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**Director General for Regulation**

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7 July 2016

Dear Sean

**Error in HM Revenue and Customs' *Tax Receipts and National Insurance Contributions for the UK***

Thank you for explaining the basis of the error in the tax credit repayment figures published on 24 May 2016 in the breach report of 7 June 2016. I welcome HMRC's speedy action to address the concerns raised by Mr O'Connor on the day of publication in immediately correcting the statistics and more recently in highlighting the revisions in the June edition of the bulletin.

I appreciate that the errors occurred during the absence of key staff but I am concerned that your own investigations have revealed a repeated error. While HMRC's remedial action may go some way to addressing the failing, it is not clear to me that this is sufficient to provide confidence that HMRC will achieve the highest standards of quality that are consistent with the designation of National Statistics.

Consequently, I encourage you to consider the Authority's Report *Quality Assurance of Administrative Data*<sup>1</sup> as you make further improvements to quality assurance procedures for these statistics and more widely within HMRC. Penny Babb and Dawn Leyman have been in contact about this case, and I will ask Penny to discuss with Dawn ways that the Authority can provide support in applying the QAAD guidance. I would also invite you to discuss with the Authority's Monitoring and Assessment team a timetable for the re-assessment of these statistics during 2016/17. I attach a summary of our analysis.

I am copying this letter for information to John Pullinger, the National Statistician.

Yours sincerely,



Ed Humpherson

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<sup>1</sup> <https://www.statisticsauthority.gov.uk/monitoring-and-assessment/monitoring/administrative-data-and-official-statistics/>

## Attachment

### Compliance Check: HMRC Tax Credit Payments, 14 June 2016

#### Summary

HMRC made an error in its Tax Receipts and National Insurance Contributions for the UK statistics. A user notified HMRC on the day of publication. HMRC quickly addressed the fault and issued a correction.

HMRC's breach report highlights that the error had been made in the last three editions of the statistical series before being identified. It had previously had to make a correction for an error in June 2015.

#### Background

Michael O'Connor wrote to Ed Humpherson on 24 May 2016 after he spotted an error in an HMRC publication:

Every month HMRC publish as National Statistics tables of receipts of taxes and payments of the benefits they administer. This month the amounts of tax credits paid over the last year had been changed from the previous month's publication. This made it look as if rather than gently declining, tax credits had actually been increasing.

I drew this to HMRC's attention and to their credit they quickly admitted the numbers were wrong and said that they would correct the publication.

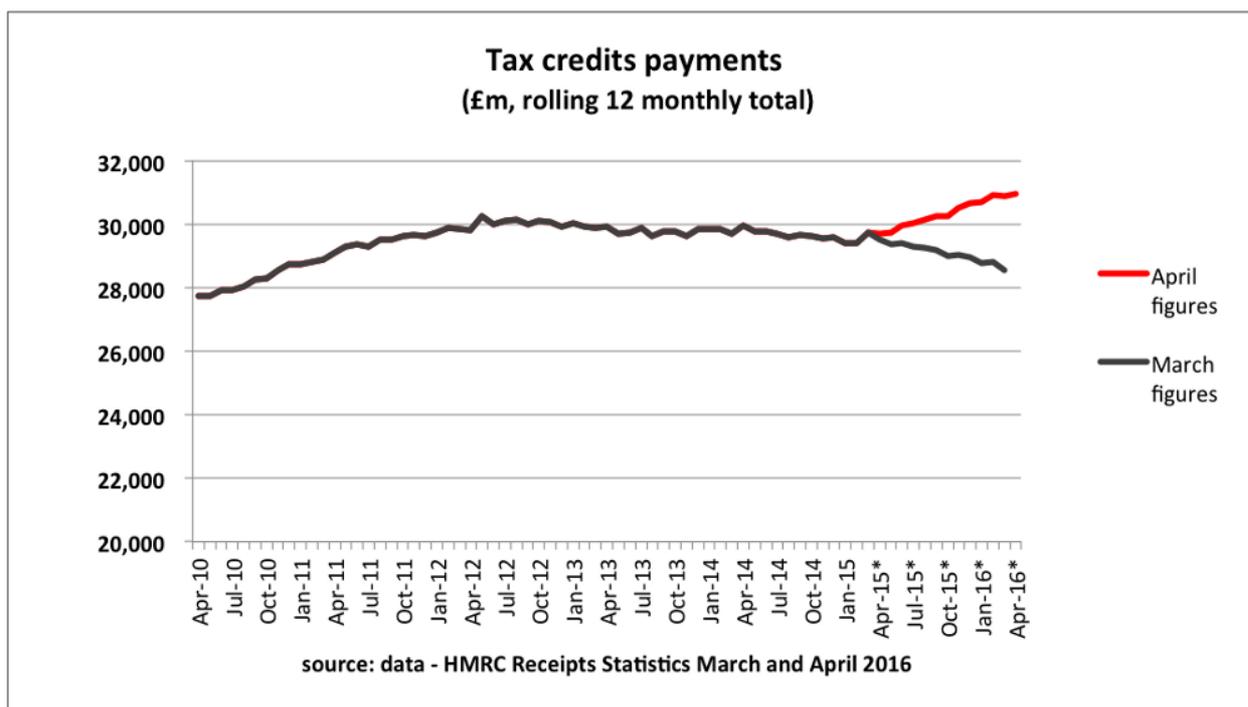
The reason I am bringing it to your attention is that a very similar error was made last year (though on a scale of 'only' £1 billion rather than £2 billion). It was never really explained but one would have hoped that lessons were learned as the sums involved are significant amounts and the figures do appear in a National Statistics publication, so you might wish to have a look at what is going on.

For full details I hope you don't mind if I just point you at my [blog on this](#) (which in turn links to my pointing it up last year).

Mr O'Connor writes a blog about tax credit payments and has monitored the trend over recent years. He noted that the May 2016 release indicated a sharp change in the trend. He asked HMRC about the change as he suspected that an error had been made given the nature of the pattern. He said in his blog:

“this month they revised the figures all at once for the previous twelve months. making a very significant £2 billion difference to what they say they have paid out over the past year”

He included the following chart in which he showed the figures published in the May release (with the revised data given in red), against the figures previously published (in black).



HMRC confirmed to Mr O'Connor that they had made an error and reissued the statistical bulletin and tables. It corrected the monthly figures for tax credits from April 2015 to March 2016.

HMRC further informed us in its breach report of 7 June 2016 that the error was made in four of the monthly releases of data – 19 June 2015, 22 March 2016, 21 April 2016, 24 May 2016. HMRC said that it made a correction to tax credit figures in July 2015 after an incorrect formula was included in the spreadsheet for the June 2015 release – it reviewed the production and QA procedures. The change to QA meant that the output was sent to tax head experts who have to confirm that they have reviewed the data before publication.

HMRC told us in the breach report that:

“Despite these improved QA processes two new errors appeared in more recent releases. The main reason the QA processes failed were that the errors were not identified by a second person responsible for checking and approving the publication.

During May 2016 there was an aggravating factor that the second reviewer was on annual leave at this key time which led to a breakdown in the QA procedures.”

HMRC took immediate action to resolve the error. The corrected documents were published at 15:18 on 24th May 2016.

HMRC said in its breach report (of 7 June 2016):

“A full review of the production and quality assurance process of this publication has been performed internally.

The review identified a number of improvements to the QA process, these have been signed off and agreed with the SCS team leader and include:

- Review of the design of the spreadsheet to minimise risks of inadvertent mistakes
- Addition of further automated checks to minimise human error.
- Introduction of a QA review checklist to complete monthly to document the QA process and record when each part of the QA has been completed”

HMRC released its breach report and published an explanatory note about the corrections in the June edition of the bulletin. The head of profession for statistics noted some confusion over the procedures for publishing breach reports, expecting it to be published by the Authority.

## **Analysis**

### **Trustworthiness**

HMRC acted quickly to accept that it had made an error and address it through re-releasing the output with the corrected figures on the same day as the original release. It fed back to Mr O'Connor who updated his blog to reflect the correction and information received from HMRC – this did not include an explanation of the reason for the error but did provide the revised figures.

HMRC did not make clear that it corrected the statistics: We found no mention of the correction on the HMRC pages of the gov.uk website or in the bulletin<sup>2</sup>. A breach report for the tax receipts data from July 2012 (relating to a late release of the statistics at 1pm on the day of release) is available on the website<sup>3</sup> but there is no reference to the more recent errors. The breach report does not explain about informing users about the correction.

The subsequent steps taken by HMRC provided public clarity over the correction and reassurance that it acts to address errors and investigates the need for corrective actions to prevent further errors. The need to improve the breach report process is necessary – the Authority is streamlining the process following a review by the GSS professional support team.

### **Quality**

HMRC's QA process failed to identify the error in the tax credit data in previous monthly bulletins – it was a repeated issue and one that was obvious when plotted. HMRC has established a checking process that involves automated checks to minimise human error, and revised its QA review checklist that accompanies the monthly data to provide an audit trail to demonstrate the completed checks. Given the repetition of errors and the assurances previously given by HMRC about its QA approach, its proposed remedial actions do not increase confidence that the changes will prevent or reduce the risk of future similar errors. The series of high profile errors indicates a potentially systemic failing.

### **Recommendations**

1. Requirement: to increase confidence in the trustworthiness of the statistics HMRC should provide a clear explanation for the nature and scale of the error and make clear which statistics have been revised
2. Requirement: to increase confidence in the quality of the statistics HMRC should review its assurance arrangements to: identify which parts of the process lead to assumptions about the quality of the data and enhance the level of QA in response to the risks identified; consider as part of that QA, what quality indicators might be helpful to record and monitor the level of quality of the types of tax receipts; seek to plot data series to illustrate the data patterns and support judgments about the quality of the data

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<sup>2</sup> <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk#history>

<sup>3</sup> <https://www.gov.uk/government/statistics/breach-report-hmrc-tax-and-nic-receipts>