



## 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>



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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>