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## **GUIDANCE NOTES**

### **INTRODUCTION**

Welcome to Version 1 of PCP's international audit exemption programme and review engagement product.

The product is designed to enable practitioners to plan, evidence and control the work that they need to undertake to undertake two different assurance services for limited companies which are exempt from the requirement to have a statutory audit. These services are:

- A compilation report; and
- A limited assurance review engagement.

Compilation reports are simple reports that accountants make at the end of accounts preparation (compilation) assignments. The accountant does not do any additional work on these assignments, and provides no assurance on the financial statements.

Under the International Standard on Related Services (ISRS) 4410, Engagements to Compile Financial Statements, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), such work should be carefully controlled. This pack allows a firm to do this, whilst not incurring significant additional costs.

International Standard on Related Services 4410 was updated in March 2012, by the IAASB.

ISRS 4410 revised, suggests that the guidance should be used on all compilation assignments (including management accounts) and can be used for forecasting assignments as well.

In a limited assurance review engagement, the accountant provides a limited amount of assurance on the figures, as well as having 'compiled' them from books and records provided by the client. The report should conclude whether the accountant has found anything through the course of their work which suggests that the accounts do not show a true and fair view.

The volume of additional work required on a review engagement is largely as follows:

- Enhanced background knowledge of clients
- The need to assess risk of material miss-statement in the accounts
- In addition to accounts compilation procedures the work on low risk sections should include analytical review
- On higher risk areas, substantive style audit testing should be performed

More detail on this can be found on pages 4-8 of these guidance notes.

The requirements needed to give this report are outlined in International Standard On Review Engagements 2400 (Revised). This was revised for accounting periods ending after 31 December 2013.

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## **GUIDANCE NOTES FOR COMPILATION WORK**

### **GETTING STARTED**

When opening the audit exemption files available at [www.pcpproducts.com](http://www.pcpproducts.com) you are faced with a choice of opening a new permanent file, current file or a number of useful documents such as engagement letters, suggested reports etc.

When opening a file for the first time you should enter the standing details for that client into the permanent file and current file headers. This would be the client name and year end. This only needs to be done once for the permanent file, and once for the current file.

To navigate between the various pages within the documents there are hyperlinks. For example if you click on the link underlined in blue, this will take you to the relevant document within the file. You can also use hyperlinks to link into other documents (such as word and excel) that may be contained on your PC or your server. The hyperlink on the schedule reference for that page will take you back to the index.

### **THE PERMANENT FILE**

The permanent file consists of an index sheet and where necessary a working schedule to help you record the required information. It should be used to collate information that will be of permanent interest for the client although you will need to ensure that it is monitored on an annual basis to ensure that the information is still current.

You will see that we have not devised a form for each piece of information you may want to keep on the permanent file. You can see the ones where there is a form, as they have hyperlinks to where the forms can be found for you to complete.

Many of the forms are similar to those which are required for an audit, but in general terms the information required for completion is not as detailed.

### **THE CURRENT FILE**

#### **Introduction**

Once you have saved the file and entered the details into the header and footer as detailed above you are ready to start to tailor the package. You can either do this by printing the file off in its entirety and then completing the schedules manually or by completing them on screen, in which case you can reduce the amount of paper to be printed by deleting the irrelevant sections.

The following guidance explains the purpose of the individual documents.

#### **Section A**

##### ***Final sign off***

This checklist should be completed as a final control when the accounts have been approved but before the accountant's report is signed.

Any disclosure checklist should have completion reports filed in the A section.

An example letter of representation can be found within the appendices.

Unlike an audit, a debrief letter is not required, but it may be necessary to send a management letter highlighting possible improvements to the client's systems.

#### **Section B Assignment Planning**

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### ***Initial planning questionnaire***

This form covers the key points that you should have considered and have in place prior to the planning of the assignment.

### ***Planning memorandum***

This form is the main form where you assess what the risks are on the assignment i.e. what are the sections most likely to be materially misstated.

When undertaking work on higher risk sections of the assignment, you should maintain a higher degree of scepticism, in particular you may wish to challenge the directors in areas where there may be an element of management bias.

Within the planning memorandum you should also note any independence issues that may be relevant.

### ***Initial analytical review***

This schedule can be used to record some of the useful ratios for the client. The most important issue is that you either complete the ratios and/or discuss the performance for the period being covered with the client in order to set up expectations for the audit. You then need to conclude on the impact that this will have on the approach to be taken.

### ***Timetable and budget***

These are control schedules that allow you to record the key deadlines for the job and the time that you think each member of staff should spend on the assignment.

### ***Independence form***

The need to consider independence on such assignments is due to the adoption of the International Ethics Standards Board for Accountants (IESBA) code of ethics.

## **Section C Assignment Completion**

### ***Partner review***

This schedule can be used to record the partner review points and the resolution of those points. The final column can be used by the partner when he/she reviews the clearance of these points. It is essential that the partner confirms at the end that all the points have been cleared to their satisfaction.

### ***Assignment highlights report***

This schedule allows the senior or manager on the job to summarise the work that has been undertaken and the conclusions drawn. It allows the partner to conclude on the assignment and will serve in many cases to improve the quality of the approach being taken.

There should also be a conclusion here, which outlines if the accounts could be deemed to be misleading. If this is the case and the client refuses to make adjustments, then you may need to resign from the assignment under your professional body's ethical guide.

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Previous guidance and ISRS 4410 make it very clear that the compilation report is merely a statement of fact. ISRS 4410 specifically states that: *“The practitioner’s report is not a vehicle to express an opinion or conclusion on the financial information in any form.”* Therefore the justification of report section at the end of the highlights schedule merely justifies that there is no reason that the accounts may be misleading and that certain disclosures that may be necessary, are made.

### ***Final analytical review***

Where the ratios have been completed at the planning stage the same form should be used to update the information. If this is not the case, then this form should be completed.

At the end of the job there should be a conclusion confirming that the accounts make sense in view of the evidence obtained and your knowledge of the client.

### **Individual assignment sections**

Here, in order to comply with ISRS 4410, we suggest that you briefly outline why you are happy that the figures are not misleading. You would do this by briefly describing describing in a narrative format the procedures adopted on each section.

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## **GUIDANCE NOTES FOR LIMITED ASSURANCE REVIEW ENGAGEMENT WORK**

### **GETTING STARTED**

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When opening a file for the first time you should enter the standing details for that client into the permanent file and current file headers. This would be the client name and year end. This only needs to be done once for the permanent file, and once for the current file.

To navigate between the various pages within the documents there are hyperlinks. For example if you click on the link underlined in blue, this will take you to the relevant document within the file. You can also use hyperlinks to link into other documents (such as word and excel) that may be contained on your PC or your server. The hyperlink on the schedule reference for that page will take you back to the index.

### **THE PERMANENT FILE**

The permanent file consists of an index sheet and where necessary a working schedule to help you record the required information. It should be used to collate information that will be of permanent interest for the client although you will need to ensure that it is monitored on an annual basis to ensure that the information is still current.

The following guidance explains the purpose of the individual documents.

#### ***PAF 1 Background to client***

This section is largely self-explanatory. It is designed to help satisfy the requirements of ISRE 2400. You should have sufficient depth in your documentation so that an experienced accountant with no previous connection with the assignment can pick up the section and by reading it, understand some of the key aspects of the entity.

Staff and management should be talked to at the planning stage and the detailed work stage to verify what the directors have told you.

#### ***PAF 2 Financial History***

The format of this working paper is for each firm to consider themselves, but typically it should reflect the key figures and ratios from the financial statements for the last five years.

#### ***PAF 3 Register of Laws and Regulations***

ISRE 2400 requires the reviewer to establish which laws and regulations if breached would constitute a significant risk to the business and to establish if any breaches have occurred during the year. For those that are fundamental i.e. those that would cause a major problem to the company if they were breached, then the impact of the breach should be documented as should the controls that the company has in place to help reduce the risk of a breach down to an acceptable level.

#### ***PAF 4 Related Parties***

This schedule is used to document related parties and forms the starting point for the auditor's work on completeness of related parties. This is as a result of ISRE 2400 requirements.

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## ***PAF 7 Systems Notes***

These notes enable the client's key accounting systems to be appropriately documented. In particular it is important to make it clear how income is recognised and the procedures that the company has in place for recording and accounting for income.

### **THE CURRENT FILE**

The following guidance explains the purpose of some of the individual documents.

#### **Section A**

##### **Accounts**

###### ***A1 Final sign off***

This checklist should be completed as a final control when the accounts have been approved but before the report is signed.

#### **Section B**

##### **Audit Planning**

###### ***B1 Initial planning questionnaire***

This form covers the key points that you should have considered and have in place prior to the planning of the assignment.

###### ***B3 Planning memorandum***

This form is the main form where you assess what the risks are on the assignment i.e. what are the sections most likely to be materially misstated.

When undertaking work on higher risk sections of the assignment, you should maintain a higher degree of scepticism, in particular you may wish to challenge the directors in areas where there may be an element of management bias.

Within the planning memorandum you should also note any independence issues that may be relevant.

###### ***B4 Initial analytical review***

Key ratios for the client should be recorded. It is important that you demonstrate that the figures are in line with expectations. The expectations could be based on the discussions, budgets, cumulative knowledge of the entity etc. You need to conclude on the impact that this will have on the audit approach to be taken.

###### ***B5 Assessment of risks at the assertion level***

This schedule is where you assess what the risk areas are on the assignment. These would be the areas where there is a risk of material misstatement.

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### ***B6 Independence questionnaire***

This form allows you to demonstrate that the firm is independent and has adequate resources to complete the review. It is important that if threats are identified that an appropriate safeguard is put in place and applied.

### ***B7 Client meeting minutes***

A meeting must be held with the entity at the planning stage and a record should be made of any changes in risk assessment etc., as well as the fraud assessment and preliminary analytical review.

### ***B8 Materiality summary***

The determination of materiality for the financial statements as a whole (overall materiality) is not based on any assessment of risk. It is determined entirely in relation to the users of the financial statements. Potential materiality should be calculated using the guidelines on the form. The accountant needs to determine the actual level to be applied. This will usually depend on the nature of the entity, so for an actively trading entity it will usually be an income based measure and for an entity with many investments an asset based measure.

## **Section C**

### **Assignment Completion**

#### ***C1 Partner review***

This schedule can be used to record the partner review points and the resolution of those points. The final column can be used by the partner when he/she reviews the clearance of these points. It is essential that the partner confirms at the end that all the points have been cleared to their satisfaction.

#### ***C2 Assignment highlights report***

This schedule allows the senior or manager on the job to summarise the work that has been undertaken and the conclusions drawn. It allows the partner to conclude on the assignment and will serve in many cases to improve the quality of the approach being taken.

There is a justification of report section at the end of the highlights schedule where you arrive at the overall conclusion for the assignment.

#### ***C4 Final analytical review***

Where the ratios have been completed at the planning stage the same form should be used to update the information. If this is not the case, then this form should be completed.

At the end of the job there should be a conclusion confirming that the accounts make sense in view of the evidence obtained and your knowledge of the client.

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### **Individual assignment sections**

Time needs to be spent determining the best approach to be taken (during the planning). This should be achieved by considering the risk of material misstatement within each area and assessing which particular objective contains the risk. For example, rather than merely saying that receivables are a high risk area, you could say that possible bad debts (impairment of receivables) is the particular risk, so that the sales ledger is then considered to ensure that any provision (impairment) is adequately provided for. Then this is the only area you need to undertake detailed testing on and the remainder can be covered by analytical review.

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## **APPENDICES**

There are a number of appendices included within the product. These are as follows:

Appendix 1- Example report (for both types of report, compilation and review)

Appendix 2- Example letter of request for accounting records from client (this applies to both types of assignment)

Appendix 3- An insert for your engagement letters covering responsibilities & scope of work for preparing company accounts, and then an insert for review engagements.

Appendix 4- Going Concern Checklist [this is a checklist that can be used to better document your consideration of the applicability of the going concern basis on a compilation assignment- this more detailed version is within the review engagement]

Appendix 5- Letter of representation (for both types of report, compilation and review)

Appendix 6- Checklist of issues to consider when assessing suitability for client audit exemption/assurance service

Appendix 7- Letter to the accountant, from the client, confirming their decision to avail themselves of audit exemption (for both types of report, compilation and review)

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**PERMANENT FILE INDEX**  
[Annual update confirmation](#)

**Business details**

1.	<a href="#">Background to client</a>	
2.	Financial History	
3.	<a href="#">Register of fundamental laws and regulations</a>	
4.	<a href="#">Related parties</a>	
5.	Other details of the business	
6.		

**Systems and controls**

7.	<a href="#">Systems notes</a>	
8.	Organisation chart	
9.	Management letters sent	
10.		

**Engagement details**

11.	Letter of engagement	
12.	<a href="#">New client checklist</a>	
13.		

**Statutory information**

14.	Memorandum and articles of association	
15.	Annual return	
16.	Share capital history	
17.	Certificate of Incorporation	

**Bank accounts, loans and agreements**

18.	<a href="#">Bank accounts and signatories</a>	
19.	<a href="#">Borrowing facilities and loan covenants</a>	
20.	Copy of bank facility letter	
21.	Copy of significant loans and agreements	

**Other information**

22.	Details of pension schemes	
23.	Fixed asset register	
24.	Statutory accounts	



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**1 BACKGROUND TO CLIENT**

<b><u>Company name and trading name</u></b>
<b><u>Company numbers etc.</u></b> Registered number Sales Tax number Accounting period end Sales Tax periods
<b><u>Business address</u></b>
<b><u>Contact numbers</u></b> Phone Fax E-mail Website
<b><u>Registered office address</u></b>
<b><u>Location of accounting and statutory records</u></b>
<b><u>Directors' names and areas of responsibility</u></b>

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**BACKGROUND TO CLIENT continued**

**Other key personnel and areas of responsibility**

**Nature, goals and history of business**

**Details of key customers & suppliers**

**Significant issues brought forward from previous assignments**

**Key accounting policies**

**Reporting requirements and deadlines**

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**BACKGROUND TO CLIENT continued**

**Business advisors**

**Legal representatives**

**Banks**

**Other**

**Money laundering (detail the steps taken to establish that the client is operating a bona fide business)**

**Method of performing client due diligence**

**Risk assessment**

**Beneficial owner**

**Other steps/considerations**

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## FILE INDEX

### CONTROL SECTIONS

- A [ACCOUNTS](#)
- B [PLANNING](#)
- C [COMPLETION](#)

### DETAILED SECTIONS

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- E [INTANGIBLE NON-CURRENT ASSETS](#)
- F [TANGIBLE NON-CURRENT ASSETS](#)
- G [INVESTMENTS](#)
- H [INVESTMENTS IN GROUP ENTITIES](#)
- I [INVENTORY, WORK IN PROGRESS AND LONG TERM WORK IN PROGRESS](#)
- J [RECEIVABLES AND PREPAYMENTS](#)
- K [BANK BALANCES AND CASH](#)
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- O [CAPITAL, RESERVES AND STATUTORY RECORDS](#)
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**A ACCOUNTS**

- 1 [Final sign off](#)
- 2 Final accounts
- 3 Final journals
- 4 Tax computations
- 5 Letter of representation
- 6 Reports to management

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Completed by:	Date:	Ref: <a href="#">A1</a>
Reviewed by:	Date:	

**FINAL SIGN OFF**

			Ref	Comments	Initials
1	Have all outstanding items from the initial review been adequately cleared?	Yes/No/N/A)*	<a href="#">C1</a>		
2	Has a signed letter of representation been received?	Yes	<a href="#">A5</a>		
3	Are we satisfied that the directors' representations can be relied upon?	Yes			
4	Has a letter of comment covering suggested improvements to the client's system and commercial observations been sent?	Yes/No/N/A*			
5	In view of the evidence that has been recorded, is the report wording appropriate?	Yes	<a href="#">C2</a>		
6	Has a post balance sheet events review been undertaken?	Yes	<a href="#">D</a>		
7	Has adequate consideration been given to whether the entity is a going concern?	Yes	<a href="#">D</a>		
8	Do the working papers and the tax computation reflect the final adjustments?	Yes			
9	Have all final journals been recorded and processed to produce a closing trial balance agreeing with the accounts?	Yes	<a href="#">A3</a>		
10	Has the final copy of the accounts been referenced to the file to ensure all lead and support schedules reflect final adjustments?	Yes			
11	Is the report in accordance with appropriate guidance, as laid out by IAASB (ISRS 4410)?	Yes			
12	Has a set of full accounts been signed appropriately by the client, and kept on file?	Yes			

I authorise the signing of the report- there are no issues which could render the accounts misleading.

**Signed.....Engagement Principal Date .....**

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**B PLANNING**

- 1 [INITIAL PLANNING QUESTIONNAIRE](#)
- 2 [KNOWLEDGE OF THE BUSINESS](#)
- 3 [PLANNING MEMORANDUM](#)
- 4 [INITIAL ANALYTICAL REVIEW](#)
- 5 [RISK ASSESSMENT](#)
- 6 [INDEPENDENCE FORM](#)

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Completed by:	Date:	Ref: <a href="#">B1</a>
Reviewed by:	Date:	

### INITIAL PLANNING QUESTIONNAIRE

Area for consideration	Dealt with? y/n	Initials and date	Comments	WP Ref
1. Ensure an appropriate engagement letter is in place to reflect the nature of the assignment. The letter must not imply that the firm is carrying out an audit. This is particularly important if the client has required an audit in the past.				
2. Are we satisfied that we have adequate resources and expertise to undertake the assignment?				
3. Review the correspondence file and note any relevant or important points which arise.				
4. Consider and document the impact of any changes in legislation or accounting standards on the financial statements.				
5. If this is not the first year in which we have acted for the company, review the points brought forward from the previous year's work and assess and document their impact on this year's work.				
6. If this is not the first year in which we have acted for the company, review the independence and other ethical considerations raised in section 12 of the PAF, and assess if there are any changes which may cause the practice an independence or ethical issue.				

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Reviewed by:	Date:	

**INITIAL PLANNING QUESTIONNAIRE continued**

Area for consideration	Dealt with? y/n	Initials and date	Comments	WP Ref
7. Have we determined who may be interested in our report and what reliance, if any, is likely to be placed on the information contained therein?				
8. Have we requested accounting records from the client? ( <a href="#">Appendix 2</a> )				
9. Set the budget and allocate and brief staff.				

**Conclusion**

Completed by \_\_\_\_\_ Date \_\_\_\_\_

Partner \_\_\_\_\_ Date \_\_\_\_\_