

The Resource Accounts: Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of HM Revenue & Customs and of its Departmental Group for the year ended 31 March 2022 under the Government Resources and Accounts Act 2000. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2021. The financial statements comprise the Departmental Group's:

- Statement of Financial Position as at 31 March 2022;
- Statements of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes, including the significant accounting policies

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards.

In my opinion the financial statements:

- give a true and fair view of the state of the Department and the Departmental Group's affairs as at 31 March 2022 and its net operating expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Qualified opinion on regularity

In my opinion, except for the effect of the matters described in the basis for qualified opinion on regularity section, in all material respects:

- the Statement of Outturn Against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2022 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Error and fraud in the main COVID-19 support schemes

Note 4.1 to the Resource Accounts records expenditure incurred in 2021-22 on the COVID-19 support schemes of £17.3 billion. The main COVID-19 support schemes and related expenditure comprise: the Coronavirus Job Retention Scheme (£8.2 billion); and the Self-Employment Income Support Scheme (£8.3 billion). Where error and fraud result in overpayments and underpayments, the transactions do not conform with the relevant primary legislation and HM Treasury directions issued thereunder specifying entitlement and calculation criteria, and the expenditure is irregular. At Note 4.2 the Department has estimated the most likely level of error and fraud present in the main COVID-19 support schemes as:

- Coronavirus Job Retention Scheme – £241 million (2.8% of related expenditure)
- Self-Employment Income Support Scheme – £376 million (4.5% of related expenditure)

Error and fraud in Personal Tax Credits

Note 5.1.1 to the Resource Accounts records Personal Tax Credits expenditure of £10.6 billion in 2021-22. Where error and fraud results in overpayments and underpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular. Due to the time taken to finalise awards, the Department's estimates of overpayments and underpayments of Personal Tax Credits for 2021-22 are not available until June 2023. Therefore, the estimates of error and fraud in 2020-21 at Note 5.1.3 are the most up to date indication available of the level of error and fraud in Personal Tax Credits expenditure for 2021-22.

For 2021-22 the mid-point of the Department's estimates, which are based on the latest available data for 2020-21, are:

- overpayments of £780 million (5.0% of related expenditure); and
- underpayments of £120 million (0.8% of related expenditure).

Error and fraud in Corporation Tax research and development reliefs

Note 5.1.4 to the Resource Accounts records Corporation Tax research and development reliefs expenditure of £9.5 billion in 2021-22. Where error and fraud result in overpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular. Using the evidence available from existing risk-based compliance activity, at Note 5.1.5 the Department has estimated the level of error and fraud from overpayments that it expects is present within Corporation Tax research and development reliefs expenditure as £469 million (4.9% of related expenditure).

I consider the levels of error and fraud arising from overpayments and underpayments in these areas of expenditure to be material to my opinion on the accounts. I have, therefore, qualified my opinion on the regularity of expenditure in respect of the main COVID-19 support schemes, Personal Tax Credits and Corporation Tax research and development reliefs because of:

- the estimated level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the estimated levels of overpayments and underpayments in these areas of expenditure which do not conform with the relevant authorities.



My report, which follows on pages R1 to R62 provides further details on the basis for my qualified audit opinion on regularity.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Department and its Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Department and its Group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Department or its Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Department and its Group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other information

The other information comprises information included in the Annual Report, but does not include the financial statements nor my auditor's certificate thereafter. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the 'Our accountability' report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the 'Performance overview', 'Performance analysis' and 'Our accountability' reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Department and its Group and its environment obtained in the course of the audit, I have not identified material misstatements in the 'Performance overview', 'Performance analysis' and 'Our accountability' reports.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the Department or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the 'Our accountability' report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Principal Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Department and its Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Department and its Group will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Department and its Group's accounting policies

- Inquiring of management, the Department's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department and its Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department and its Group's controls relating to the Department's compliance with the Government Resources and Accounts Act 2000; Managing Public Money; and the Supply and Appropriation (Main Estimates) Act 2021.
- discussing among the engagement team and component teams involving relevant internal specialists, including error and fraud, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Department and its Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, reporting of significant accounting estimates; and expenditure incurred in respect of Personal Tax Credits, Corporation Tax research and development reliefs expenditure and the main COVID-19 support schemes. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of the Department and Group's framework of authority as well as other legal and regulatory frameworks that the Department and Group operates in, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Department and its Group. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2021, employment legislation and relevant tax legislation.

In addition, I considered the audit risks arising from potential bias in the Department's accounting estimates and the potential for material fraud and error to be present in expenditure incurred by the Department in respect of: Personal Tax Credits, Corporation Tax research and development reliefs expenditure, Child Benefit and the main COVID-19 support schemes.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- reviewing the processes, verifying the data used and the considering the appropriateness of the assumptions and judgements applied for material estimates presented within the accounts including the Department's estimates of error and fraud in Personal Tax Credits, Corporation Tax research and development reliefs and the main COVID-19 support schemes.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn Against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report of the Comptroller & Auditor General to the House of Commons

Introduction

HM Revenue & Customs is the lead government department responsible for the collection of the UK's taxes and the customs authority. It has a vital purpose to collect the money that pays for the UK's public services and help families and individuals with targeted financial support, such as through the tax credits system. During 2021-22, the Department has also supported businesses and individuals affected by the pandemic through its role in administering the COVID-19 support schemes. The net cost of providing these services is reported in HM Revenue & Customs' Resource Accounts.

Error and fraud in Personal Tax Credits, Corporation Tax research and development reliefs and the main COVID-19 support schemes

I have prepared a Report on HM Revenue & Customs' 2021-22 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on pages R1 to R58. This includes further information on the qualification of my audit opinion on the regularity of the main COVID-19 support schemes, Personal Tax Credits, Corporation Tax research and development reliefs and as follows:

- Main COVID-19 support schemes – paragraphs 2.1 to 2.27 on pages R29 to R43.
- Personal Tax Credits – paragraphs 3.1 to 3.23 on pages R44 to R51
- Corporation Tax research and development reliefs – paragraphs 3.24 to 3.47 on pages R52 to R57.

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