

VAT RISK REVIEW

1. EXECUTIVE SUMMARY

- 1.1 The Council asked tax consultants KPMG to carry out a VAT Risk Review to identify any areas of potential risk in the Council's VAT accounting processes. This report outlines any issues identified by KPMG and the procedures that have been put in place, or are in the process of being put in place, in order to reduce the level of risk.
- 1.2 The subsequent report identified 6 areas of high risk, 12 medium risks and 6 low risks. An action plan has been prepared and work is progressing to complete the actions to reduce the Council's exposure to VAT risk.
- 1.3 The recommendation is that the report is noted.

VAT RISK REVIEW

2. INTRODUCTION

- 2.1 The Council asked tax consultants KPMG to carry out a VAT Risk Review to identify any areas of potential risk in the Council's VAT accounting processes. This report outlines any issues identified by KPMG and the procedures that have been put in place, or are in the process of being put in place, in order to reduce the level of risk.

3. RECOMMENDATIONS

- 3.1 The VAT risk review report is noted.

4. DETAIL

- 4.1 The Council asked tax consultants KPMG to carry out a VAT Risk Review to identify any areas of potential risk in the Council's VAT accounting processes. Those areas identified, if not addressed, could expose the Council to misdeclarations of tax and penalties, or jeopardise the Council's risk profile.

- 4.2 Where HMRC consider an error to be 'careless' they may impose a 30% penalty on the under declared or over claimed VAT. The purpose of the review by KPMG was to highlight any errors that may cause penalties of this nature and therefore allow them to be corrected.

In addition, during the review KPMG would also highlight any areas where they consider that there is an opportunity for the Council to obtain a VAT benefit.

- 4.3 A consultant from KPMG carried out a site visit during which they reviewed the following areas:

- Accounts Receivable – Debtors
- Accounts Receivable – Cash Receipting
- Accounts Payable - Creditors
- VAT Return and Accounting
- Partial Exemption

- 4.4 On completion of the site visit KPMG then produced a report of their findings which set out the areas of risk identified, the impact of each risk, and actions that should be taken to reduce/eliminate the risks.

This report included a traffic light summary which can be seen in Appendix 1. This summary shows there were 6 areas of high risk, 12 medium risks and 6 low risks.

4.5 In light of the findings from this report an action plan was created and steps taken to reduce/eliminate the risks identified where possible. The 24 areas of risk identified in KPMG's report have been turned into a 30 point action plan. This action plan and progress to date can be seen in Appendix 2.

Progress in addressing the action points has been made with 12 of the 30 action point already complete. Those which aren't completed yet are on track to be complete by agreed timescale.

Once all tasks are complete it will be reviewed again to ensure all possible action has been taken to eliminate/reduce the risks identified.

5. CONCLUSION

5.1 The completion of the VAT Risk Review by KPMG, and subsequent action taken, has reduced Argyll & Bute Councils exposure to misdeclarations of tax and penalties. It has also assisted in ensuring a low risk profile is maintained and has made the departments more aware of the processes involved surrounding VAT.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	Correct values of VAT claimed therefore reduced risk of penalties.
6.3	Legal -	None.
6.4	HR -	None.
6.5	Equalities -	None.
6.6	Risk -	None.
6.7	Customer Service -	None.

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Appendix 1 – Extract from KPMG Report

Appendix 2 – Progress Report