

TERMS OF ENGAGEMENT: Preparation of Annual Accounts for all Audit Exempt Entities

Last revised 13 May 2016

The purpose of this schedule and the Standard Terms of Business is to set out the basis on which we are to act as accountants and advisors with regard to the production of the entity's financial statements on an accruals basis in accordance with applicable accounting standards, and to clarify our respective responsibilities in respect of that work. The entity's financial statements will be prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

- 1.1 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 purchase and sales ledgers;
 - (d) extract a detailed list of ledger balances;
 - (e) if relevant, 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 supplier invoices or provide us with a copy of the valuation produced by your independent stocktakers; and
 - (f) if relevant, 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.
- 1.2 You are responsible for ensuring that, to the best of your knowledge and belief, financial information, whether used by the entity or for the financial statements, is accurate and complete. You are also responsible for ensuring that the activities of the entity are conducted honestly, and for safeguarding the assets of the entity and for taking reasonable steps to ensure the prevention and detection of fraud.
- 1.3 You are responsible for ensuring that the entity complies with the laws and regulations that apply to its activities including (if relevant) Companies Act 2006, and for preventing non-compliance and for detecting any that occurs.
- 1.4 You are responsible for determining whether, in respect of the year, the entity meets the conditions for exemption from an audit.
- 1.5 You have agreed to make available to us, as and when required, all your accounting records and related financial information, including (if relevant) any minutes of management or member meetings, necessary to carry out our work. You will provide us with all information and explanations relevant to the purpose and compilation of the financial statements, and you will disclose to us all relevant information in full.
- 1.6 You will approve and sign the financial statements thereby acknowledging responsibility for them, including the appropriateness of the accounting basis on which they are compiled, and for providing us with all information and necessary explanations necessary for their compilation.
- 1.7 Financial statements need to be completed prior to submission of the tax return. Failure to submit the return on time will result in penalties and is likely to result in interest and surcharges. In order to avoid this, we must have your accounting records within six months of the year end, and queries raised on those accounting records must be answered promptly, otherwise we cannot guarantee the completion of the accounts to ensure the tax return's timely submission.
- 1.8 For Companies we will insert the appropriate 'tags' in accordance with the minimum tagging requirements specified by HM Revenue & Customs. In most cases, we will use professional software to undertake the 'tagging' and it is therefore agreed that you authorise us to process all normal/standard data tags without reference to you. However, it is your legal responsibility to provide the information in iXBRL format, we will refer to you on any non-standard or judgmental areas.

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2 Our responsibilities as accountants

- 2.1 The financial statements are required to enable profits to be calculated to meet the requirements of the relevant tax legislation and that provide sufficient and relevant information to complete a tax return.
- 2.2 The accruals basis involves adjusting for monies owed to or by you, stock held, work in progress and other year-end timing differences.
- 2.3 If certain criteria are met, your business may be eligible to use simpler cash accounting (without year-end adjustments) to calculate the taxable profits. One criteria is that the entity must be a partnership or sole trader. However, it is the policy of this firm to produce more detailed accounts on an accruals basis as these are more meaningful and allow the business performance to be properly assessed by you.
- 2.4 It should be noted that your tax liabilities may differ between the two approaches but we consider that, in the vast majority of cases, any tax saving attributable to cash accounting is outweighed by factors such as restricted loss relief and the additional administrative costs in switching between the two approaches.
- 2.5 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.
- 2.6 It is agreed that we shall carry out the following accounting and other services:
 - (a) write up the accounting records of the entity insofar as they are incomplete when presented to us;
 - (b) complete the postings to the nominal ledger; and
 - (c) prepare the accounts for approval by yourselves.
- 2.7 We will write to you on or around your year-end date to request the information and records we will need to prepare the accounts.
- 2.8 We will not be carrying out an audit and accordingly will not verify the assets and liabilities of the entity, nor the items of expenditure and income. To carry out an audit would require additional work to comply with International Standards on Auditing (UK & Ireland) so that we could report on the truth and fairness of the accounts.
- 2.9 We would emphasise that we cannot undertake to discover any shortcomings in your systems or any irregularities on the part of your employees, although we will advise you of any such circumstances that we encounter in preparing your accounts.
- 2.10 We have a professional duty to compile financial information that conform with the generally accepted accounting principles selected by the directors/partners/sole trader/trustees as being appropriate for the purpose for which the information is prepared. The accounting basis on which the information has been compiled, its purpose and limitations will be disclosed in an accounting policy note to the financial information and will be referred to in the accountants' report.
- 2.11 We also have a professional responsibility not to allow our name to be associated with financial information 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 information may be misleading, we will discuss the matter with you with a view to agreeing appropriate adjustments and/or disclosures in the financial information. 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 information is misleading, we will withdraw from the engagement. In these circumstances you agree that we have a 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.

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- 2.12 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.
- 2.13 We will annex to the financial statements a short report. In accordance with this engagement the report will point out that we have not carried out an audit but have compiled the financial statements under applicable accounting standards from the accounting records and from the information and explanations supplied to us.
- 2.14 To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than you for our work or for the report. If you wish, or are asked, to provide a copy of the financial statements to a third party you must seek our consent before you do this. You are not entitled to disclose our work to a third party without our express permission. We may grant consent subject to certain conditions; however, in every situation where we grant consent, the report must remain attached to the financial statements shown to the third party.