



VAT Accounting

City of York Council

Internal Audit Report 2016/17

Business Unit: Customer & Corporate Services
Responsible Officer: Director, Customer & Corporate Services
Service Manager: Corporate Finance & Commercial Procurement Manager
Date Issued: 19/04/2017
Status: Final
Reference: 10140/009

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	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. Authorities can recover considerable sums of VAT via returns submitted to HM Revenue & Customs (HMRC). The average net recovery from HMRC for City of York Council for 2016/17 was in the region of £1.3 million a month.

VAT paid on goods or services purchased in relation to activities deemed non-business or exempt can be recovered. However, if the 5% *de minimis* threshold is exceeded then the authority must repay to HMRC the entire amount of VAT recovered on exempt activity. Income that is exempt from VAT has to be included in the Council's annual partial exemption calculation. Changes in service delivery, new capital projects, or land and property transactions, which may have a significant impact on the calculation, should be identified and monitored to ensure it is protected and to maximise the reclamation of VAT.

Objectives and Scope of the Audit

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

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

The audit included limited sample testing of the VAT treatment of a sample of higher value transactions and an analysis of the use of income charge codes.

Key Findings

It was found that VAT returns were suitably authorised and promptly submitted to HMRC. Supporting documentation had been retained and figures could be traced back to the relevant working papers.

Discussion with officers found that suitable VAT planning arrangements were in place. The partial exemption calculation had been completed for 2015/16 and there was evidence of estimates being prepared showing the effects of major projects on the partial exemption position. Officers were also aware of their responsibilities when considering the VAT implications of major projects.

Discussion with officers and testing of transactions found that VAT was being charged correctly when goods or services were either purchased by the Council or supplied to customers. However, one finding has been raised below in relation to debtor transactions that do not have a pre-allocated charge code (DBINVCCs). These require a VAT code to be allocated manually by the user and authorisation from a member of the Finance team.

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.

1 DBINVCCs and use of charge codes

Issue/Control Weakness

A significant number of DBINVCCs were being raised, which required users to manually allocate a VAT code and subsequent manual checking and authorisation from a member of the Finance team.

Risk

Staff resources may not be effectively utilised.

Findings

Analysis of the 6728 DBINVCCs raised between December 2015 and December 2016 found that 4412 of them were raised by just 5 service areas, these being Business Support and Admin, Assets and Property Management, Building Services, Finance – RH, and ICT Operations and Business Development.

Further analysis of the invoice description and VAT code produced 670 unique entries (i.e. multiple invoices beginning with the same description). The vast majority of the entries, 604 in total, have 9 or fewer invoices against them.

Furthermore, it was found that 12 invoice descriptions accounted for 1485 DBINVCCs, or 22% of the total. Of these 12 areas, 5 (York Eco Business Park, York Music Centre, Reimbursement of Salaries, Community Parking and York Arts education) accounted for 896 DBINVCCs or 13% of the total.

As DBINVCCs require the user to assign a VAT code, if fewer of them were raised, this would lower the amount of staff time spent manually authorising them.

Agreed Action 1.1

Further analysis of the results will be conducted by the Accounting Technician. He will then liaise with the Debtors team to agree any new charge codes to be raised and ask them to inform the relevant teams.

Priority

3

Responsible Officer

Accounting Technician (VAT)

Timescale

29 September 2017

Audit Opinions and Priorities for Actions

Audit Opinions

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.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

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.

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