

APPENDIX 3

ARGYLL & BUTE COUNCIL

AUDIT MANAGEMENT LETTER 2000/01

7 JANUARY 2002 (Updated 30th JUNE 2003)



	Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 12/05/03	Update as at 30/06/03
9.01	<p>Partial Exemption</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>	T Armour / B West	Ongoing	The advisors are still working on this but final proposals are to be reviewed by the Inland Revenue	Complete as at 30 th June 2003.
9.02	<p>Detailed Review of March 2001 VAT return</p> <p>The Council currently completes a VAT return to Customs and Excise on a monthly basis. The reconciliation of the return to the</p>	<p>Consideration should be given to agreeing an input tax estimate with Customs to</p>	<p>Exercise to identify an input tax estimate for submission and agreement with</p>	T Armour / B West	Ongoing	Once the exercise mentioned in recommendation 9.01 has been	A process has been established for carrying out a manual accrual to bring the reclaim of VAT forward.

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 12/05/03	Update as at 30/06/03
financial ledger includes a number of manual adjustments to reflect the council's operations.	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>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>			completed arrangements will be made to commence retendering.	This commenced at the end of May and the invoice claim was £360,000. The annual saving in interest is estimated at £12,000 based on a 3.5% current interest rate. This recommendation has therefore been implemented. This arrangement is fully acceptable to Customs & Excise who have given it their approval.