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Paul Martin MSP
Convener
Public Audit Committee
c/-Room T 3.60
The Scottish Parliament
Edinburgh
EH99 1SP

3 August 2015

Dear Paul,

Thank you for your letter of 24 June and for the opportunity to comment on your Committee's scrutiny of the audit and accountability arrangements relating to provisions in the Scotland Bill and for a number of bodies, including UK wide bodies.

As you are aware, the Scotland Bill will devolve significant powers to the Scottish Parliament and Scottish Government, further to the Smith Commission Agreement which was signed up to by all five of Scotland's main parties. I am sure your report will be of interest to Parliamentarians in both Parliaments as the bill progresses and as new powers are implemented.

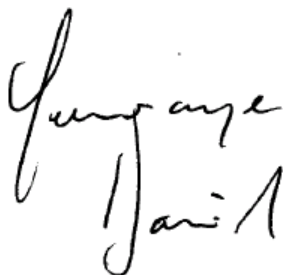
For many of the areas your Committee has considered, audit and accountability arrangements are likely to be determined by the way in which the Scottish Government chooses to use its new powers and responsibilities. Whilst I would welcome further clarity on this issue, as I'm sure would your Committee, it is not for the UK Government to make assumptions about how those new powers will be used and therefore about their potential impact on audit and accountability arrangements. In areas including taxation, consumer advocacy and advice and the policing of railways in Scotland, decisions by the Scottish Parliament about how the powers will be used are likely to inform the consequential audit and reporting arrangements. In addition, there is important work to do to establish how new welfare powers will be delivered and operate in practice. You will appreciate that both the UK and Scottish Governments will want to ensure this important issue is given due consideration. As a result, it would be premature for me to speculate on the potential audit and accountability arrangements.

In other areas, including elements of taxation and welfare, there will be important interfaces between the UK and Scottish Governments. These are complex areas but they are crucial to get right. We will be keeping them under review as the Scotland Bill moves through Parliament, and also as the new fiscal framework for Scotland is agreed. Particular points which are raised in your report, such as the audit arrangements associated with the assignment of certain proportions of VAT revenue to the Scottish Government, will be discussed as part of the fiscal framework negotiations. As set out in the Smith Commission Agreement, the new fiscal framework will define the fiscal relationship between the UK Government and the Scottish Government.

I understand you have also written to the National Audit Office, who in response, have committed to indicating after the summer recess a clearer timetable of when the Comptroller and Auditor General will be able to comment on the proposed audit and accountability arrangements, and on other considerations raised in your report.

Beyond these points there are some other points raised in your report that I would like to comment on. Firstly, on the Crown Estate, I would like to clarify the Scotland Bill provides for a modified version of the Crown Estate Act to apply until such time as the Scottish Government and Scottish Parliament put in place legislative arrangements for the management of the transferred functions. Under this modified Crown Estate Act, the Crown Estate functions transferred to the Scottish Ministers will be subject to audit by the Auditor General for Scotland after the transfer. The remaining Crown Estate managed by the Crown Estate Commissioners will continue to be audited by the Comptroller and Auditor General and the accounts and his report will be laid in the UK Parliament.

I also note your Committee wishes to explore the production of separate audit opinions with the Comptroller and Auditor General in relation to the Northern Lighthouse Board, and for the production of specific Scottish data in relation to the activities of the Maritime and Coastguard Agency and OFGEM. At this point I only wish to observe that it is important that the data these and other bodies produce continues to reflect their UK wide functions, or in the case of Northern Lighthouse Board, its operations outside the UK within the Isle of Man. In my view, should these bodies consider it is both feasible and appropriate to provide additional data, this should be sensitive to the costs and practicalities of doing so.

A handwritten signature in black ink, appearing to read 'David Mundell', written in a cursive style.

Rt Hon DAVID MUNDELL MP
SECRETARY OF STATE FOR SCOTLAND