

13. APPENDIX**FORMAT OF AN AUDIT ENGAGEMENT LETTER**

To the Board of Directors of ABC Company Limited

You have requested that we audit the financial statements of ABC Company Limited, which comprise the balance Sheet as at March 31, 20XX, and the Statement of Profit & Loss, and Cash Flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:

- a) For the preparation of financial statements that give a true and fair view in accordance with the Financial Reporting Standards. This includes the responsibility for:
 - i) Preparation of financial statements on a going concern basis
 - ii) Selection and consistent application of appropriate accounting policies
 - iii) Making judgments and estimates that are reasonable and prudent
 - iv) Maintenance of adequate records and internal controls
 - v) Written representation by the management
- b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- c) To provide us with;
 - i) Access, at all times, to all information, including the books, account, vouchers and other records and documentation, of the Company, whether kept at the head office of the company or elsewhere, of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ii) Additional information that we may request from [management] for the purpose of the audit; and
 - iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain and evidence. This includes our entitlement to require from the officers of the Company such information and explanations as we may think necessary for the performance of our duties as auditor

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' under the chartered accountants Act, 1949 to be conducted by an independent reviewer. The reviewer may inspect examine or take abstract of our working papers during the course of the peer review.

We look forward to full cooperation from your staff during our audit.

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Chartered Accountants

Date:

Place:

(Signature)

(Name of the Member)

Partner

Acknowledged on behalf of ABC Company by

(Signature)

Name and Designation

Date

MASTER MINDS

INDEPENDENT AUDITOR'S REPORT (UNMODIFIED OPINION)

To,

The Members of ABC Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibilities for the Financial Statements: Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 129 of the Companies Act, 2013 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility: Our responsibility is to express an opinion on these financial statements based in our audit. We conducted our audit in accordance with the Standards on Auditing issued by the ICAI. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion: In our opinion and to the best of our information and according to the explanations given to us. The financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
- b) In the case of the Profit and Loss Account, of the profit/loss of the year ended on that date; and
- c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on other Legal and Regulatory Requirements:

1. As required by the companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (3A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the order.
2. **As required by section 227(3) of the Act, we report that:**
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b) In our opinion proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books [and proper returns adequate for the purpose of our audit have been received from branches not visited by us]
 - c) The Balance sheet, Statement of profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]
 - d) In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of section 129 of the Companies Act, 2013;
 - e) On the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the company.

For XYZ and Co,
Chartered Accountants,
Firm's Registration Number

Place of Signature
Date

Signature
(Name of the Member Signing the Audit Report)
(Designation)
Membership Number

EXAMPLE OF MODIFIED REPORT – QUALIFIED OPINION DUE TO LIMITATION ON SCOPE

(Same introductory paragraph as of an unmodified report)

Basis for qualified opinion: X Ltd's investment in XYZ company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs.XXX in the balance sheet as at March 31, 20XX, and company's share of XYZ company's net income is included for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of X Ltd's investment in XYZ company as at March 31, 20XX and X Ltd's share of XYZ company's net income for the year because we were denied access to financial information, management and auditor's of XYZ company. Consequently, we were unable to decide whether any adjustments to these amounts were necessary.

Qualified Opinion: In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the basis for qualified opinion paragraph, The financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
- b) In the case of the Profit and Loss Account, of the profit/loss of the year ended on that date; and
- c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

EXAMPLE OF MODIFIED REPORT – QUALIFIED OPINION DUE TO DISAGREEMENT WITH MANAGEMENT

(Same introductory paragraph as of an unmodified report)

Basis for qualified opinion: The company's inventories are carried in the balance sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the accounting standards referred to in sub section (3C) of section: 211 of the Act. The company's records indicate that had management stated the inventories at lower of cost or net realizable value, an amount of Rs XXX would have been required to write the inventories down to their net realizable value. Accordingly cost of sales would have been increased by Rs XXX, and income tax, net profit and shareholders' funds would have been reduced by Rs XXX, Rs XXX and Rs.XXX, respectively.

Qualified Opinion: In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the basis for qualified opinion paragraph, The financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
- b) In the case of the Profit and Loss Account, of the profit/loss of the year ended on that date; and
- c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

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To **MASTER MINDS**, Guntur

EXAMPLE OF MODIFIED REPORT – ADVERSE OPINION DUE TO DISAGREEMENT WITH MANAGEMENT

(Same introductory paragraph as of an unmodified report)

Basis for Adverse opinion: The company's inventories are carried in the balance sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the accounting standards referred to in sub section (3C) of section: 211 of the Act. The company's records indicate that had management stated the inventories at lower of cost or net realizable value, an amount of Rs XXX would have been required to write the inventories down to their net realizable value. Accordingly cost of sales would have been increased by Rs XXX, and income tax, net profit and shareholders' funds would have been reduced by Rs XXX, Rs XXX and Rs XXX, respectively.

Adverse Opinion: In our opinion because of the significance of the matter described in the basis for adverse opinion paragraph, the financial statements do not give true & fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
- b) In the case of the Profit and Loss Account, of the profit/loss of the year ended on that date; and
- c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

EXAMPLE OF DISCLAIMER OF OPINION – LIMITATION OF SCOPE AUDITOR'S REPORT

(Same introductory paragraph as that of a standard unmodified report)

(Only the scope paragraph)

The company does not have records supporting existence of fixed assets shown in B/S at Rs. 500000. Further, the company did not conduct a physical count of inventory during the year stated in the financial statements at Rs. 4,00,000 as on March 31, 2008. Further, evidence supporting the Sales and purchases during the year is not available. The company's records do not permit the application of other auditing procedures to fixed assets, inventory and trading items. Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on financial statements.

THE END