

**ARGYLL & BUTE COUNCIL**  
**AUDIT MANAGEMENT LETTER 2000/01**  
**7 JANUARY 2002 (Updated 9 JANUARY 2003)**



Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 11/10/02	Update as at 09/01/03
<p><b>Partial Exemption</b></p> <p>The Council has a VAT partial exemption de-minimus level of 5%. At the time of our visit, we noted that the Council had not undertaken a partial exemption calculation for either the 1999/2000 or 2000/2001 financial years, although we were advised that their VAT advisers were currently working on the 1999/2000 calculation.</p> <p>In the absence of any partial exemption calculations for either 1999/2000 or 2000/2001 we are unable to comment as to whether the Council has remained within its 5% de minimus limit. It should be noted that if the Council were to exceed its 5% limit, the VAT cost to it would be in excess of £340,000 per year (based on 5% of the input tax declared on the VAT returns submitted for 2000/2001).</p>	<p>The Council should review the current procedure for calculation of its partial exemption position such that this is undertaken on a timely basis.</p>	<p>The Council is going to review the contract for external consultancy for both partial exemption and advice support. It is the intention to carry out a tendering exercise early in 2002.</p> <p>It is still the intention to retender for this service in 2002</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Contact has been made with KPMG, the Council's VAT advisers with a view to them undertaking this exercise. KPMG are now working on this.</p>	<p>The advisors are still working on this.</p>

9.01

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 11/10/02	Update as at 09/01/03
<p><b>Detailed Review of March 2001 VAT return</b></p> <p>The Council currently completes a VAT return to Customs and Excise on a monthly basis. The reconciliation of the return to the financial ledger includes a number of manual adjustments to reflect the council's operations.</p>	<p>Consideration should be given to agreeing an input tax estimate with Customs to allow for any VAT on expenditure invoices dated within the VAT return period that have not been processed by the period end. On the basis that the average delay in processing invoices is 30 days, a one off advance VAT payment of around £565,000 could be obtained. The cashflow benefit in respect of such an advance would be approximately £33,800 per year (based on interest rates at 6%).</p>	<p>Exercise to identify an input tax estimate for submission and agreement with customs and excise will be carried out. Although it will depend on the availability of staff and external consultants.</p> <p>We have had preliminary discussions with KPMG (VAT advisors) and we will look at this once the annual accounts have been prepared.</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Once the exercise on estimation of time delay in VAT reclaim for creditors invoice has been completed arrangements will be made to re-tender the VAT advisory service. There is little point in carrying out a retendering exercise whilst this project is underway with the existing Vat advisers.</p>	<p>Once the exercise mentioned in 9.01 has been completed arrangements will be made to commence retendering.</p>

9.02