

Terms of Engagement for Accounting Assignments

The Chartered Accountants Australia and New Zealand recommends, and we think it helpful, that there be a clear understanding between us as to the nature and extent of services to be provided, and on our respective responsibilities.

The objective of our procedures will be to provide a report on the findings of our work substantially in the form of the compilation report which is attached in Appendix 1.

Financial Reporting Obligation

Financial statements must be prepared in accordance with the Standards issued by the New Zealand Institute of Chartered Accountants Service Engagement Standard No.2 (SES-2). Your business structure will ultimately determine the reporting requirements you are required to meet. It will be your responsibility to provide to us all the information required to enable your financial statements to be properly prepared.

Company Structure

If you have a company structure, the companies' legislation makes it a statutory requirement for the directors to ensure the FRA is complied with. It is also the directors' responsibility to ensure all statutory requirements under the Companies Act 1993 and other relevant legislation is complied with. While some of the tasks required under the Companies Act 1993 may be delegated to us, the responsibility for compliance remains with the directors.

Differential reporting may, in certain circumstances, permit a reduced level of disclosure in the financial statements. In conjunction with advice from us, you will need to decide whether differential reporting should be adopted and the extent of its adoption. This decision is required to be recorded in the company minute book.

The Financial Reporting Act 1993 also requires directors of all companies to have the financial statements completed and signed by the director, or two directors if there are two or more, within five months after balance date. Failure to achieve this deadline may result in prosecution of the directors. We cannot be held responsible for this. Failure to provide all information to us well in advance of the deadlines may result in non-compliance with the law.

With the approval of all shareholders, the time limit imposed on **exempt companies** to complete and sign-off financial statements is nine months. An exempt company is a company which has two of the three following criteria:

1. Total assets under \$1 million;
2. Turnover under \$2 million; and
3. Less than five full time equivalent employees.

In addition, to be an exempt company, the company must not be a subsidiary nor can it have subsidiaries.

You will be responsible for distribution of the financial statements to all shareholders and filing with the Registrar of Companies if required.

Compilation Engagement

Our compilation services will not result in the expression of an audit or review opinion or provide any other form of assurance on the financial statements.

It is understood and agreed that:

- a. Polson Higgs acts as your agent with Inland Revenue in dealing with taxation matters and you give us permission to obtain and provide information on all tax matters. This may be a continuation of previous arrangements we have had or a new arrangement.
- b. You authorise Polson Higgs as your agent to sign and file your taxation return (and any associated returns) on your behalf. You will receive a summary of the content of your tax return and advice of the payment obligations or refund entitlements that arise.
- c. You will provide us with accurate and complete information necessary to compile financial statements and complete all statutory returns, documents and other work required; the responsibility for the accuracy and completeness of the information remains with you.
- d. You accept responsibility for any failure to supply us with all relevant records and information.
- e. The financial statements from which your tax return is prepared will be compiled in accordance with Service Engagement SES-2 issued by the New Zealand Institute of Chartered Accountants.
- f. Each page of the financial statements will be conspicuously marked as being unaudited.
- g. Should you make copies of your accounts for distribution to people other than yourselves, a copy of our compilation report must be attached. Should a copy of our compilation report not be attached you will indemnify us for any liabilities incurred to third parties.

It is not intended that our engagement be relied upon to prevent or detect fraud and error and we wish to emphasise that responsibility for such prevention and detection must remain with you or your management. As a result of our work we may be able to suggest improvements which could be made to your accounting systems and records.

Other Services

Polson Higgs, where requested, will provide other services of an advisory nature on tax, commercial, financial or other matters. Where the nature, size or scope of the assignment warrants, we will issue a separate engagement letter to record the terms of that particular assignment.

Inland Revenue Penalties Regime

The tax legislation places the onus on taxpayers to comply with current tax legislation in determining their taxation commitments. Where the level of care taken in establishing their tax liability has been deficient, penalties will be imposed. Penalties can range from 20% to 150% on the shortfalls of tax, plus an interest charge. In the light of this legislation, we have introduced a series of measures to limit any potential exposure to the Penalties Regime. As you will ultimately bear the cost of any penalties which may be imposed, we strongly suggest you review your own systems so that penalties are not incurred as a result of your own practices.

Definitions

Polson Higgs Ltd: Any use or reference to Polson Higgs, we, us, our or firm within these terms and conditions will mean Polson Higgs Ltd.

Partner: The title 'Partner' conveys that the person is a senior employee of Polson Higgs Ltd and holds an equity interest in the company.

Conclusion

Please let us know if you have any queries about these terms of engagement, otherwise we will act for you on the basis that you have accepted our terms.

Appendix 1

The following sample is typical of the Compilation Report and Disclaimer which will appear on the financial information we prepare:

Report on the Engagement to Compile Financial Statements For the year ended [Balance Date]

COMPILATION REPORT TO THE DIRECTORS/PARTNERS/TRUSTEES/PROPRIETOR

Reporting Scope

On the basis of information that you provided we have compiled, in accordance with "Service Engagement Standard Number 2: Compilation of Financial Information", the financial statements of [Entity Name] for the year ended [Balance date] as set out on the following pages.

The Financial Statements of [Entity Name] have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), unless otherwise described below.

Responsibilities

You are solely responsible for the information contained in the financial statements and have determined that the financial reporting basis stated above is appropriate to meet your needs and for the purpose that the financial statements were prepared. The financial statements were prepared exclusively for your benefit. We do not accept responsibility to any other person for the contents of the financial statements.

No Audit or Review Engagement Undertaken

Our procedures use accounting expertise to undertake the compilation of the financial statements from information that you provided. Our procedures do not include verification or validation procedures. No audit or review engagement has been performed and accordingly no assurance is expressed.

Independence [If Required]

We are not independent of [Entity Name] because [reason why not independent, for example, the accountant is a formal or de facto shareholder / director / partner / trustee / lender].

Polson Higgs Ltd
Chartered Accountants
Dunedin, New Zealand
[Date]