

**Carl Hearn**

Town Clerk,
Tavistock Town Council
Drake Road
Tavistock
Devon
PL19 0HD

14th October 2019

Dear Carl,

Further to my visit to the Councils offices on 11th October I am pleased to submit my report for the Councils attention.

I have split my report into the two different areas covered during my visit, the VAT Partial Exemption Calculation and the Rolling Capital Fund, and have included my recommendations within the individual elements of the report.

I would like to thank you and your staff for the assistance and hospitality provided to me during my visit.

Yours sincerely,

A handwritten signature in black ink that reads 'K. Rose'.

Kevin Rose ACMA
Director

VAT Partial Exemption Calculation

Background

The Council receives a significant amount of income in respect of activities which are classified as 'Business Exempt' under VAT rules. The main activities which are classified as 'Business Exempt' relate to the Pannier Market and the Goose Fair.

There is a restriction on the amount of Input VAT (VAT charged to the Council by suppliers) in respect of these Business Exempt activities that can be recovered from HMRC of £7,500 per year. If this limit is breached then none of this VAT can be recovered.

In order to quantify the amount of this irrecoverable VAT the Council commissions its accountants to undertake a computation each year. The value computed by the accountants is then adjusted in a future VAT claim to HMRC and, in effect, paid over to HMRC.

This year the value computed as repayable by the accountants for 2018-19 was significantly higher than in previous years at £45,855.01. By comparison the value computed for 2017-18 was £19,719.73

As a consequence of this much higher value the Clerk had requested an Internal Audit review of the computations.

Findings

On review it was noted that the Partial Exemption computation carried out by the accountants had been based on a detailed analysis of the VAT included in Box 4 of each of the four quarterly VAT returns. The total of this analysis was checked and agreed to the Councils VAT returns.

It was noted that £29,036.17 of the irrecoverable VAT related to cost centre 903 'THI projects' and that of this total £25,151 related to VAT charged on a single invoice from A D Williams. This VAT had originally been claimed in error and had been posted to account code 109.

The balance on account code 109 had been subject to query during the interim internal audit visit prior to the financial year end and had subsequently been corrected by the Councils accountants through a Journal number 3525 adjusting it against the VAT control account.

This correcting journal created an entry in Box 1 of the VAT return for the period ending 31st March. (Box 1 is where VAT charged by the Council is recorded).

The net effect of the correction was that the VAT previously claimed in error was repaid to HMRC and the net VAT claimed in respect of this invoice was zero.

Unfortunately the correcting journal posting to Box 1 was not picked up by the accountants as their analysis was based solely on the transactions recorded within Box 4. The result is that this £25,151, which should have reduced the stated value of the overclaim, was omitted.

Conclusion

The value of the VAT repayment to HMRC as calculated by the accountants was overstated by £25,151 being the VAT element of the invoice from A D Williams.

Recommendation

1. The Council should query this with the accountants and request that they recompute the amount repayable to HMRC.

Rolling Capital Fund

A review was carried out of the accounting of the Rolling Capital Fund as the Council has experienced difficulties in agreeing the balance stated on an excel spreadsheet with the value recorded in the Council's accounting records.

Findings

The Council uses a Rolling Capital Fund (RCF) as a means of planning and accounting for large capital projects. The RCF is maintained on one account code 321.

It was noted that the balance on account code 321 is composed of 3 distinct elements

- The value of a small number of projects which the Council intends to fully fund from its own resources.
- A portion of funding set aside for projects which the Council will fund with grant funding from other bodies and loan finance. At the date of the audit visit this related to only one project.
- A residual balance of the RCF which is not yet allocated to particular projects.

In addition to these three elements, a spreadsheet is maintained which includes anticipated funding, such as grants and Public Works Loans.

It is not clear without a high level of technical accounting knowledge how the spreadsheet balance agrees to the balance recorded on account 321. It is also not clear how the Council can independently monitor and update this spreadsheet without the assistance of the external accountants.

It was noted that the Council maintains a number of other Earmarked Reserves, for example for elections, which it uses to fund separately identified activities.

At present the Council does not use the Reserve Accounting facility of the Omega system as an upgrade to the system is to be deferred until completion of the latest Month End.

Recommendations

1. The Council should consider splitting the balance on account 321 into separate account codes in Omega for each of the projects to be funded by the RCF. The residual, unallocated, balance of the RCF should be maintained on account code 321.

-
2. The Council should introduce the Reserve Accounting features of Omega so that transactions to be funded from reserves are accounted for against the relevant specific reserve code as they are processed. (This process should also be used to record expenditure against the other Earmarked Reserves)
 3. The Council should consider whether it is necessary to continue to maintain the spreadsheet to record reserve movements on the RCF as these should, in future, be reported on from the Omega system.
 4. The Council may wish to continue to use the spreadsheet for monitoring projects for which additional third party funding is to be used.

Kevin Rose ACMA
Director
14th October 2019