

# Audit exemption reports

*(Issued October 1994)*

This statement sets out the basic principles and essential procedures, indicated by paragraphs in bold type, to be observed by reporting accountants engaged to prepare a report for the purposes of section 249A (2) of the [Companies Act 1985](#) ('the Act') on the accounts of a small company; it also includes explanatory and other material which, rather than being prescriptive, is designed to assist reporting accountants.

The limited nature of such a report derives from the relevant legislation and this statement has been prepared in consultation with the DTI.

In this statement, the word 'report' is used to refer to the report for the purposes of section 249A (2). A summary of some of the key points of the legislative background to such reports is given in [Appendix 1](#). For a proper understanding of the statutory requirements, however, reference should be made to the Act.

## Accountancy work performed by reporting accountants

The directors of small companies usually engage an accounting firm to assist them to comply with the statutory responsibility to prepare annual accounts. Often the same accounting firm is engaged both to assist with accounts preparation (and related accountancy work) and to act as reporting accountants.

The procedures performed by the accounting firm in the preparation of the accounts will often be directly relevant to the report, but will not necessarily be sufficient to enable them to express all of the opinions which the Act requires in the report. However, where the accounting firm has prepared the accounts from the accounting records, and is satisfied that its procedures comply with paragraphs 1 to 17 of this statement, no additional work will be required in order to express the opinions which are to be provided in the report.

## Objective of the engagement

**1 The reporting accountants should perform such procedures as are necessary to provide a reasonable basis on which to express the opinions which are to be provided in the report.**

**1.1** The report requires opinions to be expressed on three specific matters and provides assurance only on those matters (see [Appendix 1](#)). The reporting accountants' work is designed to provide a reasonable basis for these opinions. As the scope of the opinions is narrow, the reporting accountants' procedures are limited and much less extensive than, for example, in an audit.

**1.2** In particular, the reporting accountants do not consider the completeness, accuracy and validity of the accounting records; nor do they consider whether the accounts give a true and fair view, the company's compliance with applicable accounting standards, the treatment of events after the balance sheet date, the appropriateness of the going concern basis, or the company's compliance with other laws and regulations.

## Agreeing the terms of the engagement

### **2 The reporting accountants and the directors should set out in writing and agree on the terms of the engagement.**

**2.1** To qualify for the exemption it is necessary for the directors to cause a report to be prepared. It is therefore in the interests of both the reporting accountants and the company that the reporting accountants send a letter confirming their acceptance of the appointment and documenting the key terms of the engagement.

**2.2** If the reporting accountants already have an appointment as auditors of the company, under terms specified in an existing audit engagement letter, a new engagement letter will need to be agreed. There is no requirement to resign from the appointment as auditors. However, if it appears likely that the company will not require an audit of its accounts for the foreseeable future, then, in order to avoid any possible confusion, the accounting firm may wish to resign as auditors (and to make the statement required by section 394). In such circumstances the reporting accountants and the directors may agree terms of engagement on a continuing rather than an annual basis.

**2.3** Matters dealt with in the engagement letter will normally include:

- (a) the respective responsibilities of the directors and of the reporting accountants;
- (b) the scope of the reporting accountants' work;
- (c) the circumstances in which, and the form in which, a report can be issued; and
- (d) the terms of any non-statutory professional services to be provided by the reporting accountants (for example, to assist the directors in preparing the accounts).

**2.4** The reporting accountants can agree with the directors a limit on any liability arising out of the work. Section 310, which would make void any such agreement made by an auditor, does not apply to this or any other non-audit engagement. Legal advice may be required regarding the terms of any such agreement and on the form of words to be included in the engagement letter.

**2.5** An illustrative example of an annual engagement letter for this type of engagement is given in [Appendix 2](#).

## Ethical considerations

### **3 In the conduct of the engagement, the reporting accountants should comply with the ethical guidance issued by their relevant professional body.**

**3.1** The users of the report will reasonably expect the reporting accountants to have had regard to the appropriate ethical considerations; these include, *inter alia*, integrity, objectivity, professional competence and due care, and

confidentiality. In addition, the reporting accountants are required by section 249D(4) to be independent of the company.

## Planning

### **4 The reporting accountants should plan their work so that an effective engagement is performed.**

**4.1** As part of their planning procedures, the reporting accountants will make specific and timely enquiries to obtain the directors' confirmation that, to the best of their knowledge and belief, they expect that:

- (a) the company will satisfy the report conditions; and
- (b) the company has not fallen, and will not fall, into any of the cases where the exemption is not available;

and whether they require a report to be prepared. In considering whether a report is to be prepared, the directors will have regard to any undertakings given to third parties which may require an audit to be carried out, for example, where an audit is a condition of a loan covenant.

**4.2** Obtaining an understanding of the procedures to be adopted for the accounts to be prepared, and of the form of accounting records kept by the company, is an important part of planning: it assists the reporting accountants to tailor the specific procedures to be performed having regard to the circumstances of the particular engagement. The accounting records are those kept by the company under section 221 and do not include, for example, any statutory register or minute book kept by the company.

## Documentation

### **5 Working papers should adequately record the reporting accountants' planning and the procedures performed, and should provide evidence that the work was carried out in accordance with these standards and support the conclusions drawn.**

**5.1** The extent of working papers is a matter of professional judgement, since it is neither necessary nor practicable to document every matter the reporting accountants consider.

**5.2** Working papers normally include:

- the engagement letter;
- a description of the accounting records kept by the company;
- evidence of the planning process;
- a record of the nature, timing and extent of the procedures undertaken and the results of such procedures (including a copy of any Companies Act accounts disclosure checklist which has been used);

- a written record of any information or explanations from the board of directors which the reporting accountants regard as being of importance to their opinion;
- copies of the final trial balance, of the accounts and of the report.

A separately documented work programme is not necessary, provided the work planned and performed is recorded.

## Work delegated to assistants

**6 Work delegated to assistants should be directed, supervised and reviewed in a manner which provides confidence that such work is done competently and in accordance with these standards.**

**6.1** Appropriate arrangements need to be in place to ensure that any assistants to whom work is delegated are adequately briefed on their responsibilities and the objectives of the procedures they are to perform. The progress of the engagement needs to be monitored and the work performed by each assistant needs to be reviewed by personnel of at least equal competence, to ensure that the procedures have been performed as planned and have been adequately documented, and that any significant matters have been properly identified, so that the objectives of the engagement may be met.

## Procedures

### Accounts in agreement with the accounting records

**7 The reporting accountants should perform such procedures as are necessary to provide a reasonable basis on which to express an opinion on whether the accounts are in agreement with the accounting records.**

**7.1** Procedures relating to this objective will comprise comparison of the accounts with the accounting records. The reporting accountants will need, inter alia, to agree all balances in the accounts with the general ledger, via the trial balance. Postings from the books of prime entry (in whatever form these are kept by the company) to the general ledger will need to be agreed on a test basis, checking items in each direction. In deciding the number of items to test, and the basis of their selection, the reporting accountants will have regard to the need to obtain a reasonable basis for the opinion expressed.

**7.2** However, the reporting accountants do not carry out procedures to enable them to form an opinion on whether proper accounting records have been kept, or to check the arithmetical accuracy of the accounting records. Entries in the accounting records do not need to be checked to source documents (such as invoices). In those cases where no other accounting records are kept, source documents can be regarded as constituting the accounting records.

**7.3** For the purposes of this opinion the reporting accountants will disregard 'de minimis' differences between the accounts and the accounting records.

### Accounts drawn up in a manner consistent with the specified accounting requirements

**8 The reporting accountants should perform such procedures as are necessary to provide a reasonable basis on which to express an opinion on whether, having regard only to, and on the basis of, the information contained in the accounting records, the accounts have been drawn up in a manner consistent with the accounting requirements specified in section 249C(6).**

**8.1** The reporting accountants only consider the information contained in the accounting records. Their objective is to be satisfied that, on the basis of whatever accounting records have been kept by the company, the accounts have been prepared from them in the form laid down by the specified requirements.

**8.2** For example, in relation to an amount included in the accounting records purporting to represent fixed assets (say, plant and machinery), the reporting accountants will need to consider whether:

- it is included in the balance sheet:
  - in the appropriate caption in one of the formats prescribed by Schedule 4; and
  - with an appropriate description prescribed by Schedule 4 ('tangible fixed assets');
- it is included in the balance sheet on a basis permitted by Schedule 4; and
- provision is made for depreciation as required by Schedule 4.

The reporting accountants may find it helpful to use a Companies Act accounts disclosure checklist in this part of the engagement.

**8.3** The reporting accountants are not required to perform procedures designed to obtain evidence to support the entries in the accounting records, the existence, ownership or value of assets, or the completeness of income, liabilities and disclosures in the accounts. Nor do they make any assessment of the estimates or judgements made by the directors in the preparation of accounts, or of whether the accounts comply with applicable accounting standards.

### **Entitlement to exemption from an audit**

**9 The reporting accountants should perform such procedures as are necessary to provide a reasonable basis on which to form an opinion on whether, having regard only to, and on the basis of, the information contained in the accounting records, the company is entitled to exemption from an audit.**

**9.1** Procedures relating to this objective will comprise:

- (a) inspection of the accounting records to establish whether the report conditions appear to have been met; and

- (b) consideration of whether, at any time within the year, the company fell into any of the categories not entitled to the exemption from an audit of the accounts.

**9.2** For this purpose the reporting accountants accept the information contained in the accounting records kept by the company, without attempting to further verify or substantiate the basis on which entitlement to the exemption is claimed by the directors. Where the reporting accountants are satisfied that the accounts are in agreement with the accounting records, it may be possible to form the required opinion on entitlement to the exemption on the basis of turnover and balance sheet totals shown in the accounts.

**9.3** The reporting accountants' knowledge of the company will normally provide a sufficient basis on which to consider whether the company is in any of the categories of company not entitled to the exemption. The reporting accountants will, however, need to remain alert, throughout the engagement, for any information which might come to light indicating that the company may, at some time in the financial year, have fallen into one of the categories of companies not entitled to the exemption.

### **Discussions with the board of directors**

#### **10 If the reporting accountants either:**

- (a) **have doubts whether the results of their procedures provide a reasonable basis on which to express an affirmative opinion on each of the matters specified by the Act; or**
- (b) **have become aware of information which indicates to them that the accounts may be misleading,**

**the matters giving rise to their concern should be discussed with the directors.**

**10.1** The reporting accountants' concern may be dispelled by information and explanations supplied by the directors, or by the directors making appropriate amendments to the accounts (for the accounting records). The reporting accountants do not seek independent evidence to corroborate information or explanations provided by the directors.

**10.2** The reporting accountants are not required to perform procedures designed to obtain evidence that the accounts are not misleading. Nevertheless, in the normal course of their work they may become aware of information which may indicate to them that the accounts may be misleading. Practising accountants have a professional responsibility not to allow their names to be associated with accounts which they believe may be misleading, and will therefore discuss with the directors any such matters which have come to their attention.

**11 If the reporting accountants conclude that the company did not satisfy the conditions for exemption from an audit of the accounts, or that it did not fall within the categories of companies entitled to the exemption, or if they are unable to reach a conclusion on either of these matters, no report can be issued. The reporting accountants should notify the directors in writing of the reason without undue delay.**

**11.1** Section 249C(3) specifies that the report shall 'state that in the opinion of the reporting accountant... the company satisfied the [report conditions]'; the Act does not permit this opinion to be qualified. Therefore, no report is issued if, in the opinion of the reporting accountants, the report conditions are not satisfied, or if they remain uncertain whether those conditions are satisfied. In such circumstances an audit of the accounts is required.

## Reporting

**12** If the reporting accountants are satisfied that the results of their procedures provide a reasonable basis on which to express an affirmative opinion on each of the matters specified by the Act, they should issue a report including such an opinion.

**12.1** An illustrative example of such a report is given in [Appendix 3](#).

**13** The report should include the following matters:

- (a) a title identifying the shareholders of the company as the persons to whom the report is addressed;
- (b) an introductory paragraph identifying the accounts reported on;
- (c) a statement that the directors are responsible for the preparation of the accounts;
- (d) a description of the basis of the reporting accountants' opinion;
- (e) the reporting accountants' opinion;
- (f) the name and signature of the reporting accountants;
- (g) the date of the report.

## Addressee

**13.1** The report is to be made to the members of the company, who are normally the shareholders (section 249A(2)).

## Directors' responsibilities

**13.2** A company is not entitled to the exemption unless the balance sheet includes a statement by the directors acknowledging their responsibilities for ensuring that the company keeps accounting records which comply with section 221 and for preparing accounts which give a true and fair view and which otherwise comply with the requirements of the Act (section 249B(4)(c)). It is sufficient for the report to include a reference to that statement rather than reproducing it in full.

## Basis of opinion

**13.3** This section of the report describes the scope of the engagement, to enable the reader to understand the nature of the procedures performed and the assurance expressed.

## Name and signature of the reporting accountants

**13.4** The copy of the report which is delivered to the registrar of companies is required to state the name of, and to be signed by, the reporting accountants. Copies of the report laid before the company in general meeting, or which are otherwise circulated, published or issued, need only state the name of the reporting accountants.

**13.5** The report is signed in the name of the accounting firm, indicating their capacity as reporting accountants.

## Date of the report

**13.6** The date of the report is the date on which the reporting accountants sign the report. The reporting accountants do not date the report earlier than the date on which the accounts are approved by the directors.

## Modification of the report

### Disagreement

**14 If the reporting accountants conclude that in respect of a particular matter either:**

- (a) the accounts are not in agreement with the accounting records kept by the company under section 221; or**
- (b) the accounts have not been drawn up in a manner consistent with the accounting requirements specified in section 249C(6):**

**they should issue a report including a negative opinion in respect of the relevant part of the opinion section.**

**14.1** The negative opinion indicates that, in the opinion of the reporting accountants, because of the matter in question, the relevant requirement has not been met. An illustrative example of a report containing a negative opinion is given in [Appendix 4](#).

**14.2** If the reporting accountants express a negative opinion in respect of one of the matters specified by the Act, they may need to consider the implications for the other opinions. For example, if the reporting accountants conclude that the accounts do not agree with the accounting records, it will be necessary to consider whether that particular matter raises doubts about the company's entitlement to the exemption from an audit of the accounts.

**14.3** However, the fact that the reporting accountants identify a matter giving rise to a negative opinion does not of itself give rise to a need to perform additional or more extensive procedures in relation to other aspects of the accounts or of the accounting records.

## Limitation on scope

**15 If a limitation on the scope of the reporting accountants' procedure prevents them from obtaining a reasonable basis for an opinion as to whether either:**

- (a) the accounts are in agreement with the accounting records kept by the company under section 221; or**
- (b) the accounts have been drawn up in a manner consistent with the accounting requirements specified in section 249C(6):**

**they should issue a report including a qualified opinion in respect of the relevant part of the opinion section.**

**15.1** A limitation on scope may be:

- (a) imposed by the directors (for example, where they refuse to provide information or explanations requested by the reporting accountants); or
- (b) imposed by circumstances (for example, where parts of the accounting records have been lost or destroyed).

**15.2** If there is a limitation on scope due to the absence of part of the accounting records, the reporting accountants may nevertheless be able, by comparing the accounts with the remaining accounting records (including any source documents which may be available), to conclude that the company satisfied the report conditions and that a report can be issued (see paragraph 11.1). In such circumstances, the opinion as to whether the accounts are in agreement with the accounting records will be qualified; the reporting accountants will need to consider whether the limitation on scope prevents them from forming an opinion as to whether the accounts have been drawn up in a manner consistent with the specified accounting requirements.

**15.3** The qualified opinion indicates that it is expressed 'except for' the matter in question. An illustrative example of a report where there has been a limitation on scope is given in [Appendix 5](#).

### **The use of an explanatory paragraph**

**16 If the reporting accountants have become aware of information which indicates to them that the accounts may be misleading, and their concern cannot be resolved by procedures which are within the scope of the examination, they should add an explanatory paragraph to the 'basis of opinion' section of the report, referring to the matter. It should be clearly stated that no opinion is expressed on the matter referred to.**

**16.1** If the reporting accountants' concerns have not been resolved by discussion with the directors, a negative or qualified opinion will be inappropriate if the matter in question is one that is outside the scope of the opinions required by the Act. In such cases the matter is highlighted by means of an additional explanatory paragraph in the 'basis of opinion' section of the report, to provide readers with a proper understanding of the basis of the opinion. An illustrative example of a report including an explanatory paragraph is given in [Appendix 6](#).

**16.2** The inclusion of an explanatory paragraph indicates only that the reporting accountants have become aware of that matter in the course of carrying out their procedures. When no explanatory paragraph is included this does not signify that the reporting accountants have satisfied themselves that the accounts are not misleading, but only that no matters have come to their attention to suggest otherwise.

## **Circumstances which may lead to resignation**

**17 If the reporting accountants either:**

- (a) have become aware of information which indicates to them that the accounts may be misleading, and they conclude that the matter cannot be adequately dealt with by means of modification of their report; or**
- (b) have serious doubts about the integrity of the directors,**

**the reporting accountants should resign from the engagement, notifying the directors in writing of the reason without undue delay.**

**17.1** Where the reporting accountants identify several different matters, each giving rise to a separate reason to modify the report, it will be necessary to consider the nature of the matters in question, and whether their combined effect is such as to raise doubts as to whether the reporting accountants can be associated with the accounts.

**17.2** The reporting accountants may need to take legal advice on the wording of any letter of resignation relating to the integrity of the directors.

## **Appendix 1 - Legislative background**

*This appendix summarises some of the key points of the legislative background. For a proper understanding of the statutory requirements, however, reference should be made to the Act.*

### **Exemptions from audit**

**1** The Act confers exemptions from audit for certain categories of small company: under section 249A(1) those companies which meet the 'total exemption conditions' (section 249A(3)) in respect of a financial year are exempt from the obligation to have their annual accounts audited, whilst under section 249A(2) those meeting the 'report conditions' (section 249A(4)) are similarly exempt if the directors cause a report to be prepared in accordance with section 249C and made to the company's members by suitably qualified reporting accountants.

**2** No statutory report is required in the case of a company which meets the total exemption conditions.

**3** The report conditions specified in section 249A(4) are that:

- (a) the company qualifies as a small company in relation to that year for the purposes of section 246;

- (b) its turnover for that year is more than £90,000 but not more than £350,000; and
- (c) its balance sheet total for the year is not more than £1.4 million.

For a company which is a charity, the report conditions are modified by section 249A(5): the reference to turnover is replaced by gross income, on which the limit is £250,000.

## The report

**4** Section 249C specifies that the report for the purposes of section 249A(2) is required to state whether in the opinion of the reporting accountants making it:

- (a) the accounts of the company for the financial year in question are in agreement with the accounting records kept by the company under section 221, and
- (b) having regard only to, and on the basis of, the information contained in those accounting records, those accounts have been drawn up in a manner consistent with the provisions of the Act (i.e. accounting requirements) specified in section 249C(6), so far as they are applicable to the company.

**5** The report also states that in the opinion of the reporting accountants, having regard only to, and on the basis of, the information contained in the accounting records kept by the company under section 221, the company satisfied the requirements of section 249A(4), modified by section 249A(5) where the company is a charity, for the financial year in question, and did not fall within the categories of company not entitled to the exemption specified in section 249B(1)(a) to (f) at any time within that financial year.

**6** The provisions specified in section 249C(6) are:

- (a) section 226(3) and Schedule 4 ('Form and content of company accounts')
- (b) section 231 and paragraphs 7 to 9A and 13(1), (3) and (4) of Schedule 5 ('Disclosure of information: related undertakings')
- (c) section 232 and Schedule 6 ('Disclosure of information: emoluments and other benefits of directors and others')

where appropriate as modified by section 246(1)(a) and (1A) and section A of Part I of Schedule 8.

## Cases where exemptions are not available

**7** Section 249B(1) specifies that a company is not entitled to exemption in respect of a financial year if at any time within that year it was:

- (a) a public company;

- (b) a banking or insurance company;
- (c) enrolled in a list maintained by the Insurance Brokers Registration Council under section 4 of the Insurance Brokers (Registration) Act 1977;
- (d) an authorised person or appointed representative under the Financial Services Act 1986;
- (e) a special register body as defined in section 117(1) of the Trade Union and Labour Relations (Consolidation) Act 1992 or an employers' association as defined by section 122 of that Act; or
- (f) a parent company or subsidiary undertaking

**8** Section 249B(4) specifies that a company shall not be entitled to exemption unless the balance sheet includes a statement by the directors acknowledging their responsibilities, *inter alia*, for:

- (a) ensuring that the company keeps accounting records which comply with section 221; and
- (b) preparing accounts which give a true and fair view and which otherwise comply with the requirements of the Act.

### Abbreviated accounts

**9** If the directors of a company which satisfies the report conditions propose to take advantage of the exemptions conferred by Part III of Schedule 8 (exemptions with respect to delivery of accounts) and to deliver to the registrar of companies 'abbreviated accounts', a copy of the report for the purposes of section 249A(2) is also to be delivered to the registrar of companies.

**10** No special report by the reporting accountants on the abbreviated accounts is required.

**11** To avoid any possible confusion, however, the directors may choose to append to the copy of the report that is to be delivered some explanatory words, such as follows:

'The following reproduces the text of the report prepared for the purposes of section 249A(2) [Companies Act 1985](#) in respect of the company's annual accounts, from which the abbreviated accounts (set out on pages... to...) have been prepared.'

### Appendix 2 - Illustrative example of an engagement letter

*This example is intended to illustrate the principles set out and the guidance given in the statement. In any particular engagement the letter will need to be tailored to the specific circumstances.*

*The reporting accountants' professional body may specify other matters which are to be included in an engagement letter.*

To the directors of...

The purpose of this letter is to set out the basis on which we are engaged:

- (a) to act as reporting accountants to prepare a report for the purposes of section 249A(2) [Companies Act 1985](#) (the Act), in respect of the company's accounts for the year ended..., in accordance with section 249C of the Act; and
- (b) to provide other professional services to the company.

and the respective responsibilities of the directors and of ourselves.

## **1 Responsibilities of the directors**

**1.1** As directors of the company, you are responsible for ensuring that the company maintains proper accounting records and for preparing accounts which give a true and fair view and which have been prepared in accordance with the Act.

**1.2** You are also responsible for determining whether, in respect of the year, the company needs the conditions for exemption from an audit of the accounts set out in section 249A of the Act, and for determining whether, in respect of the year, the exemption is not available for any of the reasons set out in section 249B.

**1.3** If, in respect of the year, the availability of the exemption from an audit of the accounts is conditional upon your causing a report in respect of these accounts to be prepared for the purposes of section 249A(2), you are responsible for deciding whether that report shall be made and for appointing us as reporting accountants to make that report to the shareholders of the company.

## **2 Responsibilities of the reporting accountants**

**2.1** We shall plan our work on the basis that a report for the purposes of section 249A(2) is required for the year, unless you inform us in writing that either:

- (a) the company requires an audit of the accounts; or
- (b) the company requires neither an audit nor such a report.

**2.2** Should you instruct us to carry out an audit, then a separate letter of engagement will be required.

**2.3** Should you inform us that the company requires neither an audit nor a report, then we shall have no responsibilities to the company, except those specifically agreed upon between us in respect of other professional services.

**2.4** As reporting accountants, we have a statutory responsibility to report to the shareholders of the company whether in our opinion:

- (a) the accounts are in agreement with the accounting records kept by the company under section 221 of the Act; and
- (b) having regard only to, and on the basis of, the information contained in those accounting records, the accounts have been drawn up in a manner

consistent with the accounting requirements specified in section 249C(6) of the Act, so far as they are applicable to the company.

**2.5** We also have a statutory responsibility to state that, having regard only to, and on the basis of, the information contained in the accounting records kept by the company under section 221, in our opinion the company satisfied the conditions for exemption from an audit of the accounts specified in section 249A(4) of the Act and did not, at any time within the year, fall within any of the categories, specified in section 249B(1), of companies not entitled to the exemption.

**2.6** We do not have any responsibility to report whether any shareholder of the company has notified the company that he or she requires an audit, consequently we have no responsibility to carry out any work in respect of this matter.

**2.7** Should our work lead us to conclude that the company is not entitled to exemption from an audit of the accounts, or should we be unable to reach a conclusion on this matter, then we will not issue any report and will notify you in writing of the reasons. In these circumstances, if appropriate, we will discuss with you the need to appoint an auditor.

### **3** *Scope of the reporting accountants' work*

**3.1** Our engagement will be conducted in accordance with the Statement of Standards for Reporting Accountants issued by the Auditing Practices Board. Our procedures will consist of comparing the accounts with the accounting records kept by the company, and making such limited enquiries of the officers of the company as we may consider necessary for the purposes of our report.

**3.2** Our work as reporting accountants will not be an audit of the accounts in accordance with Auditing Standards. Accordingly, we will not seek any independent evidence to support the entries in the accounting records, the existence, ownership or value of assets, or the completeness of income, liabilities and disclosures in the accounts. Nor will we make any assessment of the estimates and judgements made by you in your preparation of the accounts. Consequently our work as reporting accountants will not provide any assurance that the accounting records or the accounts are free from material misstatement, whether caused by fraud, other irregularities or error.

**3.3** We have a professional responsibility not to allow our name to be associated with accounts which we consider may be misleading. Therefore, although we are not required to search for such matters, should we become aware, for any reason, that the accounts may be misleading, and the matter cannot be adequately dealt with by means of modification of our report, we will not issue any report and will withdraw from the engagement, and will notify you in writing of the reasons.

**3.4** As part of our normal procedures, we may request you to provide written confirmation of any information or explanations given by you orally during the course of our work.

**3.5** We attach to this letter a specimen of the form of report, setting out, in the manner specified by the professional standards, the opinions required by the Act.

#### **4 Accounting and other services**

**4.1** You have asked us to assist you in the maintenance of the accounting records and in the preparation of the accounts, as follows:

*(describe the work to be performed or refer to a separate letter of engagement)*

**4.2** You have asked us to provide other professional services, in respect of...

*(describe the other services)*

**4.3** Our engagement with the company as reporting accountants for the purpose of preparing the report is a statutory responsibility and is distinct, and entirely separate, from any obligations or responsibilities arising out of the contractual arrangements agreed between us under which we are to provide the professional services described in [4.1] to [4.2] above.

#### **5 Limitation of liability**

**5.1** *(The reporting accountants can agree with the directors a limit on any liability arising out of the work. In such circumstances, legal advice may be required regarding the form of words to be included in the engagement letter.)*

#### **6 Fees**

**6.1** Our fees are computed on the basis of time spent on the company's affairs by the partners and our staff, and on the level of skills and responsibility involved. Our fees will be charged separately for each of the main classes of work described above, will be billed at appropriate intervals during the year and will be due on presentation.

**6.2** If, in the circumstances described in [2.7], we do not issue any report, or if, in the circumstances described in [3.3], or for any other reason, it becomes necessary for us to withdraw from the engagement, our fees for work performed will be payable by the company.

#### **7 Agreement of terms**

**7.1** We shall be grateful if you could confirm in writing your agreement to the terms of this letter, or let us know if they are not in accordance with your understanding.

Yours faithfully

....

### **Appendix 3 - Illustrative example of report**

#### **ACCOUNTANTS' REPORT TO THE SHAREHOLDERS ON THE UNAUDITED ACCOUNTS OF XYZ LIMITED**

We report on the accounts for the year ended... set out on pages... to...

#### ***Respective responsibilities of directors and reporting accountants***

As described on page... the company's directors are responsible for the preparation of the accounts, and they consider that the company is exempt from an audit. It is our responsibility to carry out procedures designed to enable us to report our opinion.

### ***Basis of opinion***

Our work was conducted in accordance with the Statement of Standards for Reporting Accountants, and so our procedures consisted of comparing the accounts with the accounting records kept by the company, and making such limited enquiries of the officers of the company as we considered necessary for the purposes of this report. These procedures provide only the assurance expressed in our opinion.

### ***Opinion***

In our opinion:

- (a) the accounts are in agreement with the accounting records kept by the company under section 221 of the Companies Act 1985;
- (b) having regard only to, and on the basis of, the information contained in those accounting records:
  - (i) the accounts have been drawn up in a manner consistent with the accounting requirements specified in section 249C(6) of the Act; and
  - (ii) the company satisfied the conditions for exemption from an audit of the accounts for the year specified in section 249A(4) of the Act

and did not, at any time within that year, fall within any of the categories of companies not entitled to the exemption specified in section 249B(1).

*[Signature]*

*Reporting accountants*

*Date*    *[Address]*

## **Appendix 4 - Illustrative example of report: opinion including disagreement**

### **ACCOUNTANTS' REPORT TO THE SHAREHOLDERS ON THE UNAUDITED ACCOUNTS OF XYZ LIMITED**

We report on the accounts for the year ended... set out on pages... to...

#### ***Respective responsibilities of directors and reporting accountants***

...

#### ***Basis of opinion***

...

### ***Opinion - including disagreement***

As stated in note..., the directors have made no provision in the accounts for the depreciation of plant and machinery shown in the balance sheet at £.... Paragraph 18 of [Schedule 4 to the Companies Act 1985](#) requires that any fixed asset which has a limited useful economic life be depreciated.

In our opinion:

- (a) the accounts are in agreement with the accounting records kept by the company under section [221](#) of the Companies Act 1985;
- (b) having regard only to, and on the basis of, the information contained in those accounting records:
  - (i) because of the absence of the provision for depreciation referred to above, the accounts have not been drawn up in a manner consistent with the accounting requirements specified in section 249C(6) of the Act; and
  - (ii) the company satisfied the conditions for exemption from an audit of the accounts for the year specified in section 249A(4) of the Act and did not, at any time within that year, fall within any of the categories of companies not entitled to the exemption specified in section 249B(1).

*[Signature]*

*Reporting accountants*

*Date Address*

### **Appendix 5 - Illustrative example of report: opinion including limitation on scope**

#### **ACCOUNTANTS' REPORT TO THE SHAREHOLDERS ON THE UNAUDITED ACCOUNTS OF XYZ LIMITED**

We report on the accounts for the year ended... set out on pages... to...

#### ***Respective responsibilities of directors and reporting accountants***

...

#### ***Basis of opinion***

Our work was conducted in accordance with the Statement of Standards for Reporting Accountants, and so our procedures consisted of comparing the accounts with the accounting records kept by the company, and making such limited enquiries of the officers of the company as we considered necessary for the purpose of this report, except that the scope of our work was limited as explained below. These procedures provide only the assurance expressed in our opinion.

Owing to flood damage, certain accounting records relating to sales for the first month of the year have been destroyed, and so we have been unable to compare the sales shown in the accounts with those accounting records.

***Opinion - including limitation on scope***

In our opinion:

- (a) except for the uncertainty relating to sales, which arises from the limitation on the scope of our work described above, the accounts are in agreement with the accounting records kept by the company under section 221 of the Companies Act 1985.
- (b) having regard only to, and on the basis of, the information contained in those accounting records:
  - (i) the accounts have been drawn up in a manner consistent with the accounting requirements specified in section 249C(6) of the Act; and
  - (ii) the company satisfied the conditions for exemption from an audit of the accounts for the year specified in section 249A(4) of the Act and did not, at any time within the year, fall within any of the categories of companies not entitled to the exemption specified in section 249B(1).

*[Signature]*

*Reporting accountants*

*Date      Address*

*Note:* In this example the reporting accountants have been able to conclude that the company satisfied the report conditions and that the limitation of scope did not prevent them from forming an opinion as to whether the accounts been drawn up in manner consistent with the specified accounting requirements.

***Appendix 6 - Illustrative example of report: including explanatory paragraph***

**ACCOUNTANTS' REPORT TO THE SHAREHOLDERS ON THE UNAUDITED ACCOUNTS OF XYZ LIMITED**

We report on the accounts for the year ended... set out on pages... to...

***Respective responsibilities of directors and reporting accountants***

...

***Basis of opinion***

...

*Trade debtors*

In carrying out our procedures it has come to our attention that the balance sheet total of debtors includes a debt of £... which has been outstanding for in excess of one year. XYZ Limited has no security for this debt. The directors have made no provision against the debt being irrecoverable and they have informed us that they are satisfied that it will be recovered in full. We are not required to and have not performed any procedures to corroborate the directors' views, and we therefore express no opinion on this matter.

**Opinion**

...

[Signature]

*Reporting accountants*

*Date    Address*

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