

Dacorum Borough Council



Internal Audit Report
Making Tax Digital for VAT
November 2019

EXECUTIVE SUMMARY

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If you should wish to discuss any aspect of this report, please contact Sarah Knowles, Senior Manager, sarah.knowles@mazars.co.uk or Peter Cudlip, Partner, peter.cudlip@mazars.co.uk

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A2 of this report for further information about responsibilities, limitations and confidentiality.

01 Introduction

As part of the Internal Audit Plan for 2019/20, we have undertaken a review of Making Tax Digital for VAT – Accounting Software System and Process Review. The objectives of the audit were to evaluate the adequacy of the system of internal control and its application in practice within the area under review.

Since 1st April 2019, businesses registered for VAT in the UK with taxable turnover above the VAT registration threshold (currently £85,000), are no longer able to submit the VAT return figures online by manually entering them into the HM Revenue and Customs (HMRC) website. The requirement for Public Sector organisations was deferred until 1st October 2019. For VAT periods beginning after 1st October 2019, VAT returns must be submitted digitally using HMRC approved “functional compatible software” (FCS) via HMRC’s application programming interface (API). In addition, certain records must be held digitally within approved accounting software, and where multiple software packages are used, any data transferred must be digitally linked.

We engaged with a number of staff members during the review and are grateful for their assistance during the course of the audit.

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A1.

The report summarises the results of our internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

02 Background


The overall objective of this audit was to provide assurance over the adequacy and effectiveness of the current accounting systems and VAT return preparation process following a major change to the UK’s tax regime by HMRC.

The following procedures were adopted to assess the Council’s compliance with Making Tax Digital and thus enable us to identify any gaps:

- Review the method by which sales and purchases are recorded to consider whether the transactional data meets the MTD requirements;
- Review how the transactional data is then captured in the reports required for the VAT return workings;
- Review the reports generated and currently exported for the VAT return calculation and whether this causes a break in the digital link;
- Review the processes where currently data is moved from one system to another and whether this causes a break in the digital link; and
- Review the current VAT calculation spreadsheets to recommend what will be required to revolutionise and fully automate the process, without breaking the digital links.

03 Key Findings

Our assessment in terms of the compliance with the system of internal control is set out below:

Assurance on Effectiveness of Internal Controls		Examples of areas of strength	
	Good Assurance	<ul style="list-style-type: none"> The VAT return end-to-end process undertaken by the finance team at Dacorum Borough Council includes all of the necessary digital links to comply with the Making Tax Digital requirements. The review of the flow of digital records from the original software where date is input (Orchard, Unit 4 Business World, Excel and an API enabled spreadsheet), through to submission to HMRC were all MTD compliant. The review also confirmed that the transactional data originating from the software above met the mandatory digital record requirements. Manual intervention at the Excel spreadsheet stage has been eliminated as this will create a break in the digital link. A bridging software was purchased to submit VAT digitally from 1 October 2019. 	
Main Findings			
<p>Our main finding was:</p> <ul style="list-style-type: none"> The only digital gap identified during the review was that the data was being uploaded from Orchard via a journal to U4 manually. The solution for this was found during the site review. <p>DBC confirmed that the October 2019 VAT return was submitted successfully via the purchased bridging software, using a fully Making Tax Digital compliant method.</p>			

A1 Audit Information

Audit Control Schedule	
Client contacts:	<p>Lexie Schultz – Team Leader- Financial and Regulatory Accounting</p> <p>Fiona Jump – Group Manager (Financial Services)</p>
Internal Audit Team:	<p>James Hurst, Partner, Indirect Tax</p> <p>Sarah Knowles, Senior Audit Manager</p> <p>Heena Sandhu, Indirect Tax Assistant Manager</p> <p>Jamie Hyne, Indirect Tax Assistant</p>
Finish on Site \ Exit Meeting:	23 rd September 2019
Final report issued:	12 th November 2019

A2 Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report, which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those, which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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