

RESPONSIBILITIES AND SCOPE FOR AUDIT AND ACCOUNTING SERVICES

Limited Company Clients

1.1 Your responsibilities as directors

- 1.1.1 As directors of the company, you are responsible for preparing financial statements which give a true and fair view and which have been prepared in accordance with the Companies Act 2006 (the Act). As directors you must not approve the financial statements unless you are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- 1.1.2 In preparing the financial statements, you are required to:
- select suitable accounting policies and then apply them consistently;
 - make judgements and estimates that are reasonable and prudent; and
 - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- 1.1.3 You are responsible for keeping proper accounting records that set out with reasonable accuracy at any time the company's financial position, and for ensuring that the financial statements comply with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and with the Companies Act 2006.
- 1.1.4 You are also responsible for safeguarding the assets of the company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.
- 1.1.5 ***If audit exemption is being taken*** You are also responsible for deciding whether, in each financial year, the company meets the conditions for exemption from an audit, as set out in section 477 (or 480) of the Companies Act 2006, and for deciding whether the exemption cannot be claimed that year for any of the reasons set out in sections 476, 478, or 479.
- 1.1.6 You are responsible for ensuring that the company complies with laws and regulations that apply to its activities, and for preventing non-compliance and detecting any that occurs.
- 1.1.7 You have undertaken to make available to us, as and when required, all the company's accounting records and related financial information, including minutes of management, shareholder and directors' meetings, that we need to do our work. Each director is required to take all steps that he ought to take as a director in order to make himself aware of any relevant audit information and to establish that we are aware of that information.
- 1.1.8 If [audited] financial information is published, which includes a report by us or is otherwise connected to us, on the company's website or by other electronic means, you must inform us of the electronic publication and get our consent before it occurs and ensure that it presents the financial information and Chartered Accountants, auditor's report properly. We have the right to withhold consent to the electronic publication of our report or the financial statements if they are to be

published in an inappropriate manner.

- 1.1.9 You must set up controls to prevent or detect quickly any changes to electronically published information. We are not responsible for reviewing these controls nor for keeping the information under review after it is first published. You are responsible for the maintenance and integrity of electronically published information, and we accept no responsibility for changes made to any audited information after it is first posted.

AUDIT

1.2 Our responsibilities as statutory auditors

- 1.2.1 We have a statutory responsibility to report to the members as a body, whether in our opinion the financial statements have been properly prepared in accordance with UK GAAP, whether they have prepared in accordance with the Companies Act 2006 and whether they give a true and fair view. In deciding this, we must consider the following matters, and report on any that we are not satisfied with:

- (a) whether the company has kept adequate accounting records, and whether branches that we have not visited have sent in proper returns adequate for our audit;
- (b) whether the company's individual accounts are in agreement with the accounting records and returns; and
- (c) whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit.

- 1.2.2 We may also need to deal with certain other matters in our report. For example, if the financial statements do not give details of directors' remuneration specified by law, the Companies Act 2006 requires us to disclose such matters in our report. If the company prepares accounts and reports in accordance with the small companies regime when in our opinion it is not entitled to do so we are required to state the fact in our report.

- 1.2.3 We have a professional responsibility to report if the financial statements do not significantly comply with applicable financial reporting standards, unless we believe there is a good reason for the non-compliance. In deciding whether or not this is the case, we consider:

- (a) whether the non-compliance is necessary for the financial statements to give a true and fair view; and
- (b) whether the non-compliance has been clearly disclosed.

- 1.2.4 Our professional responsibilities also include:

- (a) describing in our report the directors' responsibilities for the financial statements if the financial statements or accompanying information do not include this information; and

- (b) considering whether other information in documents containing audited financial statements is consistent with those financial statements.
- 1.2.5 As noted in 1.2.1 above, our report is made solely to the company's members, as a body, in accordance with section 495 of the Companies Act 2006. Our audit work will be undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, the audit report, or for the opinions we will form.
- 1.2.6 The Senior Statutory Auditor under s504 Companies Act 2006 is [Insert Name].
- 1.2.7 In the event that we cease to act as statutory auditors for the company we are required by paragraph 9(3) of schedule 10 to the Companies Act 2006, to make available, if requested, all relevant information concerning the audit of the company to our successors as statutory auditors. You agree to cover any reasonable costs of making such information available that we may incur in fulfilling our statutory duty.

1.3 Scope of audit

- 1.3.1 We will carry out our audit in accordance with the International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.
- 1.3.2 We shall obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained by the company. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions there from. In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which come to our notice.
- 1.3.3 The nature and extent of our audit will vary according to our assessment of the company's accounting system and, where we wish to rely on it the internal control system, and may cover any aspect of the business's operations that we consider appropriate. Our audit is not designed to identify all significant weaknesses in the company's systems but, if we detect significant weaknesses we will report them to you. You may not show this report to third parties without our prior written consent. We will grant consent on the basis that the report is only prepared in the sole interests of the company and that we accept no duty or responsibility to any other party as concerns the report.
- 1.3.4 As part of our normal audit procedures, we may ask you to confirm in writing representations you have made to us during the audit. In particular, where misstatements in the financial statements that we bring to your attention are not

adjusted, you must state your reasons in writing. In connection with representations and the supply of information to us generally, we draw your attention to section 501 of the Companies Act 2006 under which it is an offence for anyone to recklessly or knowingly supply information to the auditors that is false or misleading and to fail to promptly provide information requested.

- 1.3.5 To help us examine your financial statements, we will ask to see all documents or statements that are due to be issued with the financial statements. We are also entitled to receive details of all written resolutions that are to be circulated to members, to attend all the company's general meetings and to receive notice of them all.
- 1.3.6 You are responsible for safeguarding the company's assets and for preventing and detecting fraud, error and non-compliance with law or regulations. We will plan our audit so that we can reasonably expect to detect significant misstatements in the financial statements or accounting records (including those resulting from fraud, error or non-compliance with law or regulations), but you cannot rely on us finding all such errors.
- 1.3.7 We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm (principals and staff) other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).
- 1.3.8 Once we have issued our report, we have no further responsibility in relation to the financial statements for that financial year. However, we expect that you will inform us of any material event occurring between the date of our report and the date the financial statements are sent out in accordance with section 423 Companies Act 2006 which may affect the financial statements.
- 1.3.9 To ensure that there is effective two-way communication between us and to comply with the requirements of International Standards on Auditing (UK and Ireland) we will:
- contact you prior to the audit to discuss any relevant matters and to agree any required action; and
 - contact you after the audit to discuss any matters arising from the audit and to confirm any agreed action.

We will of course contact you more frequently and regularly about audit and other matters during the course of the audit.

- 1.3.10 *And if applicable* We appreciate that the present size of your business makes it uneconomic to create a system of internal control based on the segregation of duties for different functions within each area of the business. In the running of your company, we understand that the directors are closely involved with the control of the company's transactions. In planning and performing our audit work we shall take account of this supervision.

ACCOUNTING

1.4 Our responsibilities as accountants

1.4.1 You have asked us to help you prepare the financial statements *of financial information, e.g. profit and loss account and balance sheet and relevant notes* in accordance with the requirements of the Companies Act 2006 to enable profits to be calculated to meet the requirements of section 42 of the Finance Act 1998, as amended by the Finance Act 2002, and that provide sufficient and relevant information to complete a tax return. We will compile the financial statements for your approval based on the accounting records that you maintain and the information and explanations that you give us.

1.4.2 We shall plan our work on the basis that no report on the financial statements is required by statute or regulation for the year, unless you inform us in writing to the contrary. We will make enquiries of management and undertake any procedures that we judge appropriate but are under no obligation to perform procedures that may be required for assurance engagements such as audits or reviews. *Where an assurance or agreed upon procedures engagement is to be undertaken, then the full details of what is to be undertaken and the result of that work needs to be agreed in writing.*

1.4.3 We will advise you on whether your records are adequate for preparation of the financial statements and recommend improvements.

1.4.4 We have a professional duty to compile financial statements that conform with generally accepted accounting principles from the accounting records and information and explanations given to us.

Furthermore, as directors you have a duty to prepare financial statements that comply with the Companies Act 2006 and applicable accounting standards. If we find that the financial statements do not conform to generally accepted accounting principles, or if the accounting policies adopted are not immediately apparent, we must disclose this in the financial statements.

1.4.5 We also have a professional responsibility not to allow our name to be associated with financial statements which we believe may be misleading. Therefore, although we are not required to search for such matters, should we become aware, for any reason, that the financial statements may be misleading, we will discuss the matter with you with a view to agreeing appropriate adjustments and/or disclosures in the financial statements. In circumstances where adjustments and/or disclosures that we consider appropriate are not made or where we are not provided with appropriate information, and as a result we consider that the financial statements are misleading, we will withdraw from the engagement.

1.5 Form of the accountants' report.

1.5.1 The accountants' report helps users derive comfort from the involvement of chartered accountants who are subject to the ethical and other guidance issued by the Institute in relation to the preparation of the financial information or statements. It also helps prevent users from deriving unwarranted assurance from the financial information or statements where no audit or assurance work has been performed and no opinion is expressed by the accountants.

1.6 Preparation and maintenance of accounting records

OUR RESPONSIBILITIES

1.6.1 We have agreed to carry out the following accounting and other services on your behalf:

- (a) review, balance, summarise and analyse the accounting records of the company and;
- (b) complete the postings to the nominal ledger.

YOUR RESPONSIBILITIES

1.6.2 You have agreed that you will:

- (a) keep the records of receipts and payments;
- (b) reconcile the balances monthly with the bank statements;
- (c) post and balance the purchases and sales ledgers;
- (d) extract a detailed list of ledger balances;
- (e) prepare details of the annual stocktaking, suitably priced and extended in a form which will enable us to verify the prices readily by reference to suppliers' invoices; provide us with a copy of the valuation report produced by your independent stocktakers; and
- (f) prepare details of work-in-progress at the accounting date and make available to us the documents and other information from which the statement is compiled.