

KEY: We have categorised our findings from this review in a “traffic light” priority style report, with high priority areas identified in red; medium priority areas in amber; and lower priority areas in green.

Issue	Observation	Impact	KPMG Recommendation
Accounts Receivable / Debtors			
VAT liability	VAT is not fixed on Debtors system and staff have the ability to choose any VAT rate code.	Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.	<p>We recommend that where possible charge codes are created by the Council, which will contain a pre-selected VAT code, in order to ensure that the correct VAT treatment is applied to supplies.</p> <p>Where this is not possible, we recommend that all finance staff undergo VAT training to minimise the risk of incorrect VAT codes being used. In addition, the provision of relevant VAT guidance to finance staff will also reduce the risk regarding mistakes being made regarding VAT liability.</p>
	There are over 900 charge codes available to users on the Debtors system.	Lack of control on available codes.	<p>We recommend that periodic reviews of the charge codes available on the system is undertaken to ensure that codes are properly managed and controlled. For example, a quarterly review of any new/amended codes and a regular review of all codes with regards to the VAT treatment applied to ensure that this is still correct.</p> <p>In addition, we recommend that any discontinued codes are removed or blocked from the system regularly.</p>
	Inconsistent and incorrect VAT treatment of various supplies.	Potential error regarding declaration of output tax by the Council.	<p>We have provided a sample of codes that we have reviewed, from various reports provided, where we have identified potentially incorrect VAT treatments at Appendix I. This includes various fees and charges from the 2016/17 charges sheet.</p> <p>In addition to the above review, we recommend that any consideration/discussions of VAT liabilities should be documented and reviewed by a suitably qualified member of the Council finance team. This should be included within the VAT return review process or as a periodic sample review.</p> <p>A potential declaration may be required to HMRC to cover the last 4 years for any items which have been treated incorrectly for VAT purposes, resulting in either an under/over declaration of VAT by the Council. We would be happy to assist with this further.</p>
Bad debt relief	Aged debt reviews are carried out quarterly.	Output tax adjustments not being processed regularly.	We recommend that reviews of bad debts are undertaken more regularly to ensure that relevant output tax adjustments (i.e. bad debt relief claims) are carried out by the Council on a regular basis, which will improve cash flow.

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Issue	Observation	Impact	KPMG Recommendation
Accounts Receivable / Debtors (contd.)			
VAT only invoices	The system is unable to recognise VAT only invoices. The VAT element is treated as net and then coded as zero-rated or exempt.	Supplies are treated incorrectly for VAT purposes and distorts the values of supplies. Reliance on these being identified during preparation of the VAT return.	We recommend that an additional VAT only code is added to ensure that supplies are recorded appropriately and that these types of invoices are automatically included within the VAT return. We also recommend a review of these transactions to ensure the appropriateness of “VAT” only.
Lack of VAT awareness	Finance staff have insufficient levels of VAT technical awareness and knowledge.	Staff unaware of VAT requirements and rules which could result in VAT errors being made and not detected.	We recommend that relevant finance staff should be required to undergo VAT training to ensure that there is an increased level of VAT awareness within the team. We recommend that VAT training is also offered to additional users, e.g. legal, contracts etc. In addition, we recommend that a VAT guidance manual is prepared and circulated amongst staff which can be used in everyday tasks.
Accounts Receivable / Cash Receipting			
VAT liability	Inconsistent and incorrect VAT treatment of various supplies.	Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.	We have provided a sample of codes that we have reviewed, where we have identified potentially incorrect VAT treatments at Appendix II.
Webpay system	Staff have the ability to change the VAT rate applicable to codes.	Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.	We recommend that where possible, the ability to fix VAT codes to codes on the Webpay system is restricted and/or fixed. If this is not possible, we recommend that a control is put in place to monitor the level of codes being used and that these are regularly checked from a VAT perspective, to ensure that the correct VAT treatment is being applied. The check should be carried out by an independent person from the original user and by someone with appropriate VAT knowledge.

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Accounts Receivable / Cash Receipting (contd.)			
E-returns templates	Staff have the ability to free type on these templates, of which the Council have over 100 different templates, and can therefore choose the incorrect VAT treatment.	<p>Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.</p> <p>No control is in place to prevent items being treated incorrectly for VAT purposes, resulting in potential under/over declaration of output tax by the Council.</p>	<p>We recommend that the templates used are updated in order to block the ability of free typing by staff.</p> <p>Where it is not possible to block the ability of free-typing, we recommend that a control is put in place to monitor the level of codes being used and that these are regularly checked from a VAT perspective, to ensure that the correct VAT treatment is being applied. The check should be carried out by an independent person from the original user and by someone with appropriate VAT knowledge.</p>
Key man risk	Ken Wong is the only member of staff that can add new codes to the system or amend existing codes (i.e. if there is a change in the VAT rate).	In Ken's absence, there is no-one with sufficient knowledge to add/amend codes.	We recommend that other individuals are provided training and access in order to be able to add/amend new codes when required.
Lack of VAT awareness	Finance staff have insufficient levels of VAT technical awareness and knowledge.	Staff unaware of VAT requirements and rules which could result in VAT errors being made and not being detected.	<p>We recommend that relevant finance staff should be required to undergo VAT training to ensure that there is an increased level of VAT awareness within the team. We recommend that VAT training is also offered to additional users, e.g. legal, contracts etc.</p> <p>In addition, we recommend that a VAT guidance manual is prepared and circulated amongst staff which can be used in everyday tasks.</p>
Accounts Payable / Creditors			
Input VAT evidence	Invoices received from suppliers are not reviewed from a VAT perspective (i.e. VAT invoicing requirements, VRN validity checks, sense check of VAT liability applied, VAT values).	The Council may not hold valid VAT invoices which would prevent input tax recovery and could result in assessment, interest and penalty.	<p>We recommend that an aide memoire, which details HMRC's requirements for a valid VAT invoice, is produced which can be used by Council finance staff as a checklist when receiving supplier invoices.</p> <p>As discussed, we would be happy to assist with the preparation of an aide memoire to cover the VAT invoicing rules.</p> <p>We also recommend that during the invoice review process, an additional check of the VRN using the Europa VIES tool is undertaken by finance staff and that this is recorded within the supplier information.</p> <p>The tool can be accessed at http://ec.europa.eu/taxation_customs/vies/ and this allows validation of any EU VRN by choosing the relevant member state and providing the 9 digit VRN.</p>

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Accounts Payable / Creditors (contd.)			
Overseas transactions – Foreign VAT	Certain overseas suppliers (e.g. French supplier KAPLA) are charging foreign VAT on supplies to the Council.	Council is potentially over recovering input VAT that is not proper UK VAT.	<p>We recommend that the Council forwards on any foreign VAT invoices to Strategic Finance in the first instance, in order for these to be reviewed and if necessary considered within the KPMG VAT Helpline service.</p> <p>Foreign VAT should not be included within the Council's UK VAT return. If this foreign VAT has been charged correctly, the Council can recover this VAT via the EU VAT refund mechanism with HMRC (subject to conditions).</p>
Overseas transactions – Reverse charge	Reverse charge procedures are not carried out by the Council in respect of services received from overseas suppliers.	Council is potentially under declaring both input and output VAT	<p>We recommend that the Council forwards on any foreign VAT invoices to Strategic Finance in the first instance, in order for these to be reviewed and if necessary considered within the KPMG VAT Helpline service.</p> <p>Following this, the Council should contact its supplier to advise that the reverse charge procedure in the UK is applicable to the services provided and if necessary, the invoice should be updated to reflect this.</p> <p>The Council will be required to account for both input and output tax on the supplies involved under the reverse charge procedure.</p>
Unitary charge payments	Invoices for unitary charge payments (such as Brake Bros) are being manually altered by delivery drivers on production of goods (typically with perishable goods).	VAT recovered on the basis of invalid invoices.	<p>Any amendments to the value of unitary charge payments must be supported by correct paperwork, i.e. Credit or Debit note.</p> <p>We recommend that the Council arrange with its suppliers for valid VAT invoices to be issued, following delivery of the goods, to ensure that the correct VAT value is accounted for by the Council and to mitigate any payment issues regarding values between the parties.</p>
Outstanding invoices	Bad debt relief position is not reviewed regularly.	Input tax adjustments may not be processed timeously.	We recommend that reviews of bad debts are undertaken regularly to ensure that relevant input tax adjustments (i.e. on Council debts that are more than 6 months old) are carried out by the Council.
Proforma invoices	The Council does not recover input VAT based on proforma invoices which is correct. However, the Council does not then request proper tax invoices.	The Council is under recovering VAT that it is entitled to recover, subject to the normal VAT recovery rules and valid VAT evidence.	We recommend that the Council request copies of valid VAT invoices for any supplies it receives based on proforma invoices. Once the Council retains valid VAT evidence of the supplies and the input VAT it has incurred, subject to the normal VAT recovery rules, the Council should be able to recover this input VAT.

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Lack of VAT awareness	Finance staff have insufficient levels of VAT technical awareness and knowledge.	Staff unaware of VAT requirements and rules which could result in VAT errors being made and not being detected.	<p>We recommend that relevant finance staff should be required to undergo VAT training to ensure that there is an increased level of VAT awareness within the team. We recommend that VAT training is also offered to additional users, e.g. accounts payable, legal, contracts etc.</p> <p>In addition, we recommend that a VAT guidance manual is prepared and circulated amongst staff which can be used in everyday tasks.</p>
Accounts Payable / Employee expenses			
VAT recovery	The Council will reclaim input VAT on employee expense claims without VAT evidence.	Over recovery of VAT by the Council.	<p>We recommend that the Council only reclaims input tax on employee expenses where it has a valid VAT receipt as evidence. Where the Council employee is unable to provide a valid VAT invoice, other alternative evidence may be sufficient (credit card statements, ticket machine receipt, authenticated receipts etc.). We would be happy to undertake a more detailed review of employee expenses and assist with any disclosures that may be required to HMRC.</p> <p>In addition, we recommend that the Creditors team are provided with guidance regarding VAT recovery on employee expenses. We would be happy to provide the Council with an aide memoire regarding the general types of employees expenses incurred and the appropriate VAT treatment and recovery for the Council.</p>
VAT Return Accounting / Partial Exemption			
Data reports	Some reports if not saved correctly or run properly can delete required data from the VAT return.	Potential under declaration of supplies by the Council.	<p>We recommend that the Council considers reporting options to limit the risk of losing required data.</p> <p>In addition, we recommend that an independent review of the values involved is undertaken in order to ensure that all data has been accounted for and there is no risk of potential under declaration of income or expenditure to HMRC.</p>

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VAT Return Accounting / Partial Exemption (contd.)			
Outside the scope income	No checks or trend analysis is performed on the levels of outside the scope income received each month.	Potential risk that income has been treated incorrectly resulting in under declaration by the Council.	<p>We recommend that a “VAT sense check” is undertaken during the VAT return process, which will include reviews of samples of high level/unusual transactions, including the level of outside the scope income.</p> <p>Compliance would be further enhanced by adding a trend analysis review against prior VAT returns. This review should be documented and retained in order to be independently reviewed within the final VAT return review process.</p>
Manual VAT return process	We identified a number of manual processes in the preparation of the VAT returns.	The manual nature of the amendments made within the VAT return process increases the risk of errors in the course of the preparation of the return.	<p>We recommend that greater use is made of the functionality of the accounting system to reduce the manual processes within the VAT return process.</p> <p>It is our understanding that steps being taken to automate a suite of reports which will significantly reduce the level of manual input required during the VAT return process.</p> <p>Once new reports are established, we recommend an independent review of these to ensure accuracy and compliance.</p>
Land & Property	The Council has not opted to tax its non-residential properties, with the result that its income generated from the rental (and sale) of non-residential property is VAT exempt.	The Council’s level of VAT exempt income is increasing annually and as a result is pushing the Council towards breaching the 5% partial exemption de-minimis.	<p>We recommend that further consideration is given by the Council as to whether it will be beneficial to opt to tax its non-residential property portfolio, and therefore increase its taxable income (rental or sales).</p> <p>We have provided further comment on this area in our report at page 17 and provided a sample of properties for consideration in Appendix III.</p>