

# Cyngor Sir Gâr Carmarthenshire County Council

## Archwiliad Mewnol Internal Audit

**MWWFRS**

**VAT**

**Final Internal Audit Report  
2023/24**

**4<sup>th</sup> December 2023**

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## 1. INTRODUCTION

### Background

Value Added Tax (VAT) is a tax that is charged on most goods and services that VAT-registered businesses provide in the UK. When VAT-registered businesses buy goods or services they can generally reclaim the VAT they have paid.

The Fire Authority is required by law to make periodic VAT returns to His Majesty's Revenue and Customs (HMRC). VAT returns are compiled by staff from the Accountancy Section, from data contained in the financial management system on a monthly basis, and are submitted to HMRC electronically quarterly.

With effect from 1<sup>st</sup> March 2021 MWWFRS appointed the tax consultants, PS Tax, to provide VAT support and consultancy services, to include VAT advice and quarterly VAT return checks prior to submission to HMRC.

### Scope and Objectives

The review covered the controls and procedures in operation for VAT to assess the extent to which:

- Adequate guidance / documented procedures exist;
- Appropriate controls and procedures are established to ensure compliance with legislation and HMRC requirements.

### Associated Risks

The risks that were considered in the review are as follows:

- Failure to comply with HMRC regulations and legislation.
- Inaccurate accounting records.

## 2. GENERAL OPINION

A 'VAT Guidance' document has been formulated which includes guidance on key functions undertaken in relation to VAT including timeframes/deadlines. It is pleasing to report that these guidance notes are reviewed biennially, and updated where appropriate; the 'VAT guidance' document was last updated in November 2021 and is due for review in November 2023. In addition, this is supported by a 'VAT Return Completion and Submission' document which provides a step-by-step guide for the Finance Department to follow when completing the monthly VAT reconciliations, and the quarterly VAT submission to HMRC. This document was updated during the course of the Audit review and takes into account the HMRC requirement for Making Tax Digital (MTD).

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The Authority is required to keep records and submit VAT returns in compliance with the new HMRC system – MTD. Previous issues in relation to the adequacy of ledger reports to facilitate MTD have been partly resolved, although there continue to be some issues outstanding. There is ongoing consultation with Carmarthenshire County Council (CCC) in order to address these outstanding issues. In the interim, Finance Department staff have introduced temporary, revised completion procedures, to ensure compliance with MTD requirements. These revised procedures have previously been reviewed by PS Tax who have confirmed the accuracy of the method currently being utilised.

With effect from 2023, the quarterly VAT submissions are uploaded to HMRC via the MTD bridging software provided by AbraTax. There are currently five members of staff within the Finance Department who have access to the MTD bridging software provided by AbraTax. Whilst any of these five officers can complete and submit claims, there is currently no documented process in place to ensure a second officer checks the claim entered onto Abratax, for accuracy, prior to its submission. This control was in place in the past.

MWWFRS has a current VAT registration certificate that was issued by HMRC on 3<sup>rd</sup> August 2023.

Section 33 of the VAT Act 1994 provides for MWWFRS to recover VAT incurred on costs that relate to their non-business activities, providing the amount involved is insignificant (less than £7,500pa or 5% of total VAT incurred on all purchases in a year). A partial exemption calculation is completed as an annual exercise. The calculation must be carried out at the end of each financial year and any necessary adjustment should be included in the VAT Return for the next period. Extensions can be agreed locally but should be no later than the September VAT period. As part of their engagement, PS Tax reviewed the partial exemption calculation which was prepared by MWWFRS. The partial exemption calculation for 2022/2023 confirmed that the Authority is trading below the 5% de minimis threshold, and the exempt percentage was calculated at 1.06%. The calculation was completed in June 2023 and reviewed by PS Tax in July 2023, therefore, confirming that the calculation was completed in a timely manner to ensure that any adjustments, that may have been required, could have been processed by the September VAT return, as required by HMRC for S33 bodies.

The 'VAT Guidance' document specifies the Authority's business and non-business related activities for VAT purposes. To support this, additional VAT codes have been set up within the Financial Management System to ensure there is a distinction between the business and non-business activities of the Authority. It is noted that currently the Authority only has one property opted to tax, namely the Emergency Service Centre at Noyadd Farm, Llandrindod Wells for which there is an acknowledgement letter from HMRC.

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Testing of a sample of ten transactions, recorded as non-business within the Financial Management System, identified VAT for non-business activities had been correctly accounted for in accordance with HMRC guidance & requirements.

Reconciliations are completed monthly, and subject to check by PS Tax consultants, on a quarterly basis, in line with submission requirements. Relevant supporting documentation in relation to the reconciliation for the period 1<sup>st</sup> March 2023 to 31<sup>st</sup> May 2023 was viewed electronically. Testing identified that the figures in relation to VAT on the returns are correct and adjustments are being made to ensure figures are accounted for within the correct periods. There is ongoing consultation with Carmarthenshire County Council to resolve the need for the completion of adjustments in relation to stock, which currently need to be completed manually.

VAT returns continue to be submitted in a timely manner on a quarterly basis. Testing identified that the VAT return for 1<sup>st</sup> March 2023 to 31<sup>st</sup> May 2023 was authorised by the Accountancy & Systems Manager. Documented procedures, relative to that period, and the current 'VAT Return Completion and Submission' document, do not specify the officers responsible for authorisation of VAT documentation and submission of returns.

The review of documentation to support the VAT process did identify that documents that require approval, such as the VAT Return Proforma and the Partial Exemption calculation, are done so using photos of signatures. There was no evidence available that the documents had been seen and approved by the actual authorising officer. In addition, these documents are editable and, as such, the picture signature may be copied and subsequently mis-used.

It is noted that there has been no VAT suspense or holding accounts established for the Authority.

### 3. ASSURANCE RATING

The post review assurance level for systems relating to VAT is categorised as follows:

Assurance Level	Description for Assurance Level
<b>Acceptable</b>	Moderate Controls, some areas of non-compliance with agreed controls. Medium / low risk of not meeting objectives. Medium / low risk of fraud, negligence, loss, damage to reputation.

### 4. SUMMARY OF RECOMMENDATIONS

The audit findings and recommendations are detailed in Section 5, together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below:

Priority	3*	2*	1*	Total
<b>Number of recommendations</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>

## 5. FINDINGS AND ACTION PLAN

### Finding 1: Authorisations

Testing identified that the VAT return for 1<sup>st</sup> March 2023 to 31<sup>st</sup> May 2023 was authorised by the Accountancy & Systems Manager.

It is noted that the current 'VAT Return Completion and Submission' document does not specify the officers responsible for authorisation of VAT documentation and submission of returns.

There are currently five members of staff within the Finance Department who have access to the MTD bridging software provided by AbraTax. Whilst any of these five officers can complete and submit claims, there is currently no documented process in place to ensure a second officer checks the claim entered onto Abratax, for accuracy, prior to its submission. This control was in place in the past.

Testing also identified that the authorisation of documentation, such as the VAT monthly proforma and 'de minimus' calculation, is often undertaken using a photographic image of the authorising officer's signature. These documents are editable and, as such, the picture signature may be copied and subsequently mis-used.

### Recommendation 1

The responsibilities of officers, including the creation, checking, authorisation and submission of relevant documentation should be specified, and subsequently fully complied with. These should ensure an adequate separation in duties is maintained.

### Priority level

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<p>VAT returns and submissions should be authorised by the documented, designated authorising officer.</p> <p>A process should be documented to ensure a second officer checks the claim entered onto Abratax, for accuracy, prior to its submission. The possibility of restricting access to the functions appropriate for each member of staff should be explored, in order to ensure that inappropriate or inaccurate returns are not submitted.</p> <p>All documentation requiring authorisation should be supported by evidence to demonstrate that the actual authorising officer has seen and approved the document in question.</p>	
<p><b>Management Response 1</b></p>	<p><b>Responsible Officer</b></p>
<p>Every VAT return and De-minimis calculation shows the creator, checker (the Service's VAT consultants) and approver, with electronic signatures being present as well as supporting emails from the VAT consultants. Using version control in either document it is easily established if the signature was added to the document by the appropriate person. The procedure will be updated as appropriate.</p> <p>The current VAT submission process is that an Accountant enters the values onto AbraTax and a Manager checks and approves it for submission to HMRC. This is appropriate to ensure segregation of duties and the procedure will be updated to reflect this.</p> <p>We will consider an alternative to adding signature images to documents as evidence of approval.</p>	<p>Accountancy &amp; Systems Manager / Head of Finance</p> <p><b>Implementation Date</b></p> <p>15/01/2024</p>



### Audit Assurance Ratings

Assurance Level	Description for Assurance Level
High	Good controls consistently applied. Low risk of not meeting objectives. Low risk of fraud, negligence, loss, damage to reputation.
Acceptable	Moderate Controls, some areas of non-compliance with agreed controls. Medium / low risk of not meeting objectives. Medium / low risk of fraud, negligence, loss, damage to reputation.
Low	Inadequate controls. High Risk of not meeting objectives. High risk of fraud, negligence, loss, damage to reputation.

### Recommendation Priorities

#### \*\*\* Priority 1 - Fundamental Weaknesses

Control issues to be addressed as a high priority. These relate to issues that are fundamental and material to the system of internal control at a service level.

*Recommendation should be introduced as a high priority.*

#### \*\* Priority 2 - Strengthen Existing Controls

Action required to avoid exposure to significant risks. These relate to issues that procedures do exist but require strengthening.

*Implementation is strongly recommended.*

#### \* Priority 3 - Minor Issues

Action required which should result in enhanced control or better value for money. These are issues arising that would, if corrected, improve the internal control environment in general but are not vital to the overall system of internal control.

*Implementation of recommendation is desirable to comply with best practice guidance.*