

Format of Engagement Letter for Internal Financial Control Reporting

Example of a Separate Audit Engagement Letter for Audit of Internal financial controls over financial reporting

The following is an example of an engagement letter for an audit of internal financial controls over financial reporting in the case of standalone financial statements that is separate from the engagement letter for an audit of the financial statements prepared in accordance with the Accounting Standards notified under Section 133 of the Companies Act, 2013. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Guidance Note and SA 210. It will need to be varied according to individual requirements and circumstances.

To the Board of Directors of ABC Company Limited:

The objective and scope of the audit

You have requested that I / we carry out an audit of the internal financial controls over financial reporting of ABC Company Limited (the 'Company') as at March 31, 20X1 [balance sheet date] in conjunction with our audit of the standalone and consolidated financial statements of the Company for the year ended on that date.

I am / We are pleased to confirm my / our acceptance and my / our understanding of the audit engagement by means of this letter. My / Our audits will be conducted with the objective of expressing our opinion under Section 143(3)(i) of the Companies Act, 2013 ("2013 Act") on the adequacy of the internal financial controls system over financial reporting and the operating effectiveness of such controls as at March 31, 20X1 based on the internal control *criteria* established by you.

Audit of internal financial controls over financial reporting

I / We will conduct our audit of the internal financial controls over financial reporting in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ("the Guidance Note") and the Standards on Auditing 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, to the extent applicable to an audit of internal financial controls over financial reporting. These Guidance Note and Standards require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness as at the balance sheet date.

An audit of internal financial controls over financial reporting involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Inherent limitations in an audit of internal financial controls over financial reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. 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.

Management's responsibility

My / 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 establishing and maintaining adequate and effective internal financial controls based on [state criteria] [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"] for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.
- (b) To provide me / 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) All information, such as records and documentation, and other matters that are relevant to my / our assessment of internal financial controls;
 - (iii) Management's evaluation and assessment of the adequacy and effectiveness of the company's internal financial controls, based on the control criteria [mention the control criteria] and all deficiencies, significant deficiencies and material weaknesses in the design or operations of internal financial controls identified as part of management's evaluation.
 - (iv) Additional information that I / we may request from [management] for the purpose of the audit.
 - (v) Unrestricted access to persons within the entity from whom I / we determine 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 auditor.
 - (vi) Any communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.

- (vii) Management's conclusion over the company's internal financial controls based on the control criteria set above as at the balance sheet date [insert date].
 - (viii) Informing me / us of significant changes in the design or operation of the Company's internal financial controls that occurred during or subsequent to the date being reported on, including proposed changes being considered.
 - (ix) Providing me / us with the component auditors' report under section 143(3)(i) in the case of components that are companies covered under the Companies Act for the purposes of our reporting in the case of the consolidated financial statements of the Company.
- (c) As part of my / our audit process, I / we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to me / us in connection with the audit.

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 to be conducted by an Independent reviewer. The reviewer may inspect, examine or take abstract of my / our working papers during the course of the peer review.

Reporting

My / Our audit report will be issued pursuant to the requirements of Section 143(3)(i) of the Act. The form and content of my / our report may need to be amended in the light of my / our audit findings.

Our opinion on the adequacy and operating effectiveness of internal financial controls over financial reporting in the case of the consolidated financial statements of the Company, in so far as it relates to subsidiary companies, jointly controlled companies and associate companies incorporated in India, will be based solely on the reports of the auditors of such companies.

[Insert any other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Any other relevant information]

This letter should be read in conjunction with my / our letter dated ___ for the audit of the standalone and consolidated financial statements of the Company under the Act.

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

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 internal financial controls over financial reporting including our respective responsibilities.

(Signature)

XYZ & Co.

Chartered Accountants

Place:

Date:

Acknowledged on behalf of ABC Company Limited by

.....

(Signature)

Name and Designation

Date



Format of Management Representation Letter

Illustrative Management Representation Letter for Matters Relating to Audit of internal financial controls over financial reporting

The following illustrative letter includes written representations that are required by this Guidance Note and SA 580 "Written Representations" and other Standards on Auditing as applicable to an audit of internal financial controls over financial reporting, which are in effect as at _____[balance sheet date]. It is assumed in this illustration that the relevant internal financial controls are based on the essential components of internal control identified in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting, issued by the Institute of Chartered Accountants of India; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the internal financial controls over financial reporting in the audit of ABC Company Limited ("the Company") in conjunction with your audit of the standalone/ consolidated financial statements of the Company for the year ended March 31, 20X1, for the purpose of expressing an opinion as to whether the Company had, in all material respects, an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ("the Guidance Note") and the Standards on Auditing 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, to the extent applicable to an audit of internal financial controls over financial reporting.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

1. We are responsible for establishing and maintaining adequate and effective internal financial controls based on [mention control criteria] and the preparation and presentation of the financial statements as set out in the terms of the audit engagement dated [insert date] and, in particular, the assertions to you on the internal financial controls in accordance with the _____ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].
2. We have performed an evaluation and made an assessment of the adequacy and effectiveness of the company's internal financial controls and based on the following control criteria [mention the control criteria].

3. We have not used the procedures performed by you during the audit of internal financial controls over financial reporting as part of the basis for our assessment of the effectiveness of internal financial controls.

4. Based on the assessment carried out by us and the evaluation of the results of the assessment, we conclude that the Company has adequate internal financial controls system that was operating effectively as at the March 31, 20X1 [balance sheet date] (or) Except for the below mentioned deficiencies noted during our assessment and evaluation of internal financial controls, the other relevant controls were determined adequate and were operating effectively as at March 31, 20X1 [balance sheet date].

- a. (brief of design deficiencies)
- b. (brief of deficiencies in operating effectiveness)

5. We have disclosed to you all deficiencies in the design or operation of internal financial controls identified as part of management's evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal financial controls in paragraph [4].

6. There were no instances of fraud resulting in a material misstatement to the company's financial statements and any other fraud that does not result in a material misstatement to the company's financial statements but involves senior management or management or other employees who have a significant role in the company's internal financial controls. (or) The following instances of fraud that resulted in material misstatement of financial statements in earlier years and frauds involving senior management or management or other employees who have a significant role in the company's internal financial controls were noted: (list instances and amounts involved).

7. The control deficiencies identified in the previous engagement of audit of internal financial controls and communicated to the Company and those charged with governance have been remediated, except for the following: (list control deficiencies not remediated as at the balance sheet date) (This issue is not applicable in the first year when the Company is subject to an audit of internal financial controls under the Companies Act, 2013)

8. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.

9. We have provided you with:

- All information, such as records and documentation, and other matters that are relevant to your assessment of internal financial controls;
- Additional information that you have requested from us; and
- Unrestricted access to those within the entity.
- Audit reports of the component auditors, including their report under Section 143(3)(i) of the Act for the following subsidiary companies, jointly controlled companies and associate companies to whom reporting under Section 143(3)(i) is applicable:

- There are no other subsidiary companies, jointly controlled companies and associate companies of the company to whom reporting under Section 143(3)(i) is applicable and whose auditors have not issued their report under Section 143(3)(i) of the Act.
- In the case of the following subsidiary companies, jointly controlled companies and associate companies of the company to whom reporting under Section 143(3)(i) is applicable, the respective component's year end is other than that of the Company:

With respect to these components, we have provided to you the audit reports of the component auditors, including their report under Section 143(3)(i) of the Act for their respective financial year under the Act that has been considered in the preparation of the consolidated financial statements of the Company.

10. There are no changes in the internal financial controls system from March 31, 20X1 [balance sheet date] till the date of this representation letter. (or) The following changes have been made to the internal financial controls system since March 31, 20X1 [balance sheet date] and the date of this letter: (list changes and reason for the change).

11. These changes include corrective actions taken by us with regard to significant deficiencies or material weaknesses noted with respect to the following: (list significant deficiency or the material weakness and the related change in internal controls).

12. The following changes to internal financial controls system have been proposed as on date of this representation letter but have not yet been implemented: (list proposed changes and reason for the proposed change).

13. The changes to the internal financial controls since March 31, 20X1 [balance sheet date] and the proposed changes that are under consideration by the Company do not impact our assessment, evaluation and conclusion of the internal financial controls system as at March 31, 20X1 [balance sheet date]

14. [Any other matters that the auditor may consider appropriate.]

For and on behalf of ABC Company Limited

.....

(Signature)

Name and Designation

.....

(Signature)

Name and Designation

Audit Report on Internal Financial Controls

Illustrative Reports on Internal Financial Controls Over Financial Reporting

Example 1 – Separate Reports

The following is an **example of separate unmodified audit report for an audit of internal financial controls over financial reporting in the case of standalone financial statements**. This report is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Guidance Note and SA 700 “Forming an Opinion and Reporting on financial Statements”. The report is also not an exhaustive report which includes all aspect of reporting by the auditor under Sub-sections 2 and 3 of Section 143 of the Companies Act, 2013. It will need to be varied according to individual requirements and circumstances.

ANNEXURE TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

I / We have audited the internal financial controls over financial reporting of ABC Company Limited (“the Company”) as of March 31, 20X1 in conjunction with my / our audit of the standalone financial statements of the Company for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

The Company’s management is responsible for establishing and maintaining internal financial controls based on _____ [for example, “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”.] These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors’ Responsibility

My / Our responsibility is to express an opinion on the Company’s internal financial controls over financial reporting based on my / our audit. I / We conducted my / our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance

Note require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

My / Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. My / Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

I / We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my /our audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. 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.

Opinion

In my / our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 20X1, based on _____ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].

For XYZ & ASSOCIATES
Chartered Accountants
(Firm's Registration No. _____)

Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)

Place:

Date:



Example 2 – Separate Reports

The following is an example of separate modified (qualified / adverse) audit report for an audit of internal financial controls over financial reporting and not impacting the audit opinion on the standalone financial statements of the company. This report is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Guidance Note and SA 700 “Forming an Opinion and Reporting on Financial Statements”. The report is also not an exhaustive report which includes all aspect of reporting by the auditor under Sub-sections 2 and 3 of Section 143 of the Companies Act, 2013. It will need to be varied according to individual requirements and circumstances.

ANNEXURE TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

I / We have audited the internal financial controls over financial reporting of ABC Company Limited (“the Company”) as of March 31, 20X1 in conjunction with my / our audit of the standalone financial statements of the Company for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

The Company’s management is responsible for establishing and maintaining internal financial controls based on _____ [for example, “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors’ Responsibility

My / Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on my/our audit. I/We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

My / Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. My / Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

I / We believe that the audit evidence I / we have obtained is sufficient and appropriate to provide a basis for my / our qualified / adverse audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. 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.

Scenario 1 - Qualified Opinion on adequacy (and therefore operating effectiveness) of Internal Financial Controls Over Financial Reporting

Qualified opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified as at March 31, 20X1:

- a) The Company did not have an appropriate internal control system for customer acceptance, credit evaluation and establishing customer credit limits for sales, which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.

b) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In my / our opinion, except for the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 20X1, based on _____ [for example "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].

I / We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 20X1 standalone financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the standalone financial statements of the Company.

Scenario 2 - Adverse Opinion on adequacy (and therefore operating effectiveness) of Internal Financial Controls Over Financial Reporting

Adverse opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified as at March 31, 20X1:

- a) The Company did not have an appropriate internal control system for customer acceptance, credit evaluation and establishing customer credit limits for sales, which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.
- b) The Company did not have an appropriate internal control system for inventory with regard to receipts, issue for production and physical verification. Further, the internal control system for identification and allocation of overheads to inventory was also not adequate. These could potentially result in material misstatements in the Company's trade payables, consumption, inventory and expense account balances.

c) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In my / our opinion, because of the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company has not maintained adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were not operating effectively as of March 31, 20X1,

based on _____ [for example “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”].

I / We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 20X1 standalone financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the financial statements of the Company.

Scenario 3 - Qualified Opinion on operating effectiveness of Internal Financial Controls Over Financial Reporting and unmodified opinion on adequacy of such controls

Qualified opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified in the operating effectiveness of the Company’s internal financial controls over financial reporting as at March 31, 20X1:

- a) The Company’s internal financial controls over customer acceptance, credit evaluation and establishing customer credit limits for sales, were not operating effectively which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.
- b) [list other deficiencies identified]

A ‘material weakness’ is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

In my / our opinion, the Company has, in all material respects, maintained adequate internal financial controls over financial reporting as of March 31, 20X1, based on _____ [for example, “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”], and except for the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company’s internal financial controls over financial reporting were operating effectively as of March 31, 20X1.

I / We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 20X1 financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the standalone financial statements of the Company.

Scenario 4 - Adverse Opinion on operating effectiveness of Internal Financial Controls Over Financial Reporting and unmodified opinion on adequacy of such controls

Adverse opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified in the operating effectiveness of the Company's internal financial controls over financial reporting as at March 31, 20X1:

- a) The Company's internal control system for customer acceptance, credit evaluation and establishing customer credit limits for sales, were not operating effectively which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.
- b) The Company's internal control system for inventory with regard to receipts, issue for production and physical verification were not operating effectively. Further, the internal control system for identification and allocation of overheads to inventory was also not operating effectively. These could potentially result in material misstatements in the Company's trade payables, consumption, inventory and expense account balances.
- c) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In my / our opinion, the Company has, in all material respects, maintained adequate internal financial controls over financial reporting as of March 31, 20X1, based on _____ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"], and because of the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company's internal financial controls over financial reporting were not operating effectively as of March 31, 20X1.

I / We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 20X1 standalone financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the financial statements of the Company.

Scenario 5 - Adverse Opinion on Internal Financial Controls Over Financial Reporting – essential components of internal controls not adequately considered in the internal financial controls established by the company

Adverse opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified as at March 31, 20X1:

- a) The Company did not have an appropriate internal financial control system over financial reporting since the internal controls adopted by the Company did not adequately consider risk assessment, which is one of the essential components of internal control, with regard to the potential for fraud when performing risk assessment,
- b) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In my / our opinion, because of the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company has not maintained adequate and effective internal financial controls over financial reporting as of March 31, 20X1, based on _____ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].

I / We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 20X1 standalone financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the standalone financial statements of the Company.

For XYZ & ASSOCIATES
Chartered Accountants
(Firm's Registration No. _____)

Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)

Place:

Date:

Example 3 – Separate Reports

The following is an example of separate modified (disclaimer) audit report for an audit of internal financial controls over financial reporting with / without impact on audit opinion on the standalone financial statements. This report is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Guidance Note and SA 700 “Forming an Opinion and Reporting on Financial Statements”. The report is also not an exhaustive report which includes all aspect of reporting by the auditor under Sub-sections 2 and 3 of Section 143 of the Companies Act, 2013. It will need to be varied according to individual requirements and circumstances.

ANNEXURE TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

I / We were engaged to audit the internal financial controls over financial reporting of ABC Company Limited (“the Company”) as of March 31, 20X1 in conjunction with my / our audit of the financial statements of the Company for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

The Company’s management is responsible for establishing and maintaining internal financial controls based on [.....for example, “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors’ Responsibility

My / Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on my/our audit conducted in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India.

Because of the matter described in Disclaimer of Opinion paragraph below, I / we was / were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on internal financial controls system over financial reporting of the Company.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies

and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Disclaimer of Opinion

Scenario 1 – Framework for internal financial control over financial reporting not established but does not impact the audit opinion on financial statements

According to the information and explanation given to us, the Company has not established its internal financial control over financial reporting on criteria based on or considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. Because of this reason, we are unable to obtain sufficient appropriate audit evidence to provide a basis for my / our opinion whether the Company had adequate internal financial controls over financial reporting and whether such internal financial controls were operating effectively as at March 31, 20X1.

I / We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the standalone financial statements of the Company, and the disclaimer does not affect my / our opinion on the standalone financial statements of the Company.

Scenario 2 – Auditor unable to obtain sufficient appropriate audit evidence on internal financial controls over financial reporting but does not impact audit opinion on the financial statements

The system of internal financial controls over financial reporting with regard to one of the significant branches of the Company at _____ were not made available to me / us to enable me / us to determine if the Company has established adequate internal financial control over financial reporting at the aforesaid branch and whether such internal financial controls were operating effectively as at March 31, 20X1.

I / We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the financial statements of the Company, and the disclaimer does not affect my / our opinion on the financial statements of the Company.

Scenario 3 – Auditor unable to obtain sufficient appropriate audit evidence on internal financial controls over financial reporting and impacting audit opinion on the financial statements

The system of internal financial controls over financial reporting with regard to the Company were not made available to me / us to enable me / us to determine if the Company has established adequate internal financial control over financial reporting and whether such internal financial controls were operating effectively as at March 31, 20X1.

I / We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the standalone financial statements of the Company, and the disclaimer has affected my / our opinion on the financial statements of the standalone Company and I / we have issued a qualified (/ adverse / disclaimer of) opinion on the financial statements.

For XYZ & ASSOCIATES
Chartered Accountants
(Firm Registration No. _____)

Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)

Place:
Date:

Example 4 – Separate Reports

The following is an example of separate modified (adverse) audit report for an audit of internal financial controls over financial reporting causing a modified report on the standalone financial statements. This report is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Guidance Note and SA 700 “Forming an Opinion and Reporting on Financial Statements”. The report is also not an exhaustive report which includes all aspect of reporting by the auditor under Sub-sections 2 and 3 of Section 143 of the Companies Act, 2013. It will need to be varied according to individual requirements and circumstances.

ANNEXURE TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

I / We have audited the internal financial controls over financial reporting of ABC Company Limited (“the Company”) as of March 31, 20X1 in conjunction with my / our audit of the financial statements of the Company for the year ended on that date

Management’s Responsibility for Internal Financial Controls

The Company’s management is responsible for establishing and maintaining internal financial controls based on _____ [for example “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors’ Responsibility

My / Our responsibility is to express an opinion on the Company’s internal financial controls over financial reporting based on my/our audit. I/We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

My / Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness.

My / Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

I / We believe that the audit evidence I / we have obtained is sufficient and appropriate to provide a basis for my / our adverse audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. 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.

Adverse Opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified as at March 31, 20X1:

- (a) The Company did not have appropriate internal controls for reconciliation of physically inventory with the inventory records, which has resulted in misstatement of inventory values in the books of account.
- (b) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In my / our opinion, because of the effect of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company has not maintained adequate and effective internal financial controls over financial reporting as of March 31, 20X1, based on _____ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India".

I / We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 20X1 standalone financial statements of the Company, and the / these material weakness/es has / have affected my / our opinion on the standalone financial statements of the Company and I / we have issued a qualified (/ adverse / disclaimer of) opinion on the standalone financial statements.

For XYZ & ASSOCIATES

Chartered Accountants

(Firm Registration No. _____)

Signature

(Name of the Member Signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place:

Date:



Example 5 – Separate Report in case of Consolidated Financial Statements

Note:

The following illustrative format is based on the assumptions that

- The Group has:
 - Certain components which have been audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the consolidated financial statements of the Group. The auditors of such components which are Indian companies, have submitted report on section 143(3)(i) of the Companies Act, 2013.
 - Certain components which are unaudited and such component/s is/ are not material to the consolidated financial statements of the Group.
- The independent auditor of Consolidated Financial Statements
 - Gives a clean opinion in respect of section 143(3)(i) of the Companies Act, 2013
 - Discloses the aforementioned facts about the Components in the “Other Matters” Paragraph in accordance with the Announcement issued by the Auditing and Assurance Standards Board under the authority of the Council of ICAI in February 2014.

Illustrative Report on Internal Financial Controls Over Financial Reporting in the case of Consolidated financial statements

The following is an **example of unmodified audit report for an audit of internal financial controls over financial reporting in the case of consolidated financial statements**. This report is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Guidance Note and SA 700 “Forming an Opinion and Reporting on financial Statements”. The report is also not an exhaustive report which includes all aspect of reporting by the auditor under Sub-sections 2 and 3 of Section 143 of the Companies Act, 2013. It will need to be varied according to individual requirements and circumstances.

ANNEXURE TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE CONSOLIDATED FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

In conjunction with my / our audit of the consolidated financial statements of the Company as of and for the year ended March 31, 20X1, I / We have audited the internal financial controls over financial reporting of ABC Company Limited (hereinafter referred to as “the Holding Company”) and its subsidiary companies, its associate companies and jointly controlled companies, which are companies incorporated in India, as of that date.

Management’s Responsibility for Internal Financial Controls

The respective Board of Directors of the of the Holding company, its subsidiary companies, its associate companies and jointly controlled companies, which are companies incorporated in India, are responsible for establishing and maintaining internal financial controls based on _____ [for example, “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI)”.] These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the respective company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor’s Responsibility

My / Our responsibility is to express an opinion on the Company’s internal financial controls over financial reporting based on my / our audit. I / We conducted my / our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) issued by the ICAI and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that I/we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

My / Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. My / Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

I / We believe that the audit evidence I / we have obtained and the audit evidence obtained by the other auditors in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for my /our audit opinion on the Company’s internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. 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.

Opinion

In my / our opinion, the Holding Company, its subsidiary companies, its associate companies and jointly controlled companies, which are companies incorporated in India, have, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 20X1, based on _____ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].

Other Matters

Our aforesaid reports under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls over financial reporting insofar as it relates to ___(number) subsidiary companies, ___(number) associate companies and ___(number) jointly controlled companies, which are companies incorporated in India, is based on the corresponding reports of the auditors of such companies incorporated in India.

For XYZ & ASSOCIATES

Chartered Accountants

(Firm's Registration No. _____)

Signature

(Name of the Member Signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place:

Date:

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