

Draft Engagement Letter



CA. PRAMOD JAIN

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Namaste

As per various Standards and Guidance Notes (GNs) issued by ICAI, every member in practice should obtain an engagement letter prior to commencement of any engagement. The Standards and (GN) include:

- SA – 210 – Agreeing the terms of Audit engagement
- Guidance Note on Reports and Certificates for Special Purposes (Revised 2016)
- SA – 800 – Audits of Financial Statements prepared in accordance with special purpose framework
- SA – 805 – Audits of Single Financial Statements and Specific Elements, Accounts or items of a Financial Statement
- SA – 810 - Engagements to Report on Summary Financial Statements
- SRE - 2400 - Engagements to Review Historical Financial Statements
- SRE – 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity
- SAE – 3400 - The Examination of Prospective Financial Information
- SAE – 3402 - Assurance Reports on Controls at a Service Organisation
- SAE – 3420 - Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
- SRS – 4400 - Engagements to Perform Agreed-upon Procedures regarding Financial Information
- SRS – 4410 - Compilation Engagements

Hence, engagement letter should be obtained for every engagement / assignment including:

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- Any type of Audit & Assurance including:
 - Statutory Audit
 - Tax Audit
 - GST Audit
 - Bank Audits
 - Branch Audits
 - Limited Reviews
 - Periodical Audits
 - Internal Audit
 - Management Audit
 - Forensic Audit
 - Stock Audit, etc
- Any type of certificate
- Tax Representation
- Issue of Opinions, etc

I am sharing a draft of engagement letter for statutory audit of companies, which may be amended on case to case basis depending on the size, nature and status of the entity, type of engagement and relevant law's requirement.

Date:

To,

The Board of Directors / Those Charged With Governance

<NAME OF THE ENTITY>

<Address>

Re:(Mention relevant Engagement) of your Entity for the financial year 20xx-20xx

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Dear Sir(s),

We refer to your letter dated _____ informing us about our appointment/re-appointment as the auditors of the Company. You have requested that 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, 20YY. 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. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion 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 our opinion on the financial statements, 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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section

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143(3)(i) of the Companies Act, 2013, in case we are required to express our opinion on whether the company has adequate internal financial controls system in place and whether such controls are operating effectively, we shall communicate our terms of engagement related to that assignment through a separate engagement letter.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- The auditor's responsibility includes:
 - to read the other information;
 - consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit or otherwise appears to be materially misstated; and
 - if, based on the work performed, the auditor concludes that there is a material misstatement of this other information, the auditor is required to report that fact.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

- (a) 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.
 - Maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records.
- (b) Identifying and informing us of financial transactions or matters that may have

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any adverse effect on the functioning of the Company.

(c) Identifying and informing 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 us of facts that may affect the financial statements, of which Management may become aware during the period from the date of 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 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 and any of these may be required to be made available at our office premises for the purpose of this engagement;
- (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 we may request from the Management for the purposes of our audit;

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- (v) Unrestricted access to persons within the Company from whom we deem it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Company such information and explanations as we may think necessary for the performance of our duties as the auditors of the Company;
- (vi) All the required support to discharge our duties as the statutory auditors as stipulated under the Companies Act, 2013/ ICAI standards on auditing and applicable guidance.
- (vii) Assessment of the Going Concern Assumption of the Company
- (viii) Prepare and share the other information in the annual report as required by SA 720.
- (h) To understand that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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, our report would be addressed to the Board of Directors. The form and content of our report may need to be amended in the light of 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 our duties as auditor, 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, we will be required to report to the Central Government, in accordance with the rules prescribed in this regard which, *inter alia*, requires us to forward our report to the Board or Audit Committee, as the case may be, seeking their reply or observations, to enable 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.

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 and / or Review by NFRA. The reviewer(s) may inspect, examine or take abstract of our working papers during the course of the peer review/quality review/ review by NFRA.

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

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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, We request you to provide to us a Draft of the Annual Report containing the audited financial statements so as to enable 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.

The working papers for this engagement are the property of <AUDIT FIRM> and constitute confidential information. However, we may be requested to make certain working papers available to any authority/person pursuant to prevailing law or any regulation. If requested, access to such working papers will be provided under the supervision of <AUDIT FIRM> personnel. Further, specific figures related to this engagement will have to be shared with the regulators (ICAI) while generating UDIN. Also, if the financial data, requirements, documents, books, details, etc. are provided in electronic mode through e-mails or otherwise by either party, it would be at the sole risk of the company, in case of physical documents and books, the same shall be taken back as soon as the verification is completed, we shall in no case be responsible for leakage, loss or hacking of such information/data. Any dispute relating to this engagement shall be subject to Delhi courts / authorities. However, in any case the limitation of our responsibility being financial or otherwise due to this engagement shall not exceed one time the fee received for this engagement. Also, in any case, none of the parties shall file any suit in any court or authority(ies) other than for non-compliance of laws related to this engagement. Further, in case any third-party files any suit relevant to this engagement in any court (other than with ICAI or NFRA), the auditee shall bear the cost of the litigation of the auditor too.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed. The report shall not be inferred or used for any purpose other than for which it was specifically prepared.

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 to be mutually agreed between the Board of Directors of the Company and ourselves. We will bill as the work progresses. We will notify you promptly of any circumstance we encounter that could significantly affect our estimate of fees and discuss with you any additional fees, as necessary.

This letter should be read in conjunction with my/ our letter dated ___ for the Audit

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of Internal Financial Controls over Financial Reporting under the 2013 Act, in respect of which separate fees have been fixed / will be mutually agreed. We look forward to full cooperation from your staff during 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 on behalf of <AUDIT FIRM>	
Date: Place:	CA. PARTNER

Acknowledged on behalf of <NAME OF THE ENTITY>

Signature of Director	
Date: Place:	Name of Managing Director/WTD /Director/CFO Designation

Please document every engagement properly for our own benefit. Engagement letter is just a small but important part of such documentation.

I hope this document is of use to you. Your suggestions and comments would be highly appreciated.

Best Regards

CA. PRAMOD JAIN

4th November 2020

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ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL.B). He has qualified Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT of ICAI. He has also done post qualification certificate course on Valuation of ICAI.

He has been elected as Central Council Member of ICAI for the period 2019 – 2021. Apart from being member in more than 25 committees / groups / directorates of ICAI, he is Chairman of Valuation standards Board and CSR Committee of ICAI for year 2020-21, member of ICAI Disciplinary Committee Bench 1 for year 2020-21 and Vice Chairman of Direct Tax Committee for year 2019-20 and 2020-21. He has been nominated as member of Quality Review Board (QRB) for 3 years from 2020 to 2022.

He is the conceptualizer of the portal www.expertspanel.in which is a one stop solution for all professional queries which has given more than 22000 answers since its launch in mid of year 2018.

He has delivered more than 1200 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 175 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from www.lunawat.com and from 2018 at www.expertspanel.in also.

He is president, founder convener and member of various associations, circles, committees, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a member of Financial Reporting Review Board, Audit and Assurance Standards Board, Accounting Standards Board, Taxations Audit Quality Review Board, Ethical Standards Board, Editorial Board, Valuations Standard Board and Internal Audit Standards Board of ICAI. He has been a Technical Reviewer with FFRB and Quality Review Board and Peer Reviewer with Peer Review Board.

He has authored books on “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, *Limited liability Partnership – A Complete Resource Book*”, “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, “Importance of LLP after Companies Act, 2013”, “Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review”, “Limited Liability Partnership – Law, Procedures and Taxation”, “Documentation for Chartered Accountants”, “Limited Liability Partnership – Law and Procedures with Ready Reckoner”, “Fringe Benefit Tax & Banking Cash Transaction Tax”, “Documentation for Audits” and “Accounting Standards and CARO”.