



AUDIT &  
ASSURANCE  
FACULTY

# Assurance insights: Focusing on the facts



## Focusing on the facts

James Cowper LLP, conducts agreed-upon procedures on the unaudited financial statements of Relcross Ltd.

Many companies that do not require a statutory audit still want the comfort of having their financial statements checked by an independent accountant. 'As I am the managing director and the chief finance officer, I like to know that an independent organisation will come in and review the financial accounts at least once a year on behalf of the shareholders,' says Mark Dallaway, from Relcross Ltd.

So when the largest of the three companies in the group no longer needed a statutory audit of its annual accounts and Relcross reorganised the group structure, Dallaway asked James Cowper LLP, the accountancy and business adviser that had previously conducted the statutory audit, to explain which options could provide the level of comfort sought.

Services that add credibility to the financial statements of audit exempt companies include a compilation engagement, voluntary audit, assurance review and agreed-upon procedures (see box). 'We went through the options and the associated costs together,' says Alex Peal, a business services partner with James Cowper. Then Dallaway, who is a chartered accountant, selected agreed-upon procedures. 'Alex suggested a list of procedures that could be undertaken along with the written document that would follow at the end of the process. The list was discussed with the group chairman and majority shareholder to find out if there was anything specific he would like to see added or removed,' explains Dallaway.

The accountancy firm performed agreed-upon procedures on all three companies in the Relcross group. It reviewed stock ageing (to assure the board that the company did not hold significant old stock and was correctly valued), debtors (to check that all of the debtor balances in the accounts were recoverable and fairly stated), accounts complete (to verify that the sales cut off was done accurately), and queried other matters that were not cleared at the year end. Then James Cowper wrote a letter to the Relcross chairman reporting on everything that had been included in the agreed-upon procedures. 'As we had agreed on 15-20 points, the letter to the chair was several pages long but it provided the comfort we were looking for,' says Dallaway.<sup>1</sup>

This approach has benefits for the Relcross board, shareholders and management. 'I prepare monthly management accounts for all the companies in the Relcross group, with more detailed quarterly management accounts for our board meetings,' says Dallaway. These are now supplemented with the annual agreed-upon procedures report which adds the credibility of independence to the financial statements and provides comfort for the chairman and other shareholders, including members of staff. Identifying and then providing a service to meet their needs has benefited the accountancy firm too, as Peal explains, 'By not doing a statutory audit we have actually ended up doing more work for the client.'

### Adding credibility to financial statements

If a statutory audit is not required, chartered accountants can offer businesses a number of services designed to add credibility to their financial statements and reassure those using them.

The main options are: a voluntary audit engagement, assurance review, accounts compilation and agreed-upon procedures. You can learn more about these services from your accountant and at [icaew.com/assuranceoptions](http://icaew.com/assuranceoptions)

<sup>1</sup>When accountants refer to 'assurance services' this technically means services in which the accountant gives assurance in the form of an opinion or conclusion. Agreed-upon procedures do not involve such a conclusion, but are regarded as related to assurance services because management can take assurance by drawing their own conclusion on the basis of the work performed by the accountant.