



# VAT Accounting

## City of York Council

### Internal Audit Report 2014/15

Business Unit: Customer & Business Support Services  
Responsible Officer: Director of Customer & Business Support Services  
Service Manager: Head of Procurement and Corporate Finance  
Date Issued: 7 May 2015  
Status: Final  
Reference: 10140/007

	P1	P2	P3
<b>Actions</b>	0	0	0
<b>Overall Audit Opinion</b>	High Assurance		

# Summary and Overall Conclusions

## Introduction

The financial activities of local authorities fall under Section 33 of the Value Added Tax Act 1994. Value Added Tax (VAT) is applicable to most transactions in which authorities are involved, whether purchasing or supplying goods and services. But for activities deemed "non-business" they may recover the VAT they have paid. As a result City of York Council is a net recipient of VAT and reclaims, on average, nearly £1.5 million a month from HM Revenue & Customs (HMRC).

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system would ensure that:

- VAT returns are produced promptly and accurately from appropriate supporting records;
- VAT planning arrangements are in place to cover changes in service delivery and major council projects;
- VAT is correctly charged on individual transactions when goods or services are either purchased by the council or supplied to customers.

This audit was a health check of key controls.

## Key Findings

The audit found that the areas included in the review were effectively and appropriately administered and there were no recommendations to be made.

## Overall Conclusions

It was found that the arrangements for managing risk were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

# Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.