

QUALIFIED OPINION

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, there is no requirement to 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:

- *Has issued a **Qualified Opinion** with respect to the true and fair view of the financial statements on account of misstatement of inventories and unaudited financial statements of a branch of a subsidiary. The misstatement is deemed to be material but not pervasive to the financial statements.*
- *Disclosed 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*
- *Does not have the responsibility to report on internal financial controls pursuant to section 143(3)(i) of the Companies Act 2013.*

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ABC COMPANY LIMITED (hereinafter referred to as “the Holding Company”) and its subsidiaries (the Holding Company and its

subsidiaries together referred to as “the Group”), its associates and jointly controlled entities , comprising of the Consolidated Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as “the consolidated financial statements”).

Management’s Responsibility for the Consolidated Financial Statements

The Holding Company’s Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as “the Act”) that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group including its Associates and Jointly controlled entities in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. The respective Board of Directors of the companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the

audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Holding Company has an adequate internal financial controls system over financial reporting in place and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements.

Basis for Qualified Opinion

(a) The inventories are carried in the Consolidated Balance Sheet at Rs. XXX (As at 31st March 20YY: Rs. YYY). In one of the subsidiaries of the Holding Company, the other auditor who audited the financial statements / financial information of the subsidiary has reported that the Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard - 2 "Valuation of Inventories". The report of the other auditor states that had the Management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX (As at 31st March 20YY: Rs. YYY) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX (Previous year ended 31st March, 20YY: Rs. YYY), and income tax, profit for the year, minority interest and shareholders' funds would have been reduced by Rs. X, Rs. XX, Rs. AA and Rs. XXX, respectively (Previous year ended 31st March, 20YY: Rs. Y, Rs. YY,

Rs. ZZ and Rs.YYY, respectively). This matter was also qualified in our report/ the report of the predecessor auditors on the consolidated financial statements for the year ended 31st March 20YY.¹

- (b) In case of one of the subsidiaries of the Holding Company not audited by us, the other auditor who audited the subsidiary has reported that they did not audit the financial statements/information of _____(number) branches of the subsidiary whose financial statements / financial information reflect total assets of Rs._____ as at 31st March, 20XX and total revenues of Rs._____ for the year ended on that date, as considered in these consolidated financial statements. The financial statements/information of these branches is pending audit by their branch auditors whose reports have not yet been furnished to the auditors of the subsidiary, and their opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the unaudited information provided by the Management of the subsidiary.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities as at 31st March, 20XX, and their consolidated profit/loss and their consolidated cash flows for the year ended on that date.

Other Matters

- (a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs._____ as at 31st March, 20XX, total revenues of Rs._____ and net cash flows amounting to Rs._____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____

¹ Where applicable and only in such case, disclosure of previous year figures is required - Attention of the readers is drawn to the provisions of Standard on Auditing (SA) 710, Comparative Information—Corresponding Figures And Comparative Financial Statements.

for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

- (b) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2015 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, based on the comments

in the auditors' reports of the Holding company, subsidiary companies, associate companies and jointly controlled companies incorporated in India, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. As required by Section 143(3) of the Act, we report, to the extent applicable, that:

- (a) We have sought and, except for the possible effect of the matter described in sub-paragraph (b) of the Basis for Qualified Opinion above, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
- (b) In our opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph above, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.
- (c) Except for the matter described in sub-paragraph (b) of the Basis for Qualified Opinion paragraph above, the reports on the accounts of the branch offices of the Holding Company, and its subsidiaries, associate companies and jointly controlled companies incorporated in India, audited under Section 143 (8) of the Act by branch auditors have been sent to us / the other auditors, as applicable, and have been properly dealt with in preparing this report.
- (d) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, and the Consolidated Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (e) In our opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph above, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (f) The matters described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Group.

(g) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the other statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India, except for ___ (number) director/s of ___(number) of the Group's subsidiary company /ies /, associate company/ies and jointly controlled company/ies incorporated in India who are disqualified from being appointed as a director in terms of Section 164(2) of the Act, none of the other directors of the Group's companies, its associate companies and jointly controlled companies incorporated in India is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act. The list of subsidiary company/ies, associate company / ies, jointly controlled companies incorporated in India where the disqualification arose and the respective directors are stated below:

XXXXXXXX

(h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.

(i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

i. Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, the consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities – Refer Note XX to the consolidated financial statements.

Or

Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, there were no pending litigations which would impact the consolidated financial position of the Group, its associates and jointly controlled entities.²

ii. Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer (a) Note XX to the consolidated

² Where applicable.

financial statements in respect of such items as it relates to the Group and (b) the Group's share of net profit/loss in respect of its associates.

Or

Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, the Group, its associates and jointly controlled entities did not have any material foreseeable losses on long-term contracts including derivative contracts.³

- iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Or

Following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Or

There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Place of Signature:

Date:

For XYZ & Co

Chartered Accountants

(Firm's Registration No.)

Signature

(Name of the Member Signing the Audit Report)

(Designation⁴)

(Membership No. XXXXX)

³ Where applicable.

⁴ Partner or Proprietor, as the case may be.

