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ANNUAL UPDATE CONFIRMATION

Year	Updated by		Reviewed by	
	Initials	Date	Initials	Date

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1 **BACKGROUND TO CLIENT**

Company name and trading name

Company numbers etc.

Registered number

VAT number

Accounting period end

VAT periods

Date of incorporation

Date commenced trading

Business address

Contact details

Phone

E-mail

Website

Linked in

Twitter

Facebook

Registered office address

Location of accounting and statutory records

Directors' names and areas of responsibility

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BACKGROUND TO CLIENT continued

Other key personnel and areas of responsibility

Nature and history of business

Key audit matters arising in previous years

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BACKGROUND TO CLIENT continued

Accounting Estimates

Identify and list the accounting estimates relevant for the audit.

Document how management identifies and makes the accounting estimates noting the data on which they are based e.g. method, controls, assumptions, use of an expert.

Have there been any changes in circumstances during the year that may give rise to new or the need to revise existing accounting estimates?

Do any of the estimates involve fair value measurement changes?

Review the accounting estimates in the prior period and comment on their accuracy.

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BACKGROUND TO CLIENT continued

Document whether, and if so, how management has assessed the effect of estimation uncertainty associated with an accounting estimate.

Review the significance of disclosures regarding estimation uncertainty in the financial statements.

Do any of the estimates constitute a significant accounting risk? [PAF 13](#)

What accounting estimates require inclusion in the representation letter?

How have management been challenged on their calculations?

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BACKGROUND TO CLIENT continued

Key accounting policies and potential for fraud arising from their application [PAF 12](#)

Reporting requirements and deadlines

Key performance indicators for the business (financial and non financial) and the method of monitoring each)

Nature of financing in place

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BACKGROUND TO CLIENT continued

Key customers

Key suppliers

Governance procedures

Business advisors

Legal representatives

Banks

Other

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BACKGROUND TO CLIENT continued

Anti-Money Laundering (detail the steps taken to establish that the client is operating a bona fide business)

What risks are present to the client from an Anti-Money Laundering perspective?

How does the client perform customer due diligence (if required) to ensure compliance with Money Laundering Regulations 2019?

What ongoing due diligence procedures does the client have to monitor any changes which have occurred?

Is the client involved in high risk activities?

Does the client have a history of complex or unusually large transactions?

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BACKGROUND TO CLIENT continued

Does the client have a history of unusual patterns of transactions or transactions which have no apparent economic or legal purpose?

What is the name of the ultimate beneficial owner and any beneficial owners and what country are they based in?

Do we have direct access to the beneficial owner and the ultimate beneficial owner?

Is there any evidence of Politically Exposed Persons (PEPs)?

What is our risk assessment of the client?

How have we monitored and updated any changes which may have occurred at the client?

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3 REGISTER OF LAWS AND REGULATIONS

Details of laws and regulations with which the business needs to comply

Laws and regulations that have a fundamental effect on the operation of the entity

Other laws and regulations

Specific accounting standards with which the entity must comply

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3 REGISTER OF LAWS AND REGULATIONS continued

Audit work to be performed on the fundamental law or regulation				
Controls in place to prevent a breach of a fundamental law and regulation				
Impact of a breach of a fundamental law or regulation				
Fundamental law or regulation				

The attached table should be completed for all fundamental laws and regulations which impact on the business. For these laws and regulations you must record the controls in place, the impact of a breach of the law or regulation and the audit work which needs to be performed. If a law and regulation is fundamental it should also be included on the schedule of significant risks on [PAF 13](#).

The table does not need to include laws and regulations which are not fundamental.

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4 **RELATED PARTIES** ♣

Are transactions conducted on an arms-length basis?	Name of professional advisors	Country of incorporation	Types and value of transactions	Nature of relationship	Name of related party

♣ If there is a group structure utilise tree diagrams or document the group structure

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RELATED PARTIES continued

Document the potential risks arising from related party transactions

Document any evidence of the following:

Significant involvement of family members

Sensitivity of stakeholders to related party disclosures

Trust arrangements

Unusual and uncommercial transactions (Favourable loans, transactions at under value etc.)

Management charges and management services

Business property transactions

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8 **SYSTEMS NOTES**

Sales

Sources of income

Method of recording orders

Accounting records and method of use

Evaluation of system and impact on the audit

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8 **SYSTEMS NOTES continued**

Purchases

Types of expenditure

Method of recording orders

Accounting records and method of use

Evaluation of system and impact on the audit

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8 **SYSTEMS NOTES continued**

Stock

Stock locations

Types of stock

Details of system

Method of valuation

Evaluation of system and impact on the audit

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8 **SYSTEMS NOTES continued**

Payroll

Types and number of staff

Method of calculating payroll

Accounting records and method of use

Method and frequency of payment

Evaluation of system and impact on the audit

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9 CONTROLS ASSESSMENT

This schedule is an overview of the audit areas and the controls assessment that has taken place in the subsequent pages.

Audit Area	Significant control? Y/N ϕ	Design of controls satisfactory?	Testing of implementation required?	WP Reference for testing
Post balance sheet events and going concern	Yes/No	Yes/No	Yes/No	
Intangible fixed assets	Yes/No	Yes/No	Yes/No	
Tangible fixed assets	Yes/No	Yes/No	Yes/No	
Investments in group and associated undertakings	Yes/No	Yes/No	Yes/No	
Other investments	Yes/No	Yes/No	Yes/No	
Debtors and prepayments	Yes/No	Yes/No	Yes/No	
Bank balances and cash	Yes/No	Yes/No	Yes/No	
Creditors and accruals	Yes/No	Yes/No	Yes/No	
Long term loans and deferred income	Yes/No	Yes/No	Yes/No	
Provisions for liabilities and charges	Yes/No	Yes/No	Yes/No	
Capital, reserves and statutory records	Yes/No	Yes/No	Yes/No	
Taxation	Yes/No	Yes/No	Yes/No	
Income	Yes/No	Yes/No	Yes/No	
Expenditure	Yes/No	Yes/No	Yes/No	
Payroll	Yes/No	Yes/No	Yes/No	
Related parties	Yes/No	Yes/No	Yes/No	
Use of a service organisation	Yes/No	Yes/No	Yes/No	
Group accounts	Yes/No	Yes/No	Yes/No	

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9 **CONTROLS ASSESSMENT**

Audit Area	Significant control? Y/N φ	Description of controls *	Assessment of adequacy of design of controls ♣	Working paper reference for testing of implementation of significant controls
Post balance sheet events and going concern				
Intangible fixed assets				
Tangible fixed assets				
Investments in group and associated undertakings				

- φ A significant control is one on which reliance will be placed or a control over an area of significant risk.
- * For typical controls which might be in place see controls checklists on **PAF 9** of the medium sized and more complex company audit programme.
- ♣ This is based on your knowledge and what you think that the client should have in place.

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9 **CONTROLS ASSESSMENT** continued

Audit Area	Significant control? Y/N φ	Description of controls *	Assessment of adequacy of design of controls ♣	Working paper reference for testing of implementation of significant controls
Other investments				
Debtors and prepayments				
Bank balances and cash				
Creditors and accruals				
Long term loans and deferred income				

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9 **CONTROLS ASSESSMENT** continued

Audit Area	Significant control? Y/N φ	Description of controls *	Assessment of adequacy of design of controls ♣	Working paper reference for testing of implementation of significant controls
Provisions for liabilities and charges				
Capital, reserves and statutory records				
Taxation				
Income				
Expenditure				

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9 **CONTROLS ASSESSMENT** continued

Audit Area	Significant control? Y/N φ	Description of controls *	Assessment of adequacy of design of controls ♣	Working paper reference for testing of implementation of significant controls
Payroll – Method of controlling and ensuring compliance				
Related parties - Method of identifying, accounting for and disclosing				
Group accounts and consolidation				

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9 **CONTROLS ASSESSMENT continued**

Service organisations and experts - ISA 402 (UK) and ISA 500 (UK)

Details of services outsourced to other agencies and experts utilised (for example stock taking, PAYE, investment management, etc.)

Assess the competence and the independence of those performing the work

Detail the methods of operating and assess their adequacy

What controls of the company are relevant to the service organisation? Is there any interaction between the two?

Are Type 1 or Type 2 Controls Reports available?

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9 **CONTROLS ASSESSMENT continued**

Is the reporting timescale adequate?

How has the auditor evaluated the Type 1 or Type 2 report?

What is the relevance of the report to audit assertions?

Can we evaluate the design and implementation of the controls at the user entity? If so evaluate.

Can we evaluate the design and implementation of the controls at the service organisation? If so evaluate.

Evaluate the overall risk arising from this area

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9 **CONTROLS ASSESSMENT** continued

Record details of the control environment and the way that the business generally ensures that all transactions are fully recorded and that only transactions that relate to the business are included.

Determine on the basis of the audit work performed whether individually or in combination the identified deficiencies in internal control constitute “significant deficiencies”. If so ensure they are included in the letter of comment on C1 of the current audit file.

Conclude on whether the controls are sufficient for this type of entity.

For the significant controls and areas of significant risk, are substantive tests alone enough to obtain sufficient assurance? If not, list the tests of operational effectiveness that will be carried out.

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10 BUSINESS RISK ASSESSMENT

Objective: The purpose of these schedules is to assess the strategy of the business along with management's assessment of risk and the controls adopted to mitigate those risks. It is suggested that the initial steps are completed by the audit team to help demonstrate your own understanding of it and then this is discussed with the client and the risk assessment completed. ISA (UK) 315 defines a significant risk as one which, in the auditor's judgement requires special audit consideration. Business risk is defined as a risk that could adversely affect an entity's ability to achieve its objectives and execute its strategies or from the setting of inappropriate objectives and strategies.

Business strategy and objectives:	Does this give rise to a significant risk? Y/N	Transferred to schedule of significant risks on PAF 13? Y/N
<i>Short term goals:</i>		
<i>Medium term goals:</i>		
<i>Long term goals:</i>		

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10 **BUSINESS RISK ASSESSMENT** continued

SWT analysis:	Does this give rise to a significant risk? Y/N	Transferred to schedule of significant risks on PAF 13 ? Y/N
Strengths:		
Weaknesses:		
Threats:		

Action

(Detail here any issues that need to be raised with management)

Conclusion

Prepared by:

Date:

Reviewed by:

Date:

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11 FINANCIAL STATEMENT LEVEL RISK ASSESSMENT

The most appropriate risk category for each area should be ringed. Using this and any further information that is relevant assess the overall risk at the financial statement level of the client. Where necessary justify your choice in the final column.

	Low	Medium	High	Justification	Is this a significant risk for the audit (Y/N)
					PAF 13

1 External Interest in accounts

Share ownership	Director/ Management	Small Minority	External Interest		
Third party users?	No	Possibly	Yes		
Potential sale of business?	No	Possibly	Yes		

2 Management of business

Is the owner/manager sufficiently involved in the day to day running of the business?	Yes	Sometimes	No		
Management competence.	Good	Adequate	Poor		
Management changes or key staff leaving?	None	Some	Many		
The owner/manager monitors the performance of the business on an ongoing basis.	Yes	Sometimes	No		
The company has a strong ethical culture.	Yes	-	No		

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FINANCIAL STATEMENT LEVEL RISK ASSESSMENT continued

3 Going Concern

Nature of business/industry	Low Risk	Medium Risk	High Risk		
Has COVID-19 given rise to potential problems with the company's going concern?	No	-	Yes		
Are there a number of new risks or revisions to existing risks arising from COVID-19?	No	-	Yes		
Will the impact of COVID-19 lead to difficulties in accessing books and records or other financial information?	No	-	Yes		
Is data used by the business both relevant and reliable?	Yes	Partially	No		
Has the company lost any major customers or suppliers where the impact on the business could be significant?	No	-	Yes		
What doubts are there regarding the company's ability to continue as a going concern?	Insignificant	Moderate	Major		
Is the company dependent on a few major customers and/or suppliers?	No	-	Yes		

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FINANCIAL STATEMENT LEVEL RISK ASSESSMENT continued

	Low	Medium	High	Justification	Is this a significant risk for the audit (Y/N) PAF 13
Is there a risk of technical obsolescence of products or services?	No	Possibly	Yes		
Are there a large number of business locations and/or a wide geographical spread of activities?	No	Some	Yes, a lot.		
Does the business operate in a failing or declining sector?	No	-	Yes		
Has COVID-19 given rise to potential problems with the company's going concern?	No	Some	Yes		
Is the impact of Brexit a concern for the company?	No	Some	Yes		

4 Audit and Accounting Issues

Have generally accepted accounting principles been complied with in the past few years?	Always	Sometimes	Rarely		
Are there any contentious accounting treatments?	No	-	Yes		
Have there been problems making adjustments in the past?	No	Sometimes	Often		
Has COVID-19 resulted in problems counting inventory?	No	-	Yes		
Have there been any changes to regulatory factors that may affect accounting estimates?	No	-	Yes		

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FINANCIAL STATEMENT LEVEL RISK ASSESSMENT continued

	Low	Medium	High	Justification	Is this a significant risk for the audit (Y/N)
Is this the first year you have acted as auditors?	No	-	Yes		
Do the management change professional advisors regularly?	No	-	Yes		
Do management seek to limit the scope of the audit and/or impose unreasonable deadlines?	No	-	Yes		
Do management try to restrict your ability to communicate with other key stakeholders in the business?	No	-	Yes		
Does the application of UK GAAP involve any significant valuations to be carried out e.g. fair value?	No	Occasionally	Yes		
Has COVID-19 resulted in potential impairment of assets?	No	Some	Significant		

Is this a significant risk for the audit (Y/N)
PAF 13

Action

(Detail here any issues that need to be raised with management in respect of weaknesses in the control environment)

Conclusion

OVERALL FINANCIAL STATEMENT LEVEL RISK IS:

B6.1

Low	Medium	High
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Prepared by:

Date:

Reviewed by:

Date:

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12 **FRAUD AND ERROR RISK ASSESSMENT**

Area of concern	Comments	Is this a significant risk for the audit? ♣ Y/N PAF 13
Explain any significant risks arising from recognition of income or justify why it is not deemed significant.		
Does validity of expenditure constitute a significant risk? If not explain why this is the case.		
Do any of the accounting policies in use present opportunities for fraud and error?		
Indicate how the threat of management over-ride has been covered. If you believe that the risk is not significant explain carefully why that is not the case.		
Have analytical review procedures highlighted any potential problems?		
What impact has COVID-19 had regarding fraud and error?		

♣ISA (UK) 240 requires that the risks of material misstatement due to fraud are treated as significant risks

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FRAUD AND ERROR RISK ASSESSMENT continued

Area of concern	Comments	Is this a significant risk for the audit? ♣ Y/N PAF 13
Is the lifestyle of the owners/managers consistent with their business income?		
Is there an incentive and opportunity for management to manipulate profits?		
Is there usually adequate documentation to support transactions in the business?		
Are there a significant number of related parties and related party transactions?		
What steps does the company take to safeguard its assets?		
Are there significant transactions with businesses without commercial substance? If yes this is automatically a significant risk.		
Is there any indication of inappropriate claiming of government subsidies arising from COVID-19?		
Are there a large number of business locations and/or a wide geographical spread of activities?		
Does the business operate with an overly complex organisational structure? If so describe it.		

♣ISA (UK) 240 requires that the risks of material misstatement due to fraud are treated as significant risks

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12 **FRAUD AND ERROR RISK ASSESSMENT** continued

Area of concern	Comments	Is this a significant risk for the audit? ♣ Y/N PAF 13
Are there significant cash transactions?		
What aspects of payroll are susceptible to fraud and error?		
Has the integrity of the owner(s) or management been cast into doubt at any stage during a court or professional disciplinary case?		
Does this area present opportunities for the use of data analytics? Possible tests include: <ul style="list-style-type: none"> ➤ Searching for unusual or risky journals e.g. round sum journals, those with no description, those posted on a weekend or bank holiday, those posted to suspense and those posted close to the year-end. ➤ Segregation of duties testing by identifying combinations of users involved in processing transactions from the associated meta data. 		

In the separate table below list any other areas within the business which have not already been covered.

Other areas that are susceptible to either fraud or error for this particular business are:

Area	Is this a significant risk for the audit?

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FRAUD AND ERROR RISK ASSESSMENT continued

Summarise below why we believe that our audit work is capable of detecting irregularities including fraud, indicating how both rigour and scepticism have been applied.

Action

(Detail any issues that need to be raised with management in respect of weaknesses in the control environment)

Conclusion

Prepared by:

Date:

Reviewed by:

Date:

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