

ALAN J. HARLAND FCA
Accounting and Advisory Services

380 WOKINGHAM ROAD, EARLEY, READING, BERKSHIRE RG6 7HX
 TELEPHONE: 0118 926 2910 MOBILE: 07801 374338 E-MAIL: alan.harland1@btinternet.com

Mr I Lynch
 Clerk to Farnham Town Council
 Council Offices
 South Street
 Farnham
 Surrey
 GU9 7RN



20 May 2013

Dear Iain

Internal audit, year ending 31 March 2013; review of draft financial statements and annual return for external audit

Following my visit this week, I confirm that I have completed my review of the draft Income & Expenditure Account and Balance Sheet from the Omega financial ledger, and the numbers taken therefrom for inclusion in the summary accounts in section 1 of the annual return. I have now agreed the annual return numbers with yourself, Catherine and Rachel.

The only adjustment required to the financial statements is on the Balance Sheet, where the General Fund balance at 31 March 2012 (ie on the comparative balance sheet) should be £469,015. This will need to be corrected through the RBS helpdesk. Please also let me see a copy of the text pages that will complete the financial statements in due course.

Although no other matters arise from my review of the draft financial statements, we discussed several options to mitigate the impact of VAT partial exemption on proposed substantial expenditure on several of the Council's properties. Partial exemption is a complex subject, and I summarised the key points in my letter dated 21 December 2012. I should be pleased to explain in more detail at a later date if this would be helpful.

1. Wrecclesham Community Centre

The Council receives an annual rental of £4,550 from this property, which is then let out by the lessees for public hire and use. You mentioned that the Council is planning to spend over £100,000 in a programme of refurbishment, commencing later this year. As the rental income is exempt from VAT, the Council would not be able to recoup the input VAT of £20,000+ on construction costs since that would be in excess of the VAT partial exemption de minimis. The Council should therefore seriously consider 'opting to tax' the Community Centre before the refurbishment works commence. This does mean that VAT would have to be applied to rental and any other income from the Centre for 20 years after the election is made, but the Council will be able to recover all input VAT on the refurbishment, and any other costs incurred subsequently.

2. The proposed conversion of a redundant chapel for rented commercial use

The same principles on opting to tax apply in this case, since the expected income will be more than £1 per annum. Again, the Council would have to make an 'option to tax' before refurbishment works commenced.

3. Chapel refurbishment for continuing use

My understanding is that whilst disposal of the remains of deceased persons (ie burial in your council's case) is exempt from VAT, provision and maintenance of a burial ground is a non-business activity, and all input VAT on related costs is fully recoverable. Although I am not fully au fait with the legislation, provided a chapel is available to all persons visiting the burial ground (and not just funeral parties) without charge, I would have thought that providing a chapel was a non-business activity. You should confirm the correct position on this matter with HMRC Written Enquiries.

* * * * *

Provided the Council approves the annual return (a) with the numbers on the summary accounts in Section 1 as we have agreed; and (b) with affirmative responses to the questions on the annual governance statement in Section 2; then my Internal Auditor's report in Section 4 will be unqualified. I confirm that I shall be visiting the Council on 14th June to sign the completed annual return.

Yours sincerely



Alan Harland