

**VAT Risk Review**

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**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 Following a site visit and a review of procedures 12 areas of risk were identified:
- 6 High Risk
  - 2 Medium Risk
  - 4 Low Risk
- 1.3 An action plan has been prepared to address the issues raised by the review.
- 1.4 The Committee is asked to note the contents of the report with updates being provided to future meetings.

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**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 Note the contents of the report and further updates will be provided once all action points are complete.

**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 3 day site visit during which they reviewed the following areas:

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

- 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, 2 medium risks and 4 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. This action plan and progress to date can be seen in Appendix 2.

Progress in addressing the action points has been good with only 4 of the 24 action points not yet complete. Those incomplete are being actively worked on.

This action plan has been reviewed by KPMG and they are satisfied with the steps taken to reduce the risks. 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

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|-----|--------------------|--|
| 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 -             | Errors in VAT Returns resulting in penalties and impacting the risk profile of the Council |
| 6.7 | Customer Service - | None.  |

**Bruce West, Head of Strategic Finance**  
**Dick Walsh Council Leader and Policy Lead for Strategic Finance**  
**18 June 2014**

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Appendix 1 – Traffic light summary of findings by KPMG  
Appendix 2 - Action Plan created by Argyll & Bute Council





## ABC VAT penalty risk review Executive summary

Subject	Area of risk	Why this has arisen	Level of risk	Recommendation
<b>Accounts receivable/Debtors</b>				
<b>VAT liability</b>	<ul style="list-style-type: none"> <li>Incorrect VAT treatment being applied to debtors transactions</li> <li>VAT being under declared</li> </ul>	<ul style="list-style-type: none"> <li>Lack of VAT awareness of users raising invoices</li> <li>VAT is not fixed on Debtors system and can be changed by users</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>All users undergo VAT training</li> <li>Provide up to date VAT guidance to users</li> <li>Explore the possibility of fixing the VAT liabilities on the Debtors system</li> </ul>
<b>Land and property transactions</b>	<ul style="list-style-type: none"> <li>Increased level of VAT exempt income, pushing the Council toward the 5% partial exemption limit</li> </ul>	<ul style="list-style-type: none"> <li>The Council has not opted to tax its non-residential property, with the result that its income generated from the sale and rental of non-residential property is VAT exempt</li> </ul>	<b>Low</b>	<ul style="list-style-type: none"> <li>Consider opting to tax the non-residential property portfolio in order to ensure that the sale and rental income is taxable</li> <li>As this is not a VAT error, there is no risk of a VAT penalty</li> </ul>
<b>VAT rate and timing of VAT declaration</b>	<ul style="list-style-type: none"> <li>VAT being under declared</li> <li>VAT being declared late</li> </ul>	<ul style="list-style-type: none"> <li>Tax point rules are not being followed</li> <li>Lack of awareness of the VAT tax point rules</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>All users undergo VAT training</li> <li>Provide up to date VAT guidance to users</li> </ul>
<b>Management controls</b>	<ul style="list-style-type: none"> <li>VAT errors not being identified</li> <li>Unable to demonstrate reasonable care to HMRC</li> </ul>	<ul style="list-style-type: none"> <li>No VAT checks are being carried out on invoices which are raised through debtors</li> <li>The VAT analysis reporting function of the Debtors system is not being used</li> </ul>	<b>Medium</b>	<ul style="list-style-type: none"> <li>Establish process whereby VAT analysis reports are taken prior to every VAT return being submitted, with evidence of these checks are being retained</li> </ul>
<b>Accounts receivable/Cash receipting</b>				
<b>VAT liability and VAT rate</b>	<ul style="list-style-type: none"> <li>Incorrect VAT treatment being applied to cash receipts</li> <li>VAT being under declared</li> </ul>	<ul style="list-style-type: none"> <li>Lack of VAT awareness of users raising invoices</li> <li>VAT is not fixed on cash receipting system and can be changed by users</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>All users undergo VAT training</li> <li>Provide up to date VAT guidance to users</li> <li>Explore the possibility of fixing the VAT liabilities on the cash receipting system</li> </ul>



## ABC VAT penalty risk review Executive summary

Subject	Area of risk	Why this has arisen	Level of risk	Recommendation
<b>Accounts payable/Creditors</b>				
<b>VAT invoices</b>	<ul style="list-style-type: none"> <li>Invalid invoices are being processed</li> </ul>	<ul style="list-style-type: none"> <li>No VAT checks are being carried out on AP invoices</li> <li>Lack of VAT awareness in Creditors Team</li> <li>No access to VAT guidance for Creditors Team</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>All users undergo VAT training</li> <li>Provide up to date VAT guidance to users</li> <li>Establish system whereby checks are carried out to ensure VAT invoice conditions are met</li> </ul>
<b>VAT recovery</b>	<ul style="list-style-type: none"> <li>VAT is being over recovered</li> </ul>	<ul style="list-style-type: none"> <li>VAT is being recovered on the basis of pro-forma invoices</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>All users undergo VAT training</li> <li>Provide up to date VAT guidance to users</li> <li>Procedures are put in place to ensure that VAT is not recovered on the basis of pro-forma invoices</li> </ul>
<b>Overseas transactions</b>	<ul style="list-style-type: none"> <li>Reverse charge procedures not applied</li> </ul>	<ul style="list-style-type: none"> <li>Staff unaware of requirements</li> </ul>	<b>Low</b>	<ul style="list-style-type: none"> <li>System should be amended to ensure that staff apply the correct VAT treatment</li> <li>As the net VAT error is NIL, there is a low risk of a VAT penalty</li> </ul>
<b>Corporate purchasing card</b>	<ul style="list-style-type: none"> <li>Input tax is being recovered late</li> </ul>	<ul style="list-style-type: none"> <li>Input tax is being recovered against invoices, rather than the corporate purchasing card statements</li> </ul>	<b>Low</b>	<ul style="list-style-type: none"> <li>Consider a change in procedure</li> <li>As it is input tax which is being recovered late, there is no risk of a penalty</li> </ul>
<b>Unitary charge payments</b>	<ul style="list-style-type: none"> <li>VAT recovered on the basis of invalid invoices</li> </ul>	<ul style="list-style-type: none"> <li>Invoices for unitary charge payments are being manually altered</li> </ul>	<b>Medium</b>	<ul style="list-style-type: none"> <li>Any amendments to the value of unitary charge payments must be supported by correct paperwork, i.e. Credit or Debit note.</li> </ul>
<b>Mileage payments</b>	<ul style="list-style-type: none"> <li>VAT being under recovered</li> </ul>	<ul style="list-style-type: none"> <li>VAT is not recovered on mileage claims which are not supported by a fuel VAT receipt</li> </ul>	<b>Low</b>	<ul style="list-style-type: none"> <li>Consider changes to the employee expense system</li> <li>As there may be an under recovery of input tax, there is no risk of a penalty</li> </ul>
<b>VAT return</b>				
<b>VAT return</b>	<ul style="list-style-type: none"> <li>Late or incorrect VAT return being submitted</li> </ul>	<ul style="list-style-type: none"> <li>No member of staff fully trained in preparing and submitting the VAT return in the event of Anne Macdougall's absence from the office</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>Ensure an alternative member of staff is fully trained in how to complete and submit the VAT return</li> </ul>

	Action Required	Responsible Person	Planned Completion Date	Actual/ Forecast Completion Date	Planned Progress to Date % Complete	Actual Progress To Date % Complete	Status/ Assessment	Comment/ Explanation
	<b>GENERAL</b>							
1	Advise all employees of VAT contact for the Council	Anne Macdougall	31/07/13	31/07/13	100%	100%	Complete	Guidance has been prepared and this will be made available through the HUB to all employees.
2	Provide employees with details of HMRC penalties	Anne Macdougall	31/07/13	31/07/13	100%	100%	Complete	Guidance has been prepared and this will be made available through the HUB to all employees.
3	Provide VAT guidance to all employees for reference	Anne Macdougall	31/07/13	31/07/13	100%	100%	Complete	Guidance has been prepared and this will be made available through the HUB to all employees.
	<b>DEBTORS</b>							
4	Block 15% & 17.5% codes on Debtors system	Jennifer Gorman	31/05/2013	29/04/2013	100%	100%	Complete	Codes blocked on system.
5	Liaise with KPMG re errors on Fees & Charges report	Anne Macdougall	31/08/2013	31/3/15	100%	100% 0%	Initial liaison complete More detailed review not yet started	Initial liaison with KPMG complete.  Arising from this KPMG have been asked to undertake a more detailed review during 2014/15.
6	Update Maintenance form for setting up codes on systems	Jennifer Gorman/ Ken Wong	28/06/2013	09/07/13	100%	100%	Complete	New form created with improved authorisation procedures.
7	Invoices to be raised within 60 days of supply	Jennifer Gorman	31/10/2013	31/10/2013	100%	100%	Complete	Included in debtors procedure manual and included in A&B Manager training.
8	Look into opt to tax on Land & Property income	Anne Macdougall	31/08/2013	4/11/13	100%	100%	Complete	Estates have been advised to contact finance when new agreements are entered in to at which point we can consider opting to tax.
9	Produce & Review monthly VAT analysis reports	Jennifer Gorman	30/09/2013	31/08/2014	100%	50%	Off track for original timescale but on track for revised timescale	Received 1 <sup>st</sup> report 08/10/13 but no further reports due to staff changes. Procedure will be in place by end of August 2014.

	Action Required	Responsible Person	Planned Completion Date	Actual/ Forecast Completion Date	Planned Progress to Date % Complete	Actual Progress To Date % Complete	Status/ Assessment	Comment/ Explanation
	<b>CASH RECEIPTING</b>							
10	Block 15% & 17.5% codes on Cash Receipting system	Ken Wong	28/06/2013	31/05/13	100%	100%	Complete	Codes blocked on system.
11	Update Maintenance form for setting up codes on systems	Jennifer Gorman/ Ken Wong	28/06/2013	09/07/13	100%	100%	Complete	New form created with improved authorisation procedures.
12	Review current VAT treatment of existing codes	Anne Macdougall	31/10/2013	31/12/14	100%	50%	Off track	GL codes have been reviewed to remove all redundant codes. VAT treatment will be checked once KPMG complete their review of the fees and charges report.
13	Amend system to prevent users from overriding VAT treatment	Ken Wong	28/06/2013	22/04/13	100%	100%	Unable to complete	Civica have confirmed this is not possible. Risk minimal per action point report 13.
	<b>CREDITORS</b>							
14	Implement system for checking invoices meet VAT invoice conditions & VAT value is correct	Malcolm Bannatyne	31/07/2013	30/09/13	100%	100%	Complete	Creditors staff informed of invoice requirements & impact of the incorrect VAT amount being applied.
15	Review treatment of VAT on Pro forma invoices	Malcolm Bannatyne	14/06/2013	14/06/2013	100%	100%	Complete	Advice provided by KPMG and VAT no longer claimed on Pro-forma invoices.
16	Review treatment of VAT on advance payments	Malcolm Bannatyne	14/06/2013	14/06/2013	100%	100%	Complete	Reviewed by KPMG/HMRC and satisfied they are being treated correctly.
17	Review procedures for coding VAT on refunds	Malcolm Bannatyne	31/08/2013	30/09/13	100%	100%	Complete	Refunds correctly coded and regular checks will be made to ensure the correct code continues to be used.
18	Review treatment of VAT on overseas transactions	Malcolm Bannatyne /Anne Macdougall	30/06/2013	18/06/2013	100%	100%	Complete	A copy of all overseas invoices now passed to VAT contact to ensure they are correctly treated.
19	Issue procedures to purchase card users explaining importance of submitting VAT invoices & liaise with Natwest re VAT recoverable statement.	Malcolm Bannatyne	31/08/2013	30/09/13	100%	100%	Complete	Procedure note now issued but reliance placed on card users to ensure VAT invoices are obtained and submitted. NatWest unable to assist.



	Action Required	Responsible Person	Planned Completion Date	Actual/ Forecast Completion Date	Planned Progress to Date % Complete	Actual Progress To Date % Complete	Status/ Assessment	Comment/ Explanation
20	Review process of receiving VAT invoices from departments	Malcolm Bannatyne	31/08/2013	30/09/13	100%	100%	Complete	Procedure note now issued to departments.
21	Include audit trail on manually amended invoices	Malcolm Bannatyne	31/08/2013	30/09/13	100%	100%	Complete	Checks done to ensure any manual changes to invoices have full audit trail.
22	Review process of claiming VAT on mileage payments	Malcolm Bannatyne	18/06/2013	31/08/14	100%	80%	Off track for original timescale but on track for revised timescale	Ongoing discussions with Resourcelink. Solutions have been identified and will be implemented after discussion with KPMG.
	<b><u>VAT RETURN</u></b>							
23	Arrange appropriate cover for VAT return preparation	Anne Macdougall	30/06/2013	18/06/2013	100%	100%	Complete	Second member of staff has been trained to cover this task.
24	Include reasonableness check for Output Tax declared	Anne Macdougall	31/05/2013	17/05/2013	100%	100%	Complete	Reasonableness check added to VAT return spreadsheet and variance checked monthly.