

Model review of the [Example project model] for [Example Company Ltd.].

01 May 2019

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1 Introduction

In accordance with our engagement letter dated 01 May 2019 we have undertaken a defined scope review of the financial model prepared by [Example Company Ltd.] to secure debt and equity for [Example Company Ltd].

The review scope has been defined to maximise the impact of our review time. This has been considered in the context of the type and characteristics of the model, as well as from discussions with [Example Company Ltd.] about areas of high materiality or risk.

The scope of our review is limited to the scope set out below at section 2. It does not constitute an audit of the model and excludes any review of accounting or taxation assumptions.

We have reviewed the following models:

Review iteration:	Filename:	Date received:	Cases reviewed:
Iteration 1	xyz_v1.xlsm	01/05/2019	Base case; Inflation+1%
Iteration 2	xyz_v2.xlsm	08/05/2019	Base case; Inflation+1%

2 Scope of the review

2.1 Data flow review

We have reviewed the model's inputs against the following sources:

Inputs in model reviewed	Filename	Sections reviewed
Historic data (Actuals!E15:AB200)	Download 2016-2018.xlsm	'Final 2016!', 'Final 2017!', 'Final 2018!'
Senior loan inputs (Inputs!E150:E223)	Term sheet.pdf	Entire document

All currency-based input values have been reviewed to ensure that they flow through the calculations and are included in full on the financial statements.

The financial statements have been reviewed to ensure that every line item has an appropriate double entry on another statement (please note: this is not a review of accounting assumptions). We have checked that the sign, positive or negative, of each line item on the financial statements are consistent with the nature of the line item.

2.2 Calculation review

We have undertaken a line by line review of the model calculations set out below. The model logic has been reviewed against documentation or standard modelling principles where available, see (a) and (b) below. Where neither is available we will confirm the correct logic with you, see (c) below.

a) Documented calculations

The following model calculations have been reviewed against the following supporting documents:

Calculations reviewed	Filename	Sections reviewed
Senior debt drawdown, repayment, interest, fees and covenants (SnrDebt!A9:BM90)	Term sheet.pdf	Clauses 2.1, 3.2, 5.5, 6.1
Shareholder loan drawdown, repayment, interest and fees (Equity!A5:E134)	Shareholder loan agreement.pdf	Clauses 2.2, 2.3

2.2 Calculation review cont.

b) Undocumented - standard calculations

We have reviewed standard calculations for compliance with standard modelling principles. The following model calculations have been reviewed:

Calculations reviewed

Debtors and Creditors

(WCap!A9:BM301)

Project and Equity returns

(Analysis!A29:BM250)

c) Undocumented - nonstandard calculations

The following model calculations have been reviewed against the logic confirmed with [Example Company Ltd]:

Calculations reviewed

Number of users

(Users!A9:BM55)

Taxation

(Tax!A9:BM92)

2.3 Technical Review

This is a software based review, which identifies technical issues that are associated with the incidence of model errors. We have reviewed the entire model for the following:

High risk issues

Non-equivalent formulas, unused calculations, unused inputs, embedded values in formulas, empty precedents, range reference issues, excel errors, circular references.

Medium risk issues

Missing formulas, values outside the model timeline, range name errors, inputs on calculation sheets.

Low risk issues

External links, invisible cells, hidden rows and columns, hidden charts and objects, end cells not set.

2.4 Macro review

We have reviewed the macros within the model to confirm that they are performing their identified function. We have reviewed the following macros.

Macro name:	Function of the macro:
Run_All_Scenarios()	To run all scenarios one by one and store the results on 'Scenarios results!'

3 Classification of issues

Each of the issues we have identified has been labelled as 'High', 'Medium' or 'Low' according to the following classification:

High (H)	An issue where amendment would result in a change in the outputs of the case reviewed, ie. the issue relates to active logic
Medium (M)	An issue where amendment does not result in a change to the outputs of the reviewed case, but may result in a change to alternative cases, ie. the issue relates to inactive logic
Low (L)	An issue that relates to presentational issues, modelling best practice or risk mitigation practices

We also provide a comment on the impact of each issue. If the financial impact of the issue is apparent then we will provide this, otherwise we will describe the impact of the issue in the most appropriate way.

4 Description of issues

High: 2 resolved 1 awaiting client
 Medium: 1 resolved 0 awaiting client
 Low: 1 resolved 0 awaiting client

Report ref:	Heading:	Description:	Impact:	Model ref:	Client action /response:	Status:
H1-i1	Legal fees not flowing through the model	<p>'Legal fees' entered on the input sheet are not used in the calculations and are therefore not flowing through to the financial statements and impacting on outputs.</p> <p>Please confirm whether these costs should be included and if so build them into the workings.</p>	Inclusion would add £240k to the total nominal costs.	Input!E112	We have added workings to include the input costs.	Resolved
H2-i1	No inflation for manpower cost	<p>No inflation assumption is applied to 'Manpower cost'.</p> <p>Please confirm if this is intentional or apply inflation to manpower costs.</p>	Applying 2% pa inflation would add £545k to the total nominal cost.	Cost!A11:BM11	We have applied CPI inflation to manpower costs.	Resolved

Report ref:	Heading:	Description:	Impact:	Model ref:	Client action /response:	Status:
H3-i1	Gearing not as per the document	The maximum gearing input in the model is 85%, whereas 'Term sheet.pdf' defines it as 80%. The model shows maximum gearing of 84%, with gearing exceeding 80% in 16 quarterly periods. Please amend the model to align with the term sheet.	Material understatement of finance costs.	Input!E42	The input has been updated.	See iteration 2 comment
H3-i2		The input has now been updated, but the model has not been re-solved. Please re-solve the model.	As above	n/a	[TBC]	Awaiting response
M1-i1	VAT on CoS	The calculation of 'VAT on cost of sales' refers to a blank row instead of referring to the 'Cost of sales' line. This currently does not impact the model as the VAT rate is nil, however please consider amending the formula	If a VAT rate is entered then the delay in recovery of VAT on CoS will not be modelled.	VAT!A11:BM11	We have corrected the linking error.	Resolved
L1-i1	Unused Graph data	In 'Graph data!' sheet, all the lines are redundant as no graphs are present in the model. Please consider deleting.	n/a	Graph data!	We have removed the sheet.	Resolved