

Internal Audit

Value Added Tax

2021/22

Overall assurance rating



Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	2

There is effective administration and accurate processing of Value Added Tax (VAT). The VAT team are experienced and qualified, and provide policy, guidance and support to council officers and school staff through the Intranet, Schools Portal and a dedicated advice service. Guidance reflects VAT rules but may be improved when reviewed and updated. Training has been on hold due to Covid-19, however, training is due to be restarted. Monthly compliance checks and reconciliations are completed, and VAT returns are accurate and submitted by the due date.

The partial exemption VAT position is regularly monitored and is within HMRC tolerances. VAT liability and rates are correctly input on the system and are up to date. Some user accesses to the invoice entry permission were no longer needed. Therefore, removal of these permissions would ensure adequate separation of duties further improving the control environment.

Agreed actions from the audit	Priority
The council will review, update and improve access to VAT guidance and information available to officers and school staff on the council's intranet and Schools Portal. Training should be developed and scheduled to support understanding and awareness of VAT rules and requirements.	
The invoice entry permission will be removed from the four accounts identified and consideration given to periodic review of the appropriateness of user accounts and permissions.	

Background

The council's procedures for complying with Value Added Tax (VAT) legislation are audited annually. This audit was undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit Risk & Governance Committee. The audit has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

The council is required to submit monthly VAT returns to HM Revenue and Customs (HMRC) declaring invoices it has raised for goods or services supplied and VAT charged (output tax), and purchases made and the VAT incurred (input tax). As input tax exceeds output tax, the council receives repayments from HMRC. The council adheres to partial exemption rules which allow all input tax to be claimed subject to exempt outputs not exceeding 5% of total outputs. The council's VAT team administer the preparation and submission of VAT returns, provide assurance over council compliance with VAT rules, publish guidance and give advice to council officers and schools.




For the period April to September 2021 the council submitted VAT returns claiming VAT repayments totalling approximately £43m

Previous audit

Our last audit report was issued in August 2019 (Ref: 2019-74). We gave substantial assurance and agreed two actions regarding provision of training and user access restrictions. These actions have not yet been fully implemented and we are restating them in this report. We did not audit VAT in 2020/21 due to the pandemic.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas detailed in the table below.

Area of Coverage	Commentary	Assessment
Policy, guidance and training	The VAT Team have appropriate qualifications and experience. Comprehensive policy, guidance and advice is accessible to council officers on the Intranet and to schools on the School's Portal, and the Team provide an advice service by email or phone and briefing notes to schools on temporary rate changes. Some guidance on both sites needs to be updated and some links do not work, and training has not been delivered to officers or schools since it was agreed as an action in our 2019 audit, although the pandemic contributed to this. The VAT Manager is planning to refresh guidance and restart training shortly.	
Information Systems	The Oracle system calculates VAT correctly and VAT rates for accounts payable and accounts receivable conform to HMRC rates, including a temporary reduction for hospitality services. The correct VAT liability was applied to 98% of invoices tested, but two invoices for schools' services were incorrectly rated as exempt. We were told that an incorrect liability for this type of transaction had been uploaded to the system and was not input directly by officers, and we confirmed with Schools Finance that this would be corrected. The scale of this error makes no material difference to the council's partial exemption position. Four user accounts for invoice entry are no longer appropriate to the officers' roles and should be removed, as we reported in 2019.	
VAT Liability	Monthly compliance checks are completed for accounts payable, accounts receivable and general ledger transactions, and are reviewed and approved by a senior officer. The VAT Team regularly monitor the council's partial exemption position and were calculating the position for 2020/21 at the time of audit, although a change to the partial exemption position is not expected. We confirmed that prior years are within the 5% HMRC partial exemption limit per year and average over a seven-year period.	
VAT Return	VAT returns, control account and code reconciliation with the general ledger are completed monthly, approved by the VAT manager and submitted to HMRC before the due date, in line with the Team's key performance indicator. Compliance check queries are identified and carried through or satisfactorily resolved in the VAT return workings.	