

# **FINANCIAL PROCEDURE 3**

## **Accounting Records and Financial Systems**

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

## CONTENTS

- 1** Purpose of Procedure
- 2** Key Controls
- 3** Responsibilities of Chief Officers and Members
- 4** Procedures
  - 4.1 Statement of Accounts
  - 4.2 Closure of Accounts
  - 4.3 Accounting Records and Returns
  - 4.4 Journal Transfers
  - 4.5 Recharges
  - 4.6 Holding and Suspense Accounts
  - 4.7 Balance Sheet Reviews
  - 4.8 Accounting Returns
  - 4.9 Record Management and Retention Related Documents
  - 4.10 Maintaining Accuracy and Reliability
  - 4.11 Prime Account Schools
  - 4.12 Accounting for Taxation
    - 4.12.1 Construction Industry Scheme (CIS)
    - 4.12.2 Value Added Tax (VAT)
    - 4.12.3 Pay As you Earn (PAYE)
    - 4.12.4 Off Payroll Intermediaries' Legislation (IR35)
    - 4.12.5 Taxable Benefit and Exemptions
    - 4.12.6 Exemptions
  - 4.13 Expenses / Benefits
  - 4.14 Financial Systems
- 5** Related Documents
- 6** Contacts for Advice

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

## 1 Purpose of Procedure

This Financial Procedure will provide guidance on principles of best accounting practice, including those embodied in the Council's Constitution (including Financial Regulations).

Following the guidelines outlined, Members of the Council, Chief Officers, Budget Managers and Council staff will be able to deliver effective services within the framework of good governance.

For the purposes of this Financial Procedure Chief Officers refers to the Chief Executive, Executive Directors and Chief Fire Officer.

## 2 Key Controls

The key controls are:

- Compliance with relevant accounting standards, adapted in accordance with the current Code of Practice on Local Authority Accounting in United Kingdom (The Code) and Local Audit and Account Regulations.
- The accounting policies, as detailed within the Statement of Accounts of the Council for that particular financial year.
- Budget Managers are provided with relevant information and kept up to date, including tax issues.
- Budget Managers are instructed on the required record keeping.
- All taxable and NI-able transactions are identified, properly carried out and accounted for within stipulated timescales as required by HM Revenue and Customs (HMRC).
- Records are maintained in accordance with instructions.
- Returns are made to the appropriate authorities within the stipulated timescales.

## 3 Responsibilities of Chief Officers/ Statutory Officers/ Members

The **Section 151 Officer** has statutory duties in relation to the financial administration and stewardship of the Council which cannot be overridden. These statutory duties include setting up and monitoring compliance with corporate standards and advising on the key financial controls necessary to secure sound financial management.

Additionally, the **Section 151 Officer** is responsible for providing an adequate financial system that will:

- Comply with HM Revenue and Customs (HMRC) reporting requirements.
- Calculate and make tax and national insurance deductions on appropriate payments and reflect this correctly in the Council's accounts.
- Accurately account for VAT under all the categories stipulated by HMRC and reflect this correctly in the accounts.
- Retain sufficient information in respect of taxation and national insurance (NI) to meet reporting requirements of HMRC and management.

## Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

- Provide an adequate payroll system that will correctly calculate and deduct/refund income tax and national insurance contributions from employees in line with HMRC guidelines and legislation.
- Ensure that financial control systems are operating effectively to produce the necessary information and minimise the risk of error.
- Report significant tax and national insurance related matters to elected Members.

The **Section 151 Officer** must also ensure that officers are designated to be responsible for:

- Completion of monthly and annual returns to HMRC and to employees for tax and national insurance in line with defined timetables, and providing other information requested
- Collating and issuing statements in line with the terms of the various tax schemes
- Making payments over to HMRC of all taxes and National Insurance (NI) deducted in line with the defined timetables
- Verifying and maintaining required information held within the financial system
- Providing advice to staff on taxation that affects the Council in the light of the guidance issued by the appropriate bodies and relevant legislation
- Maintaining an up-to-date VAT Manual in line with guidance issued by appropriate bodies and relevant legislation
- Keeping up to date with the current HMRC requirements on PAYE and NI, and ensuring the payroll system is maintained in line with legislative changes
- Liaison with HMRC on tax and NI management issues such as routine/ special investigations by the collection agency, taxable benefits and dispensations
- Providing advice and guidance on tax and NI issues to management and employees

Under current arrangements, some of these functions are delegated to officers within the Council's Accounts Payable Team - Financial Services or within Payroll. The Chief Officers are responsible for ensuring that all staff in their Directorates are aware of the regulations and procedures relating to taxation, and that they comply with them.

The Head of Human Resources is responsible for advising on terms and conditions of employment. Of relevance is advice on entitlements to permanent or temporary allowances. [Guidance](#) already exists covering the Personnel related aspects in the form of the Council's Corporate Employment Manual, the Schools Personnel handbook and the Fire Service Orders.

**Individual Chief Officers**, together with their staff, are responsible for providing the Section 151 Officer or the Council's Financial Services provider, with the necessary information to enable the proper application of income tax and NI procedures.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

## 4 Procedures

### 4.1 Statement of Accounts

The Statement of Accounts will give local constituents, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties' clear information about the Council's finances.

The **Council** is required, by statute, to publish annual statements of accounts that give a true and fair view of the Council's financial position, financial performance and how resources have been used.

The **Full Council** is required to:

- Arrange for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the **Section 151 Officer**.
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard assets.
- Make arrangements, through the Audit Committee, to scrutinise the Statement of Accounts.
- Approve the Statement of Accounts.

The Statement of Accounts must be prepared on the basis of proper practices, which ensure that Statements of Accounts meet the true and fair view requirement.

The **Section 151 Officer** is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Code, developed by the CIPFA/LASAAC Code Board using the International Finance Reporting Standards (IFRS).

When preparing the Statement of Accounts, the **Section 151 Officer** is required to:

- Select suitable accounting policies and, arrange for these to be scrutinised by the Audit Committee, and ensure that these are applied consistently.
- Make judgements and estimates that are reasonable and prudent.
- Comply with The Code.
- Take reasonable steps to secure the prevention and detection of fraud and other irregularities.
- Sign and date the Statement of Accounts, stating that they give a true and fair view of the financial position of the Council at 31 March, and of its expenditure and income for the year ended 31 March.

Prior to the 2022/23 financial year, the draft unaudited accounts had to be published on the Council's website by 31 May each year and the final audited accounts by 31 July, in accordance with the Accounts and Audit Regulations (2015) and Local Audit and Accountability Act (2014).

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

However, due to a struggling local audit system in England, the Government has set a series of backstop dates with the aim of clearing the backlog of outstanding audits.

These are as follows;

Financial Year(s)	Draft Unaudited Accounts	Final Audited Accounts
Up to and including 2022/23	31 May 2023	13 December 2024
2023/24	31 May 2024	28 February 2025
2024/25	30 June 2025	27 February 2026
2025/26	30 June 2026	31 January 2027
2026/27	30 June 2027	30 November 2027
2027/28	30 June 2028	30 November 2028

The **Audit Committee** scrutinises the unaudited Statement of Accounts, in July each year, and approves them on behalf of the Council by 31 July.

In order to comply with this deadline, Budget Managers and Directorates must:

- Adhere to the accounting policies and guidelines approved by the **Section 151 Officer**.
- Adhere to the timetable issued by the **Section 151 Officer** which enables the overall deadlines to be met.
- Comply with accounting requirements contained within the Closure of Accounts Guidance issued by the **Section 151 Officer**.
- Supply information for the Statement of Accounts as and when required.

## 4.2 Closure of Accounts

The **Section 151 Officer** both sets and agrees to the Closure of Accounts process. The **Financial Accounting Team** within Financial Services will issue the following annually, to both Budget Managers and Financial Services staff:

- Letter
- Timetable
- guidance notes on procedures and timescales
- detailed Closure of Accounts Guidance

Service specific guidance will also be circulated as appropriate.

Closure of Accounts guidance can be found within the [Closure of accounts Guidance and Information](#) area on the Council's intranet. This provides detailed guidance on processes relevant to the closure of the accounts.

In order to meet the deadline to produce the Statement of Accounts, **Budget Managers** will ensure that:

- Year-end closure of accounts procedures are followed and the timescales are complied with.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

- Actual expenditure and income is charged to the financial year in which the goods and services were received/ delivered.

They supply the information for any expenditure and income not actually charged to the financial year, via. The accruals process, in order that adjustment is made in the accounts.

## 4.3 Accounting Records and Returns

Maintaining proper accounting records is one of the ways in which the Council discharges its responsibility for stewardship of public resources.

The **Section 151 Officer** is responsible for:

- Determining the accounting procedures and records for the authority.
- Arranging the compilation of all accounts and accounting records.
- Ensuring the proper retention of financial documents in accordance with the requirements set out in the Council's document retention schedule.

Strong financial controls will be maintained, with the **Assistant Director - Finance** responsible for determining or agreeing all financial processes, systems and financial records used by the Council.

**Budget Managers/** Directorates must:

- Consult and obtain approval from their **Strategic Finance Lead** before making any changes to accounting records and procedures.
- Maintain adequate records to provide a management trail leading from the source of income/ expenditure through to the Statement of Accounts; and
- Supply any information required to enable the Statement of Accounts to be completed in accordance with the Closure of Accounts guidance issued.

## 4.4 Journal Transfers

Journal transfers are used to transfer **actual** income and expenditure between accounting codes. This may be necessary for a number of reasons, for example:

- To correct errors or miscoding in the accounts
- To clear suspense and holding accounts (as described below)
- To effect the accounting entries necessary to close the accounts
- On occasions, to make prime entries in the accounts

Journals must **NOT**:

- Be used to affect charges for services provided to other establishments, divisions or Directorates - these should be done through recharges.
- Be confused with virements. A virement is the movement of budget from one budget heading to another, whereas journals relate to the movement of **actual** expenditure and income.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

- Be used to move expenditure onto codes where there is a spare budget.

**Budget Managers** are responsible to make arrangements for any necessary journal within their area.

The journal must provide a sufficient narrative and attach the necessary supporting document in order to meet the minimum audit requirement.

All requests are validated by the relevant Financial Services team to ensure that these comply with the current accounting practices and procedures.

Where there is any doubt as to the validity of the journal, the **Strategic Finance Lead** will determine the correct accounting treatment in these exceptional cases.

## 4.5 Recharges

Recharges are used where services are provided (by the "seller") at a charge to internal users (the "buyer") in other establishments, divisions or Directorates.

Recharges provide the basis for notifying internal purchasers of charges for services and the basis for actioning the related accounting entries. Recharges are only to be used for internal charging for services, except where charges are made to schools with their own bank accounts. In this case a sales invoice will be raised.

Recharging is not normal practice and should only be considered where there is a clear case for it. In most cases, the transferring of budgets to the provider should be considered.

The **Budget Holder** (buyer) should be aware that, if a service is provided, a charge will be made by the seller.

The **Budget Holder** will provide an appropriate code to the seller to enable the charge to be made.

The seller must provide supporting information in order for the **Budget Holder** (buyer) to validate and accept the charge. Having insufficient budget is not a reason to reject the charge.

Appropriate authorisation and document requirements will follow the same process as for Journal Transfers.

## 4.6 Holding and Suspense Accounts

A Holding Account is an account where expenditure/income of an activity is collected temporarily, prior to it being re-allocated or apportioned across a number of different accounts.

A Suspense Account is an account where expenditure/income is placed due to inadequate information about the correct account being available at the time.

Creation of Holding and Suspense accounts must be approved by either the:

**Strategic Finance Lead** - Financial Accounting Team

**Strategic Finance Manager** - Financial Accounting Team

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

To support the request for a new Holding/ Suspense account the following information must be supplied;

- A clear explanation for why the account is required
- How the account will operate
- How the account will be cleared

Unless otherwise agreed with the Strategic Finance Lead - Financial Accounting Team, all Holding/ Suspense accounts will be reviewed and cleared on a monthly basis throughout the financial year.

At the year-end (31 March), all Holding/ Suspense accounts will be cleared to NIL in-line with the closedown timetable.

## 4.7 Balance Sheet Reviews

In order to assist with the year-end closure of accounts, especially to avoid leaving tasks until the year end, certain balance sheet codes will be reviewed monthly by the Financial Accounting and Working Capital teams – Financial services.

The areas of the balance sheet to be reviewed monthly will be;

- Investments
- Bank
- Debtors
- Creditors
- VAT
- Payroll
- Reserves

A monthly balance sheet dashboard will be prepared for the above areas to give a top-level overview, but these areas will also be reconciled to supporting financial information, such as bank statements and financial reports generated by the finance system.

## 4.8 Accounting Returns

**Financial Services** prepare and submit accounting returns in line with statutory deadlines.

Statutory returns will be signed off by the **Section 151 Officer** or **Head of Finance** who has delegated responsibility.

## 4.9 Records Management and Retention of Records

**Chief Officers** must ensure that accounting records and financial systems are operated in line with the Council's information assurance framework, to ensure security of information/information systems is maintained. **Chief Officers** must ensure records are managed appropriately and obligations set out in applicable information legislation are met.

Records Management is all about the "good housekeeping" of the records and data we use and retain. Records exist in many different formats and the Council has created a [Records Management Policy](#) that must be used and adhered to.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

Further guidance about retention and disposal schedules for each Directorate as well as standard categories is available within the [Retention and Disposal](#) section of the Council's website.

## 4.10 Maintaining Accuracy and Reliability

Accurately maintained and reliable accounts are essential as the basis of:

- Financial information to inform the Council's policy decision making
- Financial control and accountability
- Financial management
- Councillor scrutiny of the Council's financial affairs
- External reporting of the Council's financial affairs, including the Council's published Statement of Accounts, Freedom of Information requests and providing information to council tax payers and electors
- Statutory accounts and returns
- Grant claims
- Tax and NI returns, including VAT claims

Accuracy of the accounts is maintained in a number of ways:

- Data entry into the accounts is restricted and can only be accepted into the financial system after authorisation by an officer approved to certify the transaction.
- Data entered into the accounts is reconciled to input records. The accounts are also reconciled continuously to the Council's bank accounts.
- The means of making changes to the accounts (Journal transfers) are controlled.
- The accounts are monitored throughout the year and balanced at year end.

## 4.11 Prime Account Schools

Prime Account Schools are schools which operate their own accounts separate from the main financial systems of the Council. They will have separate bank accounts and they are required to be separately and independently audited.

The CIPFA Code requires that the Council must include in its published Statement of Accounts, income and expenditure incurred by prime account schools. Consequently, the income and expenditure of these schools will need to be consolidated within the accounting records of the Council.

In addition, the Council is required by the current Schools Standards and Framework Act to monitor school expenditure and, must therefore operate a reporting/monitoring framework for prime account schools operating their own local financial system.

The accounting records maintained by prime account schools are, therefore, considered the prime accounting records of the Council and as such are the records that may be inspected by the Council's auditors, HMRC and other agencies. These records must be made available as and when they are required.

Details of schools accounting and reporting requirements are contained within the Council's [Scheme For Financing Schools September 2025](#)

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

Throughout the year, regular returns are required from prime account schools. These will be checked to provide assurance and reconcile that their returns reflect the funding that has been paid through their monthly bank deposits. These returns will be used to record the schools' income and expenditure in the Council's financial system.

This regime will provide early warnings of any serious problems and allows the **Section 151 Officer** to fulfil their statutory responsibilities in relation to the proper financial administration of the Council. All of the returns will be critically analysed and where necessary, schools will be contacted for explanations or if the returns have not been completed by the due dates.

## 4.12 Accounting for Taxation

In accordance with the Financial Regulation D, the **Section 151 Officer** is responsible for ensuring the Council's tax affairs are in order. Tax issues are often complex, and officers should be aware the penalties for incorrect accounting can be severe. It is therefore important that advice is sought from the appropriate **Financial Services Officer** wherever necessary.

### 4.12.1 Construction Industry Scheme (CIS)

Businesses in the construction industry are known either as contractors or sub-contractors. These may be companies, partnerships or self-employed individuals.

CIS applies to payments made by 'contractors' (in this case the Council) to 'sub-contractors' for construction work that is deemed to be 'in scope' of the Scheme.

In general, this covers almost any work done to a building or structure, civil engineering work or installation of a variety of equipment. This includes demolition, site preparation, construction, alteration, repair and dismantling. Examples of the types of work that are 'in scope' and 'out of scope' are shown below.

**Contracts that do not exceed £1,000 labour charge deem the work as not "in scope", regardless of the nature of the work carried out:**

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

TYPE OF WORK		IN SCOPE	OUT OF SCOPE
<b>Planning</b>			✓
<b>Site preparation</b>			
	Delivery of materials		✓
	Demolition of buildings, structures, tree-felling	✓	
	Preparation of site and site clearance, earth moving on site, excavation, tunnelling and boring	✓	
	Transport of spoil from site		✓
<b>Construction</b>			
	Assembly of temporary stages and exhibition stands including lighting		✓
	Construction, alteration or repair of a permanent or temporary building or civil, chemical or other industrial engineering works or structure forming part of the land (e.g. storage tanks, silos, cranes, pumps)	✓	
	External cleaning (other than painting & decorating) of buildings and structures		✓
	Internal cleaning of buildings and structures carried out in the course of, or on completion of their construction, alteration extension, repair or restoration	✓	
	Installation of systems of fire protection designed to protect the fabric of the building (e.g. sprinklers, fireproof cladding)	✓	
	Installation of fire alarms, security systems including burglar alarms, closed circuit television and public address systems		✓
	Installation of power lines, pipelines, gas mains, sewers, drainage, cable television and telecommunications systems	✓	
	Installation of systems of heating, lighting, air conditioning, ventilation, power supply & distribution, drainage, sanitation, water supply and distribution, drainage, sanitation, water supply and distribution	✓	
	Manufacture, delivery, repair or maintenance of these systems		✓
	Installation of closed circuit television for purposes other than security (e.g. such as traffic management)	✓	
	Installation or replacement of telecommunications or computer wiring through pre-existing ducting in buildings		✓
	Installation of lifts, plant or machinery needed by the specification of a building under construction or alteration	✓	
	Servicing, repair or maintenance of these items		✓
	Manufacture or off site fabrication of components or equipment, materials, plant or machinery and delivery of these to the site		✓
	Materials - transport on site	✓	
	Materials - transport from site to site on the public highway		✓

## Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

	Plant hire with operator for use of site	✓	
	Delivery, repair or maintenance of construction plant or hire equipment without an operator (e.g. concrete mixers, skips)		✓
	Preparation and laying of foundations and piling	✓	
	Roads - construction, repair and resurfacing of roads and bridges including white-lining	✓	
	Roads - delivery of road making materials		✓
	Roads - provision of temporary and permanent roadways and other access works such as drives	✓	
	Scaffolding – erection or dismantling	✓	
	Scaffolding - the hire of scaffolding equipment (without labour)		✓
	Supply of mobile buildings – e.g. temporary classrooms	✓	
<b>Finishing operations</b>			
	Flooring - construction of concrete & marble floors and the fitting of flooring (but not carpets) including linoleum where required by the specification of a building under construction, alteration or repair	✓	
	Flooring - manufacture off site and delivery		✓
	Installation of:		
	Computer & instrumentation systems	✓	
	Doors & rolling grills including the work of locksmiths	✓	
	Double glazing	✓	
	Heating & ventilation systems	✓	
	Kitchens & bathrooms	✓	
	Thermal insulation materials	✓	
	Manufacture and delivery of the items listed above		✓
	Manufacture, delivery and installation of seating, blinds and shutters		✓
	Manufacture and installation of solar, blackout or anti-shatter film		✓
	Painting & decorating the internal and external surfaces or any building or structure	✓	
	Signwriting and erecting, installation and repair of sign boards and advertisements		✓
	<b>Site restoration &amp; landscaping</b>	✓	

The list above gives some guidance on which types of construction work are within CIS and which are not.

Where a contract relates to a mixture of operations, all payments due under the contract are within the Scheme even if only one of the jobs is 'In Scope'.

The list is not exhaustive – if you are unsure whether work is within the scope of the legislation, contact the Council's Accounts Payable Team – Financial Services for advice, who if necessary will consult the HMRC.

CIS is administered by the HMRC. Under the Scheme some of the payments could be liable to a tax deduction, from the labour element of an invoice. If the invoice does not show a separate charge for labour and materials, tax is calculated and deducted from the full amount excluding VAT. It should also be noted that the labour element includes subsistence and travelling expenses.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

For a contract to be within the Scheme, it must not be 'a contract of employment'. This means the Scheme applies to workers who are self-employed under the terms of the contract, and who are not employees subject to PAYE - IR35.

Employment status depends on general law and it is for the contractor to decide on the individual's employment status when a contractor is first engaged. The fact that a sub-contractor has worked in a self-employed capacity before is irrelevant in deciding on their employment status - it is the terms and condition of each particular engagement that matter. More advice on employment status can be obtained from HMRC's website.

Before they are paid under CIS, sub-contractors will be required to be verified with HMRC.

The Council is required by legislation to keep records, complete forms and returns and account for tax withheld. The Council is liable to HMRC for the amounts deductible from payments to sub-contractors, whether or not these deductions have actually been made. Where a failure to deduct tax results from an error or omission at departmental/ establishment level, the appropriate local budget will be charged with the tax due.

When a supplier is verified, HMRC will inform the contractor what tax treatment should be applied. A sub-contractor can be paid in one of three ways:

- Gross - that is, without deductions taken from the net payment.
- Net of a deduction at the standard rate.
- Net of a deduction at the higher rate because:
  - HMRC have no record of that subcontractor's registration
  - HMRC are unable to verify the details for any other reason.

## **Gross without deductions**

This status is issued to companies whose construction operations are large and complex and a net status would not be appropriate.

## **Net with deduction at 20% or 30%**

Where a subcontractor is issued with a net status, a deduction must be made from the payment for labour of an amount on account of the subcontractor's tax and NI contribution liability. If the invoice does not show a separate charge for labour and materials, tax is calculated and deducted from the full amount of the invoice excluding the VAT. Note that the labour element of an invoice includes travel expenses and subsistence.

## **Statements**

Under the Scheme, the contractor must issue a statement to all net suppliers recording payments made within each tax month:

- Net of a deduction at the standard rate - 20% of the labour amount deducted
- Net of a deduction at the higher rate - 30% of the labour amount deducted

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

## Special small payments exemption

The Council has a small contracts exemption, whereby if the labour per order does not exceed £1000, the payment does not fall within the Scheme.

## Schools only

Under CIS, HMRC includes a provision that local managers of de-centralised premises are authorised not to apply the Scheme to any contracts which the local manager has commissioned.

Every officer dealing with this Scheme must undertake the following:

## Document checks

When initiating an order for 'construction' type work, an officer must consider the potential CIS implications:

- Consider whether the type of work is 'in scope' - refer to table above. If the type of work is not listed, contact the Council's Financial Services Provider - Accounts Payable Team for further advice.
- Look up the subcontractor's vendor details on the Council's financial system to establish if the supplier is already set up, and if they have CIS details entered.
- If the supplier is set up within the system, and the CIS details are present and currently valid, contracts for in-scope work can be given to a sub-contractor without further action.
- If the details of the sub-contractor are not already held on the financial system, or if the CIS details are not recorded, the officer should:
  - Contact the supplier to obtain the company's Unique Tax Reference (UTR), the company registration number and the name of the company as known by HMRC.
  - Contact the Council's Financial Services Provider - Accounts Payable Team to request verification of the supplier, advising of all the above details.

## Invoice processing

When paying invoices to suppliers to whom CIS applies, processing must include completing the entries/changes relating to the appropriate withholding tax as previously discussed above in the financial system.

If unsure of the correct process, they should refer any query to the **Council's Accounts Payable Team – Financial Services**.

## Return

The **Council's Accounts Payable Team – Financial Services** has the delegated responsibility for completing the Council's monthly return and submitting this to HMRC within the required deadline.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

## 4.12.2 Value Added Tax (VAT)

VAT is charged on supply and receipt of goods and services.

The Council is registered for VAT and as such can recover from HMRC the majority of VAT paid. However, the Council must also charge and pay over to HMRC VAT on its income, where appropriate. Overall, the Council recovers more VAT than it pays.

HMRC have statutory powers to inspect records and to ensure that financial systems comply with their requirements. Substantial financial penalties may be applied for the incorrect treatment of VAT. Although inspections generally occur centrally, HMRC may undertake site visits.

All officers involved in making payments or collecting income must familiarise themselves with VAT rules and procedures to ensure that VAT is accounted for correctly. If officers are in any doubt they should seek advice from the Council's internal **VAT helpline**, provided by the Financial Account Team – Financial services, by using the email [VAT@lincolnshire.gov.uk](mailto:VAT@lincolnshire.gov.uk)

**Chief Officers** are responsible for ensuring that all staff in their Directorates are aware of the regulations and procedures relating to VAT and that they comply with them. These regulations and procedures can be found in the Council's VAT Manual, and the dedicated VAT helpline ([VAT@Lincolnshire.gov.uk](mailto:VAT@Lincolnshire.gov.uk)) which will help **Chief Officers** fulfil this requirement.

The Council accounts for VAT to be paid over to or recovered from HMRC through submission of a monthly VAT return. The requirement to submit this return digitally must be met.

VAT can only be recovered where goods and services are supplied direct to the Council, and correct treatment is recorded in the financial system. This is managed by the Financial Accounting Team – Financial Services

This condition, wherein VAT can be recovered, is met where the Council:

- Places the order
- Receives the supply
- Receives a tax invoice addressed to the Council
- Makes payment from its own funds
- Retains ownership of the purchase
- Keeps sufficient records for the purchase to be identified

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

The VAT treatment of individual income transactions is determined by the 'type of supply' provided by the Council. 'Types of supply' are defined in HMRC's VAT legislation and guidance.

The goods and service provided by the Council can be classed as either business or non-business:

- Business supplies relate to goods or services which can be or are provided in competition with the private sector. Business supplies fall into four main categories:
- Standard rated: VAT at the standard rate must be levied on charges for these services and paid to HMRC.
- Exempt: certain supplies of goods and services are specifically exempt from VAT. Most lettings and rents fall into this category. There are limits on the VAT that can be reclaimed on the cost of providing these services. It is therefore essential that the Financial Accounting Team – Financial Services, is notified of any exempt income and any expenditure that relates to that income.
- Zero rated supplies: the VAT paid by the Council as part of the costs in providing these services are recovered from HMRC. VAT does not have to be levied on sales. Sales of brochures and other printed matter fall within this category.
- Reduced rated supplies: certain supplies of separately metered fuel and power, including income for electricity charged at Travellers' sites.
- Non-business supplies: this covers the provision of services which the Council has a statutory duty to provide. Most of the Council's services are classed as non-business supplies, e.g. the provision of education and social services.

Officers should make themselves aware of the existence of these different types of supply, and take them into consideration when making charges for any goods and services provided by the Council. Further advice can be provided by the Financial Accounting Team – Financial services on the VAT helpline email [VAT@Lincolnshire.gov.uk](mailto:VAT@Lincolnshire.gov.uk)

The Vatable status of income on transactions in the financial system is determined by the product code used. It is therefore essential that the correct code is chosen. Where users have any doubt in respect of their selection, advice should be sought from the VAT helpline email [VAT@lincolnshire.gov.uk](mailto:VAT@lincolnshire.gov.uk).

Guidance notes on VAT issues are contained within the Council's [VAT](#) area of the Financial Services Hub.

## 4.12.3 Pay As You Earn (PAYE)

Employers are required to operate the PAYE to collect Income Tax and NI Contributions from employees each pay period and to pay the due amounts over to HMRC. The deductions made depend on the total remuneration made to the employee, which can include pay, benefits and allowances.

Any payments made to employees by the Council, including expenses and other allowances, and certain 'non-pay benefits', may be liable to assessment for the purpose of calculating an income tax or NICs liability. The tax rules distinguish 'employees' whose earnings are assessed for tax under Schedule E from the 'self-employed' whose earnings are assessed under Schedule D - IR35.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

The law does not define 'employment' and 'self-employment'. The employer has the responsibility to determine the employment status of any individual they make payment to. The status of an individual will not necessarily be the same under tax and NICs law as it is under employment law.

Equally, officers should bear in mind that just because an individual is self-employed in one job does not necessarily mean they will be automatically self-employed in another. Self-employment needs to be determined on a case-by-case basis for each assignment through the application of HMRC employment status test tool, which can be found on their website.

To meet this responsibility, all officers should take this guidance into consideration when making payment through the creditor payment system.

Failure to operate the PAYE scheme relating to tax and NICs in line with regulations may result in penalties being incurred by the Council. If the Council incurs penalties as a result of making payments subject to tax and/ or NICs outside the payroll system, these will be charged to the department/establishment concerned.

Advice on employment status can be obtained from the Council's **Human Resources Team**.

## **4.12.4 Off-payroll intermediaries legislation (IR35)**

The Council is responsible for assessing whether a worker who is engaged through off-payroll working arrangements, including agency workers, personal service companies, self-employed and consultants, is covered by the off-payroll intermediaries' legislation (IR35), using the HMRC employment status test tool which can be found on their website.

It is also the Council's responsibility, if a worker is covered by this legislation, to deduct tax and NI from the individual, and pay employer's NI and apprenticeship levy contributions as appropriate.

Further guidance can be found in the [Agency and other off-payroll working – Professional resources](#) or by contacting **Human Resources**.

## **4.12.5 Taxable Benefit and Exemptions (introduced to replace Dispensations)**

Any payments to an employee for services or work are liable to assessment for income tax and NI purposes. This includes salaries, fees, pay, wages, leave pay, bonus, commission, tips, gratuities, benefits in kind and expenses payments and allowances. Where payment in money is made directly, tax and NI contributions should normally be deducted at source through the Council's payroll system.

Some expense payments and non-pay benefits are liable for tax and/or NICs but are not taxed at source. Non-pay benefits include those:

- Made as a reward to employees, as opposed to the genuine reimbursement of additional expenditure wholly, exclusively and necessarily incurred as a requirement of the employee's job.
- Provided both to reward and to reimburse expenditure. For example, contract car hire provided for both business and personal use.

# Financial Procedure 3 - Accounting Records & Financial Systems

*This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council*

By law, at the end of each tax year, the Council must give HMRC details of any expense payments, benefits and facilities provided to each employee earning at or more than the rate published by HMRC. This is reported to HMRC on form P11D. The Council must also provide this information to each employee within the required timescale. Information relating to employee expenses and allowances may also be subject to HMRC inspection.

For ease of reporting and inspection, employment-related expenses should be recorded within the Council's Payroll system. It is important for both employees and the Council that expenses are dealt with correctly. In paying expenses, managers must consider the following:

- Wherever possible, goods and services should be purchased and paid for by the Council through the agreed procurement procedure. This ensures approval of expenditure and commitment against the budget.
- Goods and services of a minor nature may be purchased using the Council's sundry bank account process - See [Financial Procedure 5 - Income and Expenditure](#).
- All other employee expenses should be paid via the payroll system based on the appropriately completed and authorised claims documentation (e.g. travel expenses, training expenses, payment for hotel accommodation, subsistence). In addition, all expenses should be supported by appropriate receipts, except where an allowance is claimed.
- For ease of administration, schools may choose to reimburse training travel expenses which are paid at a rate per mile less than the [Approved Mileage Allowance Payment \(AMAP\)](#) rate, which can be found in HMRC website, through the sundry bank accounts process.

This is acceptable, since payment for business mileage at a rate per mile below the AMAP rate is not taxable at source, and does not have to be reported to HMRC.

An appropriate expenses claim should still be completed and authorised.

**Managers** have a responsibility to consider tax and NICs implications when making any new payments or providing non-pay benefits. For further advice, Human Resources should be consulted about entitlements and employee terms and conditions. The Council's Human Resources team and or Payroll Team should be contacted in respect of potential income tax and NICs implications. On no account should an officer introduce such a measure without seeking clarification on these aspects.

At year end, the Council's Human Resources team and/or the Payroll Team will issue requests to managers for details of expenses, benefits and allowances required for HMRC reporting purposes. **Chief Officers** are responsible for ensuring mechanisms are in place to identify the required information, and it is provided in line with the timescales demanded

## 4.12.6 Exemptions

Exemptions are available for some routine employee expenses that don't have to be reported to HMRC.

# Financial Procedure 3 - Accounting Records & Financial Systems

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The Council does not have to report some expenses and benefits like:

- Business travel
- Phone bills
- Business entertainment expenses
- Uniform and tools for work

To qualify for an exemption, the Council must be:

- Paying a flat rate as part of an employee's earnings. This must be either be a benchmark rate, or special ("bespoke") rate approved by HMRC; or
- Paying back the employee's actual cost.

Tax and National Insurance is deducted on all other expenses and benefits and reported to HMRC as normal. The Council does not need to apply for an exemption if the HMRC's benchmark rates for allowable expenses are used. Exemption application will only be required if a bespoke rate is used.

The payroll module within the financial system should be used for all payments of employee benefits. The claims are submitted by the employee, and this has to be checked and authorised by their line manager to ensure that the claim is legitimate.

The employees are responsible for keeping supporting evidence for their expenses. For example, receipts or bills that have to be checked by the authorising manager. To assist, the employee can upload this evidence into the financial system. HMRC may ask to see evidence of how the Council accounts for each expense or benefit at the end of the tax year.

One of the key conditions of the expense's exemption legislation is that the employer has adequate checking processes in place to confirm that the expenses being incurred/ reimbursed are wholly, necessary and exclusively incurred in the course of the employee's duties. The manager authorising any such expense must ensure these criteria are met.

For further guidance, please contact the Council's **Payroll Team**.

## **4.13 Expenses/Benefits**

Entitlements to expenses and allowances are determined by schemes of conditions of service and are covered by various policies and procedures.

These can be found in the Council's Employment Manual found within [Employment policies – Lincolnshire County Council](#). Employees who need further information should speak to their line manager in the first instance, with any further queries addressed to **Human Resources**.

Details for specific groups of employees are also provided in the Schools Personnel Handbook and Fire Service Orders.

# Financial Procedure 3 - Accounting Records & Financial Systems

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Examples of the types of expenses and benefits that may have to be reported on P11D are given below:

- Assets transferred to employees
- Payments made on behalf of the employee
- Vouchers & credit cards (e.g. cost of season tickets/ expenses met by credit cards provided by the Council)
- Living accommodation
- Mileage allowances
- Cars & car fuel
- Services supplied (services supplied where the contract is between the Council & the supplier)
- Assets placed at employee's disposal
- Subscriptions
- Relocation benefits & expenses
- Entertainment allowances
- Telephone allowances
- Office allowances
- Provision of clothing for work
- Interest free & low interest loans

More advice and information in respect of these can be obtained through contacting the Council's **Human Resources Team**.

## 4.14 Financial Systems

The **Section 151 Officer** is responsible for providing and maintaining the financial system of the Council.

The maintenance of the financial system is delegated to Council's Business World Administration Team. This will include ensuring that all feeder systems are posted within the main financial system in a timely manner.

The details of all of the Council's financial transactions will be recorded within its general ledger. The general ledger must be maintained as a proper record of the Council's income and expenditure and is the prime financial record of the Council.

The financial system will be the basis of the financial position and financial performance of the Council when preparing its Statement of Accounts.

## 5 Related Documents.

- The Council's Constitution
- Financial Regulations
- Statement of Accounts
- Code of Practice on Local Authority Accounting in the United Kingdom (The Code)
- Closure of Accounts Guidance
- Records Management Policy - Retention and Disposal Scheme of Authorisation Documents
- Scheme for Financing Schools VAT Manual

# Financial Procedure 3 - Accounting Records & Financial Systems

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## **6        Contacts for Advice or Assistance.**

Advice on this financial procedure can be sought from the Financial Accounting Team - Financial Services.

For issues relating to pay as you earn (PAYE), contact the Council's **Payroll Team**.