



Wednesday, February 17, 2021

LOE/AUDA/DXB/532-2021

ABC International LLC

PO Box 123456, Dubai,
United Arab Emirates

Kind Attn: Mr. Abcdef Ghijkl

Dear Sir,

Following your recent discussions regarding appointment as the auditors of your esteemed organisation, we are writing this engagement letter to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

Terms of engagement

We will audit the Financial Statements of **ABC International LLC** (the **Company**) as of 31 December 2020 and the related Statements of Comprehensive Income, Cash Flows and Changes in Equity for the reporting period then ended.

Upon completion of our audit, we will provide you with our Audit Report on the Financial Statements referred above. If our opinion is other than unqualified, we will discuss the reasons with you. We will issue our report with an adverse opinion if information is not received on time.

Audit responsibilities

We will conduct our audit in accordance with International Auditing Standards.

Accordingly, we will, on a test basis, including, but neither essentially nor limited to:

- Examine documentary evidence supporting the transactions recorded in the accounts, amounts disclosed in the financial statements and the physical existence and realisability of assets and value of liabilities along with their materiality in respect to the business,
- obtain, where required, direct confirmation of receivables and payables and certain other assets and liabilities by correspondence with selected parties and financial institutions,
- determine conformity of the accounting records with International Accounting Standards (IAS),
- obtain reasonable assurance about whether the financial statements are free of material misstatement / errors / irregularities and are fairly presented, in all material respects and on the lines prescribed by the International Financial Reporting Standards (IFRS),
- review the efficiency of the internal control systems and whether they are commensurate with the size of the organisation and the nature of its operations,
- assess the suitability of the accounting principles used and significant estimates made,
- make specific inquiries of management and others about the representations embodied in the financial statements and the effectiveness of the internal control structure and rely on certain written representations about the related matters and
- evaluate the overall presentation of the financial statements.

The results of our audit tests, the responses to our inquiries, and the written representations comprise the evidential matter we intend to rely upon in forming an opinion on the financial statements, which will be retained by us and not returned, unless comprising of originals.

Audit Limitations

Our responsibility as auditor is limited to the reporting period covered by our audit and does not extend to any periods of which we are not engaged as auditors.

The Audit Responsibilities are carried out on a Test Basis. It will involve judgment about the number of transactions to be examined, the areas to be tested and the nature, timing, and extent of audit procedures to be performed, sufficient for the audit. This will be based on our professional understanding of your internal controls, size of your organisation and the nature of its operations.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk called audit risk that



material errors, fraud, or illegal acts, may exist and not be detected by us. In addition, an audit is not designed to detect immaterial errors, fraud, or other illegal acts or illegal acts that do not have a direct effect on the financial statements. Our engagement cannot, therefore, be relied upon to disclose errors, fraud, or other illegal acts that may exist. However, we will inform you of any material errors that come to our attention and any fraud that comes to our attention. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential.

While an effective internal control structure reduces the likelihood that errors or irregularities (including misappropriation of assets) may occur and remain undetected, it does not eliminate that possibility. A statutory audit (of this nature) is not designed to provide assurance on internal controls or to identify reportable conditions, that is, significant deficiencies or material weaknesses in the design or operation of internal control. However, during the audit, if we become aware of such reportable conditions, we will communicate them to you.

We will not be made accountable for failing to report to the authorities any illegal acts (or activities that contravene provisions of the law) that come to our notice during the course of our audit and this remains the responsibility of the management, without any liability – financial, moral or otherwise – attached to us.

Management's Responsibilities and Representations

The financial statements referred above are the responsibility of the management of the Company.

For the purpose of the audit, management will make sure that its designated representatives are:

- properly recording transactions in the accounting records,
- adopting sound accounting policies and maintaining an adequate and efficient accounting system,
- devising and maintaining a system of internal controls that is sufficient for, among other things, the preparation of proper financial statements,
- safeguarding assets and settling liabilities,
- authorising transactions and retaining supporting documentation for those transactions,
- adjusting the financial statements to correct material misstatements,
- identifying and ensuring compliance with applicable laws and regulations and
- all management decisions and functions not listed above.

We understand that you or your representative will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Any failure to provide such cooperation on a timely basis will impede our services and may require us to suspend our services or withdraw from the engagement. Where we are required to generate or extract this information, scope creep as provided later will apply and the fees will be increased.

Although we will advise you about appropriate accounting principles and their application and will assist in preparation of your financial statements, the responsibility for the same remains with you.

In order for us to complete this engagement and to do so efficiently, the management is also (including and not limited to) responsible for:

- making available to us with unrestricted access all of the company's original financial / accounting records and related information and for the accuracy and completeness of that information,
- making available to us, upon request, company personnel to whom we may direct inquiries,
- confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and
- designating a competent employee to oversee any of the services we provide, and for evaluating the adequacy and results of those services.

International Standards on Auditing also require that we obtain a representation letter covering the financial statement from certain members of management.



Electronic transmission

Although we have been predominantly relying on sharing information using electronic means, with the social distancing and remotely operating norms that have become prevalent during 2020, we seek your explicit consent towards electronic transmission of information, specifically including, but not limited to the following matters:

- information for the audit will be obtained predominantly on electronic media like email, WhatsApp (at present), shared folder on a cloud (like google-drive, for example) and any other means that is mutually accepted between you and our auditor
- except where we physically visit you to check inventory, cash, fixed assets or documents, you will be providing us only the soft copy of the information and it will be entirely your responsibility to provide the evidence in any other format – like the original documents or any other evidence of physical inspection or third party certification – to any authority or person seeking the same and the same will be carried out at your cost
- where you do not post the original signed and stamped financial statements to be included in our audit report, we will utilise copies of the same and you give your consent to copying your signatures from the signed financial statements emailed by you – you will not hold us responsible for any action arising out of transposing the signatures and it will be your responsibility to show your set of original signed and stamped financial statements when asked by any authority to provide the same for any matter or investigation
- you will send at least original signed financial statements and supporting documents like trial balance and confirmations upon completion of the audit, but, your failure to post / courier the same before we issue our report on our financial statements will not absolve you of your responsibility of doing the same
- in most likelihood, under the modernised system of audit, we will not be maintaining copies of your transactional documents like sales invoices, purchase bills, expense vouchers and other documents based on which you have carried out the accounting entries in your software; as a result, you will be solely responsible for proving the documentation behind transactions for all entries passed in the books of accounts to any investigating authority
- you will be provided a physical printout of the report only if you need it to submit the same

These and other matters of remote electronically conducted audits will prevail for the engagement.

Fees

Our fees for the annual audit report will be **AED 3,500** payable at 50% on commencement of audit and the balance on submission of our draft report for approval respectively. The fee is payable even if our opinion is unacceptable to you, or is disputed by you, in the event that our opinion carries an emphasis or qualification or we issue a disclaimer of opinion. The above fee includes a discount of AED 3,500 on the normal fee of AED 5,000 that we would usually charge for an audit of the books of an entity having your scale of operations and nature of business.

VAT will be charged in addition to the audit fees mentioned above.

Scope creep

Scope creep is defined as the extra work needed to be done for obtaining results best suited for you. Scope creep will be in addition to the audit fees mentioned above.

Less than 5% of engagements are exposed to scope creep, so we do not expect it in this audit. The intention of specifically mentioning it is to compensate us for excessive work that may arise in exceptional engagements. The intention is not to sneak in extra charges. Accordingly, if we notice an incidence of scope creep, we will inform you directly or indirectly. But, scope creep of the nature mentioned below will be charged without exception. The extra time required to develop your team for professional audit is a one-time exercise, which is also excluded from scope creep.

If scope creep is identified prior to commencing it, the fee quoted to you will be charged according to mutual agreement. Where it is not pre-decided, it will be charged per man hour at AED 250 for assistants and AED 500 for auditors **or** AED 500 per instance of scope creep, whichever is higher.



Instances of scope creep typically observed in audit engagements (and will be charged extra) are:

- a. if data is required to be drawn from your system by our auditors instead of your accountants*
- b. if extensive training (beyond the indicated audit period) is required to be provided to your accountants to compile / analyse / improve the data and reporting structure available with you*
- c. if the auditors need to visit you more often than planned (either to obtain audit information or explain financial statements or for other reasons), including time spent waiting at your office*
- d. if the previous year's closing balances in the accounting system have been changed by you and during the current year's audit our staff is required to identify that difference during or before commencing the audit, then the time spent in identifying and giving effect to the differences*
- e. if trial balance is revised multiple times during the audit or information is provided in a piecemeal manner requiring the auditor to re-work the same task several times or the auditor is required to frequently provide a "list of pending information" after each batch of information*
- f. if trial balance is revised after draft financials are issued, causing issuing a second draft report*
- g. if the initial draft is qualified and the qualification is removed in a subsequent draft audit report – this covers any and all modifications to the draft audit report as a result of information or explanation received subsequent to issuing a draft report*
- h. make calculations that should be available with you before trial balance is submitted for audit:*
 - depreciation on more than 3 assets (property, plant and equipment)*
 - gratuity for more than 3 employees (as per visa, not shareholders) for more than 3 years*
 - separating interest component from installments paid on a loan*
 - deriving concentration and product-wise / geographic / currency-wise / other classification of revenue generated, trade receivables, trade payables and other broad reporting heads*
 - impairment (ageing and expected credit loss calculation) for trade receivables & inventories*
 - separating or separately identifying the contributions by multiple shareholders*
- i. reconciling the bank statement(s) or borrowings or working out the repayment schedule of borrowings (like splitting the interest and principal component to work out the interest for the period and amount due as at the end of the reporting period)*
- j. reclassifying previous year's financial information due to information that was not made available (to us or the other previous independent auditor) during the previous year's audit*
- k. re-explaining matters to your directors or shareholders after your accountant has understood it completely but is unable to explain to his management (this will be charged at double the hourly rate, because it involves joint participation from the auditor and his colleagues)*
- l. explaining to the management / shareholders why information is required / report is qualified / matters are emphasised, presenting references to support the auditor's contentions, suggesting remedies, editing qualifications / audit remarks and all other actions with regards to resolving all the disagreements with them (these will be charged at thrice the hourly rate as this requires the involvement of the auditor, his senior and the signing partner, all together, or sometimes even discussions with mentors and third party peers / mentors / advisors)*
- m. explaining why the auditor has taken a particular stand – note that in spite of all our efforts, it might not always be possible to completely explain the reasons why we have formed an opinion, as the result of our at least half a decade of specialised education and more than double as long of practical experience cannot really be summarised over a couple of conversations adequately – and this will be charged per man hour if more people are involved*
- n. if subsequent to our appointment as auditors, it is revealed that we are component auditors and we are required to report to the auditors of the parent entity (the fee will be increased in proportion to the time spent and may even be doubled in entirety)*
- o. other instances – note that this list is inclusive, not exhaustive.*

In general, time spent beyond the allocated time due to the lack of documents or information from your side, all time spent to bring the accounts to an auditable position and special assignments or any other work or rework after the audit is completed are counted in scope creep.

We have not reviewed the trial balance and internal controls of your Company. However, on the basis of the information provided by you so far, we are of the opinion that scope creep will not be required for this engagement. This paragraph is mentioned as a safeguard and may not apply to you.



We have allocated a period of 6 days for audit, 3 day for preparation of report and a further 2 days for review of report by or manager and signatory, assuming the quality of accounting records and information available is satisfactory for our opinion. These days will be utilised over a period of 25 working days from the day the complete information required for the audit is made available to us. This period does not include time spent for additional information sought during the reviews.

Indemnity

In the event that we are or may be obligated to pay any cost, settlement, judgment, fine, penalty or similar award or sanction as a result of a claim, investigation or other proceeding instituted by any third party, then to the extent that such obligation is or may be a direct or indirect result of your intentional or knowing misrepresentation or provision to us of inaccurate or incomplete information in connection with this engagement and not any failure on our part to comply with professional standards, you agree to indemnify us, defend us and hold us harmless against such obligations.

For any other matter, our financial liability will not exceed the fees received for the engagement.

Confidentiality and non-disclosure

The working papers prepared in conjunction with our audit are the property of our firm, constitute confidential information and will be retained by us in accordance with our policies and procedures.

Confidential Information includes all written and oral information:

- identified in writing as confidential after disclosure, regardless of whether such written or oral information originated with the disclosing party or a third-party,
- provided by you or on behalf of you by another, after the date of this Agreement and in connection with your business and
- all written information generated by you, your staff or by us or our associates, while providing services that contains, reflects or is derived from furnished information.

We confirm that the Information acquired with respect to the business of the Company

- will be used only with regard to this audit and not for any other purpose,
- will be held in confidence and
- will not be disclosed any third party or otherwise shared unless required by law or authorities.

Acceptance and Acknowledgement

Any material changes or additions to the terms set forth in this letter will only become effective if evidenced by a written amendment to this engagement, signed by both parties.

Please confirm your agreement with the terms by signing a copy of this letter in the space provided and return the scanned signed letter to us, keeping the original for your records.

If you have any queries, please contact the undersigned. We are pleased to have this opportunity to serve you and assure you that this engagement will be given our closest attention.

Yours faithfully,
For Prudential Auditing

Agreed and acknowledged
For ABC International LLC

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