



VAT Accounting

City of York Council

Internal Audit Report 2018/19

Business Unit: Customer & Corporate Services
Responsible Officer: Director, Customer & Corporate Services
Service Manager: Corporate Finance & Commercial Procurement Manager
Date Issued: 4th June 2019
Status: Final
Reference: 10140/010

	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 the council for 2018/19 is in the region of £1.8 million a month.

VAT paid on goods or services purchased in relation to activities deemed non-business or exempt can be recovered. Income that is exempt from VAT has to be included in the council's annual partial exemption calculation, if the 5% de minimis threshold is exceeded for VAT recovery then the authority must repay to HMRC the entire amount of VAT recovered on exempt activity. 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 ensure that:

- VAT returns are produced promptly and accurately from appropriate supporting records;
- VAT is correctly charged on individual transactions when goods or services are either purchased by the council or supplied to customers.
- Schools are given sufficient training and guidance to support the submission of VAT returns.

The audit included limited sample testing of the VAT treatment in the use of procurement cards and higher value transactions.

Key Findings

It was found that VAT returns were submitted promptly to HMRC and were appropriately authorised. Supporting documentation had been retained and figures could be traced back to the relevant working papers. Good controls are in place to ensure VAT on individual transactions is accurately treated.

There was extensive information and VAT guidance available to maintained schools. This information had been updated recently and had been made accessible on the York Education website.

At the request of officers a review of the treatment of VAT in procurement card transactions was carried out. This indicated that there may be some issues with the retention of documentation for the reclaiming of VAT. Testing also identified one instance where VAT had been reclaimed against items where VAT was not applicable.

On review of a sample of high value transactions, it was confirmed that VAT codes had been used appropriately and VAT documentation was in place.

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 Treatment of VAT in Procurement Card Transactions

Issue/Control Weakness	Risk
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Valid VAT receipts to support the reclaim of VAT for procurement card transactions were not always in place and inaccuracies in the treatment of VAT were found.	VAT on procurement card transactions is not correctly treated and VAT returns are inaccurate
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Findings

In a sample of twenty procurement card transactions tested, fifteen of these transactions were supported with appropriate VAT documentation. However for one transaction VAT had been reclaimed at the standard rate, but the items purchased did not qualify for this reclaim and for another, proof of purchase was available, but this was not a valid VAT receipt.

For the three remaining transactions, one VAT receipt could not be located and two card holders did not respond to the request for supporting documentation.

Sample testing of Procurement Card VAT coding and VAT receipts is carried out by the Corporate Finance team and any VAT corrections required are put through the system. The findings of the internal audit sample are broadly consistent with the findings of the Corporate Finance teams sample testing and corrections throughout 2018/19. Those discrepancies found by the internal audit testing will be corrected on the next VAT return error correction.

Agreed Action 1.1

From April 2019, the VAT sample testing will be combined with the sample transaction testing carried out by the Council’s Procurement Compliance Officer each month and results reviewed by the Corporate Finance VAT team and the Compliance Officer. Corrections will be made if required and where a training need is identified this will be carried out with users. A reminder email regarding the requirements to get and store a valid VAT receipt will be sent to all Procurement Card users in the new financial year.

Priority	3
Responsible Officer	Corporate Finance – Accounting Technician (VAT)
Timescale	June 2019

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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