

Full Council Meeting - Wednesday 6th December

Item 146 - Internal Audit

We had our biannual internal audit Thursday 9th November with Sandie Morris. We haven't received the report back due to Sandie being unwell. However, the following points were discussed:

- Payments – we are not meeting transparency on the website as payments don't always show in the title of the attachment or are not there. I have made sure each month has payments added and it is clear to see.
- Risk Assessments – some are out of date and need renewing, Sue is currently working to rectify.
- Financial Regulations – are in date but may be needing renewal before NALC release their new template. Advised to potentially say at renewal no changes and will have an additional review when NALC has released theirs.
- Payments list – the current payment list isn't from the system so the audit trail isn't easy to follow. Recommendation that the report off the system gets presented to F&M. This will reduce duplication of work. **Discuss to change this from December Finance and Management Meeting.**
- Cheque books – firstly we are currently running 2 which poses a risk but as one was locked in finance drawers while we had no RFO, office staff had to start a new one. Furthermore, cheques being cancelled pose a threat also, where possible if cancelled to be stapled in the back of the cheque book.
- AGAR 22/23 wasn't on the website. This was sent when there was no RFO or clerk. I have had this re sent and is now on the website.
- Community Infrastructure Levy 21/22 not on website, I have now put this on.

Item 147 - VAT Investigation

On joining Rugeley Town Council, I noticed that the VAT was handled differently than I would have expected. However, due to the back log of work and the upcoming VAT return deadline, I decided that getting the backlog completed was the most important. In addition, as I had never worked for a partially exempt organisation, I would need time to understand it in more detail.

Now that the backlog has been cleared, I investigated the VAT and believed it hadn't been handled correctly. I then asked Sandie Morris (internal auditor) for some support regarding what has been happening since she is the only person still employed who knows about our accounts. Sandie discussed that 2 years ago she sat with Kate for a couple of hours trying to explain VAT to her but mainly the exemption. She had asked for some reports and calculations, but Kate had said the system couldn't do that, so it was left. Sandie did not review this at next audit despite requesting a copy on her report for 21/22.

I have looked through the system and found that Kate has not been declaring all VAT and been putting large invoices as 0% but under OTS (outside the scope). OTS is the only code that does not get included in the VAT return so HMRC would not have picked up the difference between purchase amount and VAT amount. On invoices with a substantially high amount Kate has written:

“VAT not claimed due to the £7500 limit for recovering VAT attributing to exempt supplies in any one tax year.”

While discovering this information, HMRC got in touch regarding our latest submission which was submitted by myself. They were querying the increase in amount, I said that it would be due to the solar panel installation/ new roof and it would be a one off and I would support them with anything they needed. HMRC asked a range of questions and asked for supporting evidence. I investigated the quarter in question and found there were indeed errors. Therefore, called HMRC and I have been open and honest about not just this quarter but my findings for previous quarters. HMRC have said they will work with us as we have been honest with them, however we will need to go back through the last 4 years and make corrections.

This will not be an easy task as we can't pull off a report for OTS. Additionally cancelled invoices haven't been taken off correctly and some trade transactions haven't been allocated correctly. So, each invoice needs to be gone through one by one referring to paper copies. Furthermore, each return needs a partial exemption calculation done to see if council fall under the de minimis. Our system can't do this. This also hasn't been done before and I'm not 100% but I believe this will make us not tax digital compliant and another error on our part.

Discussion Points

- Penalties we could receive. (3 years and reductions)
- How do we approach Kate, as she needs to give evidence on why she did it and if we need to build a case of carelessness
- Should we be telling Essington council where Kate works now?
- First VAT return adjusted with HMRC
- Advice on partial exemption from a VAT expert when required (recommendation from Dains Accountants of Lichfield)
- The work to be completed for last 4 years

Melanie Matthews – Finance Officer