

Audit, accountability and the further devolution of powers – Public Audit Committee Response by the Chartered Institute of Taxation and the Low Incomes Tax Reform Group

1 Introduction

- 1.1 The Chartered Institute of Taxation (CIOT) is pleased to submit comments on the issues paper published by the Public Audit Committee of the Scottish Parliament (PAC) in June 2015, “Audit, accountability and further devolution of powers”. The response also contains contributions from the Low Incomes Tax Reform Group (LITRG).
- 1.2 The CIOT is an educational charity concerned with promoting the education and study of the administration and practice of taxation. For more details see the statement about us at section 5 below.
- 1.3 We have previously submitted comments to the PAC in respect of the framework for auditing the Scottish Rate of Income Tax (SRIT) in 2013.¹

2 Key principles

- 2.1 We agree that there will not be a one size fits all model of audit and accountability for devolved powers. It will be necessary to decide what data is needed and why, and then to build models accordingly. As a result, we agree with the need to set out principles as a basis for decisions concerning the level of Scottish specific data required from each body or in respect of each function.
- 2.2 The PAC has set out three key principles underpinning audit reporting to the Scottish Parliament in paragraphs 9ff of the issues paper: proportionate; transparent; robust. We consider each of these briefly below.
- 2.3 **Proportionate:** we agree that the level of data reporting should be proportionate. We have a concern about the wording in the issues paper, which refers to reporting being “no less than proportionate”.² The wording should simply be “proportionate”, as the current wording implies that to have an overabundance of Scottish specific data,

¹ Our response is available on the CIOT website: http://www.tax.org.uk/tax-policy/public-submissions/2013/PAC_Scottish_incometax

² Paragraph 9 of the issues paper.

including superfluous data, would be acceptable. In fact, having too much and perhaps irrelevant data would not necessarily be helpful and would probably not represent value for money for the taxpayer. It might also hinder decision-making. From the wording in the issues paper, it is not clear whether the PAC is recommending that the level of detailed reporting should be proportionate to each of the six factors mentioned. It may not be possible for data to be proportionate to each factor simultaneously. It would be helpful to have clarification from the PAC as to how they see the interaction between these factors being dealt with.

- 2.4 **Transparent:** we agree with this principle and the points made in relation to it.
- 2.5 **Robust:** we agree with the need for audit or validation of the data. We suggest that in addition to the descriptor "external", it should be made clear that the audit or validation must be independent and impartial, since "external" does not automatically guarantee either independence or impartiality.
- 2.6 It will also be necessary to have a clear idea of what to do if the data concerned can be interpreted in more than one way and of how to resolve differences of interpretation. This may be a particular issue where joint-working is involved.
- 2.7 We note in addition, that the audit and accountability models should represent value for money or use resources in the most effective manner possible. In particular, it is important that work is not duplicated. It would be helpful to have as one of the key principles that the purpose(s) of the audit and accountability models should be clearly defined in each case – this will help to ensure that those involved understand what is being addressed and what value the audit and accountability model (and the data reported) is adding.

3 Taxation

- 3.1 If the decision is taken to enable Audit Scotland (AS) and the National Audit Office (NAO) to undertake joint performance audit work in relation to tax, it is key that the work is properly co-ordinated at all stages. The audit work must be done properly, but it should also be cost-effective for the taxpayer. This means that there is a real need for AS and the NAO to liaise and plan properly both what work is needed and who should carry it out. This planning should also involve HMRC and other bodies as appropriate (for example Revenue Scotland). Otherwise, there is a risk of duplicating or even triplicating audit work, (if internal audit is included).

Income Tax

- 3.2 In relation to the proposed powers of the Scottish Parliament in respect of the Scottish rate, although the Scotland Bill 2015 proposes greater powers, we are not convinced that there will be significantly more complexity than for the arrangements under SRIT. A much greater proportion of income tax receipts will be concerned however, and based on the total revenue from income tax under the Scotland Bill 2015 (and the proportion of total Scottish funding that that represents), we understand that the Scottish Parliament will require proportionately stronger assurances.
- 3.3 As with the SRIT, we assume that the objective is for the Scottish Parliament to receive appropriate assurances, based on a proper audit, from independent auditors. We agree that it is sensible therefore to build on the work already done with HM Revenue & Customs (HMRC) and the NAO. We continue to think that the NAO is the logical organisation to carry out the audit work, given their experience and access to

relevant data. If significantly more work is required concerning the Scottish rate provisions, then it may be necessary to ascertain that the NAO will have sufficient capacity to carry this out.

- 3.4 In terms of what information should be reported, we refer to our 2013 submission.³ We stress the need to show trends and also to report on the cost of collection, which should try to encompass the cost to taxpayers of complying. We suggest there is also a need to focus on examining whether or not the systems for identification of who is and who is not a Scottish taxpayer are working effectively.

VAT

- 3.5 In respect of VAT, as with the SRIT and Scottish rate provisions, the aim must be for the Scottish Parliament to receive appropriate assurances, based on a proper audit, from independent auditors. This should have the aim of providing assurance on the assignment of VAT revenues. We agree that the audit and accountability arrangements should be explored with the NAO and HMRC. The NAO are the logical body to carry out audit work in respect of VAT.
- 3.6 We note that the method of assignment of VAT receipts is yet to be determined. It may be necessary to look at the audit and accountability arrangements in conjunction with the assignment arrangements or after the method of assignment has been determined.
- 3.7 VAT is intended to be a tax on consumption. In principle, therefore, we would suggest that the share of VAT revenues assigned to Scotland should, as far as possible, be allocated on the basis of consumption in Scotland. It is important however, that audit arrangements should not impose significant burdens on business – thus if the way in which VAT assignment is to be audited is likely to have an impact on business, there should be consultation on this issue.
- 3.8 In terms of the information to be reported and reporting arrangements, we refer you to our 2013 submission concerning arrangement for the SRIT, as many of the points made there are relevant.⁴

Air Passenger Duty and Aggregates Levy

- 3.9 Once these taxes have been devolved, we agree that these would fall within the remit of AS. The only caveat to this might be if HMRC were to continue to administer the taxes on behalf of the Scottish Government (although presumably the expectation is that Revenue Scotland would administer them), in which case it might be logical for there to be a joint audit arrangement between the NAO and AS – this could take advantage of the NAO's experience with HMRC, while ensuring AS involvement.

4 Welfare

- 4.1 The same point we make above (paragraph 3.1) in respect of tax applies in the case of welfare.

³ In particular, sections 4, 6 and 8. Our response is available on the CIOT website:
http://www.tax.org.uk/tax-policy/public-submissions/2013/PAC_Scottish_incometax

⁴ Ibid.

- 4.2 We agree that if the Scottish Government were to administer the devolved benefits through either a new body (comparable to Revenue Scotland for tax), or through Scottish local authorities, the audit and accountability arrangements would fall within the remit of AS. In this instance however, as noted in the issues paper (paragraph 37), there is significant potential for interplay between reserved and devolved aspects of the welfare system. So, it will be essential for there to be joint-working and co-ordination between AS and the NAO.
- 4.3 If the Department for Work and Pensions (DWP) continues to administer the benefits for the Scottish Government, we think that the NAO would be the logical body to carry out the audit and accountability work. We agree that the DWP should report to the Scottish Parliament.

5 The Chartered Institute of Taxation

- 5.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 5.2 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.
- 5.3 The CIOT's 17,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

The Chartered Institute of Taxation
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