you considering doing something earlier than December this year?

Fraser McKinlay: It is worth pointing out that, even if we were to publish a report in the winter of this year, we would obviously be doing the work a good bit earlier than that, so the start of that work

is probably not that far away—if Caroline Gardner decides that that is what we want to do. Just to provide some assurance, I can also say that, for the overview report by HM chief inspector of the Scottish Fire and Rescue Service, Steven Torrie's team included some of my team, so my team was involved in the work.

As you say, I did the report on Highlands and Islands so we are very aware of the issue. It is also worth mentioning that a lot of the issues in Highlands and Islands are pretty operational in nature and that the revamped and—if you like—beefed up inspectorate for fire and rescue is the lead scrutiny body for issues of operational fire and rescue. They are the professionals and they know what they are talking about.

Mary Scanlon: The report mentions resources as well.

Fraser McKinlay: As you say, our interest is in the extent to which reform is meeting the objectives that are set out, how the money is being used and so on. Our interest is complementary and, as Angela Cullen said, the issue for us was to make sure that we and the inspectorate were not falling over each other as we were doing the work.

Again, I assure you that the fire service is very firmly on our radar and we are working closely with colleagues in HMFSI to work out how and when we go about the audit.

12:00

Bob Doris: I have a couple of comments on the self-directed support piece of work that is in the programme. I should first declare an interest in relation to Glasgow region, which I represent. Glasgow City Council is involved in on-going plans to close three day centres for adults with learning difficulties. I have been involved in the campaign against that, and self-directed support has been cited—wrongly, in my opinion—in relation to the closure of those three day centres. I just wanted to put that interest on the record. I also scrutinised the legislation when it was before the Health and Sport Committee.

I am keen for the Audit Scotland report to be published so that other areas can learn from the areas around the country where there is best practice in the introduction of self-directed support. Some local authorities—I am widening it out beyond my own local authority—may be deliberately conflating personalisation with self-directed support, and in some local authorities there have been almost forced direct personalised budgets and the withdrawal of local authority services.

I hope that, when the audit report is produced, it will be finessed so as to tease out the differences

between personalisation, local authority cuts to resource allocation budgets and self-directed support. In my experience—including in parts of Glasgow but, unfortunately, not the whole of Glasgow—where self-directed support works, it can work very well. However, the audit will find it difficult to work out what is self-directed support, what are decisions that have been made by a local authority flowing through its resource allocation system, and what are local authority priorities separate from self-directed support.

I am not sure whether there is a question in there, Ms Gardner, but it is important for me to put that on the record. Had I not, my constituents in Glasgow would have wondered why I had not done so when the matter arose in committee. I look forward to that report, as all local authorities must learn from best practice, wherever it is. Local authorities where there is not such good practice—which could be anywhere in the country—must improve their game quickly because vulnerable people are losing out.

Caroline Gardner: It feels as though you have been sitting in on the meetings that my team have been having as they have scoped out the work and agreed what data they need to answer those questions.

The policy of self-directed support is a clear Government policy but its implementation is more difficult at a time of falling budgets and rising demand. I hope that we can add a bit more clarity about the way in which it is being tackled in different parts of the country in order to identify not only good practice in exactly the way that you have described, but the things that people are not doing as well as they need to. It is a complex area. I hope that we will be able to shine a light on how it is working so far and make suggestions for improvement in the future.

Christina McKelvie (Hamilton, Larkhall and Stonehouse) (SNP): I have a keen interest in self-directed support issues, as I am actively involved with the South Lanarkshire self-directed support network, which is finding it increasingly difficult to deal with its local authority. You would look at whether self-directed support was having a positive impact and offering more choice and more control, but I am seeing less choice, less control and people being priced out of care packages—they cannot afford them and have to go back to the local authority although what the local authority is offering is not what they need. I have witnessed situations in which people have been told what they will get and there has been no negotiation or consultation.

A key element is the issue of equal pay for care staff, whether they work for a semi-arm's-length private company, a third sector company or the local authority. There is a real issue with equal pay

across care staff and a huge gap that is causing problems when people go to finance or price a care package.

You will consult the local authorities, but will there be scope for consulting service users and carers who are finding that something that they thought would make their lives easier is making their lives much more difficult?

Caroline Gardner: Absolutely. In all our work, we always build in—as much as we can—the voices of the people who use services and are affected by them. It is a shame that Angela Canning, the assistant director who is responsible for this piece of work, is not here today. She could give you more detail on how we are doing that for this specific piece of work. However, we make that commitment generally and it is particularly important for this type of service, which has a direct impact on people's lives.

Colin Beattie: I have just a couple of points. The convener mentioned colleges and I remember that the committee raised concerns about how the independent trusts would operate. I am talking from memory, but I think that the Auditor General might have said that she would look at that in future. Will that be part and parcel of looking at the colleges?

Caroline Gardner: There are two ways of answering that. The convener asked about a potential wider-ranging performance audit of the college reform programme and that is certainly under consideration for the future. In this year, we will audit the accounts of all the colleges and the merged colleges as they come through and, as part of that, we will look at the decisions that they have made about arm's-length trusts and either opting into the umbrella trust that is being set up by the Scottish Further and Higher Education Funding Council or doing something at the local level. The committee will get that update later this year in our report on the colleges' 2012-13 accounts, which are just being signed off.

Colin Beattie: Will you not have a bit of a problem there, because the trusts are independent? I do not know whether they will have any public funding, but because they are separate and arm's-length entities Audit Scotland will have a bit of difficulty getting in.

Caroline Gardner: That is one of the issues around the trusts, but we will have access to the colleges' finances and accounts, and, assuming that there will be some, to the funding, if any, that is transferred into those accounts when the new classification starts to have an impact at the end of this year. We will therefore be able to give the committee some information about it although, as you heard in great detail at the end of 2013, there

will be some limitations around that because of the structure that has been chosen.

Colin Beattie: It will be interesting to see how that works.

The other point is about borrowing and treasury management for local government. I seem to recall that, when we looked at a recent Audit Scotland report, there was concern about a long-term funding gap for local councils. I am struggling to remember exactly what it was, but I think that it was to do with funding requirements arising from housing. It did not affect housing associations for some reason, perhaps because they get their funding in a different way, but there was thought to be a substantial gap for councils some way down the line. I think that we were told that the Convention of Scottish Local Authorities was aware of it and that Audit Scotland had been in touch with COSLA, which is looking at what will happen. I hope that that will form part of Audit Scotland's work because, obviously, regardless of whether the funding gap is related to housing, it is a long-term issue for a council's liabilities and it will have to be funded from somewhere.

Caroline Gardner: You are right, Mr Beattie. The issue did arise in relation to our proposed report on housing and it could be relevant to this piece of work, to Fraser McKinlay as controller of audit and the Accounts Commission's continuing interest in the financial sustainability of local government. Do you have anything to add, Fraser?

Fraser McKinlay: Not much. I am also trying to remind myself of the discussion, Mr Beattie, but there was definitely something in there. The primary focus of the piece of work around borrowing and treasury management is looking at how councils do it by taking a thorough look at treasury management policy and process, and the process used when councils decide to borrow more money. To manage expectations, I should say that I am not sure that we will get into a lot of detail about specific service delivery areas.

I suppose that councils would also argue that one of the reasons why they are borrowing more is to invest in things and to build stuff. There is therefore an interesting question for us around what the money is being used for. We should also bear it in mind, as their debts go up, that they have some pretty significant assets to back them up.

This project is about trying to get a rounded picture of all that. In the same way as the proposed Audit Scotland housing report and some other reports, it might indicate some other areas of specific interest for us, but the project is a look at how treasury and borrowing management happens across the piece.

Ken Macintosh: I have a couple of issues to mention. I do not know whether you heard our earlier conversation about the committee's and Audit Scotland's work in scrutinising the £2.5 billion invested through the hubcos, scrutiny of the Scottish Futures Trust, and further audit of the 5 per cent cap on long-term investment. I was wondering about your thoughts on those issues.

Caroline Gardner: The committee might recall the report that I published last year—in June, I think—on developing financial reporting. That was around the same time as the report on transport infrastructure projects. The big message coming out of the report on financial reporting was that there is scope to develop more transparency about the investment programme and commitments against revenue financing for capital purposes, particularly as our financial autonomy increases. I will follow that up directly, initially through the audit of the Scottish Government in 2013-14, and I will then consider the best way to build on that report and the transport infrastructure report in reporting to the committee. That is certainly on my radar, and you will be hearing more about it over the months and years ahead.

Ken Macintosh: Very good. I would also include the 5 per cent cap.

Caroline Gardner: The whole transparency of the way in which investment decisions are made and of the long-term consequences is very much on the radar.

Ken Macintosh: I wish to double-check something. We receive regular reports, under the major infrastructure audit report, on the Forth crossing, the Southern general hospital and so on. Do you conduct separate audits? We get reports from the Scottish Government; do you have an input into those in any way? Do you have an on-going audit process there, or do you have to audit those projects separately at the end of the whole process?

Caroline Gardner: I audit all that investment through the body that spends the money. A lot of the transport investment goes through Transport Scotland. I appoint auditors to Transport Scotland, who carry out the audit every year. As appropriate, I produce reports that pull some of that together for the committee, like the one last summer on the five major transport infrastructure projects. The same is true for other major bits of investment: they are audited through the audit of the body that is doing the spending—for the Southern general, that is Greater Glasgow and Clyde NHS Board. I take assurance from that.

However, from time to time, I will report to the committee so that you have an overview. As I said in my answer to your previous question, there is room for the Government to continue to develop

the way in which it increases transparency about the investment programme. We have seen some good progress on that, there is probably more that can be done, and we will keep an eye on that programme in future.

Ken Macintosh: Would an audit of job creation or employment programmes be possible under your remit? I am referring to your examining the work of Scottish Enterprise, Careers Scotland and other organisations, and the effectiveness of public employment programmes.

Caroline Gardner: That would certainly be possible. I have quite wide-ranging powers under section 23 of the Public Finance and Accountability (Scotland) Act 2000 to examine the economy, efficiency and effectiveness with which government uses its resources. We work very hard to focus on areas that matter to people in Scotland and to the Parliament, and to define our work in such a way that our skills, as auditors, can add value.

We have a piece of work on modern apprenticeships that will come to the committee quite soon and which is starting to build that strand of work for us. Fraser McKinlay's team is doing some work for me—stepping back and looking at the whole economic development brief—to consider how money is being spent and how best we can target our audit effort to help with that in future, while not going beyond the bounds of what audit can properly do. You can expect to hear more about that, but we are still developing our thinking in that area.

Ken Macintosh: It will probably not be this year but, perhaps in the following year, we will get something about economic development in general, will we?

Caroline Gardner: Quite possibly. We will continue that conversation with you as our thinking develops. It would be good to come back to the committee later this year regarding the 2015 programme and the years after that.

Ken Macintosh: Welfare is clearly a reserved issue, but there are a number of spending commitments under welfare reform for which the Scottish Government has responsibility, including the mitigation of the bedroom tax, various reforms of disability benefit and so on. Have you ever examined those areas? Would you consider examining those areas?

Caroline Gardner: I will ask Fraser McKinlay to speak, in a minute, about the work that he and the Accounts Commission are doing regarding what councils are doing to respond to welfare reform. At the level of the Scottish Government, the team that carries out that audit for me is very focused, both on the risks that welfare reform throws up for public spending and on the measures that the

Government is putting in place to mitigate those risks. That is so that we understand those risks and so that we are in a position to report on them if that becomes appropriate or necessary. A lot of the work, as you will understand, is going on through councils, and Fraser McKinlay is better placed to update you on that.

Fraser McKinlay: Those same principles apply to the work around councils. The work does not get into the nature of the reforms themselves, but it relates to the impact of the reforms and to how councils are preparing themselves. We did a survey of councils last year on behalf of the Accounts Commission, which gave us a sense of how councils were preparing to deal with the various welfare reforms and the impact on finances, rent arrears and so on. Other people are doing things, too. The Scottish Housing Regulator produced a report last year on the impact of reform on the housing sector.

12:15

The issue is on our radar, in terms of keeping the programme live; the question for us is how best to get into it. I am not sure how one would do a performance audit on welfare reform, so the question is whether we target a particular sector or community. There might be different ways of doing the audit work, but the issue is up there as a key risk, which we are keeping an eye on.

Tavish Scott: In your performance audit programme, in the section on reports on local progress, one of your potential audit questions is whether

“elected members ... demonstrate ownership of financial plans”.

In respect of the new Anderson high school in Lerwick, which will be built by Hub North Scotland, the answer has to be no. The Auditor General and the Accounts Commission might want to consider why that is the case. No European Union procurement rules apply to the building of the school and local members do not know how much the project will cost and are given no financial updates on it. Members have been given a notional figure for the percentage of work that will go to local firms, based on the good will of the hubco operator.

It seems to me that we have moved back from conventional procurement and the days when we tendered for a new school and knew how much it would cost and so on—we could set rules on such things—and into a position in which central Government sets up a hubco and there is a take-it-or-leave-it situation at local level. There are profound issues of financial ownership, as you rightly suggest, and I would be grateful for an assurance that the local progress report would get

into that kind of issue, in the context of the points that Ken Macintosh made.

Caroline Gardner: The important answer to your question is that oversight and scrutiny of the way in which big investment decisions are made is at the heart of what we are trying to do across the programme and into the future. We made a start last summer in our reports on developing financial reporting and transport infrastructure, and we will continue to look at how big investment decisions are made and how we get the right balance between local ownership and local sustainability and economies of scale and centres of expertise—there is a trade-off in that regard.

I talked about the audit dimensions through which we try to focus our work. Financial sustainability is one of those; others are governance and financial management, transparency of financial and performance reporting and value for money. All those issues come together in big investment decisions. I guess that you will not see much of that in the piece of work that we are considering, but you will see more of it as we increase our focus on how investment decisions are made and how transparent they are, to give us all assurance about future sustainability. Does Fraser McKinlay want to add to that?

Fraser McKinlay: Not really. I think that you covered the issue.

Tavish Scott: We are talking about a new form of procurement, which in the case that I described affects local government and, ultimately, local taxpayers. Many criticisms were rightly made of the private finance initiative at its most pure—a new system was invented many years ago and trialled and we all know where it went wrong—but my worry is that if the current approach is allowed to continue willy-nilly over several years we might suddenly find that we have mortgaged future generations of local taxpayers, because people simply do not know what the position is. There is a profound in-built danger of not having a real, hard audit of the process.

Fraser McKinlay: We have reported in the past and continue to be concerned about the ability of people who have an important governance role, particularly but not exclusively in councils, to understand the complexity of public finances. There are many different ways in which money is found and spent—authorities might borrow or create a new arms-length external organisation, for example. That is not to say that authorities are doing bad things, but there is a question whether people fully understand the risks and liabilities that they are taking on or how to monitor the situation.

We are interested in the wider pattern in that regard. As Caroline Gardner said, over the next

period we hope to get a clearer understanding of and more transparency around issues such as the hubco programme.

Tavish Scott: I would like to ask another brief question. Broadband infrastructure is mentioned later in the report and I very much support that work, as the report scopes out what needs to be looked at. It is a good investment, and it is right that Government does those things, but it is a question of getting to the people who do not normally get helped by such programmes. That has not happened since 1999 and the current programme is not going to make it work either. It is the most hard-to-reach people who are left out and they do not have to be in places such as my constituency; it is happening all over Scotland, and it would be helpful if further work could address that area of concern.

Colin Keir: I would also like to comment on broadband infrastructure, and I echo what Tavish Scott has said. My constituency is Edinburgh Western, where there is extremely high-speed broadband until you get past the airport, after which it plummets to speeds that seem like the Dark Ages at times.

The Scottish Government has an on-going broadband initiative, and councils are also encouraged to look for funding from the UK Government. Local authorities in Edinburgh and Aberdeen were encouraged to apply for moneys and did a whole host of work over nine, 10 or 11 months, only to find out that there were procurement difficulties, so the whole thing was scrapped and they were then encouraged to go for a lesser initiative. That seems to me an awful waste of money and a brutally bad piece of management. As the local authorities are involved, as well as the UK and Scottish Governments, it would be really handy to know whether the problems have been overcome. It now looks as if my constituents will be waiting a lot longer for high-speed broadband, just 10 miles down the road, so I would like to know what is being done. If that could be brought into the audit, that would be helpful.

Caroline Gardner: That is helpful information for us. Angela Cullen may wish to pick up on that.

Angela Cullen: Apart from what you see in the appendix to the report, we have done a wee bit of work, but we have not started scoping that piece of work yet. The comments that you raise are certainly things that we can build into the scope of the audit.

Colin Keir: It is virtually a weekly mailbag issue for me, with people in rural parts of Edinburgh Western such as Kirkliston and Queensferry asking, "Where is our digital broadband?"

The Convener: I thank the Auditor General and her team for their contribution. We shall take item 5 in private.

12:22

Meeting continued in private until 12:37.

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e-format first available
ISBN 978-1-78392-496-7

Revised e-format available
ISBN 978-1-78392-513-1