

**TERMS OF ENGAGEMENT: Preparation of Accounts for an Audit Exempt Company**

We are bound by the ethical guidelines of The Institute of Chartered Accountants in England & Wales and accept instructions to act for you on the basis that we will act in accordance with those ethical guidelines.

**1. Your responsibilities as directors**

- 1.1. As directors of the company, you are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, you are required to:
  - a) select suitable accounting policies and then apply them consistently;
  - b) make judgements and estimates that are reasonable and prudent; and
  - c) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- 1.2. You are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006 (the Act).
- 1.3. You are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
- 1.4. You are responsible for ensuring that the company complies with laws and regulations applicable to its activities, and for establishing arrangements designed to prevent any non-compliance with laws and regulations and to detect any that occur.
- 1.5. You are responsible for determining whether, in respect of the year, the company meets the conditions for exemption from an audit set out in section 477 *or* 480 for a dormant company of the Act, namely that:
  - a) it qualifies as a small company in relation to that year for the purposes of section 381;
  - b) its turnover in that year is not more than £6.5 million; and
  - c) its balance sheet total for the year is not more than £3.26 million.
- 1.6. You are responsible for determining whether, in respect of the year, the exemption is not available for any of the reasons set out in section 478 and 479 of the Act; namely that at no time during the year was the company:
  - a) a public company;
  - b) an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company;
  - c) carrying on an insurance market activity;
  - d) 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 in section 122 of that Act;
  - e) a member of a group that exceeded the group exemption limits; or
  - f) a member of an ineligible group.
- 1.7. The exemption is available only if you, as directors, sign a declaration as required by section 475(3) of the Act on the balance sheet stating that:
  - a) for the year in question, the company is eligible to take advantage of the audit exemptions;
  - b) the members have not required the company to obtain an audit of its financial statements for the year in accordance with section 476 of the Companies Act 2006; and
  - c) you acknowledge your obligations for complying with the requirements of the Act with respect to accounting records and preparation of accounts.
- 1.8. You have agreed to make available to us, as and when required, all the company's accounting records and related financial information, including minutes of management and shareholders' meetings, necessary to carry out our work. You will make full disclosure to us of all relevant information.

**2. Our responsibilities as accountants**

- 2.1. As the company is totally exempt from audit, we have no statutory responsibilities to the company at all. Our only responsibilities arise from those specifically agreed upon between us in respect of other professional services.

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- 2.2. 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.
- 2.3. Should our work indicate that the company is not entitled to exemption from an audit of the financial statements, then we will inform you of this. In these circumstances, if appropriate, we will discuss with you the need to appoint us as auditors.
- 2.4. We have a professional duty to prepare financial statements that conform with generally accepted accounting principles. Furthermore, as directors, you have a duty to prepare financial statements that comply with the Act and applicable accounting standards. Where we identify that the financial statements do not conform to accepted accounting principles or if the accounting policies adopted are not immediately apparent, this will be made clear in our report, if it is not clear in the financial statements.

**3. Scope of work**

- 3.1. You have asked us to assist you in the preparation of the financial statements. We will compile the annual financial statements for your approval based on the accounting records maintained by you and the information and explanations given to us by you. We shall plan our work on the basis that no report is required by statute or regulation for the year, unless you inform us in writing to the contrary. In carrying out our engagement 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.
- 3.2. Our work will not be an audit of the financial statements in accordance with Auditing Standards. Accordingly, we will not obtain any evidence relating to entries in the accounting records, or to the financial statements or to the disclosures in the financial statements. Nor will we make any assessment of the estimates and judgements made by you in the preparation of the financial statements. Consequently our work will not provide any assurance that the accounting records or the financial statements are free from material misstatement, whether caused by fraud, or other irregularities or error. In addition, we have no responsibility to determine whether you have maintained proper accounting records in accordance with section 386 of the Act and we will not address this point unless you specifically request us in writing to do so.
- 3.3. Since we have not carried out an audit, nor confirmed in any way the accuracy or reasonableness of the accounting records maintained by the company, we are unable to provide any assurance as to whether the financial statements that we prepare from those records present a true and fair view.
- 3.4. As part of our normal procedures when preparing the financial statements, we will attach an accountant's report to them. This report will state that they have been prepared from the books and records of the company and from information supplied by the directors. This report should not be filed with the financial statements at Companies House.
- 3.5. We have a professional responsibility not to allow our name to be associated with financial statements that 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. In these circumstances you agree that we have the right to invoice you for our time spent preparing and discussing the accounts with you and for time spent on any other work that is not completed as a result of our resignation.
- 3.6. As part of our normal procedures we may request you to provide written confirmation of any information or explanations given to us orally during the course of our work.