Attention C.A. Pcc & Ipcc Students

Solved Ans. Audit. Ipcc_Nov.10

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(No.1 Institute of Jharkhand)

C.A. CPT, PCC, IPCC & FINAL

Solved Ans Prepared by : C.A Arvind Kumar Jain and Team Members

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Roll No. ....

Total No. of Questions - 7 Total No. of Printed Pages - 4

Time Allowed : 3 Hours Maximum Marks : 100

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. **1** is compulsory.
Attempt any **five** questions from the remaining **six** questions.

Qn 1. Comment as a auditor on the following situations : -

(a) Mr. X, a partner in X & Co., a firm of a Chartered Accountants, died on 31-3-2010 after completing routine audit work of XYZ Company Ltd.. Mr. Y another partner of the firm of Chartered Accountants signed the financial statements of XYZ Company Ltd., without reviewing the finalization work done by the assistants. **[5 Marks]**

(b) Government of India has appointed Mr. M, a retired Finance Director and a non-practising member of the Institute of Chartered Accountants of India, as an auditor to conduct special audit of ABC Ltd. on the ground that the company was not being managed on sound business principles. The Managing Director of the company contends that the appointment of Mr. M is not valid because he does not hold a certificate of practice. **[5 Marks]**

(c) M.N.P. Company Ltd. purchased a machinery for Rs. 1.00 crore. The State Government granted the company a subsidy of Rs. 40 lakhs to meet partial cost of machinery. The company credited the subsidy received from the State Government to its Profit and Loss Account for the year ended March 31,2010. **[5 Marks]**

(d) Sri & Company, a firm of Chartered Accountants was appointed as statutory auditors of Aaradhana Company Ltd.. Aaradhana Company Ltd. holds 51% shares in Sarang Company Ltd.. Mr. Sri, one of the partners of Sri & Company, owed Rs. 1,500 as on the date of appointment to Sarang Company Ltd. for goods purchased in normal course of business. **[5 Marks]**

Qn. 2. (a) Explain briefly the technique of "Internal Control Questionnaire" to facilitate the accumulation of information necessary for proper evaluation of internal control. **[4 Marks]**

(b) State clearly the circumstances where "Auditing through the computer" approach must be used. **[6 Marks]**

(c) What do you mean by the term 'Sufficient Appropriate Audit Evidence' ? State various factors that help the auditor to ascertain as to what is sufficient appropriate audit evidence.

Qn. 3. (a) "The auditor is faced with sampling risk in both tests of control and substantive procedures." **[8 Marks]**
Comment on this statement with reference to SA 530 on "Audit Sampling".

(b) What are the factors that determine the extent of reliance that the auditor places on results of analytical procedures ? Explain with reference to SA-520 on "Analytical procedures". **[8 Marks]**

Qn. 4. Write short notes on any **four** of the following : **[4 x 4 =16 Marks]**

(a) Reliability of external confirmations.
(b) Physical verification of fixed assets "at reasonable intervals".
(c) Verification of credit sales.
(d) Factors governing modes of communication of auditor with those charged with governance.
(e) Procedures to be performed by the auditor in expressing opinion on 'going concern' assumption.

Qn. 5. (a) Mention briefly important points which an auditor will consider while conducting the audit of a club. **[8 Marks]**

(b) What important points should an auditor keep in mind while checking receipt of income of a Non-Governmental Organization (N.G.O.) ? **[4 Marks]**

(c) State briefly the circumstances when an auditor issues a disclaimer of opinion. **[4 Marks]**

Qn. 6. (a) Comment on the following :
X Ltd. has its Registered Office at Mumbai. During the current accounting year it shifted its Corporate Office to Delhi. The Managing Director of the Company wants to shift company's books of account to Delhi because he holds the view that there is no legal bar in doing so. **[4 Marks]**

(b) A partnership firm revalued its fixed assets like land and building. The firm adequately disclosed the revalued amounts in the Balance Sheet. **[4 Marks]**
Do you, as an auditor, approve the disclosure given by the partnership firm ?

(c) R.K. & Company are the auditors of PQR Company Ltd. The Managing Director of the Company demands copies of the working papers from the auditors. Are the auditors bound to oblige the Managing Director ? **[4 Marks]**

(d) "Responsibility for properly determining the quantity and value of inventory rests with the management." Comment on this statement. **[4 Marks]**

Qn. 7. (a) What points shall an auditor keep in mind while auditing an account of Bought Ledger having a debit balance ? **[4 Marks]**

(b) PQR Company Ltd. removed their first auditor by passing a resolution in the meeting of the Board of Directors for his removal without obtaining prior approval from the Central Government. **[4 Marks]**
Offer your comments in this regard.

(c) R & M Company, a firm of Chartered Accountants, was appointed as statutory auditors of XYZ Company Ltd. Draft an engagement letter accepting the appointment as auditors. **[8 Marks]**

ANSWER

Ans. 1 (a) Provisions of SA - 200 (old AAS - 1): The following principles are laid down :-

1. When the auditor delegates work to assistants or uses work performed by other auditor and experts, he will continue to be responsible for forming and expressing his opinion on the financial statements.
2. He will be entitled to rely on the work, provided he exercises adequate skill and is not aware of any reason to believe that he should not have so relied.
3. He should carefully direct, supervise and review the work delegated to assistants. Aspect review : Following aspects should be reviewed :-
   (i) Audit programme
   (ii) Documentation
   (iii) Audit quarter
   (iv) Audit procedures
   (v) Audit opinion

Analysis : In the present case, whether Mr. X, the deceased partner had reviewed the work performed by assistants or not, is not clearly stated. Hence, it shall be the duty of Mr. Y., to review the work performed by the assistants before expressing an opinion, Mr. Y. should review the working papers carefully, carry test checks and scrutinize the audit file thoroughly.

Ans. 1 (b) Appointment of Special Auditor : According to Section 233A of the Companies Act, 1956 the circumstances mentioned in the Section gives power to the Central Govt. that it may forward direction to the effect that a special audit of the companies account for the given period shall be performed.

One of the circumstances stated by the section is that in case a company is not being managed in reference with some business principle or prudent commercial practices that it may appoint a CA whether or not the CA is in practice or the companies auditor itself conduct such special audit.

Conclusion : Thus the appointment of Mr. M, a non-practising member of Institute of Chartered Accountant of India is within provision of law and therefore presumption made by Managing Director of MM Ltd. is not correct.

Ans. ***1 (c)*** As per "**AS 12 ACCOUNTING FOR GOVT. GRANT"** there are two accounting treatments of monetary grants received related to depreciable fixed assets :

- Grant is shown as deduction from the gross value of assets in arriving at its book value. When the grant equals to the cost of assets, the assets should be shown in balance sheet at nominal value.
- Grants are treated as deferred income. The deferred income is recognised in profit and loss account on a systematic and rational basis over the useful lives of assets. Such allocation to income is made over the periods and in proportions in which depreciation on related assets is charged.

Conclusion : In the present case the company has credited the grant to its Profit & Loss Account, is not as per AS 12. Therefore the auditor should qualify his report.

Ans. (1) (d) As per Sec 226(3), a person who is indebted to the company for an amount exceeding Rs.1000/- or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding 1000/-.

Here it is clear that the auditor is indebted to the company of which he is appointed as an auditor. In the present case Sri Sai & Company, a firm of chartered accountants was appointed as auditor of Aaradhana Company Ltd. whereas the partner of the audit firm has indebted to the subsidiary company Sarang Company Ltd. and not to the company of which they are appointed as an auditor. Therefore Sri Sai & Company, the auditor firm will not be disqualify under section 226(3).

Ans. (2) (a) Internal control questionnaires is a comprehensive series of questions on each major class of transactions concerning internal control. This is used to collect information about existence, operation and efficiency of ICS. Questions are specified in such manner because `Yes' indicates satisfactory position, `No' suggests weakness. Provision is made for an explanation or further detail of `No' answer. In respect of question not relevant to the business, `NA' reply is given.

The questionnaires is usually issued to the client and the client is requested to get it filled by concerned executive and employees. If on investigation of answers, inconsistent or irregularity is found, the matter is further discussed by auditor's staff with client's employees. The concerned auditor then prepare a report of deficiency and recommendation for improvement.

The advantage of Internal control questionnaires is that a comprehensive list of questions makes it unlikely the internal control with regard to any transaction will be overlooked. It is a means to the achieve the end.

Ans. (2) (b) "Auditing through the computer approach" can be used in following circumstances :

(a) The application system processes large volume of input and produces large volumes of output e.g. cash sales in a big departmental store.

(b) Significant parts of the internal control system are embodied in computer system e.g. in an online banking system a computer programme may batch transactions for individual tellers to provide control totals for reconciliation at the end of day's processing.

(c) To make processing more efficient e.g. EDP system may be used to scan accounts receivable balances for amounts exceeding the credit limit and even for confirming receivable accounts random sampling tables might be used to select sample.

(d) To facilitate analysis e.g. the auditor may summarise inventory turnover statistics to determine slow moving inventory items with the help of software.

Ans. (2) (c) Definition : Sufficiency and appropriateness are interrelated. Sufficiency refers to quantum of audit evidence obtained whereas appropriateness relates to its relevance and reliability. What constitute sufficient appropriate audit evidence in a particular circumstance depends upon auditor's professional judgement.

Factors : The auditor's judgement as to what is sufficient appropriate audit evidence may be influenced by following factors :

a. The degree of risk of mis-statement which may be affected by factors such as -
   - (i) Nature of item
   - (ii) Adequacy of internal control
   - (iii) Nature or size of business carried on by entity.
   - (iv) Situation which may have unusual influence on the management
   - (v) Financial position of an entity.

b. Materiality of item.

c. Experience gained during previous audit.

d. Result of audit procedure, including fraud or error which may have been found.

e. Type of information available.

f. Trend indicated by accounting ratio and analysis.

Ans. 3 (a) Audit Sampling : SA 530 (Revised): The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.

Sampling risk can lead to two types of erroneous conclusions: In the case of a **test of controls**, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

Therefore the statement is true that "the auditor is faced with sampling risk in both tests of control and substantive procedures".

Ans. 3 (b) As per SA 520 : Analytical Procedure - Level of reliance that an auditor can obtain from analytical review will depend on factors such as:

- availability, reliability, relevance, independence and comparability of information being used;
- nature of the entity and degree to which information can be disaggregated;
- adequacy of controls over preparation of information;
- materiality of item involved.

Ans. (4) (a) Reliability of External Confirmations : As per **SA 505** External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements.

In deciding to what extent external confirmations are **reliable**, the auditor considers the **characteristics of the environment** in which the entity being audited operates and the practice of potential respondents in dealing with requests for direct confirmation.

External confirmations are frequently used in relation to account balances and their components, but need not be restricted to these items.

In following situations external confirmations may be reliable to the auditor :-

1. Bank Balances and other Information from Bankers.
2. Account Receivable and payable balances.
3. Stock held by third parties.
4. Property title deeds held by third parties.
5. Loan from tenders.
6. Long outstanding share application money etc.

The reliability of evidence obtained by external confirmations depends among other factors, upon the application of appropriate procedures while designing the external confirmation request performing the procedures and evaluating the results thereof.

Ans. (4) (b) (C) PHYSICAL VERIFICATION OF FIXED ASSETS "AT REASONABLE INTERVALS" -

1. It is the responsibility of the management to carryout physical verification of fixed assets at appropriate intervals in order to ensure that they are in existence. Auditor should examine the written instructions issued to staff by the management and the relevant working papers. The Auditor should also satisfy himself that the persons conducting the verification, whether the employees of the enterprise or outside experts, had the necessary competence.
2. The auditor should examine whether the method of verification was reasonable in the circumstances relating to each asset. It would not be realistic to expect the management to suspend manufacturing operations merely to conduct a physical verification of the F.A's, unless there are suspicious circumstances. In such cases indirect evidence of the existence of the assets may sufficient. It may not be necessary to verify assets by measurement except where there is evidence of alteration/demolition. Where the fixed assets can be moved and where verification of all assets can't be conducted at the same time, they should be marked with distinctive numbers.
3. Examine whether the frequency of verification was reasonable in the circumstances of each case. Where the assets are few and can be easily verified, an annual verification may be considered as reasonable. However, where the assets are numerous and difficult to verify, verification once in three years by rotation may be sufficient so that all assets are verified at least once in every three years.
4. Test check the book records with physical verification report. Whether discrepancies, if any, have been properly dealt with. Modification in ICS should be made in this regard, if required.

Ans. 4 (c) Verification of Credit sales

Examine sales book	All the entries made in the *sales book* are traced to carbon copies of *sales invoices*
Examine sales invoices	Select *a sample of invoices* at random and apply *audit in depth* on them *i.e.,* follow the flow of work from the receipt of original order to the ultimate despatch of goods and settlement of the account.
Examine *the* numerical sequence of source documents generated within the organization	Ensure that numerical sequence of source documents such as *sales order, goods outward notes and sales invoices* is being maintained and should ascertain the reasons for missing numbers, if any

Routine checking	Routine checking should be performed to ascertain the accuracy of totals of sales book and debtors' accounts and to check carry forward of totals and posting of entries in appropriate ledger accounts and then on to trial balance
Examine adequacy and efficacy of cut off procedures	Examine adequacy and efficacy of cut-off procedures on prenumbered sales order, sales invoices and goods outward notes.

Ans. 4 (d) Forms of communication of audit with those charged with governance may be oral or written. The mode may depend upon following factors namely : -

(i) Size, legal structure and communication process of entity.
(ii) Significance and sensitivity of matter
(iii) Arrangements w.r.t meetings with those charged with governance.

Auditor should maintain documentation of oral communication also.

Ans. (4) (e) : Sufficient and Appropriate Audit Evidence has to be gathered by the auditor in case of doubt about expressing opinion on 'Going Concern' assumption. His <u>audit procedures</u> have to be more extensive when the assumption is questionable. This may include -
(i) Analyze the cash flow, profits and relevant forecasts. Check the reliability of the assumptions made, if any, and their consistency with prior periods.
(ii) Review events after balance sheet date and the latest interim balance sheets.
(iii) Review terms of loan agreements and determine if any terms are breached . Also discuss future plans to borrow money, if any.
(iv) Review the minutes of meeting of shareholders and board.
(v) Review the status of legal matters, litigation etc.
(vi) The auditor should discuss the future plans of the entity, determine the feasibility of the plans, the effects thereof on the solvency of the entity etc and obtain written representations from the management as audit evidence.

Ans. 5(a) **<u>AUDIT OF C L U B</u>** -

S. No.	***Areas to be Covered***	***Auditor's Duty***
1.	Formation	(i) Investigate the formation of club and powers of the governing body. Study the relevant rules or bye-laws pertaining to preparation and finalisation of accounts. (ii) Inspect the minutes book of the Governing Body and ensure whether the powers have been appropriately exercised.
2.	Members Entrance Fees	(i) Affirm strongly the receipts on account of entrance fees with the application of members, counterfoils issued and minutes of the Managing Committee.
3.	Subscription of Members	(i) Affirm strongly the subscription of members with the counterfoils of receipts issued to members. (ii) Mark out the receipts of selected periods to the Members Register. (iii) Reconcile the total amount of subscription due with the amount collected and outstanding. (iv) Check the total of various columns of Members Register and tally them across. (v) Check the Members Register to determine the dues areas and examine whether necessary steps have been taken for their recovery. The amount considered irrecoverable, if any, must be written off. (vi) Confirm that areas of subscription for the previous year are brought over correctly and arrears for the year under audit and advance subscription received is correctly adjusted.
4.	Services Charges from Members	(i) Verify the internal check system with regards to members being charged for- (a) Foodstuffs and drinks provided, (b) Fees chargeable for specific services rendered eg. billiards, tennis, etc. (ii) Mark out the debits for a selected period from subsidiary register maintained with respect to supplies and services to members have been debited by the

		amounts recoverable from them.
5.	Purchases	(i) Affirm Strongly the purchase of sports items, furniture, crockery, etc. and mark out their entries into particular stock registers. (ii) Also affirm strongly the purchase of foodstuff and drinks, etc. and test their sale price in order to ensure that normal rates of profit have been earned on their sale. (iii) Carry physical verification of closing stock on unsold provision and stores and check the valuation of that. (iv) Check the stock of furniture, sports material and other assets physically with particular, stock registers or inventories prepared at the year-end.
6.	Investment	(i) Investigate the share scripts and bonds with respect to investments. Check their current value for disclosure in final accounts and also determine the arrangement for their safe custody are satisfactory. (ii) Check the accrual of income therefrom and provision of income tax thereon.
7.	General	(i) Verify the fixed assets and confirm that sufficient depreciation is provided. Examine in detail the accounts of Sundry Creditors for goods, Creditors for services and analyse if there are any abnormal movements. (ii) Verify whether the form and way of presenting the financial information comply with Accounting Standards and applicable statutory requirements. (iii) Get proper management representation and certificates with respect to various aspects covered during audit course.

Ans. 5 (b) The receipt of income of NGO may be checked on the following lines -
(i) **Contributions and Grants for projects and progarammes**: Check agreements with donors and grants letters to ensure that funds received have been accounted for. Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.
(ii) **Receipts from fund raising programmes**: Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collection are counted and deposited in the bank daily.
(iii) **Membership Fees**: Check fees received with Membership Register. Ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to be received during the year.
(iv) **Subscriptions**: Check with subscription register and receipts issued. Reconcile subscription received with printing and dispatch of corresponding magazine/ circulars/ periodicals. Check the receipts with subscription rate schedule.
(v) Interest and Dividends_: Check the interest and dividends received and receivable with investments held during the year.

Ans. 5 (c) Disclaimer of Opinion – As per **SA 500**, the auditor must collect sufficient and appropriate audit evidence, on the basis of which he draws his conclusion to form an opinion, on the financial statements. But if the auditor fails to obtain sufficient information to form an overall opinion on the matters contained in the financial statement, he issues a disclaimer of opinion. Disclaimer of Opinion Report is given when the Auditor is unable to form an overall opinion about the matters contained in the Financial Statements. It should be expressed when the possible effect of a limitation on scope is so material and pervasive that the Auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the Financial Statements.
It may happen in situations such as –
(a) when books of account of the Company seized by Income-Tax Authorities,
(b) when it is not possible for the Auditor to obtain certain information or
(c) when scope of audit work is restricted.
The Auditor will state in his Report that he is unable to form an opinion on the Financial Statements. Such Report is called as "Disclaimer of Opinion Report".

Ans. (6) (a) Place of Book of Accounts : According to **Sec 209** of the Companies Act 1956, every company must keep proper books of accounts at its registered office. However, if the Board of Directors decide to keep at other place in India, then it may do so by filing to the Registrar a notice in Forms 23 AA in writing within seven days giving the full address of that other place.

Therefore, in order to shift the books from Mumbai to Delhi, the Board must pass a resolution and the notice of this must be given to the Registrar of Companies within the specified time. For this, the auditor must inform the Managing Director that his contention is not in reference with the legal Provisions.

Ans. (6) (b) As per AS 10 in case of revaluation of fixed assets, following disclosures are required :

(a) Revalued amount substituted for historical cost of fixed assets,
(b) The method adopted to compute the revalued amount; and
(c) Whether an external valuer has valued the fixed assets, in case where fixed assets are stated at revalued amount.

In the present case the firm has given the disclosure of point (a) but has not given the other disclosures (b) & (c) above. Therefore the disclosure is not sufficient and the auditor has to qualify his report.

Ans. (6) (c) OWNERSHIP OF WORKING PAPERS: SA 230 states that working papers are the property of the auditor. The auditor can give copies of or extract from his working paper to the client. But this is totally at his discretion. The same was decided in the case of **Chantry Martin and Co. Vs. Martin.**
But the auditor's property rights are subject to limitations of clause 1, part I of second schedule to the Chartered Accountants Act, 1949. It prohibits disclosure of confidential clients information without the management's consent except when required by the law.

Ans. (6) (d) As per **"GUIDANCE NOTE ON AUDIT OF INVENTORIES",** it is the responsibility of management to ensure that inventories included in financial statement exist and represent all inventories owned by enterprises. The management satisfy this responsibility by carrying verification.

In carrying out audit of inventory, auditor is particularly concerned with obtaining sufficient appropriate audit evidence to assert that (i) all recorded inventories exist at year end (ii) that all inventories owned are recorded and all inventories recorded are owned (iii) that basis of valuation is appropriate and properly applied and condition of inventories are recognised in their valuation.
Therefore it is clear from this guidance note that determining the quantity and values of inventory rests with the management. Auditor's duty is to only check the correctness of the statement provided by the management. It is the management who is primarily liable to maintain the correctness of the quantity and value of inventory. Therefore the above statement is true.

Ans. (7)(a) Audit of Bought ledger having debit balance : Debit balance in bought ledger means advance to creditors. Following points should be checked carefully in this case -

1. It should be ensured that advance against supply is made as per policy of company.
2. Advanced are adjusted and supply received in time should be seen.
3. If any advance is pending unadjusted for a long time, auditor should draw attention of management.
4. Also, if advance against supply is <u>NOT LOAN</u>. It is possible that actually loan given is shown as advance against supply.
5. If any advance is received back after some time, enquiry should be held. Specially, advance against supplies given to interested persons, parties, companies, director should be seen.

Ans. (7) (b) <u>REMOVAL OF FIRST AUDITOR APPOINTED BY BOD BEFORE EXPIRY OF TERM OF OFFICE</u> :
Sec 224(5)(a) provides that first auditor appointed by BOD can be removed by company, at a General Meeting and appoint in his or their place any other person who shall be nominated by any member of Co. and of whose nomination, notice has been given to the members of the Co. not less than 14 days before meeting. The General Meeting shall consider nomination and if accepted, the earlier auditor appointed by BOD shall cease to hold office on conclusion of meeting and new auditor shall assume the office.

In the present case the BOD of PQR Company Ltd. removed their first auditor which is not correct as per Sec 224(5). Removal of any auditor can not be done by the BOD. Therefore the removal of auditor is invalid in this case. For removal of first auditor consent of Central Government is not required at all.

Ans. 7 (c)
To,
The Board of Directors
ABC Ltd.

Reg.: - Terms of Audit Engagement

Dear Sir,

You have requested that we audit the balance sheet of ABC Ltd. as of 31.3.xxxx and the related statement of income and cash flows for the year then ended. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be made with the objective of our expressing on opinion on the financial statements.

We will conduct our audit in accordance with standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting & internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which come to our notice.

We remind you that the responsibility for the preparation of financial statements including adequate disclosure is that of management of the company. This includes the maintenance of adequate accounting records and internal controls, the selection & application of accounting policies, and the safeguarding of the assets of the company. As part of our audit process, we will request from management written confirmation regarding concerning representations made to us in connection with the audit.

The timing of our audit will scheduled as follows

	Begin	Complete
Document internal control and preliminary tests		
Observe physical inventory count		
Mail requests for confirmations		
Perform year end audit procedures		
Issue audit report		

We looked forward to full cooperation with your staff and we trust that they will make available to us whatever records, documents and other information are requested in connection with our audit. Our fees, which will be billed as work progresses plus out of pocket expenses.

This letter will be effective for future years unless it is terminated, amended or superseded.

Please sign and return the attached copy of this latter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements –

(Signed)
Partner
XYZ & Associates
Chartered Accountants

Acknowledged on behalf of
ABC Ltd.