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**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVE'S DEPARTMENT**

**Value Added Tax (VAT) Arrangements 2021-22**

**Issued to:**            **Head of Corporate Finance and Accounting**  
                              **Director of Finance**  
                              **Principal Accountancy Assistant**

**Prepared by:**        **Senior Internal Auditor (Mazars LLP)**

**Reviewed by:**       **Internal Audit Manager (Mazars LLP)**  
                              **Partner (Mazars LLP)**

**Date of Issue:**      **30 May 2022**

**Report No.:**         **Corp/02/2020**

### INTRODUCTION

1. This report sets out the results of our internal audit of Value Added Tax (VAT) arrangements. The audit was carried out as part of the work specified in the Internal Audit Plan for 2021/22 agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that the audit has highlighted will increase the associated risks and should therefore be addressed by management.
2. We reviewed the arrangements in place for oversight and control over VAT arrangements, as well as the reliability of records, integrity of information and compliance with relevant regulations. The audit objective was to provide an independent opinion on the adequacy and effectiveness of the control environment as it relates to VAT processes. This area has been included on the Internal Audit Plan for 2021/22 as it has not been reviewed in recent years.
3. The application of VAT is ever-changing as new policies and funding streams emerge and new ways of delivering public services evolve. Councils must ensure they are up to date with these changes in order to receive the correct refund of VAT incurred and, importantly, in order to plan services and projects so that VAT does not become an unexpected burden.
4. Therefore, Council VAT managers and their Section 151 officers must ensure their authority's compliance with all statutory and regulatory requirements in respect of taxation. This includes the digital submission of all appropriate returns as and when required, as well as to ensure that their authority pays all taxes which it is legally obliged to do and recovering all monies to which it is entitled, by way of refunds, reliefs and rebates.
5. The Council have a VAT officer who has the delegated responsibility to collate, check and submit VAT returns.
6. The fieldwork for this review was completed remotely in response to COVID-19.
7. We would like to thank all staff contacted during this review for their help and co-operation.

### AUDIT SCOPE

8. The scope of the audit was outlined in the Terms of Reference issued in February 2022.
9. The controls in place to mitigate the impact of the key risk areas were examined. Controls relating to corporate and departmental risks were also examined where applicable. The audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes.

10. We considered the following key risks inherent to the VAT process:

- There may be a lack of awareness or understanding of VAT processes causing inconsistent or incorrect processing of VAT. This may result in financial loss or penalties from HMRC.
- Financial loss is incurred as a result of penalties where:
  - VAT has not been correctly applied to invoices paid by or issued to the Council;
  - VAT returns have not been submitted in accordance with HMRC deadlines; and
  - Making Tax Digital requirements have not been complied with.
- Financial loss is incurred where income due from HMRC has not been received.

**AUDIT OPINION**

11. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	1	2

**SUMMARY OF FINDINGS**

12. Detailed below we have set out examples of controls noted to be in place and working effectively, based on the audit testing conducted. In addition, where we have identified issues, we have also highlighted these below:

- The VAT procedural guidance relied upon by the Council was Her Majesty’s Revenue and Customs (HMRC) guidance available via the HMRC website. Whilst this ensures officers regularly refer to the HMRC guidance, the Council had not translated this guidance into local procedure notes or guidance for their systems and processes to direct officers on completion of key VAT related activities, such as completing and submitting the VAT Return (*see issue 1 in detailed findings section*).
- Financial Regulations are in place for the Council, dated 2020. These cover VAT as follows:

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- Chief Officers must ensure that VAT is identified and correctly accounted for in respect of all income and expenditure (including imprest) in accordance with current VAT Regulations. Failure to do so can lead to loss of income and/or imposition of penalties by HM Revenue and Customs.
  - VAT should not be paid unless the supplier's VAT registration number is shown on the invoice. Certifying officers (as defined in Section 8 of these Regulations) shall satisfy themselves that all suppliers' invoices for goods, works or services have complied with relevant VAT legislation.
  - Officers responsible for instigating income collection for the Council shall satisfy themselves that the Council has complied with the relevant VAT legislation with regard to the supply of its services.
  - VAT should only be accounted for on imprest payments where the supplier's VAT registration number is shown on the receipt.
- The Principal Accountancy Assistant, the Council's VAT officer, explained that there was not any formal training provided to staff within the Council in respect of VAT. Informal training is provided where needed through on the job training. The Principal Accountancy Officer also circulates relevant and useful information to staff through emails. The Principal Accountancy Assistant undertakes regular training in the form of attending webinars and forums organised by Tax bodies and professional services firms.
  - The Principal Accountancy Assistant explained that there are a number of different checks conducted on VAT amounts and returns before submission. Examination of the documentation relating to the December 2021 VAT return confirmed the following checks were completed:
    - The VAT officer was informed by email from staff of any issues that may result in VAT adjustments.
    - VAT payable check - variances between actual and calculated were analysed by supplier and investigated.
    - VAT receivable check – a report was produced to show invoices raised with no VAT and checks were performed on these invoices that confirmed that they are related to credit notes, lettings, rents and room hire.
    - Expenses check – check to ensure supporting documentation was in place.
    - VAT on car mileage was provided by the Council's payroll provider.
    - Review of items via the cashiers system - data was retrieved from this system on all the different fund codes and total VAT charged. The checks confirmed that the correct VAT code has been applied in each of the fund areas.

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- The reconciliation was conducted using all of the above checked evidence. This spreadsheet detailed the total VAT claim for the accounting period based on figures derived from the Council's financial system. Examination of the reconciliation completed for December 2021 found that these were not subject to second officer checks or approval (*see issue 2 in detailed findings section*).
  - VAT Returns are submitted to HMRC every accounting period (three months). A review of the December 2021 VAT Return confirmed that this was complete and submitted within the timeframes.
  - Through discussions with the Principal Accountancy Assistant and an examination of the VAT notice on the government website, it was confirmed that the Council and officers are aware of the Making Tax Digital (MTD) requirements and have implemented software to support implementing the principles of MTD.
  - The Principal Accountancy Assistant explained that where customers have paid less VAT than the Council have paid on purchases, HMRC will repay the difference. This difference amount is highlighted in the VAT returns produced and submitted to HMRC by the Council and repayments are usually made within 30 days of HMRC receiving the VAT return. Where the Council have not received repayment within 30 days, HMRC are contacted, and repayments are subject to a 'repayment supplement'. As part of the audit, evidence of the contact with HMRC was requested but was unable to be provided (*see issue 3 in detailed findings section*).
13. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified. Any recommendations to management are prioritised in line with the criteria set within Appendix A.

## DETAILED FINDINGS / MANAGEMENT ACTION PLAN

No.	Finding	Risk	Recommendation and Priority	Management Response	Agreed Timescale and Responsible Manager
1	<p><u>Key Person Risk</u></p> <p>Examination of the procedural guidance in place for the completion and submission of VAT Returns found that this is the HMRC guidelines.</p> <p>The HMRC guidance has not been translated into local procedure notes or guidance to direct officers on the completion and submission of VAT Returns using the Council systems and processes in the event of key officer absence.</p>	<p>The Council may be unable to complete and submit VAT returns correctly and in a timely manner where a critical employee is absent for any extended period of time.</p>	<p>The Council should develop a specific technical and operational guidance document for VAT Returns and make this accessible to other staff as appropriate.</p> <p>There should be appropriate contingency plans in place in the event of absence of the Principal Accountancy Assistant.</p> <p><b>Priority 2</b></p>	<p>Agreed.</p>	<p>Senior Accountant (Technical and Control)</p> <p>31/08/22</p>
2	<p><u>VAT Reconciliations</u></p> <p>Monthly reconciliations of VAT returns to the tax liability accounts in the general ledger are conducted by the</p>	<p>This increases the risk that incorrect VAT returns are submitted which could lead to potential financial loss to the Council as a result of penalties.</p>	<p>The Council should ensure independent review and approval of the monthly reconciliations is conducted by Senior Management, for example the Head of Corporate Finance and Accounting.</p>	<p>Agreed. The Senior Accountant (Technical and Control) will perform the independent review.</p>	<p>Senior Accountant (Technical and Control)</p> <p>31/08/22</p>

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	<p>Principal Accountancy Assistant.</p> <p>We noted through discussions with the Principal Accountancy Assistant that management have oversight, however there is no independent review and sign off of the reconciliation.</p>		<p>Evidence of this should be retained.</p> <p><b>Priority 3</b></p>		
3	<p><u>VAT Refunds</u></p> <p>In the event that customers have paid less VAT than the Council, HMRC will repay the difference. Repayments are made within 30 days and the Council contacts HMRC if payment has not been received within this timeframe.</p> <p>The Principal Accountancy Assistant is responsible for chasing HMRC for payment. However, the Council do not retain evidence or the details of the contact with HMRC requesting payment of VAT repayments.</p>	<p>This increases the risk that VAT refunds are not chased appropriately and income due to the Council is not received.</p>	<p>The Council should retain records of chasing HMRC for VAT refund repayments and the details of contact with HMRC should be stored in a suitable location, for example a shared folder, that is accessible to relevant staff.</p> <p><b>Priority 3</b></p>	<p>Agreed.</p>	<p>Senior Accountant (Technical and Control)</p> <p>31/08/22</p>

## Value Added Tax (VAT) Arrangements 2021-22

## Opinion Definitions

## APPENDIX A

## Assurance Levels

Assurance Level	Definition
<b>Substantial Assurance</b>	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
<b>Reasonable Assurance</b>	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
<b>Limited Assurance</b>	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
<b>No Assurance</b>	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

## Opinion Levels

Risk rating	Definition
<b>Priority 1</b>	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
<b>Priority 2</b>	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
<b>Priority 3</b>	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.