

## 2. VAT Audit Report Executive Summary

**Audit Objective** The overall objective of this audit was to review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate the financial risks relating to the recording and reporting of output and input VAT.

Assurance Opinion		Number of actions	
<b>There are elements of this audit that fall outside of the control of Finance; therefore the assurance opinion has been split to take this into account</b>			
Substantial (Finance)	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met Within Finance, VAT returns and the administration of VAT is managed well.	High	0
Limited (Services)	Weaknesses in the system of internal controls are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk. There are a considerable number of errors being made within service areas related to the coding of VAT when processing credit card transactions.	Medium	2
		Low/Advisory	0
		Total	2

**Audit Approach and Scope**  
 The scope of this audit included the review of VAT returns and the coding of VAT within service areas relating to Corporate credit card expenditure. Details are listed in the 'key controls tested' section below.

To check that the VAT suspense account is being used correctly and that any allocated transactions are being investigated and cleared promptly, I used a sample of corporate credit card statements from August to November 2023 and the 23/24 transactions to financial code X125.

I used November 2023 transactions to check the Guildhall VAT return.

Key controls tested	Assessment	Actions Raised
Accuracy of the Guildhall VAT return		
VAT transactions are being allocated to the suspense account when required and are promptly cleared		CCC holders are not using the VAT suspense account to record the VAT element of the transaction, pending receipt of the VAT invoice A failure by the CCC holders to deal with VAT correctly

### Summary and next steps

#### **Guildhall VAT return**

The data is extracted from various reports produced by the property management company Cushman & Wakefield (C&W) and then entered into the councils VAT return. Due to C&W experiencing system issues, the reports do not always agree. This is proving to be quite a manual process though the Finance Manager – Corporate is working in conjunction with C&W to resolve these issues.

#### **VAT Suspense Account**

Outstanding items on this account are monitored monthly

Where CCC holders are awaiting receipt of the VAT invoice, not all of them allocate the VAT element of the invoice to the VAT suspense account.

#### **Other VAT issues**

There are also several other VAT related issues i.e. failing to save the VAT invoice (as evidence of the amount of VAT paid), using the incorrect VAT code (under or over claiming VAT from HMRC) and failing to identify that the service/goods attract VAT and thus obtain a VAT invoice (loss of income to the council). Finance are undertaking spot-checks of the monthly CCC reconciliations and reporting any errors back to the respective CCC holder.

Whilst VAT is a complicated matter, the cost to the council of 'getting it wrong' could be substantial in the form of penalties by HMRC.

#### **Other issues identified as part of the audit fieldwork not related to VAT**

The review of the CCC transactions highlighted several other issues i.e. failure to obtain the correct authorisation (which is non-compliance with financial regulations) not saving documents to support the payment and the possible by-passing of the eProcurement system by using the CCC to make purchases/obtain a service. These issues are being reported but not considered when deciding the assurance opinion.

This is a final report of the audit findings and incorporates the comments of the Deputy Chief Finance Officer.

Internal audit comment;

Finance have in place a number of controls, i.e. new holders are issued with guidance notes, furthermore, regular reminder notifications and offers of training are issued, the latest reminder email was issued on 17 August 2023 and the one prior to that on 15 July 2022. Additionally, they undertake monthly CCC reconciliation spot checks. It is therefore disappointing to have to report, yet again, issues with the CCC records. Such findings have been repeatedly reported in previous creditor/corporate credit card audits. As a matter of urgency, senior management should undertake a review of the current CCC process, in particular to consider;

- whether there is a need to have so many CCC holders (there are currently 70 CCC holders listed for 23/24)
- who the most appropriate person is to hold the card, in some instances the CCC holder is not the person using the card
- making VAT and 'Using the Corporate Credit Card' training mandatory for both the CCC Holder and their respective authorisers