

DEPARTMENT Corporate Services	AUDIT REVIEW VAT	AUDIT REF 5118002
PLANNED DAYS 8	ACTUAL DAYS 8	Frequency of Audit ANNUAL

BACKGROUND

VAT is a tax on consumption, essentially a ‘sales tax’. It is payable by all consumers. Since local authorities are also consumers, when they make purchases of goods and services in order to perform their functions, they may find themselves paying VAT. Equally, when they levy charges, such as for services provided by them, they may have to account for VAT to the Commissioners for Her Majesty’s Revenue and Customs (HMRC). However, under EU law, which is ultimately the law governing VAT, the default position is that local authorities – as public bodies – are exempt from paying VAT when they are performing “public functions”. Article 13 of the principal VAT Directive states that an “authority governed by public law” is not liable to pay VAT on purchases which it makes to enable it to perform its public functions. Accordingly, any VAT which has been paid, known as “input tax”, is recoverable from HMRC.

Similarly, the local authority does not need to add VAT (that is, “output tax”) on any charges which it is entitled to make when performing its functions.

However, there are a number of problems which make this area of VAT law notoriously difficult, such as where a local authority is doing something under legal rules *applicable to everyone*; it is unlikely to be exempt. The Authority has staff within its Accountancy Section that deal with all VAT queries and who are responsible for the submission of monthly claims to recover VAT.

The Authority submits monthly claims to HMRC to recover VAT to an average value of approximately £2.0m.

SCOPE

The review covered the controls and procedures in operation for VAT to assess the extent to which:

- Recommendations in the previous Internal Audit report have been actioned;
- Adequate guidance / documented procedures exist;
- Appropriate controls and procedures are established to ensure compliance with legislation and HMRC requirements.

SUMMARY OF RESULTS

It is pleasing to report that expected key controls in respect of the management and administration of VAT are operating to an acceptable standard, with only minor improvements being required.

An error was identified during April 2018 which related to debtors invoices raised between 26/01/18 – 26/02/18 which contained the wrong VAT liability indicator. This error was promptly rectified by the Authority’s VAT officers. With the amount exceeding the limit of the higher of £10,000 or 1% of turnover imposed by HMRC in relation to any VAT

errors/adjustments, HMRC were notified of the error. As a consequence, an interest charge was applied by HMRC.

The review identified that the procedures adopted meet statutory, best practice and the Authority's Financial Procedure Rules. Some improvements are required in order for Internal Audit to place an assurance that systems are operating to a high standard. These improvements have been agreed and are in the process of being implemented by the responsible officers.

The specific issues identified related to:

- Documented procedures needing to be further updated to reflect all key functions undertaken in relation to VAT, specifically option to tax procedures.
- All appropriate properties were not included on the register of the 'opted to tax' properties.

NUMBER OF RECOMMENDATIONS		OVERALL ASSURANCE
Priority 1- Fundamental Weaknesses	None	Acceptable
Priority 2 – Strengthen Existing Controls	2	
Priority 3 – Minor Issues	None	