



PKR– 2C097-R

25 January 2020

Mr R Williams
Rather Small Cottage
Orleton
LUDLOW
Shropshire
SY8 4HN

Dear Bob

The Community Boot Inn (Orleton) Limited

You have asked me to put in writing to you the legal and practical aspects of audit and accounting certificates in relation to The Community Boot Inn (Orleton) Limited.

Regulatory Position

The company is registered under the Co-operative and Community Benefit Societies Act 2014 as a Community Benefit Society using the Plunkett Foundation template.

This gives the Members the power not to appoint an auditor by a vote on a Resolution at the Annual Members Meeting – unless the normal audit thresholds are breached (currently £5,100,000 of total assets of £10,200,000 of sales, neither of which would apply to you).

The resolution will pass if:

- less than 20% of the votes cast are against the resolution, and
- less than 10% of all members entitled to vote cast a vote against it

The resolution only operates for one year of account – so the company would need to pass a resolution for each year of account that you chose not to have an audit.

What an Audit Covers

Auditing is a regulated activity. My firm is authorised by the regulators to undertake audit work and to provide an audit opinion.

An audit opinion does not state whether or not a set of financial statements is accurate; it simply states whether the financial statements show a true and fair position – ie are within reasonable bounds.

Carrying out an audit involves a number of test checks of assets, liabilities and transactions, on a sample basis. Crucially, it requires the completion of a significant amount of paperwork, which is then subject to review by our professional body. Audits also carry an increased professional indemnity premium.

Our minimum fee nowadays for an audit is circa £1,600 – and that would be for an entity with only a very limited number of assets, liabilities and transactions. This fee is in addition to any work involved in completing the entity's financial statements.

As previously discussed with you, because of the costs involved (and also what those costs provide) we actively encourage clients only to have an audit certificate from us either where there is a legal requirement for one, or where they have doubts as to the veracity of the financial statements and want a verified check to have been carried out that they can fall back on later if needs be.

What an Accountant's Certificate Covers

All financial statements that we prepare are accompanied by an accountant's certificate. This is given in standard wording, and explains that we have not carried out an audit, and that the financial statements are prepared based on the information and explanations provided to us by the client.

Different firms of accountants take different views on what work to carry out for financial statements assignments.

Some firms simply take the client's records and use them to prepare a set of financial statements, without carrying out any checks.

Other firms (who want to ensure that their name on an accountant's certificate has some value) undertake checks on the figures provided by the client, and question anything that does not appear to make sense. Where it is clear to those firms of accountants that there is something wrong with the figures they will refuse to provide a certificate, and cease acting for the client unless the issue is addressed.

My firm falls in the latter category. For example, if a set of financial statements shows money due at the end of the year, that is followed up to an after date receipt – and if there is none the client is questioned to ensure that the debt is genuinely due. Similarly, bank balances are agreed to bank statements, and logic checks are carried out on all figures in the financial statements.

Whilst the work does NOT represent an audit – for instance, in the case of stock we do not attend a stocktake to test count the stock – it should provide assurance to readers of the financial statements that the figures in them have been looked at dispassionately and logically.

As you know, as part of our work on the quarterly figures for the company we have examined every transaction to ensure that it is sufficiently supported and correctly shown in the financial statements. We have also ensured that those financial statements are presented in a format compliant with both regulatory requirements and the requirements of those providing loan and grant funding. We have though not carried out an audit and have therefore not expressed an opinion on the truth and fair=ness of the financial statements.

Ultimately it is for the Members to decide if they want an audit; if they do then we would be happy to plan one in, probably for completion by the end of February.

I hope this explanation is helpful; please let me know if there is anything else that you need.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Reynolds', with a horizontal line extending to the right.

Peter Reynolds
For Dyke Ruscoe & Hayes Limited