

AASB - Illustrative Audit Engagement Letter under Companies Act, 2013 - (17-12-2014)**FOR THE ATTENTION OF THE MEMBERS****ILLUSTRATIVE FORMATS OF THE ENGAGEMENT LETTER FOR AUDIT OF FINANCIAL STATEMENTS UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER**

The Auditing and Assurance Standards Board is issuing the following illustrative formats for engagement letter for audit of Financial Statements under the Companies Act, 2013 and the Rules there under. These illustrative formats were approved by the Council of the Institute of Chartered Accountants of India (ICAI) at its Meeting held in November 2014. These illustrative formats would be added to the Appendix 1 of Standard on Auditing (SA) 210, 'Agreeing the Terms of Audit Engagements', issued by ICAI.

Illus. 1	Engagement Letter for Audit of Financial Statements under the Companies Act 2013 and the Rules there under (When Reporting u/s 143(3)(i) is Applicable)
Illus. 2	Engagement Letter for Audit of Financial Statements under the Companies Act 2013 and the Rules there under (When Reporting u/s 143(3)(i) is not Applicable)

(CA. ABHIJIT BANDYOPADHYAY)
Chairman, Auditing & Assurance Standards Board
The Institute of Chartered Accountants of India

Illus. 1

Example of an Audit Engagement Letter Audit of Financial Statements under the Companies Act 2013 and the Rules Thereunder (When Reporting u/s 143(3)(i) is Applicable) (to be added to Appendix 1 to SA 210¹)

Part A: Audit of Financial Statements

To, the Board of Directors of (name of the Entity)
(Address)

Dear Sirs,

I / We refer to the letter dated _____ informing me / us about my / our (re) appointment/ratification as the auditors of the Company. You have requested that I / we audit the financial statements of the Company as defined in Section 2(40) of the Companies Act, 2013 ('2013 Act'), for the financial year(s) beginning April 1, 20XX and ending March 31, 20YY². The financial statements of the Company include, where applicable, consolidated financial statements of the Company and of all its subsidiaries, associate companies and joint ventures. I am / We are pleased to confirm my / our acceptance and my / our understanding of this audit engagement by means of this letter.

My / Our audit will be conducted with the objective of me / our expressing an opinion if the aforesaid financial statements give the information required by the 2013 Act in the manner so required, and give a true and fair view in conformity with the applicable accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20YY, and its profit/loss and its cash flows for the year ended on that date which, *inter alia*, includes reporting in conjunction whether the Company has an adequate internal financial controls system over financial reporting in place and the operating effectiveness of such controls. In forming my / our opinion on the financial statements, I / we will rely on the work of branch auditors appointed by the Company and my / our report would expressly state the fact of such reliance.³

I / We will conduct my / our audit in accordance with the Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act. Those Standards require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

¹ Standard on Auditing (SA) 210, *Agreeing the Terms of Audit Engagement*.

² An Engagement Letter may need to be entered into for each year of the period covered by the Eligibility Letter issued by the auditor u/s 139 and the Appointment Letter received from the Company, to supplement / update for any subsequent changes. This may be required because the appointment would need to be ratified at each AGM u/s 139 of the 2013 Act.

³ Delete sentence on branch auditors where not applicable.

material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.

The terms of reference for my / our audit of internal financial controls over financial reporting carried out in conjunction with our audit of the Company's financial statements will be as stated in the separate engagement letter for conducting such audit and should be read in conjunction with this letter.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed in accordance with the SAs. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

My / Our audit will be conducted on the basis that the Management and those charged with governance (Audit Committee / Board) acknowledge and understand that they have the responsibility:

(a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Standards and other generally accepted accounting principles in India. This includes:

- Compliance with the applicable provisions of the 2013 Act;
- Proper maintenance of accounts and other matters connected therewith;
- The responsibility for the preparation of the financial statements on a going concern basis;
- The preparation of the annual accounts in accordance with, the applicable accounting standards and providing proper explanation relating to any material departures from those accounting standards;
- Selection of accounting policies and applying them consistently and making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period;
- Taking proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 2013 Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

- Laying down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
 - Devising proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.
- (b) Identifying and informing me / us of financial transactions or matters that may have any adverse effect on the functioning of the Company.
- (c) Identifying and informing me / us of :
- All the pending litigations and confirming that the impact of the pending litigations on the Company's financial position has been disclosed in its financial statements;
 - All material foreseeable losses, if any, on long term contracts including derivative contracts and the accrual for such losses as required under any law or accounting standards; and
 - Any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
- (d) Informing me / us of facts that may affect the financial statements, of which Management may become aware during the period from the date of my / our report to the date the financial statements are issued.
- (e) Identifying and informing me / us as to whether any director is disqualified as on March 31, 20YY from being appointed as a director in terms of Section 164 (2) of the 2013 Act. This should be supported by written representations received from the directors as on March 31, 20YY and taken on record by the Board of Directors.
- (f) To provide me / us, *inter alia*, with:
- (i) Access, at all times, to all information, including the books, accounts, vouchers and other records and documentation of the Company, whether kept at the Head Office or elsewhere, of which the Management is aware that are relevant to the preparation of the financial statements such as records, documentation and other matters. This will include books of account maintained in electronic mode;
 - (ii) Access, at all times, to the records of all the subsidiaries (including associate companies and joint ventures as per Explanation to Section 129(3) of the 2013 Act) of the Company in so far as it relates to the consolidation of its financial statements, as envisaged in the 2013 Act;
 - (iii) Access to reports, if any, relating to internal reporting on frauds (e.g., vigil mechanism reports etc.), including those submitted by cost accountant or company secretary in practice to the extent it relates to their reporting on frauds in accordance with the requirements of Section 143(12) of the 2013 Act;

- (iv) Additional information that I / we may request from the Management for the purposes of my / our audit;
- (v) Unrestricted access to persons within the Company from whom I / we deem it necessary to obtain audit evidence. This includes my / our entitlement to require from the officers of the Company such information and explanations as I / we may think necessary for the performance of my / our duties as the auditors of the Company; and
- (vi) All the required support to discharge my / our duties as the statutory auditors as stipulated under the Companies Act, 2013/ ICAI standards on auditing and applicable guidance.

As part of my / our audit process, I / we will request from the Management written confirmation concerning representations made to me / us in connection with my / our audit.

My / Our report prepared in accordance with relevant provisions of the 2013 Act would be addressed to the shareholders of the Company for adoption of the accounts at the Annual General Meeting. In respect of other services, my / our report would be addressed to the Board of Directors. The form and content of my / our report may need to be amended in the light of my / our audit findings.

In accordance with the requirements of Section 143(12) of the 2013 Act, if in the course of performance of my / our duties as auditor, I / we have reason to believe that an offence involving fraud is being or has been committed against the Company by officers or employees of the Company, I / we will be required to report to the Central Government, in accordance with the rules prescribed in this regard which, *inter alia*, requires me / us to forward my / our report to the Board or Audit Committee, as the case may be, seeking their reply or observations, to enable me / us to forward the same to the Central Government.

As stated above, given that I am / we are required as per Section 143(12) of the Act to report on frauds, such reporting will be made in good faith and, therefore, cannot be considered as breach of maintenance of client confidentiality requirements or be subject to any suit, prosecution or other legal proceeding since it is done in pursuance of the 2013 Act or of any rules or orders made thereunder.

I / We also wish to invite your attention to the fact that our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949. The reviewer(s) may inspect, examine or take abstract of my / our working papers during the course of the peer review/quality review.

I / We may involve specialists and staff from our affiliated network firms to perform certain specific audit procedures during the course of my / our audit.

In terms of Standard on Auditing 720 – “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act, I / we request you to provide to me / us a Draft of the Annual Report containing the audited financial statements so as to enable me / us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor’s report on the financial statements.

{Other relevant information}

{Insert Other information, such as fee arrangements, billings⁴ and other specific terms, as appropriate.}

This letter should be read in conjunction with my / our letter dated ____ for the Audit of Internal Financial Controls Over Financial Reporting under the 2013 Act, in respect of which separate fees have been fixed/will be mutually agreed.

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

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

Yours faithfully,

(signature)
(Name of the Member)
(Designation)⁵
(Name of the Firm)

Date:

Place:

Copy to: Chairman, Audit Committee

Acknowledged on behalf of <<Name of the entity>>

Name and Designation: _____

Date: _____

⁴ For example, "My / Our fees and out-of-pocket expenses for the audit of the financial statements for the year have been fixed by the members at the Annual General Meeting at Rs. _____, plus out-of-pocket expenses and indirect taxes/ will be mutually agreed between the Board of Directors of the Company and me / ourselves.* I / We will bill as the work progresses. I / We will notify you promptly of any circumstances I / we encounter that could significantly affect my / our estimate of fees and discuss with you any additional fees, as necessary."

⁵ Partner or proprietor, as the case may be.

* delete as applicable

Example of an Audit Engagement Letter
Audit of Financial Statements When Reporting u/s 143(3)(i) is Applicable

Part B: Audit of Internal Financial Controls Over Financial Reporting

(Refer Illustrative Format Provided in Appendix 1 of the
Guidance Note on Audit of Internal Financial Controls Over Financial Reporting)

Example of an Audit Engagement Letter
Audit of Financial Statements under the Companies Act 2013 and the Rules Thereunder
(When Reporting u/s 143(3)(i) of the Companies Act, 2013 is Not Applicable)
(to be added to Appendix 1 to SA 210¹)

To,

The Board of Directors of (*name of the Entity*)

(*Address*)

Dear Sirs,

I / We refer to the letter dated _____ informing me / us about my / our (re) appointment/ratification as the auditors of the Company. You have requested that I / we audit the financial statements of the Company as defined in Section 2(40) of the Companies Act, 2013 ('2013 Act'), for the financial year(s) beginning April 1, 20XX and ending March 31, 20YY². The financial statements of the Company include, where applicable, consolidated financial statements of the Company and of all its subsidiaries, associate companies and joint ventures. I am / We are pleased to confirm my / our acceptance and my / our understanding of this audit engagement by means of this letter.

My / Our audit will be conducted with the objective of me / our expressing an opinion if the aforesaid financial statements give the information required by the 2013 Act in the manner so required, and give a true and fair view in conformity with the applicable accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20YY, and its profit/loss and its cash flows for the year ended on that date. In forming my / our opinion on the financial statements, I / we will rely on the work of branch auditors appointed by the Company and my / our report would expressly state the fact of such reliance.³

I / We will conduct my / our audit in accordance with the Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act. Those Standards require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and the 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.

¹ Standard on Auditing (SA) 210, *Agreeing the Terms of Audit Engagement*.

² An Engagement Letter may need to be entered into for each year of the period covered by the Eligibility Letter issued by the auditor u/s 139 and the Appointment Letter received from the Company, to supplement / update for any subsequent changes. This may be required because the appointment of auditors would need to be ratified at each AGM u/s 139 of the 2013 Act.

³ Delete sentence on branch auditors where not applicable.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed in accordance with the 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.

My / Our audit will be conducted on the basis that the Management and those charged with governance (Audit Committee / Board) acknowledge and understand that they have the responsibility:

(a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Standards and other generally accepted accounting principles in India. This includes:

- Compliance with the applicable provisions of the 2013 Act;
- Proper maintenance of accounts and other matters connected therewith;
- The responsibility for the preparation of the financial statements on a going concern basis;
- The preparation of the annual accounts in accordance with, the applicable accounting standards and providing proper explanation relating to any material departures from those accounting standards;
- Selection of accounting policies and applying them consistently and making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period;
- Taking proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 2013 Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

- Laying down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
 - Devising proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.
- (b) Identifying and informing me / us of financial transactions or matters that may have any adverse effect on the functioning of the Company.
- (c) Identifying and informing me / us of :
- All the pending litigations and confirming that the impact of the pending litigations on the Company's financial position has been disclosed in its financial statements;
 - All material foreseeable losses, if any, on long term contracts including derivative contracts and the accrual for such losses as required under any law or accounting standards; and
 - Any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
- (d) Informing me / us of facts that may affect the financial statements, of which Management may become aware during the period from the date of my / our report to the date the financial statements are issued.
- (e) Identifying and informing me / us as to whether any director is disqualified as on March 31, 20YY from being appointed as a director in terms of Section 164 (2) of the 2013 Act. This should be supported by written representations received from the directors as on March 31, 20YY and taken on record by the Board of Directors.
- (f) To provide me / us, *inter alia*, with:
- (i) Access, at all times, to all information, including the books, accounts, vouchers and other records and documentation of the Company, whether kept at the Head Office or elsewhere, of which the Management is aware that are relevant to the preparation of the financial statements such as records, documentation and other matters. This will include books of account maintained in electronic mode;
 - (ii) Access, at all times, to the records of all the subsidiaries (including associate companies and joint ventures as per Explanation to Section 129(3) of the 2013 Act) of the Company in so far as it relates to the consolidation of its financial statements, as envisaged in the 2013 Act;
 - (iii) Access to reports, if any, relating to internal reporting on frauds (e.g., vigil mechanism reports etc.), including those submitted by cost accountant or

company secretary in practice to the extent it relates to their reporting on frauds in accordance with the requirements of Section 143(12) of the 2013 Act;

- (iv) Additional information that I / we may request from the Management for the purposes of my / our audit;
- (v) Unrestricted access to persons within the Company from whom I / we deem it necessary to obtain audit evidence. This includes my / our entitlement to require from the officers of the Company such information and explanations as I / we may think necessary for the performance of my / our duties as the auditors of the Company; and
- (vi) All the required support to discharge my / our duties as the statutory auditors as stipulated under the Companies Act, 2013/ ICAI standards on auditing and applicable guidance.

As part of my / our audit process, I / we will request from the Management written confirmation concerning representations made to me / us in connection with my / our audit.

My / Our report prepared in accordance with relevant provisions of the 2013 Act would be addressed to the shareholders of the Company for adoption of the accounts at the Annual General Meeting. In respect of other services, my / our report would be addressed to the Board of Directors. The form and content of my / our report may need to be amended in the light of my / our audit findings.

In accordance with the provisions of Section 143(12) and 143(13) of the 2013 Act, if in the course of performance of my / our duties as auditor, I / we have reason to believe that an offence involving fraud is being or has been committed against the Company by officers or employees of the Company, I / we will be required to report to the Central Government, in accordance with the rules prescribed in this regard which, *inter alia*, requires me / us to forward my / our report to the Board or Audit Committee, as the case may be, seeking their reply or observations, to enable me / us to forward the same to the Central Government. Such reporting will be made in good faith and, therefore, cannot be considered as breach of maintenance of client confidentiality requirements or be subject to any suit, prosecution or other legal proceeding since it is done in pursuance of the 2013 Act or of any rules or orders made thereunder.

I / We also wish to invite your attention to the fact that my / our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949. The reviewer(s) may inspect, examine or take abstract of my / our working papers during the course of the peer review/quality review.

I / We may involve specialists and staff from my / our affiliated network firms to perform certain specific audit procedures during the course of my / our audit.

In terms of Standard on Auditing 720 – “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI and

deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act, I / we request you to provide to me / us a Draft of the Annual Report containing the audited financial statements so as to enable me / us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor's report on the financial statements.

{Other relevant information}

{Insert Other information, such as fee arrangements, billings⁴ and other specific terms, as appropriate.}

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

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

Yours faithfully,

(signature)

(Name of the Member)

(Designation)⁵

(Name of the Firm)

Date:

Place:

Copy to: Chairman, Audit Committee

Acknowledged on behalf of <<Name of the entity>>

Name and Designation: _____

Date: _____

⁴ For example, "My / Our fees and out-of-pocket expenses for the audit of the financial statements for the year have been fixed by the members at the Annual General Meeting at Rs. _____, plus out-of-pocket expenses and indirect taxes/ will be mutually agreed between the Board of Directors of the Company and me / ourselves.* I / We will bill as the work progresses. I / We will notify you promptly of any circumstances I / we encounter that could significantly affect my / our estimate of fees and discuss with you any additional fees, as necessary."

⁵ Partner or proprietor, as the case may be.

* delete as applicable