



VAT Accounting 2015-16

City of York Council

Internal Audit Report

Business Unit: Customer & Business Support Services
Responsible Officer: Director of Customer and Business Support Services
Service Manager: Corporate Finance Manager
Date Issued: 06.05.16
Status: Final
Reference: 10140/008

Actions	0	0	0
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. For activities deemed "non-business", authorities have the ability to recover considerable sums of VAT via returns submitted to HM Revenue & Customs (HMRC). As a result, City of York Council is a net recipient of VAT and reclaims, on average, nearly £1.5 million a month from HMRC.

Income that is exempt from VAT has to be included in the Council's annual partial exemption calculation. If the 5% threshold is exceeded then the authority must repay to HMRC the entire amount of VAT recovered on exempt activity. Changes in high risk areas or new capital projects which may have a significant impact on the partial exemption should be identified and monitored.

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

It was found that VAT returns were appropriately authorised before being submitted to HMRC. Documentation in the form of creditor, debtor and cash income records and reconciliations were retained as evidence to support the monthly figures. Reconciliations of the fore-mentioned records were calculated correctly and evidence was retained to support any manual adjustments to final VAT figures.

Responsibility for providing VAT advice for capital projects had been appropriately assigned. Samples of transactions were checked on a daily basis to ensure that the correct VAT codes had been applied and debtor's invoices raised without charge codes were promptly addressed. School returns were subject to a percentage check to ensure that the reported VAT was correctly calculated.

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.

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