



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 28 February 2019

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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
6th Meeting 2019, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

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

*Bill Bowman (North East Scotland) (Con)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

Alex Neil (Airdrie and Shotts) (SNP)

Anas Sarwar (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Angela Constance (Almond Valley) (SNP) (Committee Substitute)

Caroline Gardner (Auditor General for Scotland)

Sir Amyas Morse (National Audit Office)

David Stewart (Highlands and Islands) (Lab) (Committee Substitute)

Mark Taylor (Audit Scotland)

John Thorpe (National Audit Office)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 28 February 2019

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning and welcome to the sixth meeting in 2019 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone in the public gallery to switch off their electronic devices or turn them to silent.

We have received apologies from Alex Neil MSP and Anas Sarwar MSP. I welcome Angela Constance MSP and David Stewart MSP, who are attending in their place.

Agenda item 1 is a decision on taking business in private. Do members agree to take agenda items 3, 4, 5 and 6 in private?

Members indicated agreement.

Administration of Scottish Income Tax 2017-18

09:01

The Convener: Agenda item 2 is evidence on the administration of Scottish income tax 2017-18. I welcome our witnesses: Caroline Gardner, Auditor General for Scotland, and Mark Taylor, audit director, Audit Scotland; and, from the National Audit Office, Sir Amyas Morse, Comptroller and Auditor General, and John Thorpe, executive leader.

I believe that Caroline Gardner would like to make a brief opening statement. She will be followed by Sir Amyas Morse.

Caroline Gardner (Auditor General for Scotland): Thank you, convener.

As members know, Scottish income tax is a major element in the new financial powers that are being devolved through the Scotland Act 2012 and the Scotland Act 2016. Those powers are substantially changing Scotland's public finances.

The reports that are before the committee relate to the auditing of Scottish income tax in 2017-18, which was the first year in which the full amount of the appropriate non-savings, non-dividend tax collected by Her Majesty's Revenue and Customs was payable to the Scottish Government. At that point, the outturn for the 2016-17 tax year was established, which sets the baseline for all future income tax reconciliation adjustments under the fiscal framework.

The amount of tax collected will have a direct impact on future Scottish budgets. The operation of the fiscal framework is complex. HMRC will publish the final United Kingdom and Scottish income tax outturns for the 2017-18 tax year in its 2018-19 accounts. Those will be reconciled to the forecasts incorporated in the Scottish budget for 2017-18, and the associated adjustments will be incorporated in the 2020-21 budget. Therefore, there is a lot of uncertainty for fiscal years still to come.

The impact on the 2020-21 budget will not be known until the 2017-18 outturn is available. We already know that the number of Scottish taxpayers is lower than was previously thought, but the impact of that on the budget is less certain. For example, lower-than-forecast tax revenues could be offset by similar reductions in the block grant adjustment. As more outturn data becomes available, that can better inform the budget process, the Scottish Government's financial management, and the forecasting and reconciliation processes that are now central to the Scottish budget.

Underlying all of that, of course, is the correct identification of Scottish taxpayers and the effective administration of Scottish income tax.

Finally, in considering the reports, it is important that we are clear about the responsibilities of those involved. HMRC collects and administers Scottish income tax as part of the UK's overall income tax system, and it is responsible for developing its systems to implement the Scottish Parliament's decisions on tax rates and bands. The Scottish Government funds that work and reimburses the costs of collecting and administering Scottish income tax. The Scottish Government also seeks assurances that the correct amount of tax is collected and properly accounted for.

The National Audit Office audits HMRC's accounts, and the Comptroller and Auditor General reports to the Scottish Parliament on HMRC's administration of Scottish income tax. I provide the committee with additional assurance on the NAO's audit work in line with the recommendation from the committee in 2014, and I explain what the findings mean for the Scottish budget. This is the fourth year of that arrangement.

In summary, my report says that I am satisfied that the NAO's audit approach was reasonable and covered the key audit risks. I am also satisfied that the findings and conclusions in the Comptroller and Auditor General's report are reasonably based.

I will now hand over to Sir Amyas Morse.

Sir Amyas Morse (National Audit Office): Thank you, Auditor General.

Thank you, convener, for inviting me to the committee. I will not restate who I am, because you have already covered that. However, just to be clear, I am required under section 80HA of the Scotland Act 1998, as amended by the Finance Act 2014, to report to the Scottish and UK Parliaments on HMRC's administration of Scottish income tax on behalf of the Scottish Government. Specifically, the 1998 act requires me to report on

"the adequacy of any of HMRC's rules and procedures put in place, in consequence of the Scottish rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions".

I also assess and report on whether those

"rules and procedures ... are being complied with ... the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Scottish rate resolution, and ... the accuracy and fairness of the amounts which are reimbursed to HMRC ... as administrative expenses incurred as a result of the charging of income tax".

My report "Administration of Scottish Income Tax 2017-18" relates to the first year for which I can report on all aspects of the administration of Scottish income tax, with HMRC publishing its calculation of the amounts brought to account for 2016-17 in July 2018. The key findings, which incorporate my conclusions, are set out in paragraphs 12 to 17 on pages 7 and 8 of the report. Having completed the audit of the outturn calculation, we are satisfied that HMRC has brought to account the income tax revenue attributable to Scotland. However, the report notes that there are still necessary areas of estimation in that figure because of the timing of some processes and the data available to HMRC.

The committee will no doubt be aware of the ongoing discussions around estimates of Scottish income tax. HMRC's estimate for 2017-18 used the same approach as in previous years, and last year we discussed some of the uncertainty that that modelling creates. My report again highlights the specific limitations of the model that HMRC uses for estimating Scottish income tax, and we expect HMRC to look at that in future years. Identifying Scottish taxpayers remains a continuing focus for our work with HMRC and the report highlights how it has been tackling that ongoing challenge. We will continue to return to that topic in future years, as it is essential to the correct allocation of tax to Scotland.

For the purposes of today's meeting, I hope to help the committee understand my report, but some of the issues raised within it will obviously be for HMRC, as the audited body, to respond to—and, of course, it is not here today. My team and I work closely with the Auditor General for Scotland and colleagues at Audit Scotland, and I am very grateful for their support and work. With that, I conclude my opening remarks—and I should say that I will turn to my colleague John Thorpe for answers to most of the technical questions on the audit.

The Convener: Thank you. I ask Colin Beattie to open the committee's questioning.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I start by asking for clarification on a couple of points that have come up in previous discussions at the committee. There has been some concern about the efficiency of companies with employees on both sides of the border in identifying Scottish taxpayers, with mention made of one or two companies that were struggling in that regard. Has that all been resolved? Is the figure now an accurate one?

John Thorpe (National Audit Office): Work is continuing to identify the correct addresses, and HMRC's work on address accuracy has found employers that operate the incorrect code. I think that the report states that HMRC identified about

90,000 cases where the incorrect codes were being operated. There is evidence that that is still an issue, and there needs to be a continuing response.

Colin Beattie: That is a lot of cases, and it could lead to a significant difference in revenue.

John Thorpe: Yes, but the issue is identified and corrected through the year.

Colin Beattie: Could there be considerably more cases?

John Thorpe: There could be—you never know whether you have identified everything. However, there is a process in place; throughout the year, a lot of validation of addresses goes on and will continue to happen. We tried to draw some of those procedures out in figure 10 in the report.

Colin Beattie: The other issue that has come up in the past is the question of workers in the oil industry and whether their tax falls north or south of the border. Has that been resolved?

John Thorpe: I cannot answer that; I do not know the position on that issue. We will take that away; I will look at it and talk to HMRC.

Colin Beattie: Thank you.

The National Audit Office's report says that Scotland's estimated share of total UK tax is 7.13 per cent. Obviously, that is below our population proportion. The Auditor General mentioned that there are fewer taxpayers in Scotland than we anticipated—although if we can find another 90,000, it might help the figures considerably. How satisfied are we as to the reason behind that?

John Thorpe: As we said, we have expressed reservations in the past about the estimation process. The original estimate is based on a sample, rather than on exact information—that is, the information that is now recorded within HMRC's pay-as-you-earn and self-assessment systems, which drives the outturn figure and which is what we audit. Now that we have that data—and there is a lot of validation of individual addresses and residences of Scottish taxpayers—that would possibly be a better and more appropriate baseline for preparing an estimate. There are a number of issues. The Office for Budget Responsibility has identified some of the challenges in arriving at the estimate under the existing approach.

Sir Amyas Morse: I come back to the question of the 90,000 taxpayers, whom HMRC identified as Scottish taxpayers. Although it is good that it identified them, the committee would be right to have an underlying concern that that shows a moderately significant error rate by employers. It is worthwhile keeping on to HMRC on that subject and saying that you would really like to see the

error rate by employers. It is nice that HMRC has found those errors, but it is fair to assume that there might be some leakage around the size of the error rate. The committee should say that it wants to see that error rate coming down—in other words, it wants to see HMRC working with employers to make sure that they get it right in the first place and do not rely on HMRC to correct errors for them. The committee would be entitled to take more assurance from such an approach, and it would be good to push HMRC on that. The committee should tell HMRC that it is doing a good enough job of briefing those employers, but ask whether it is really working with them so that they get it right first time.

Colin Beattie: You make a good point.

I turn to the big issue of the estimates. The bullet points in paragraph 1.27 highlight a number of issues with the estimate types that are being used. I am trying to understand the implications of that and the kind of error that could come into the sampling. For example, the third bullet point says

“the data used for PAYE includes all income types”.

That must be a huge distortion, if non-savings and non-dividend income are included in the figure when things are divided up.

John Thorpe: The estimate is based on the survey of personal incomes, which covers just 1.5 per cent of the total population of the UK. Therefore, a number of assumptions must be made as to how to translate that into the Scottish environment. Those assumptions and the projection of that figure can introduce error.

Colin Beattie: Is there any projection of that error? What percentage error is built into the calculation?

John Thorpe: I cannot comment on that. I know that HMRC and the Office for Budget Responsibility prepare their own estimates for the UK. The Scottish Government takes some of that data and uses some of the same data sources, but refines the data for the Scottish environment. Indeed, I think that the Scottish Government's estimates are slightly more accurate in that area.

09:15

Colin Beattie: The amount of non-savings income and non-dividend income across the whole UK will be fairly substantial. If those figures go into any estimates that we make, I am concerned that the estimates will be distorted.

John Thorpe: When Jim Harra gave evidence to the Finance and Constitution Committee last year, he talked about some of those issues, particularly the profile of taxpayers across the whole UK compared with that of taxpayers in

Scotland. There are some potential differences in relation to higher earners that could drive inaccuracy.

Colin Beattie: I am still trying to get my head around risk from error. For example, bullet point 1 talks about “sampling uncertainty”. How do we get an accurate estimate?

John Thorpe: We are not obliged to audit the estimate; that is the responsibility of the OBR and HMRC. Audit Scotland has probably looked at those risks in the context of the fiscal framework.

Colin Beattie: As part of the audit, do you consider what sort of percentage risk is being looked at?

John Thorpe: We have audited the reconciliation of the outturn data with the original estimate, but that exercise has not been done, and I think that such an exercise could be quite informative.

Caroline Gardner: It might be helpful to clarify that the section of the report that Mr Beattie has identified is about the estimation of Scottish tax receipts, which plays into the Scottish Fiscal Commission’s estimates that then play into the budget. Any errors are reconciled later on, but that is obviously an additional source of volatility and uncertainty for the budget. For example, we know that any shortfall against the estimates for the 2017-18 budget will not be reconciled until the 2020-21 budget. The current estimates, which are based on the information that is available, suggest that the shortfall might be north of £100 million, so it is not an insignificant amount. That is why, in my report to the committee, I make the recommendation that, as more information becomes available, it will be important for HMRC to refine its estimation methodology.

Some of the information that is now needed was never needed or collected previously. Such information is becoming available as we get more outturn data. The estimation methodologies need to be updated to take account of that, not because Scotland will not eventually receive the revenues to which it is entitled, but in order to minimise volatility and uncertainty in the budget process.

Colin Beattie: There seems to be a built-in error in some of the estimates, given that they include non-savings income and non-dividend income. The Scottish Government is basing its calculations on the outturn figures, which are based on those estimates. If there is a built-in error, someone must know what the risk is and what impact that will have down the line.

Mark Taylor (Audit Scotland): I will provide some figures on that point. When the 2016-17 baseline was established, there was a correction to the expected tax take that was in the order of

£0.5 billion. The Scottish Fiscal Commission gave some commentary on that. The correction also affects the baseline for the block grant adjustment. Other things being equal, we would expect those two things to offset each other, but the correction reset where the baseline was. The estimate that we are talking about is done on the same basis; it is what HMRC thinks the outturn for 2017-18 will be. We do not know yet, but the implication is that the correction to that estimate will be something of that order, too.

The other information that we have—this is referred to in paragraph 42 of the Auditor General’s report—is that there was a difference of about 5 per cent between the 2016-17 outturn for Scottish income tax and what was estimated for the previous year, based on the same methodology. Again, that percentage difference is aligned with the figure for the correction. Using the survey methodology, we have a sense that we get numbers that are broadly 5 per cent more than we would get if we used actual data from HMRC. The Scottish Fiscal Commission, the OBR and the Scottish Government know that now, so it is being factored into future forecasts and budgets—in fact, it has already been factored into the 2019-20 budget.

The issue is the usefulness of HMRC’s estimate in giving a sense of what the outturn, and therefore the reconciliation, will finally be. Based on current methodology, we recognise that it is not as useful as it might be. The Auditor General is saying that, now that we have the actual outturn data, it would be helpful if HMRC used that to change the way that it does its estimate, to make it more useful in a Scottish context for understanding where we might be heading in future budgets.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I want to come back to the issue of the identification of Scottish taxpayers, which Colin Beattie raised. I understand, from the work that the Finance and Constitution Committee has done, that HMRC incorrectly identified 45 MSPs as not being Scottish taxpayers. That gave the Finance and Constitution Committee—and, I am sure, this committee—concern that the problem is still there, despite time being given to allow the system to bed in. What is going on if HMRC cannot identify MSPs as being Scottish taxpayers?

John Thorpe: I am sorry—I am not familiar with the particular issue. We are looking across the entire HMRC response and the countermeasures that it is employing, using third-party data. We can pursue the issue of cases not being identified and take it up with HMRC. By and large, HMRC is making a lot of effort to look across the whole body of the 2.5 million Scottish taxpayers.

Amyas Morse: There is also a need for a bit of common sense to be exercised. It would be nice to make sure that it is the job of someone at HMRC to look at the Scottish results and ask whether they stack up. It might be thought that it would be, but sometimes that does not happen in large Government departments. Such a person should be asking, "Will HMRC not look pretty stupid if it puts something out about MSPs saying that they are not Scottish taxpayers?" Often, in big systems, what is needed is someone with enough perspective to look at what is produced and ask questions using common sense. I will press HMRC on that point, as we need to be sure about that.

The big HMRC systems are definitely getting better and more accurate. Progress can be seen over time, as we are entitled to expect. I looked at the press coverage of those various issues, and some of them have to be seen as avoidable from a commonsense point of view.

Willie Coffey: There are only 129 MSPs, so it is worrying that 45 of them were identified wrongly.

Amyas Morse: I do not disagree with your point. There has not been a commonsense review in which someone has identified the things that have to be got right—the cases where HMRC is going to get it in the neck if it gets them wrong. We would expect that to happen, and we will press HMRC on that.

John Thorpe: We will make inquiries about those specific cases.

Willie Coffey: Was that part of your assessment of whether HMRC is doing things correctly and of whether its approach is reasonable?

John Thorpe: Yes. We have identified the identification of Scottish taxpayers as the key risk in the process. Once the Scottish S identifier is in the system, the system should work well, by and large; if there is not an appropriate flag, it will not. For several years, we have reported on the work that has been going on to get the base population identified. HMRC cannot leave it at that, however—there must be continual review and testing of the data using third-party data and other types of scan to see where HMRC might have got it wrong. HMRC then has to investigate those cases and make sure that the information is corrected.

Willie Coffey: The misidentification of 45 MSPs cannot be because of a failure by the employer to allocate the S codes. We mentioned the 90,000 or so cases in which identification might be wrong because of the employer's failure to allocate an S code, but that surely cannot apply to the Scottish Parliament as an employer in relation to 45 of its MSPs.

John Thorpe: We will take that point away and find out precisely what happened in that case. There may be learning points to be identified.

Sir Amyas Morse: Let us undertake to do that. We will look into that case and let the committee know what happened.

Willie Coffey: Thank you.

Sir Amyas Morse: You are quite right—you are absolutely spot on. In such a case, people might say that, if that is our best, we shall have to try quite a bit harder to get things right. I am not going to defend it.

The Convener: Sir Amyas, no one is suggesting that our tax codes are any more important than anyone else's, but the situation does not give us much confidence. My code was one of the ones that were messed up. When that happens to the convener of the Public Audit and Post-legislative Scrutiny Committee, that does not give much confidence to the Parliament or to the general public.

Sir Amyas Morse: Strangely enough, I agree with you, convener; I am not taking a defensive position on it. It probably does not quite reflect that things are getting better and that progress is being made. As I said earlier, it is a matter of common sense that such matters should be reviewed to ensure that they are got right. It is not enough to make systemic progress; an alert eye needs to look over it. HMRC needs to try harder at that, and I assure the committee that we will take that message back to it.

Liam Kerr (North East Scotland) (Con): I want to make a similar point. Sir Amyas, you have said that the identification of taxpayers is everything here. In January this year, there were reports that around 30,000 Scottish residents had not been correctly classified as Scottish taxpayers. According to the response from HMRC, the reason for that was that those people had not ticked the relevant box to say that they were Scottish taxpayers. My reading of that is that they had apparently not ticked a box that would result in their paying higher tax. Should the identification of Scottish taxpayers be dependent on their ticking a box on an online self-assessment form?

John Thorpe: No. We are looking into that case, which happened after we had produced the audit report, and it will be covered in our 2018-19 report. That box existed in the previous year. However, whether it was or was not ticked, no action was taken on it at that time. I understand that the process changed in 2018-19 and HMRC took action on that. Perhaps it would have been more appropriate to say, "We have a variance here. Someone is saying that they are or are not a Scottish taxpayer. We hold information on them. If there is an inconsistency, that should be

investigated before we make the change.” I understand that, when the change took place, people were reclassified without such a conversation or inquiry having happened.

Liam Kerr: Thank you. A couple of points arise from that. How are addresses checked throughout the year? Is the process to look into addresses proactively?

John Thorpe: Yes, it is. We have talked about the use of third-party data and checking whether employers are using the same information as HMRC uses. We make sure that such information is continually aligned, and, by and large, that is what we would expect. If it is found to be misaligned, a change is not necessarily made until it is understood which piece of information is correct. We ask whether the employer or HMRC has got it right and how we can effect a reconciliation. In this case, there was perhaps a misunderstanding about what the self-assessment form required. People were not clear, so they provided an indication and HMRC just acted on the tick instead of making an inquiry.

Liam Kerr: My final question is on reclassification. What warnings were there—or what was the process for alerting taxpayers who now live predominantly in England but previously lived predominantly in Scotland?

John Thorpe: Do you mean warnings as part of the self-assessment process?

Liam Kerr: Yes. If I were now living predominantly in England but had previously lived predominantly in Scotland, I presume that that would have an impact on how you would classify me.

John Thorpe: I do not do the classification; HMRC does that.

Liam Kerr: Okay—on how HMRC would classify me. What is the process for my being classified properly and knowing that I have been?

John Thorpe: I am not entirely familiar with precisely what the communications with the taxpayer would be or what HMRC would do proactively in that situation. We could look at that in order to be clearer about it. The self-assessment episode has identified that there could be a misunderstanding on that point and that someone could make what they think is a fair declaration but not really understand how their information is being used. There ought to be a reaction to that and, as I have said, an inquiry made and a conversation had with that individual before action is taken.

09:30

Bill Bowman (North East Scotland) (Con): I will follow up on that point. If someone has addresses available to them in, say, Dundee, Cardiff and Monaco, as well as a tax adviser in Paris, what address goes on their tax return?

Sir Amyas Morse: I could repeat the rules that determine what should go on their tax return. However, as the committee knows, their predominant place of residence is what should go on their tax return. Mr Bowman's question is about what examination is carried out by HMRC if that does not happen.

Bill Bowman: If a person picks one of those three addresses—let us say innocently—because that is where they spend their time, how will HMRC look at that?

John Thorpe: It depends. We have been speaking to HMRC about how it assesses risk in such a case. However, we did not have available to us before we completed the report the updated strategic picture of risk—particularly as it relates to Scotland—and of how HMRC would respond to those risks.

There is normally a profiling of the taxpayer population. Clearly, not all cases can be investigated. However, HMRC would identify cases in which there is increased likelihood of error or misrepresentation and focus its resources in those areas.

Sir Amyas Morse: I would expect HMRC to profile high-net-worth individuals much more strongly than anyone else. That is its normal practice, and I do not see why it would be any different in this case.

Bill Bowman: You say that you expect it to do that, but do you think that it does?

Sir Amyas Morse: We have not seen the risk report, but my view is based on the many studies of HMRC that I have done. It normally profiles high-net-worth individuals more strongly than others. If a person has an address in Monaco and everything, they probably have quite a lot of money, and it is likely that HMRC will take quite a close interest in their decisions—as it certainly should.

John Thorpe: That baseline compliance process would happen whether a person lived in London or in Edinburgh. It would be the same for any member of the tax-paying public.

The Convener: Willie Coffey has a question about the framework.

Willie Coffey: You may recall that there was some discussion about the audit and accountability framework that should be in operation. The committee received a late paper

last night about the revised arrangements for it. The committee was concerned that, were we to seek information from an equivalent body that was accountable to the UK Parliament, there would be a series of steps from approaching the Governments down to approaching the various departments. We were concerned that there seemed to be a bit too much red tape.

On the basis of the paper that I have read, I feel that that concern has been partly addressed. However, could you explain how that particular concern has been resolved, even if only partially?

Sir Amyas Morse: I do not speak for the UK Government. As the committee knows, I am independent of it. However, I have seen that latest paper.

As I understand the arrangements, if the Auditor General for Scotland wanted an issue to be looked at in a body that was performing work for Scotland in connection with a devolved function, the Auditor General for Scotland would normally ask me to do the piece of work for them, because I am the person with the audit rights—I am the statutory, appointed auditor. Irrespective of all the to-ing and fro-ing of papers, that is the normal arrangement and how I would expect the process to function.

The correspondence has been about the remote contingency if the Auditor General asks me to do a piece of work and, for some reason, I have a difficulty or disagree about whether I can do that piece of work at that particular time. Under the arrangements, if either the Auditor General for Scotland or I were to be unreasonable and we could not work it out between ourselves, I imagine that this committee or the Public Accounts Commission would call us in and ask us what we were doing. That is likely to be how the arrangements would work, based on the paper.

It is common sense, because trying to get into the issues by asking, “What if?” would drive me into arguing about extremely unlikely circumstances. If we started to ask, for instance, “What if a body here or the Auditor General for Scotland were entitled to overrule my judgment”—I hope that my judgment would never contradict hers—“and come in to do audit work,” I would have to look at the fact that, because I am the statutory auditor, I have powers to examine sub-contractors and all the other contracting work, which would not go with step-over rights. Going down such an extreme road would have the potential to create mayhem, so I am very glad that we are where we are now—albeit that, I admit, it is vaguer—because it will throw us back on good offices and being transparent. I am in favour of those things. I am quite sure that looking bad in front of Parliament and the arrangements seeming not to work would be a pretty strong disincentive to any of us to behave badly.

I shall retire in a few months, so I am afraid that it will probably not be me who does this, but I am quite sure that I speak for my successor in telling you that there is great interest in our being seen to work really closely with Audit Scotland. These somewhat broad informal arrangements enable us to make our absolute best efforts to do that.

Caroline Gardner: I have written to the committee—I am not sure whether you have received my correspondence—on the back of the framework that has been issued in the past couple of days. I am comfortable that many of the concerns that I raised with the committee have been addressed in this version. Helpfully, it is simpler and more principles based than before, and it clarifies the roles and responsibilities of everyone who is involved. As the C and AG has said, in practical terms it is very likely that the C and AG and the Auditor General for Scotland—whoever they are—will be able to agree appropriate ways in which to provide the assurance that this Parliament or the UK Parliament will need.

Because the framework relies on agreement between the two national auditors at a Scottish and a UK level, I have flagged with the committee the potential risk that it may not be possible to fulfil the expectations of this committee or other committees of the Parliament as the new financial powers are fully devolved over the next couple of years. It goes without saying that we both have a strong interest in and commitment to using the framework as well as we can to meet Parliament’s needs. It will be important to keep under review how that works in practice as we reach the point when the Scottish Parliament raises 50 per cent of what it spends, in the context of more uncertainty and volatility and this Parliament’s requirement for clear assurance that the sums that are raised are the right amounts and are being accounted for properly. The framework is a step forward, and it will need to be kept under review as the new powers become fully operational over the next couple of years.

Willie Coffey: Supposing that this committee continues to be concerned about or dissatisfied with HMRC’s estimation of the number of Scottish taxpayers, could we reach out directly to HMRC to attend a future committee meeting without having to go through all the hoops and ask the Governments to agree?

Sir Amyas Morse: You can do that now.

Willie Coffey: Can we do that? The previous model suggested that we had to go to the Government—

Sir Amyas Morse: No. We have been talking about audit examinations only. You can perfectly well call HMRC to ask about those things—I think

that you should—and it will come. That is different from what we have been talking about, which is going into the organisation, which you may not be familiar with, and looking at all the books and records, which you may never have done before, to carry out an examination. That is what all this discussion has been about; it has not been about getting access to officials, which is a different question altogether.

You have had HMRC officials before you previously, and I recommend that you have them here again. I really think that this meeting would have been improved by having HMRC officials at the table. Let us be honest: I am criticising them, am I not? I would like them at the table, to hear them answer the questions right here and now. I think that this would be a very valuable discussion for them and for you.

The Convener: I think that there are salient questions that need to be raised, to give confidence to everyone in this committee and beyond.

Angela Constance (Almond Valley) (SNP): In his report, the Comptroller and Auditor General concluded that the £4.8 million for which HMRC invoiced the Scottish Government for the work that it does on Scotland's behalf was "accurate and fair". What led you to that conclusion? What processes informed that?

John Thorpe: A process involving both the Scottish Government and HMRC identifies the tasks that need to be performed. You need to bear in mind that those tasks are additional to the normal management of the income tax system, the costs of which are ordinarily borne strictly by HMRC. Additional work, with additional procedures, would arise out of the Scottish rate of income tax. In the past, that might have involved system changes to get the information technology up to date. In the future, if any compliance activity is agreed between HMRC and the Scottish Government that relates specifically to Scottish income tax and its associated risks, that will be covered.

The Scottish Government exercises a process of estimation, management and review over that work. We then review HMRC's records to make sure that the costs are properly allocated, attributed and extracted for that purpose.

Angela Constance: I am also interested in the relationship between the Auditor General for Scotland and the Comptroller and Auditor General. What progress are you making with the review of the memorandum of understanding between you? Have you established any timescales?

John Thorpe: I will start, and Mark Taylor can add to what I say. The MOU was put in place about three years ago, with the expectation that it

would be reviewed after three years. We think that it should be, not least because the environment has moved on—we have the framework agreement and, more important, we have the experience of doing the audit and working together. Today, after this meeting, we will be getting together to review the lessons learned and to recast the MOU.

The memorandum contains numerous paragraphs, but there are probably three or four at the end that relate to the conduct of the audit. We will focus on those paragraphs and how we engage for planning, how we share information and Audit Scotland's access to our records, and how it oversees the audit and the assessment of risk. There is quite a lot of engagement between us, and we think that that can be reflected more effectively.

Mark Taylor: As John Thorpe says, after finishing here today, we will continue those discussions. The key point is that the new memorandum that we aspire to have in place will, when it is updated, govern next year's audit.

The Convener: I think that HMRC was supposed to publish its most recent strategic picture of risk but has not done so yet. Do you know when that is likely to be published?

John Thorpe: I think that it has been published. It is not shared publicly, because it is a sensitive document, but it is shared with the Scottish Government. I believe that that has now happened and that we will be looking at the document in the next audit round.

The Convener: Do you know what caused the delay?

John Thorpe: I am sorry, but I do not. We had expected the document to be available when we undertook the current audit, but it was not.

The Convener: What impact did that have on preparing the report that is before us, Auditor General?

Caroline Gardner: That is a question for John Thorpe or Sir Amyas initially.

John Thorpe: Part of the report is historical—it looks at the extraction of data and information in a particular environment. Going forward, the strategic picture of risk will become very important, because, as divergence starts to bite, understanding how risk is assessed in that environment and what that means for compliance will be very important. In future reports, as we start to look at what has happened in 2018-19 and what is planned beyond that, that will be significant.

The Convener: Your understanding is that the Scottish Government has that document. Perhaps we could get it from the Government.

Sir Amyas Morse: Our not having had HMRC's strategic picture of risk need not undermine your confidence in my report, but it is true that some of the discussions that we had would have been better had in the light of that risk report. That would, as John Thorpe has said, point the way ahead in relation to how we can get better at running the system and identifying Scottish taxpayers more efficiently. A risk report should really lead that discussion. That element of the process would be improved by having current risk reports, and I think that there will be a better discussion next year because of that.

The Convener: We can explore the issue with HMRC if the committee decides to have it in for evidence, so that is very helpful.

As members have no further questions for our witnesses, I thank them very much indeed for their time and evidence this morning.

09:45

Meeting continued in private until 10:59.

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