



# ESSEX FIRE AUTHORITY

FINAL

VAT Follow Up Report: 5.15/16

14 April 2016



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## Debrief held

## Internal Audit team

Dan Harris – Head of Internal Audit  
Suzanne Lane – Senior Manager  
Steve Williams – VAT Director

## Draft report issued

24 March 2016

## Client sponsor

Glenn McGuinness – Deputy Director of Finance

## Responses received

13 April 2006

## Distribution

Glenn McGuinness – Deputy Director of Finance  
Mike Clayton – Finance Director & Treasurer to Essex Fire Authority

## Final report issued

14 April 2016

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We have no responsibility to update this report for events and circumstances occurring after the date of this report.

# 1 EXECUTIVE SUMMARY

## 1.1 Introduction

As part of the approved internal audit periodic plan for 2015/16 we have undertaken a review to follow up progress made by Essex Fire Authority to implement previous internal audit recommendations made within the advisory audit of the Authority's VAT Return procedures as part of the audit plan of 2013/14.

We have only concentrated on the four issues identified in the previous review dated April 2014, although we have also commented on a couple of additional items which arose during the review.

## 1.2 Conclusion

Whilst some of the previous recommendations have been actioned there is still a need to address the remaining in order to maintain an appropriate level of control over the VAT consequences of both income and expenditure.

We have reiterated management actions which have not yet been fully implemented and revised management actions where appropriate. These are detailed in Section 2 of this report.

Given the relationship with EFA Trading Ltd there may be merit reviewing its activities as well so that best practice can be shared by both organisations where appropriate.

## 1.3 Progress on Actions

Implementation status	Number of actions agreed	Status of management actions				
		Implemented (1)	Implementation ongoing (2)	Not implemented (3)	Superseded (4)	Confirmation as completed or no longer necessary (1)+(4)
VAT	4	1	2	1	0	1

## 2 FINDINGS AND MANAGEMENT ACTIONS

Each action followed up has been categorised in line with the following:

Status	Detail
1	The entire action has been fully implemented.
2	The action has been partly though not yet fully implemented.
3	The action has not been implemented.
4	The action has been superseded and is no longer applicable.

VAT Advisory 7.13/14								
Ref	Management action	Original date	Original priority	Current status	Comments / Implications / Recommendations	Priority issued	Revised date	Owner responsible
1	<p><b>Partial Exemption</b></p> <p>The existing methodology does not comply with HMRC requirements as set out in VAT Notice 749 parts 8 and 9.</p> <p>We have however only recorded this as a medium priority because it is unlikely that the Service will breach its de-minimis limits.</p> <p>Steps should be taken to review the methodology and either use a recognised procedure or seek the approval of HMRC to use that which is currently deployed.</p>	30 June 14	Medium	2	<p>We witnessed a draft calculation performed by the Deputy Director of Finance for the period 2014/15 which more closely resembles the model suggested by HMRC. If this is replicated in 2015/16 it should allow the Authority to demonstrate its position in terms of its partial exemption threshold.</p> <p><u>Recommendation</u></p> <p>A 'process note' should be produced so that other Finance staff can follow the calculations in future years.</p>	Medium	May 2016	Deputy Director of Finance
2	<p><b>Capital</b></p> <p>Whilst it is stated that capital projects are reviewed to ensure VAT compliance such checks are not evidenced.</p> <p>It is recommended that any new</p>	31 July 14	Medium	3	<p>No formal procedure has been established, and although we are satisfied that there are no current VAT issues arising from recent capital projects.</p> <p>Our findings are based on the Deputy</p>	Medium	June 2016	Deputy Director of Finance

	capital project is reviewed by those responsible for posting VAT transactions to ensure that the correct VAT status has been applied and that any partial exemption implications have been recognised.				Director of Finance's hands on knowledge of the capital programme.			
	Confirmation that such checks have been performed should be evidenced through file notes or other records.				<u>Recommendation</u> 'Seat notes' should be prepared explaining the checks necessary to review the VAT consequences of capital schemes so that if the current Deputy Director of Finance is unavailable, the Authority has a mechanism to deal with potential VAT consequences.			
3	<b>Debtor Invoices</b> Owing to the relatively high level of services provided to the Trading company, EFA Trading Ltd a review of the contracts between the Fire Service and the Trading company should be performed in order to establish whether they should be treated as Exempt/Taxable or Non-Business, as this could have an impact upon the partial exemption position.	31 May 14	Medium	1	These liabilities have been reviewed and amended where necessary.  <u>Recommendation</u> Although not part of the remit for this review, the introduction of a cost sharing exemption by legislation under Group 16 of Schedule 9, VAT Act 1994 could mean that certain supplies between the Fire Authority and EFA Trading Ltd would be exempt rather than Taxable. This would clearly have a detrimental impact on one or both parties' ability to recover VAT on relevant costs. Consequently the status of EFA Trading Ltd should be reviewed to see whether or not it meets the conditions of the aforementioned legislation. Accepted	Medium	July 2016	Deputy Director of Finance
4	<b>Secondments</b> In conjunction with a review of VAT liabilities generally it would be prudent to examine all contracts	31 May 14	Medium	2	Although the errors relating to the DCLG and Fire Training college have been rectified, a review of all secondments has not been undertaken as two apparent secondments have not	Medium	September 2016	Deputy Director of Finance

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which are referred to as secondments as the mistreatment could lead to financial penalties; e.g. the secondment to the DCLG where the VAT on the sample invoice is either £2,500 or £3,000 under declared.

been subject to VAT.

Recommendation

The relationship between the Authority and Fire Brigades Union and the Essex Fire & Rescue Recreation Fund need to be established as VAT has not been declared on employees working on behalf of those organisations.

We will look into this, I think we have a lack of clarity in paperwork on recreation fund although transactions minimal.

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## Additional findings which arose during our review

Ref	Comments / Implications	Recommendations	Priority issued	Revised date	Owner responsible
5	<p><b>Cycle scheme</b></p> <p>From sample agreements reviewed there is an apparent supply of goods made by 'cycle scheme' to the Fire Service, for which VAT recovery is appropriate.</p> <p>There is then a supply of services by the Fire service to employees under a salary sacrifice scheme for which output tax appears to have been declared.</p> <p>After the agreed 'hire' period, the Fire Service is able to sell the cycle to the employee, or transfer ownership back to cycle scheme for nil consideration.</p> <p>Current VAT treatment appears correct.</p>	<p><b>Observation identified, no further action required.</b></p>			
6	<p><b>Importations</b></p> <p>Whilst it appears to be more common for the trading company to have more importations than the Fire Service, a purchase card payment relating to Customs clearance evidenced the fact that the Fire Service does also import goods. Subsequent examination of supporting documentation suggests that VAT of £2,244.44 may have been incurred, although this could not be confirmed at the time.</p>	<p>It would be prudent to review procedures for ordering goods and services from non-UK suppliers so that a more effective system can be implemented to safeguard the correct VAT recovery and reporting requirements.</p> <p>We have recorded this as a 'high' priority issue for three reasons;</p> <p>(i) Risk for the Authority in not recovering VAT to which it is entitled.</p> <p>(ii) Not accounting for output tax on reverse charge transactions (for which penalties could apply) and</p> <p>(iii) Higher propensity for such transactions by EFA Trading Ltd.</p> <p>Any VAT on imports must be supported by a form C79 – Certificate of VAT paid on Importation. If the VAT is paid by a freight forwarder, then their disbursement invoice will show the import VAT and Import duty. This document should not be used as proof of import tax paid. Any import duty paid is not recoverable on the VAT return.</p>	High	September 2016	Deputy Director of Finance

# APPENDIX A: LIMITATIONS

## Scope of the review

When planning the audit, the following limitations were agreed:

### Limitations to the scope of the audit assignment:

- Our review has been undertaken as a follow up of previous recommendations and does not intend to review the entire control framework.
- Our work does not replace the need for a VAT advisory.
- Any testing undertaken as part of this audit was performed on a sample basis for the financial year 2015/16 only.
- In addition, our work does not provide an absolute assurance that material error; loss or fraud does not exist.



# FOR FURTHER INFORMATION CONTACT

Stephen Williams

Indirect Tax Director

[Stephen.P.Williams@rsmuk.com](mailto:Stephen.P.Williams@rsmuk.com)

T: +44 (0)1772 216029

**rsmuk.com**

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