

Implementation Guide to Standard on Auditing (SA) 210, Agreeing the Terms of Audit Engagements



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Implementation Guide to
Standard on Auditing (SA) 210
**Agreeing the Terms of Audit
Engagements**



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Foreword

An auditing standard is a form of the current best practices applicable in an audit engagement, which sets a minimum level of technical proficiency in order to ensure that the work done is of high quality and at the same time providing high level of assurance to the stakeholders. Therefore, it is essential that auditors properly understand and implement Standards on Auditing while carrying out their audit engagements to ensure due audit quality expected from the profession.

In view of the above, the Implementation Guides to Standards on Auditing are an important resource provided by the Institute to enable auditors to appropriately understand the requirements and help them to implement these Standards in an appropriate manner to meet the requirements of Standards. The Implementation Guides also provide solutions to practical problems being faced by auditors in implementing Standards on Auditing in their audit engagements.

I am happy that the Auditing and Assurance Standards Board of ICAI has been issuing Implementation Guides to various Standards on Auditing for the benefit of auditors. This Implementation Guide to Standard on Auditing (SA) 210, “Agreeing the Terms of Audit Engagements” is one such Guide. The Implementation Guide has been written in simple and easy to understand language in Question-Answer format containing frequently asked questions (FAQs) on SA 210 and their responses.

I wish to compliment CA. G. Sekar, Chairman, CA. Shriniwas Y. Joshi, Vice Chairman and other members of the Board for bringing out this Implementation Guide for the benefit of the members.

I am sure that the members and other interested readers would find this Implementation Guide immensely useful.

December 29, 2021
New Delhi

CA. Nihar N. Jambusaria
President, ICAI

Preface

Standards on Auditing lay down the fundamental principles on the relevant aspects of audit to be followed by Chartered Accountants when they are doing attestation functions. It is essential that Chartered Accountants understand and implement these Standards on Auditing appropriately in their audit engagements to meet the objectives of these Standards.

The Auditing and Assurance Standards Board of ICAI has been issuing Implementation Guides to various Standards on Auditing to guide the Chartered Accountants on practical implementation of these Standards in real life audit situations. These Implementation Guides are written by experts, in a simpler language and format. These Implementation Guides contain frequently asked questions and their responses, templates, checklists, case studies, etc., as appropriate. Till date the Auditing and Assurance Standards Board has brought out thirteen Implementation Guides relating to Standards on Auditing. This Implementation Guide to SA 210, “Agreeing the Terms of Audit Engagements” is another such Guide in the series.

We are extremely grateful to CA. Bhavani Balasubramanian, Chennai, and her team comprising CA. Sudha Prakash and CA. P. Shankar Raman for sparing time out of their other preoccupations to write this Implementation Guide.

We would like to thank our Honourable President, CA. Nihar N. Jambusaria and Honourable Vice-President, CA. (Dr.) Debashis Mitra for their guidance and support in various endeavours of the Board.

We wish to place on record high appreciation of all members of the Board for their active contribution in finalising this Implementation Guide and other pronouncements of the Board. We also wish to thank CA. Megha Saxena, Secretary, AASB and staff of AASB for their technical and other contribution in finalising this Implementation Guide.

We are confident that the Implementation Guide would be well received by the members and other interested readers.

CA. Shriniwas Y. Joshi
Vice Chairman, AASB

CA. G. Sekar
Chairman, AASB

Contents

Foreword

Preface

Page No.

Chapter 1	Introduction and Overview	1-6
Chapter 2	Frequently Asked Questions	7-18
Chapter 3	Illustrative Clauses that can be considered to be included in Engagement Letters	19-32

Chapter 1

Introduction and Overview

1.1 Introduction

The purpose of this Implementation Guide is to provide practical guidance on implementation of the principles laid down in the Standard on Auditing (SA) 210, “Agreeing the Terms of Audit Engagements”.

SA 210 is effective for audits of financial statements for periods beginning on or after 01st April, 2010.

SA 210 deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. SA 220, “Quality Control for an Audit of Financial Statements” deals with those aspects of engagement acceptance that are within the control of the auditor.

1.2 Scope and Objective of SA 210

SA 210 deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. The main objective is establishing whether the preconditions for an audit are present and confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.

1.3 Preconditions for an audit

In order to establish that the preconditions for an audit are present, the auditor shall determine whether the financial reporting framework to be applied in the preparation of financial statements

Implementation Guide to SA 210

is acceptable and also obtain the agreement of management that it acknowledges and understands its responsibility with respect to:

- Preparation of financial statements in accordance with applicable financial reporting framework, including where relevant their fair presentation.
- For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- To provide the auditor with:
 - Access to all information of which management is aware and that is relevant to the preparation of financial statements such as records, documentation and other matters.
 - Additional information that the auditor may request from management for purpose of audit. For the purposes of consolidated financial statements, this would include the management of subsidiaries, associates and joint ventures of the entities which get consolidated.
 - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
- If the preconditions for an audit are not present:
 - The auditor shall discuss the matter with management.
 - Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:
 - If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable; or
 - If the agreement of management acknowledgement referred to above has not been obtained.

1.4 Limitation on Scope Prior to Audit Engagement Acceptance

If management or those charged with governance impose limitation on the scope of auditor's work in terms of a proposed audit engagement such that the auditor believes that limitation will result in disclaiming an opinion on the financial statements, then the auditor shall not accept such a limited engagement as an audit engagement unless required by law or regulation to do so.

1.5 Agreement on Audit Engagement Terms

The auditor shall agree the terms of audit engagement with management or those charged with governance as appropriate.

The agreed terms of audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- Objective and scope of audit of financial statements.
- Responsibilities of auditor.
- Responsibilities of management.
- Identification of applicable financial reporting framework for the preparation of financial statements.
- Reference to the expected form and content of any reports to be issued by auditor and a statement that there may be circumstances in which report may differ from its expected form and content.

If law or regulation prescribes the terms of audit engagement in sufficient detail, written engagement letter may not be necessary for above except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.

1.6 Recurring Audit

On recurring audits, the auditor shall assess whether circumstances require the terms of audit engagement to be revised and whether there is a need to remind the entity of the existing terms of audit engagement.

Implementation Guide to SA 210

Following factors may make it appropriate to revise the terms or to remind the entity of the existing terms:

- Any indication that the entity misunderstands objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements.

1.7 Acceptance of a change in the terms of the Audit Engagement

The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. Some of the reasonable justifications are change in circumstances affecting entity's requirements and misunderstanding as to nature of audit. Client providing incorrect or incomplete information or auditor not being satisfied with the information provided cannot be considered as instances of reasonable justification.

If, before completing audit engagement, auditor is requested to change audit engagement to an engagement that conveys a lower level of assurance, auditor shall determine whether there is reasonable justification for doing so.

If the auditor is unable to agree with the changed terms of audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:

- Withdraw if possible, under applicable law or regulation; and
- Determine if the circumstances need to be reported to other parties such as those charged with governance / regulators / owners.

If terms of audit engagement are changed:

- Auditor and management shall agree on new terms, and
- Record new terms in engagement letter or other suitable form of written agreement.

1.8 Additional considerations in Engagement Acceptance

(i) If Financial Reporting Standards are supplemented by Law or Regulation:

- Determine if conflicts exist between financial reporting standards and additional requirements.
- If conflicts exist:
 - Discuss with management the nature of additional requirements, and
 - Agree whether:
 - Additional requirements can be met through additional disclosures in the financial statements; or
 - Description of applicable financial reporting framework in financial statements can be amended accordingly.
 - If neither of above actions is possible, consider effect on auditor's opinion in accordance with SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report".

(ii) If the Financial Reporting Framework prescribed by Law or Regulation is not acceptable:

- Accept engagement only if:
 - Management agrees to provide additional disclosures in financial statements required to avoid the financial statements being misleading; and
 - It is recognised in terms of audit engagement that:
 - Auditor's report will include Emphasis of Matter paragraph drawing users' attention to the additional

Implementation Guide to SA 210

disclosures, in accordance with SA 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"; and

- Unless the auditor is required by law or regulation to express the auditor's opinion by using the phrases "present fairly, in all material respects", or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion will not include such phrases.
- Above conditions not met:
 - If above conditions not met and law or regulation requires auditor to undertake engagement:
 - Evaluate effect of misleading nature of financial statements on auditor's report, and
 - Include appropriate reference to this matter in terms of audit engagement.

(iii) When the Auditor's Report is prescribed by Law or Regulation:

- Evaluate:
 - Whether users might misunderstand the assurance obtained from audit of the financial statements and, if so,
 - Whether additional explanation in the auditor's report can mitigate possible misunderstanding.
- If additional explanation cannot mitigate possible misunderstanding:
 - Do not accept audit engagement unless required by law or regulation.
 - This audit, if conducted, in accordance with such law or regulation, does not comply with SAs. Accordingly, the auditor's report cannot state the audit as having been conducted in accordance with SAs.

Chapter 2

Frequently Asked Questions

Given below are the responses on key issues of SA 210 in a Question–Answer format.

Question 1: What is the applicability date of SA 210?

Response: SA 210 is applicable for audits of financial statements for periods beginning on or after 01st April, 2010.

Question 2: What is the objective of the auditor as per SA 210?

Response: The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:

- (a) Establishing whether the preconditions for an audit are present; and
- (b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.

Question 3: How to establish whether the preconditions for an audit are present?

Response: In order to establish whether the preconditions for an audit are present, the auditor shall:

- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable. If the framework chosen is other than the broadly acceptable framework viz. Accounting Standards issued by the ICAI, Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021 or Ind AS notified under the Companies (Indian Accounting Standards) Rules, 2015,

Implementation Guide to SA 210

then the auditor needs to agree the framework in the terms of audit engagement explicitly; and

- (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the auditor with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that the auditor may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Question 4: Should an auditor accept an audit engagement wherein there is limitation of scope prior to audit acceptance?

Response: If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so. In case the law or regulation is silent on this

aspect, the auditor shall not accept such an engagement with limitation of scope.

Question 5: What shall auditor do if the preconditions for an audit are not present?

Response: If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

- (a) If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable except when the financial reporting framework is prescribed by law or regulation; or
- (b) If the agreement of management referred to in FAQ 3 has not been obtained.

Question 6: In case of recurring audits, whether there is need of new audit engagement letter each period?

Response: On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. The auditor may decide not to send a new audit engagement letter or other written agreement each period.

However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- Any indication that the entity misunderstands the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.

Implementation Guide to SA 210

- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements.

Question 7: Should the change in terms of audit engagement be accepted by the auditor?

Response: The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

Question 8: What conditions should be present if the auditor has to accept an engagement mandated by law or regulation where the financial reporting framework prescribed by law or regulation would be unacceptable?

Response: If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present:

- Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading;

- It is recognised in the terms of the audit engagement that the auditor's report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with SA 706 (Revised) and unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects", or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.

Question 9: What if the conditions as mentioned in FAQ 8 are not present?

Response: If the conditions as mentioned in FAQ 8 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall evaluate the effect of the misleading nature of the financial statements on the auditor's report and include appropriate reference to this matter in the terms of the audit engagement.

Question 10: Should an audit conducted in accordance with prescribed law or regulation include compliance with SAs in auditor's report?

Response: In some cases, the law or regulation applicable to the entity prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of SAs. In these circumstances, the auditor shall evaluate whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so, whether additional explanation in the auditor's report can mitigate possible misunderstanding. If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with SAs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with SAs.

Question 11: What change in terms of the audit engagement can be considered as reasonable?

Response: A change in circumstances that affects the entity's requirements for instance significant change in ownership, significant change in the nature of the business, change in legal or regulatory requirements etc. or a misunderstanding concerning the nature of service originally requested can be considered as a reasonable basis for requesting a change in the terms of the audit engagement.

Question 12: What change in terms of the audit engagement can be considered as unreasonable?

Response: A change in the terms of the audit engagement may be considered as unreasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion.

Question 13: Should a separate engagement letter be sent to component when the auditor of parent entity is also the auditor of component? (For example, branch or a subsidiary)

Response: When the auditor of a parent entity is also the auditor of a component, the factors that may influence the decision whether to send a separate audit engagement letter to the component include the following:

- Who appoints the component auditor;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- Degree of ownership by parent; and
- Degree of independence of the component management from the parent entity.

Question 14: With whom should the terms of the audit engagement be agreed with?

Response: The terms of the audit engagement would have to be agreed with the management or those charged with governance, as appropriate. In case of companies, those charged with governance would include audit committee / Board of Directors. In case of partnership firms, the terms need to be agreed with the partner of the firm; in case of trust with the trustees and with the authorized representative in case of a branch or a liaison office.

Question 15: Is it mandatory to get the engagement letter signed / acknowledged by the management of the entity?

Response: As per the General Clarification issued by the Auditing and Assurance Standards Board of the ICAI on Standard on Auditing (SA) 210, "Terms of Audit Engagements" (Erstwhile Auditing and Assurance Standard (AAS) 26) - General Clarification (GC) – AASB / 2 / 2004, the auditor and the client are normally considered to be agreeing on the terms of the engagement if the objective and scope of an audit and the auditor's obligations are laid down in the statute or regulations governing the engagement. In such cases, it is not necessary that the engagement letter sent by the auditor is acknowledged by the addressee and returned to the auditor to establish that the client's understanding of the terms of the engagement is in accordance with the engagement letter issued by the auditor. It shall be sufficient compliance with the requirements related to sending the audit engagement letter, if an engagement letter is appropriately delivered to the client and the auditor retains the evidence for such delivery. In such cases, the audit engagement letters would be informative for the clients. Examples of such engagements include audit under Section 139 of the Companies Act, 2013, audit of public sector banks, etc.

Question 16: Who can sign the engagement letter on behalf of the firm?

Response: The engagement letter needs to be signed by the partner or the proprietor of the firm, as the case may be.

Question 17: Who can acknowledge the engagement letter on behalf of the entity?

Response: The engagement letter needs to be acknowledged by the appropriate level of management who have been conferred the powers by Board of Directors in case of companies. In case of partnership firms or LLPs it can be signed by a partner. In case of trusts it can be signed by the trustee. In case of liaison office/branch office it can be signed by the authorized representative.

Question 18: If the objective and scope of the engagement and the auditor's obligations are not laid down in the applicable statute or regulations, is it required to get the engagement letter signed/ acknowledged by the management of the entity?

Response: If the applicable statute or regulations has not laid down the objective and scope of the engagement and the auditor's obligations, the engagement letter is required to be signed / acknowledged by the appropriate personnel. (Refer FAQ 17 for the illustrative list of personnel who can sign the engagement letter on behalf of the entity). The purpose is to establish that client's understanding of the arrangements for the engagement is in accordance with the engagement letter issued by the auditor and that the auditor has complied with the requirements of the standard in so far as they are related to sending the audit engagement letter.

Question 19: If the entity does not agree to the terms of the engagement letter or seeks further clarification or explanations, is it required to get the engagement letter signed / acknowledged by the management of the entity?

Response: If the client seeks any further explanations or clarification in regard to any terms, conditions or other contents of the engagement letter issued, it might indicate that there exists a difference in understanding of the terms of audit engagement either on the part of the client or on the part of the auditor. The auditor, in such cases, should take necessary steps to resolve the

issues, for example by appropriately replying to the issues raised by the client. It is also desirable that the auditor documents the evidence indicating that the issues are settled and the client and auditor agree on the terms of the engagement. In such cases, the engagement letter is required to be signed / acknowledged by the appropriate personnel. (Refer FAQ 17 for the illustrative list of personnel who can sign the engagement letter on behalf of the entity).

Question 20: What should be the form and content of an audit engagement letter?

Response: The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- The objective and scope of the audit of the financial statements - elaboration of the scope of the audit, including reference to applicable legislation, regulations, SAs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The responsibilities of the auditor.
- The responsibilities of management.
- Identification of the applicable financial reporting framework for the preparation of the financial statements.
- Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. The form of any other communication of results of the audit engagement.
- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report".
- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may

Implementation Guide to SA 210

not be detected, even though the audit is properly planned and performed in accordance with SAs.

- Arrangements regarding the planning and performance of the audit, including the composition of the audit team.
- The expectation that management will provide written representations.
- The agreement of management to make available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.
- The fact that the audit process may be subjected to a peer review under the Chartered Accountants Act, 1949.
- Any other legal requirements, for example, paragraph 6 of the SEBI Circular CIR / CFD / CMD1 /114 / 2019 dated 18th October, 2019 with regard to resignation of statutory auditors from listed entities and their material subsidiaries.
- In case of resignation, the auditor should also consider the "Implementation Guide on Resignation / Withdrawal from an Engagement to Perform Audit of Financial Statements" issued by the Auditing and Assurance Standards Board of the ICAI and clauses if any, as required in the said Implementation Guide may be considered for inclusion in the engagement letter.

Question 21: In case more than one auditor are appointed to conduct the audit jointly and report on the financial statements of the entity, should each of the auditor enter into a separate engagement letter?

Response: As per SA 299(Revised), “Joint Audit of Financial Statements”, the joint auditors shall obtain common engagement letter.

Question 22: What are the factors that are relevant to the auditor’s determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements?

Response: Factors that are relevant to the auditor’s determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:

- The nature of the entity (for example, whether it is a business enterprise, or a not-for-profit organization);
- The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
- Whether law or regulation prescribes the applicable financial reporting framework.

Question 23: Is there any written representations required to be obtained from the management?

Response: Written representation is required from the management to ensure that the management has fulfilled its responsibilities especially with respect to preparation of financial statements, establishing internal controls, provide access to auditors to the information etc. It is also to be noted that SA 580, “Written Representations” requires the auditor to request

Implementation Guide to SA 210

management to provide written representations that it has fulfilled certain of its responsibilities. It may therefore be appropriate to make management aware that receipt of such written representations will be expected, together with written representations required by other SAs and, where necessary, written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.

In cases if the management is not willing to acknowledge its responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence. In such circumstances, it would not be appropriate for the auditor to accept the audit engagement, unless law or regulation requires the auditor to do so. In cases where the auditor is required to accept the audit engagement, the auditor may need to explain to management the importance of these matters, and the implications for the auditor's report.

Written representations may also be required by law or regulation, for example, in the case of resignation of auditor, the incoming auditor should obtain a management representation letter on the matter that there are no concerns of outgoing auditor beyond those stated in no objection certificate and resignation letter received from the outgoing auditor. (Refer paragraph 81(j) of the Guidance Note on the Companies (Auditor's Report) Order, 2020) issued by the Auditing and Assurance Standards Board of the ICAI.

Chapter 3

Illustrative Clauses that can be considered to be included in Engagement Letters

First time appointment

In the introductory paragraph the following wordings may be considered in case if it is a first-time appointment as statutory auditors:

In the annual general meeting of the Company held on *****, I / we was / were appointed as auditors of XXXXXX ("the Company") for a period of five years commencing from the conclusion of the XXth annual general meeting of the Company to the conclusion of the XXXth annual general meeting covering the financial years beginning 1st April 20XX and ending on 31st March 20XX.

Continuing appointment – no ratification required in accordance with the Companies Act, 2013

As per the amended provisions of the Companies Act, 2013, ratification of appointment as auditors is not required in every following annual general meeting of the Company after the initial year of appointment and accordingly, the above appointment is considered valid for audit for the year ending / ended 31st March 20XX.

Reference to reliance of other auditors if any – like for branch auditors

In so far as it relates to the audit and reporting on the consolidated financial statements, I / we will rely on the work of other auditors appointed by the respective subsidiaries, associates and jointly controlled entities / joint ventures and our report would expressly state the fact of such reliance.

Reference to Statement of Changes in Equity (for Companies adopting Ind AS framework)

You have requested that I / we audit the financial statements of the Company which comprise the Balance Sheet as at 31st March XXX, the Statement of Profit and Loss, the Statement of Cash Flows and the Statement of Changes in Equity for the year ended on the said date.

Reference to matters to be communicated to Those Charged with Governance

In accordance with the Standards on Auditing specified under Section 143(10) of the Companies Act, 2013, I / we will communicate certain matters related to the conduct and results of the audit to you and the Audit Committee. Such matters include, but not limited to, the following:

- My / Our responsibility under the Standards on Auditing specified under Section 143(10) of the Companies Act, 2013 for forming and expressing an opinion on the financial statements that have been prepared by the management with the oversight of the Audit Committee and the Board of Directors and that such an audit does not relieve the management, the Audit Committee and the Board of Directors of their responsibilities;
- Significant findings from the audit including my / our views about the significant qualitative aspects of the Company's accounting practices, including accounting policies, accounting estimates, financial statement disclosures and other matters that are in my / our professional judgment, significant and relevant to the Audit Committee and the Board of Directors regarding the oversight of the financial reporting process, including significant matters in connection with the Company's related parties; and
- Written representations requested from the management and significant matters if any, arising from the audit that were discussed, or the subject of correspondence, with the management.

Reference on approval of non-audit services

The management acknowledges its responsibility to communicate to and obtain approval from the Audit Committee / the Board of Directors for any additional non-audit services proposed by me / us as required under Section 144 of the Companies Act, 2013 before commencement of the said services.

Reference to Protective clauses on data transfer, workpapers etc.

Further, the Company consents for use, maintenance and where necessary, transfer of the data and information provided or made available by the Company (including personal information) and represents that it has the lawful right to provide them to us. You agree that on request, you will promptly provide me / us with supporting documents to corroborate the foregoing.

The Company, by executing this letter, agrees to indemnify and hold me / us harmless from all third-party claims, damages, liabilities and costs other than those resulting from my / our wilful misconduct or negligence. It is hereby irrevocably agreed and accepted that the Courts in India shall have exclusive jurisdiction to settle any claim, difference or dispute resulting from my / our wilful misconduct or negligence.

The working papers and files for this engagement created by me / us during the course of the audit, including electronic documents and files, are the sole property of me / us. I / We may develop software, including spreadsheets, documents, databases and other electronic tools to assist me / us with our engagement. In some cases, these aids may be provided to the Company upon request. As these tools were developed specifically for my / our purposes and without consideration of any purpose for which the Company might use them, they are made available on an “as is” basis for the Company’s use only and should not be distributed to or shared with any third party. Further, I / we make no representations or warranties as to the sufficiency or appropriateness of the software tools for any purpose for which the Company may use them.

Implementation Guide to SA 210

During the engagement, I / we may from time to time communicate with you electronically. However, as you are aware, the electronic transmission of information cannot be guaranteed to be secured or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Accordingly, while I / we will use reasonable procedures to check for the most commonly known viruses before sending information electronically, I / we shall not have any liability to you arising from or in connection with the electronic communication of information to you.

Reference to complete set of financial statements when entity is listed entity and Regulation 33 and / or 52 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is mandatory

To enable me / us to provide audit report on the complete set of standalone and consolidated financial statements on the same date as the date of the audited financial results, please provide the complete set of standalone and consolidated financial statements including the notes and along with the results, for me / us to perform audit procedures and report on them. My / Our report will be issued only when we have completed all our audit procedures on the information being reported upon, including the engagement quality control review as required under the SAs.

Terms of my / our engagement for each of the other attest services which would be provided in addition to the audit of the aforesaid financial statements - paragraphs to be included in the engagement letter

(Retain whatever is applicable of the below mentioned services)

A. Report on Corporate Governance

I / We will examine compliance by the Company of conditions of corporate governance for the year ending / ended 31st March 20XX as stipulated in Regulations 17 to 27 and clauses (b) to (i) of Regulation 46(2) and paragraphs C, D and E of Schedule V of the

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”) and issue a report on the same as required by Listing Regulations.

I / We will examine the books of account and other relevant records and documents maintained by the Company for the purposes of providing reasonable assurance on the compliance with conditions of corporate governance by the Company.

My / Our examination of the relevant records of the Company in accordance with the Guidance Notes on ‘Certification of Corporate Governance’ and ‘Reports or Certificates for Special Purposes’ issued by the ICAI, and the SAs, as applicable, would be limited to the examination of the procedures and implementation thereof, adopted by the Company for ensuring compliance of the conditions of corporate governance. I / We will comply with the ethical requirements of the Code of Ethics issued by the ICAI.

This report shall not be an expression of opinion on the financial statements of the Company.

It is the management’s responsibility to ensure implementation of and compliance with the conditions of corporate governance as stipulated in the Listing Regulations. This responsibility includes the design, implementation and maintenance of internal control and procedures to ensure the compliance with the conditions of the corporate governance stipulated in the Listing Regulations.

B. Limited reviews of the unaudited financial results (interim financial information), including consolidated financial results

I / We will perform limited reviews of the quarterly and year-to-date unaudited financial results (interim financial information), including consolidated financial results, to be prepared by the Company pursuant to the requirements of Regulation 33 (Equity listed), Regulations 33 and 52 (Equity and Debt Listed) / Regulation 52 (in case of debt listed securities only) of the Listing Regulations / Framework for listing of Commercial Paper (in case of Commercial Paper listed companies) and issue review report on the same based on my / our review.

Implementation Guide to SA 210

or

I / We will perform limited reviews of the quarterly and year-to-date unaudited financial results (interim financial information), including consolidated financial results to be prepared by the Company for internal reviews and also in connection with preparation of unaudited consolidated financial results by the parent / holding company.

It is the management's responsibility to prepare the unaudited financial results (interim financial information) in accordance with the recognition and measurement principles laid down in AS 25 / Ind AS 34 – Interim Financial Reporting, prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other accounting principles generally accepted in India.

The responsibility for the preparation and presentation of interim financial information, including adequate disclosures, in accordance with the requirements of Regulation 33 (Equity listed), Regulations 33 and 52 (Equity and debt listed) / Regulation 52 (in case of debt listed securities only) of the Listing Regulations / Framework for listing of Commercial Paper (in case of Commercial Paper listed companies) is that of the management. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

My / Our reviews will be conducted in accordance with Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" with the objective of providing with a basis of reporting whether anything has come to my / our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the requirements of Regulation 33 (Equity listed), Regulations 33 and 52 (Equity and debt listed) / Regulation 52 (in case of debt listed securities only) of the Listing

Regulations/ Framework for listing of Commercial Paper (in case of Commercial Paper listed companies). Such a review consists of making inquiries, primarily of the Company's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. Such procedures do not, ordinarily, require corroboration of the information obtained. The scope of such a review is substantially less than an audit conducted in accordance with the Standards on Auditing, the objective of which is the expression of an opinion regarding the financial statements and, accordingly, I / we shall not express such opinion.

A review of interim financial information does not provide assurance that I / we will become aware of all significant matters that might be identified in an audit. Further, my / our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, I / we will inform you of any material matters that come to our attention.

In forming my / our conclusion on the interim financial information, I / we will rely on the work of branch auditors appointed by the Company and my/ our review report would expressly state the fact of such reliance. In so far as it relates to the review and reporting on the interim consolidated financial information, I / we will rely on the work of the other auditors appointed by the respective subsidiaries, associates and jointly controlled entities / joint ventures and my / our review report would expressly state the fact of such reliance.

[AND / OR as applicable]

Audit of the financial results (interim financial information), including consolidated financial results

I / We will perform an audit of the quarterly and year-to-date financial results (interim financial information), including consolidated financial results, to be prepared by the Company pursuant to requirements of Regulation 33 (Equity listed), Regulations 33 and 52 (Equity and debt listed) / Regulation 52 (in case of debt listed securities only) of the Listing Regulations /

Implementation Guide to SA 210

Framework for listing of Commercial Paper (in case of Commercial Paper listed companies) and issue audit report on the same. This would be based on my / our audit of the related interim financial statements, including consolidated financial statements comprising the condensed Balance Sheet of the Company as at the end of each of the quarter, related condensed Statement of Profit and Loss (including Other Comprehensive Income), the condensed Statement of Cash Flows and the Statement of Changes in Equity for the period ending / ended on that date (interim financial statements).

It is the management's responsibility to prepare and present these interim financial statements and interim financial information in accordance with the recognition and measurement principles laid down in AS 25 / Ind AS 34 – Interim Financial Reporting, prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other accounting principles generally accepted in India. The management's responsibilities for this attest engagement would be same as stated under management's responsibility paragraph above, to the extent applicable.

The responsibility for the preparation and presentation of interim financial information, including adequate disclosures, in accordance with the requirements of Regulation 33 (Equity listed), Regulations 33 and 52 (Equity and debt listed) / Regulation 52 (in case of debt listed securities only) of the Listing Regulations / Framework for listing of Commercial Paper (in case of Commercial Paper listed companies) is that of the management. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

My / Our audit of the quarterly and year-to-date financial results will be conducted with the objective of our expressing an opinion:

- if the aforesaid quarterly and year-to-date financial results give a true and fair view in conformity with the recognition and measurement principles laid down in the applicable accounting principles generally accepted in India, of the financial performance including (profit/loss), other comprehensive income and other financial information for the quarter and year-to-date period ending on respective quarter end dates.
- whether the interim financial information is presented in accordance with the requirements of Regulation 33 (Equity listed), Regulations 33 and 52 (Equity and debt listed) / Regulation 52 (in case of debt listed securities only) of the Listing Regulations / Framework for listing of Commercial Paper (in case of Commercial Paper listed companies).

My / Our responsibilities for this attest engagement would be same as stated under auditor's reporting responsibility paragraph above.

In so far as it relates to the audit and reporting on the interim consolidated financial statements and interim consolidated financial information, I / we will rely on the work of the other auditors appointed by the respective subsidiaries, associates and jointly controlled entities / joint ventures and my / our report would expressly state the fact of such reliance.

Terms of our Resignation – this is required for listed entities and their material subsidiaries as per SEBI Circular no. CIR/CFD/CMD1/114/2019 dated 18th October 2019 on Resignation of statutory auditors from listed entities and their material subsidiaries

If I / we propose to resign, all concerns with respect to the proposed resignation, along with relevant documents will be brought to the notice of the Audit Committee of the Company.

In cases where the proposed resignation is due to non-receipt of information / explanations from the Company, I / we will:

Implementation Guide to SA 210

- inform the Audit Committee of the details of information/explanation sought and not provided by the management, as applicable; and
- provide an appropriate disclaimer in my / our report.

Following would be my / our reporting responsibilities in case we resign as statutory auditors any time during the reporting period:

- If I / we resign within 45 days from the end of a quarter of a financial year, I / we will issue the limited review / audit report for such quarter, before my / our resignation.
- If I / we resign after 45 days from the end of a quarter of a financial year, I / we will issue the limited review / audit report for such quarter as well as next (ongoing) quarter, before my / our resignation.
- Notwithstanding the above, if I / we have issued the limited review / audit report for the first three quarters of a financial year, I / we will issue the limited review / audit report for the last quarter of such financial year as well as the audit report of such financial year before my/our resignation.

Updating UDIN

I / We also wish to highlight that pursuant to the ICAI requirements, I / we am / are required to update certain relevant details of the operations of the Company in the Unique Document Identification Number (UDIN) Portal of the ICAI for generating the UDIN reference number, which is required to be stated in the report / certificates issued by me / us to or on behalf of the Company.

Independence Matters

In connection with our engagement, I / We, the management, the Audit Committee and the Board of Directors will assume certain roles and responsibilities in an effort to assist me / us in maintaining independence and ensuring compliance with the applicable independence requirements. I / We will communicate to our employees (and partners if applicable) that the Company is an

audit client. The management / the Audit Committee / the Board of Directors, as may be applicable, of the Company will ensure that the Company, together with its related entities, has policies and procedures in place for the purpose of ensuring that neither the Company nor any of its related entities will act to engage me / us or accept from me / us any service that has not been subjected to the pre-approval process, where required, or that would impair my / our independence.

In connection with the foregoing, the Company agrees to furnish and keep me / us updated with respect to (1) a corporate tree that identifies the legal names of the Company's related entities (2) any equity or debt securities of the Company and its related entities that are available for public subscription together with related securities identification information (e.g., ISIN®, Trading symbol).

The management will coordinate with me / us to ensure that my / our independence is not impaired by hiring former or current partners or professional employees who were part of the audit engagement team for certain positions. The management of the Company will ensure that the Company, together with its related entities, also has policies and procedures in place for the purposes of ensuring that my / our independence will not be impaired by hiring a former or current partner or professional employee as a director or officer; or an employee in a position to exert significant influence over the preparation of the Company's accounting records or the financial statements that would cause a violation of independence requirements. Any employment opportunities with the Company for a former or current partner or professional employees who were part of the audit engagement team should be discussed with me / us before entering into substantive employment conversations with the former or current partner or professional employee who were part of the audit engagement team, if such opportunity relates to serving as (1) director or officer; or (2) an employee in a position to exert significant influence over the preparation of the Company's accounting records or the financial statements.

Implementation Guide to SA 210

The management will coordinate with me / us to ensure that my / our independence is not impaired by appointing relative of the firm's partner as director or hiring relative of the firm's partner as key managerial personnel as defined under Section 2(51) of the Companies Act, 2013. Any of the stated opportunities with the Company for a relative of the firm's partner should be discussed with Mr. [Ms.] [name of audit engagement partner] before entering into substantive conversations with the relative of the firm's partner.

Limitation on Damages

Nothing in this engagement letter shall exclude or restrict or prevent a claim being brought in respect of:

- (i) any liability finally judicially determined to arise primarily from the fraud or bad faith by me / us as auditor; or
- (ii) any other liabilities which cannot lawfully be limited or excluded, save to the extent permitted by law.

The client entity agrees that the auditor shall not be liable to the client for any losses for an aggregate amount in excess of the fees paid by the client entity to the auditor under the contract.

Auditor will not be liable for losses arising as a result of the provision of false, misleading or incomplete information or documentation or the withholding or concealment or misrepresentation of information or documentation of any person or client entity.

Confidentiality Matters

I / We will conduct our audit in accordance with the confidentiality requirements prescribed under the Code of Ethics of the ICAI which requires that the client information acquired by us under the course of my / our audit is subject to strict confidentiality.

In connection with this engagement, I / we may access and acquire confidential and other sensitive information ("confidential

information”). I / We shall preserve the confidentiality of confidential information in compliance with the confidentiality requirements of the Code of Ethics. I / We shall adhere to the confidentiality restrictions of the regulatory authorities that govern me / us, as well as any obligations imposed on me / us by any applicable laws. The information relating to you, to our relationship with you, and to this engagement, including confidential information, may be accessed by other parties who facilitate the administration of our business or support our infrastructure. I / We shall remain responsible for preserving confidentiality if confidential information is shared with or accessed by such other parties. I / We may remove, or arrange for the removal of, names and any other identifiers from confidential information and then use such anonymised information for lawful purposes chosen at my/ our discretion. This clause shall not prohibit my / our disclosure of confidential information, in confidence, to my / our professional indemnity insurers or advisers or my/ our disclosure otherwise permitted under this engagement letter. This clause shall not apply where confidential information properly enters the public domain or no longer remains confidential without our default.

I / We understand that the Company may be subject to laws that prohibit bribery and / or providing anything of value to government officials with the intent to influence that person’s actions in respect of the Company’s business. I / We may be subject to similar laws and codes of professional conduct and our firm has its own internal policies and procedures which prohibit illegal or unethical behavior. In providing the services, I / we undertake not to offer, promise or give financial or other advantage to another person with the intention of inducing a such person to perform improperly or to reward improper behavior for the benefit of the Company, in each case, in violation of the Prevention of Corruption Act, 1988 and any other similar laws to which the firm is subject to in the provision of its services under this letter.

Acknowledgement

Acknowledged on behalf of <<Name of the entity>> in terms of the approval by the Audit Committee / Board of Directors / Partner / Authorized Representative on _____

Name and Designation: _____

Date: _____