

Illustrative Format of a Qualified Auditor's Report

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Standalone Financial Statements[¶]

We have audited the accompanying (Standalone) financial statements of ABC COMPANY LIMITED ("the Company") which comprise the Balance Sheet as at March 31, 2017, the Statement of Profit and Loss, Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the (Standalone) Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these (Standalone) financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an **opinion** on these (Standalone) financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be **included** in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable **assurance** about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of **the** risks of material misstatement of the financial

[¶] Where the Company does not have any requirement to prepare consolidated financial statements under the Companies Act 2013, in the auditor's report, the term "Standalone financial statements", wherever appearing, would be replaced by the term "financial statements".

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for **our qualified audit opinion** on the standalone financial statements.

Basis for Qualified Opinion

The Company's inventories are carried in the Balance Sheet at Rs. XXX (As at 31st March 2017: Rs. YYY). The Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard 2 "Valuation of Inventories". The Company's records indicate that had the Management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX (As at 31st March 2017: Rs. YYY) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX, and income tax, profit for the year and shareholders' funds would have been reduced by Rs. X, Rs. XX and Rs. XXX, respectively.

Qualified Opinion

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

Other Matter²

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), as amended, issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the "**Annexure A**" a statement on the matters specified

² Where applicable.

in paragraphs 3 and 4 of the Order.

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

a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

(b) Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us]³.

(c) [The reports on the accounts of the branch offices of the Company audited under Section 143 (8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.]⁴

(d) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from the branches not visited by us]⁵.

(e) Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

(f) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

(g) On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act.

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

(i) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in “**Annexure B**”.

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

i. The Company does not have any pending litigations which would impact its financial position.

Or

The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note **XX** to the financial statements;

ii. The Company did not have any long-term contracts including derivative

³ Where applicable.

⁴ Where applicable.

⁵ Where applicable.

contracts for which there were any material foreseeable losses.

Or

The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements;

- iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

Or

There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

Or

Following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company

a. -----

b. -----

For and on behalf of
Jatin Bansal & Co
Chartered Accountants

Firm's registration number:

CA Jatin Bansal
Partner

Membership number:

Place: Chandigarh

Date: XX.XX.2017



“Annexure A” to the Independent Auditors’ Report

Referred to in paragraph 1 under the heading ‘Report on Other Legal & Regulatory Requirement’ of our report of even date to the financial statements of the Company for the year ended March 31, 2017:

- 1) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets;
 - (b) The Fixed Assets have been physically verified by the management in a phased manner, designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and nature of its business. Pursuant to the program, a portion of the fixed asset has been physically verified by the management during the year and no material discrepancies between the books records and the physical fixed assets have been noticed.
 - (c) The title deeds of immovable properties are held in the name of the company.
- 2) (a) The management has conducted the physical verification of inventory at reasonable intervals.
 - b) The discrepancies noticed on physical verification of the inventory as compared to books records which has been properly dealt with in the books of account were not material.
- 3) The Company has not granted any loans, secured or unsecured to companies, firms, Limited Liability partnerships or other parties covered in the Register maintained under section 189 of the Act. Accordingly, the provisions of clause 3 (iii) (a) to (C) of the Order are not applicable to the Company and hence not commented upon.
- 4) In our opinion and according to the information and explanations given to us, the company has complied with the provisions of section 185 and 186 of the Companies Act, 2013 In respect of loans, investments, guarantees, and security.
- 5) The Company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 2015 with regard to the deposits accepted from the public are not applicable.
- 6) As informed to us, the maintenance of Cost Records has not been specified by the Central Government under sub-section (1) of Section 148 of the Act, in respect of the activities carried on by the company.
- 7) (a) According to information and explanations given to us and on the basis of our examination of the books of account, and records, the Company has been generally regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income-Tax, Sales tax, Service Tax, Duty of Customs, Duty of Excise, Value added Tax, Cess and any other statutory dues with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the above were in arrears as at March 31, 2017 for a period of more than six months from the date on when they become payable.
 - b) According to the information and explanation given to us, there are no dues of income tax, sales tax, service tax, duty of customs, duty of excise, value added tax outstanding on account of any dispute.
- 8) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to banks. The Company has not taken any loan either from financial institutions or from the government and has not issued any debentures.

- 9) Based upon the audit procedures performed and the information and explanations given by the management, the company has not raised moneys by way of initial public offer or further public offer including debt instruments and term Loans. Accordingly, the provisions of clause 3 (ix) of the Order are not applicable to the Company and hence not commented upon.
- 10) Based upon the audit procedures performed and the information and explanations given by the management, we report that no fraud by the Company or on the company by its officers or employees has been noticed or reported during the year.
- 11) Based upon the audit procedures performed and the information and explanations given by the management, the managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act;
- 12) In our opinion, the Company is not a Nidhi Company. Therefore, the provisions of clause 4 (xii) of the Order are not applicable to the Company.
- 13) In our opinion, all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 and the details have been disclosed in the Financial Statements as required by the applicable accounting standards.
- 14) Based upon the audit procedures performed and the information and explanations given by the management, the company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review. Accordingly, the provisions of clause 3 (xiv) of the Order are not applicable to the Company and hence not commented upon.
- 15) Based upon the audit procedures performed and the information and explanations given by the management, the company has not entered into any non-cash transactions with directors or persons connected with him. Accordingly, the provisions of clause 3 (xv) of the Order are not applicable to the Company and hence not commented upon.
- 16) In our opinion, the company is not required to be registered under section 45 IA of the Reserve Bank of India Act, 1934 and accordingly, the provisions of clause 3 (xvi) of the Order are not applicable to the Company and hence not commented upon.

For and on behalf of

Jatin Bansal & Co
Chartered Accountants

Firm's registration number:

CA Jatin Bansal
Partner

Membership number:

Place: Chandigarh

Date: XX.XX.2017

“Annexure B” to the Independent Auditor’s Report of even date on the Standalone Financial Statements of ABC Company limited

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

We have audited the internal financial controls over financial reporting of ABC Company Limited (“the Company”) as of March 31, 2017 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

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

Auditors’ Responsibility

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

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

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

Meaning of Internal Financial Controls over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in

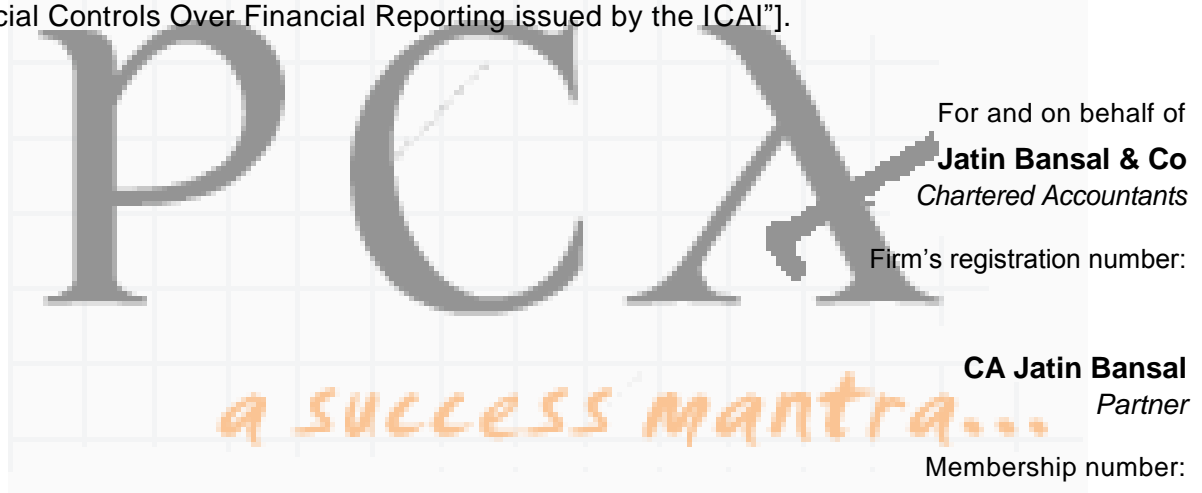
accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2017, based on [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the ICAI"].



Place: Chandigarh

Date: XX.XX.2017

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