

DEPARTMENT <b>Corporate Services</b>	AUDIT REVIEW <b>VAT</b>	AUDIT REF <b>4115002</b>
PLANNED DAYS <b>8</b>	ACTUAL DAYS <b>8</b>	Frequency of Audit <b>ANNUAL</b>

## BACKGROUND

Under EU law, 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 (“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 trained specialist 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 from HMRC to the value of approximately £1.6m - £3.2m

## SCOPE

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

- Follow up of previous year’s Internal Audit recommendations
- Adequate guidance / documented procedures exist;
- Appropriate controls and procedures are established to ensure compliance with legislation and HMRC requirements.
- To ensure that VAT is completely and accurately recorded in the accounting records and all claims to recover VAT have been made promptly and accurately.

## SUMMARY OF RESULTS

The review of VAT has been assessed as medium risk to the Authority during the audit planning process due to the complex nature of VAT and the volume of income and expenditure transactions processed by the Authority.

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 a few issues being identified.

The review identified that the procedures adopted meet statutory requirements, best practice and the Authority's Financial Procedure Rules. Minor 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 have since been implemented by the responsible officers.

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

DEPARTMENT <b>Corporate Services</b>	AUDIT REVIEW <b>Creditors</b>	AUDIT REF <b>4115011</b>
PLANNED DAYS <b>20</b>	ACTUAL DAYS <b>20</b>	Frequency of Audit <b>ANNUAL</b>

**BACKGROUND**

The Creditor Payments system is incorporated within the Authority’s Financial Management System ‘Agresso’. The Accounts Payable module is controlled centrally by the Payments Section based at County Hall. Payments are also processed on-line by staff based within their respective departments for which the Office Manager provides guidance.

The value of payments processed through the Creditor system is approximately £890million with the number of transactions processed being approximately 300,000 therefore, it is considered to be a fundamental accounting system and is essential that there are effective controls over the payments of supplies and services both centrally and by on-line users.

**SCOPE**

A review was undertaken of the system controls over the payment to creditors operated by both the Creditor Payments Section and on-line users.

The review included an assessment of the following:

- payments are made to the correct creditor, paid only where due, paid accurately, are properly controlled so as to limit the potential for abuse and are completely and accurately recorded in the accounting records
- the adequacy of management arrangements, including procedural guidance
- authorisation for payment
- input controls
- controls over the creation and amendments to accounts
- validation controls
- exception reports
- payment by BACS
- periodic payments
- payments by direct debit
- audit trail and recording of transactions in the ledger, and
- performance indicators.

**SUMMARY OF RESULTS**

The review of Creditor Payments has been assessed as high risk to the Authority during the audit planning process due to the value and number of transactions processed annually.

Whilst some non-fundamental issues have been identified to strengthen existing controls, expected key controls in respect of the processing and control of creditor payments

are currently operating to an acceptable standard.		
<b>NUMBER OF RECOMMENDATIONS</b>		<b>OVERALL ASSURANCE</b>
Priority 1- Fundamental Weaknesses	<b>None</b>	<b>Acceptable</b>
Priority 2 – Strengthen Existing Controls	<b>2</b>	
Priority 3 – Minor Issues	<b>2</b>	