

GUIDELINES FOR THE AUDIT OF PUBLIC SECTOR ENTERPRISES

1. Fundamental Principles

1.1. The purpose for this guide is to establish Auditing Standards and provide guidance on the objective and general principles governing the audit of financial statements of public sector undertakings including statutory organizations in Nepal. The audit will be carried out in accordance with International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standard read in conjunction with this guide as well as applicable Nepal Standards on Auditing (NSA) in all matters that are defined material./

1.2. The auditor should comply with ethical principles governing professional responsibilities as outlined in NSA 01 in the following areas:

- Professional Competence and Due Care
- Confidentiality
- Professional Behaviors:
- Integrity, Objectivity and Independence
- Technical Standards

2. Objectives of the Audit

The objectives of the regularity audit are:

- a) Express an opinion on whether the financial statements of the audited organization as a whole present fairly, in all material respects the financial position of the organization at year end, the results of its operations for the year then ended, etc., in conformity with applicable accounting principles;
- b) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- c) Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. Auditor should examine the appropriateness, the relevance through the control and evaluation of the:
 1. Internal organization (structures, functions, tasks, authority, responsibilities, methods, procedures, etc.)
 2. Existence, respect and application of laws, regulations and instructions
 3. Protection of resources and assets
 4. Prevention of errors and fraud

5. Quality and viability of the information system and the reporting.
- d) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgments and conclusions regarding the organization, program, activity or function under audit.
 - e) Analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosures are complied with.
 - f) Reporting of any other matters arising from or relating to the audit that Office of the Auditor General (OAG) considers should be disclosed.
 - g) Examination of the consideration of remarks stemming from previous audit reports.

3. Scope of Audit

3.1 The audit should be organized to cover adequately all aspects of the enterprise as far as these are relevant to the financial statements being audited and should be reasonably satisfied that:

- a) The information contained in the underlying accounting records and other source data is reliable and sufficient; and
- b) Whether the relevant information is properly disclosed in the financial statements subject to statutory requirements, where applicable.

3.2 Assess the reliability and sufficiency of the information by:

- a) Studying and evaluating accounting systems and internal controls to determine the nature, extent and timing of other auditing procedures; and
- b) Carrying out such other tests, enquiries and other verification procedures of accounting transactions and account balances as considered appropriate in the circumstances.

3.3 Determine whether the relevant information is properly disclosed in the financial statements by:

- a) Comparing the financial statements with the underlying accounting records and other source data; and
- b) Considering the judgment that management has made in preparing the financial statements, accordingly, assess the selection and consistent application of accounting policies, the manner in which the information has been classified, and the adequacy of disclosure.

3.4 Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal control, there is an unavoidable risk that some material misstatement may remain undiscovered. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The audit cannot, therefore, be relied upon to ensure discovery of all frauds or errors but where the auditor has any indication that some fraud or error may have occurred, which could result into material misstatement it should extend its procedures to confirm or dispel its suspicions.

3.5 the auditor should consider items which either individually or as a group are material:

- a) In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the audit report.
- b) Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of item may also render a matter material for example, where law or regulation requires it to be disclosed separately regardless of the amount involved.

3.6 Verification that expenditures correspond to the budgets as approved by the authorities. Briefly analyse the deviations between budgeted and effective expenses.

3.7 Verification of the respect of purchasing procedures and also that goods purchased are utilized within the foreseen objectives and are still available or have been ceded/sold in conformity with the methods defined in audited entity's rules and regulations.

3.8 Verification of the transactions under the following aspects:

- a) Conformity of expenditure authorizations and validity of the supporting documents;
- b) Arithmetic accuracy of accounts, supporting documents and financial statements;
- c) Accuracy of the bookkeeping entries;
- d) Allocation of expenditures in conformity with budgets;
- e) Verification that contracts are in conformity with prevailing laws and regulation;
- f) Verification that receipts are exhaustively and regularly accounted for;
- g) Control of advances, accrued or in abeyance, justification for amounts overdue or outstanding for long.

3.9 Verification that the accounting systems in use responds to the needs of managements, particularly as concerns cost analysis.

3.10 Verification that all corrections required from previous audit have been carried out.

4. Responsibility for Financial Statements

The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements. Management is responsible for sound accounting policies and for establishing and maintaining an internal control structure that will among other things, record, process, summarize and report financial data that is consistent with managements assertions embodied in the financial statements.

Fieldwork

5.1 Planning

5.1.1 The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner

5.1.2 In planning the audit, the auditor should:

- a) Identify important aspects of the environment in which the audited entity operates;
- b) Develop an understanding of the accountability relationships;
- c) Consider the form, content and users of audit opinions, conclusions or reports;
- d) Specify the audit objectives and the tests necessary to meet them;
- e) Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- f) Determine the materiality of matters to be considered;
- g) Review the internal audit of the audited entity and its work program;
- h) Assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- i) Determine the most efficient and effective audit approach;
- j) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- k) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

The following planning steps are normally included in an audit:

- a) Collect information about the audited entity and its organization in order to assess risk and to determine materiality;
- b) Define the objective and scope of the audit;
- c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- d) Highlight special problems foreseen when planning the audit;
- e) Prepare a budget and a schedule for the audit;
- f) Identify staff requirements and a team for the audit; and
- g) Familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

5.2 Supervision and Review

5.2.1 The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented. A senior member of the audit staff should review work.

5.2.2 Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

- a) The members of the audit team have a clear and consistent understanding of the audit plan;
- b) The audit is carried out in accordance with the auditing standards and practices of the Office of the Auditor General;
- c) The audit plan and action steps specified in that plan are followed unless a variation is authorized;
- d) Working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
- e) The auditor achieves the stated audit objectives; and
- f) The audit report includes the audit conclusions, recommendations and opinions, as appropriate.

5.3 Audit Evidence

5.3.1 Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organization, program, activity or function under audit.

5.3.2 The audit findings, conclusions and recommendation must be based on evidence and therefore, it is crucial that the data collection and sampling techniques are carefully chosen. When computer based system data are an important part of the audit, auditors need to satisfy themselves that the data are reliable and relevant.

5.3.3 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence and ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.

5.3.4 Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.

5.3.5 Adequate documentation is important for several reasons. It will:

- a) Confirm and support the auditor's opinions and reports;
- b) Increase the efficiency and effectiveness of the audit;
- c) Serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- d) Serve as evidence of the auditor's compliance with Auditing Standards;
- e) Facilitate planning and supervision;
- f) Help the auditor's professional development;
- g) Help to ensure that delegated work has been satisfactorily performed; and
- h) Provide evidence of work done for future reference.

5.3.6 Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

5.4 Analysis of Financial Statements

5.4.1 Auditors should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

5.4.2 Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends. The auditor should therefore thoroughly analyze the financial statements and ascertain whether:

- a) Financial statements are prepared in accordance with acceptable accounting standards;
- b) Financial statements are presented with due consideration to the circumstances of the audited entity;
- c) Sufficient disclosures are presented about various elements of financial statements; and
- d) The various elements of financial statements are properly evaluated, measured and presented.

6. Reporting Standards

6.1 The reporting standards are:

- a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.
- b) It is for the Auditor General to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.
- c) The auditor should prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations.

6.2 The form and content of all audit opinions and reports are founded on the following general principles:

- a) Title: The report should be preceded by a suitable title or heading,
- b) Signature and date: The report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, may be beyond the period of the financial statements).
- c) Objectives and scope: The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
- d) Completeness: Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence the Auditor General should be able to include whatever it sees fit, but it may acquire information from time to time which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
- e) Addressee: The report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and prevailing regulations or practice.
- f) Identification of subject matter: The opinion or report should identify the financial statements to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- g) Compliance with standards: Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit.
- h) Timeliness: The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

6.3 An audit opinion is normally in a standard format, relating to the financial statements as a whole. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse.

6.4 An *unqualified opinion* is given when the auditor is satisfied in all material respects that:

- a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- b) the statements comply with statutory requirements and relevant regulations;
- c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and

d) there is adequate disclosure of all material matters relevant to the financial statements.

6.5 An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor's judgment, their effect is or may be material to the financial statements:

- a) there has been limitation on the scope of the audit;
- b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- c) There is uncertainty affecting the financial statements.

6.6 *Qualified Opinion:* Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion.

6.7 *Adverse Opinion:* Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement.

6.8 *Disclaimer of Opinion:* Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

6.9 The Auditor should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

6.10 In addition, a separate report should be made to the Auditor General where weaknesses exist in systems of financial control or accounting. This may occur not only where weaknesses affect the audited entity's own procedures but also where they relate to its control over the activities of others. The auditor should also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.

6.11 In reporting on irregularities or instances of non-compliance with laws or regulations, the auditors should be careful to place their findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.

6.12 Reports on irregularities may be prepared irrespective of a qualification of the auditor's opinion. By their nature they tend to contain significant criticisms, but in order to be constructive they should also address future remedial action by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.

6.13 The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor should provide a report which describes the circumstances and arrives at a specific conclusion rather than a standardized statement.

6.14 In formulating and following up recommendations, the auditor should maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.

6.15 In formulating the audit opinion or report, the auditor should have regard to the materiality of the matter in the context of the financial statements.

6.1 For regularity (financial) audits, if the auditor concludes that, judged against the criteria most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, the opinion should not be qualified. Where the auditor decides that a matter is material the opinion should be qualified, having determined the type of qualification.

7. Going Concern

7.1 The auditor should be alert to the possibility that the going concern assumption on which the preparation of the financial statements is based may be subject to question. When such a question arises, gather sufficient appropriate evidence to confirm or dispel the doubt regarding the entity's ability to continue in operation for the foreseeable future, generally for a period not to exceed one year after the balance sheet date.

7.2 Indications that continuance as a going concern should be questioned may come from the financial statements or from other sources. Examples of such indications are listed below:

- a) Net liability or net current liability position.
- b) Fixed term borrowing approaching maturity without realistic prospects of renewal.
- c) Adverse key financial ratios.
- d) Substantial operating losses.
- e) Inability to obtain financing for necessary investment.
- f) Noncompliance with capital or other statutory requirements.
- g) Pending legal proceedings against the entity that may, if successful, result in judgments that could not be met.

7.3 If the going concern questions are not resolved, ensure there is adequate disclosure in the financial statements of the principal condition that raise doubt about the entity's ability to continue in operation in the foreseeable future.

7.4 If the disclosure considered necessary by the auditor not made, qualify audit opinion or express an adverse opinion for lack of such disclosure.

8. Events After the Balance Sheet Date

The auditor is not expected to conduct a continuing review of all matters to which he has previously applied procedures and reached satisfactory conclusions. However, he should perform procedures designed to satisfy him that all subsequent events up to the date of his report that may require adjustment of or disclosure in the financial statements have been identified and resolved.

9. Commencement and Audit Closure

9.1 Hold entrance conference with the appropriate level of management of audited organization and brief about the scope, objectives, and timing of the audit and discuss with them as necessary.

9.2 Prepare Planning Memoranda and Audit Program (refer # 5.1) and commence fieldwork. Submit a copy of Planning Memoranda to OAG.

9.3 Management Representation:

The auditor shall obtain a written declaration signed by the management of the audited organization, certifying that there are no matters requiring specific disclosure to the auditor that shall include:

- a) the acknowledgement of the organization's responsibility for the keeping of accounts and financial documents that are correct, complete, fair, representing the true facts and all financial records and related data are made available to the auditor;
- b) the management is responsible for the fair presentation of financial statements;
- c) there are no violations or possible violations of laws and regulations whose effects should be considered for disclosure in the financial statement.
- d) all material liabilities, gain or loss including contingencies that are required to be accrued or disclosed are provided/disclosed;
- e) the organization has satisfactory title to all owned assets and are free from any liens or encumbrances other than those disclosed in the financial statement

(A model representation letter given in appendix 1 for illustrative purpose only)

9.4 All audit findings and conclusions should be presented in a management letter in a closing session with the management of audited organization. A copy of the same shall also be submitted to OAG.

9.5 Based on management's written response to the management letter, a final report shall be issued to the Auditor General.

9.6 The final audit report shall include:

- Financial statements that shall include Balance-Sheet, Profit and Loss Account, Cash Flow Statement and related schedules, Notes and disclosure of Significant Accounting Policies duly signed and certified by the competent authority of the audited organization e.g., Board of Directors.
- Auditor's opinion on the financial statement in line with the provisions of relevant statute e.g. in case of company as per Company Act, in case where no format is prescribed as per the enclosed format. *(Refer appendix 2 for illustrative formats of auditor's unqualified, qualified, adverse and disclaimer of opinion)*
- A separate report on internal control and compliance with applicable rules and regulation.
- A copy of management response to management letter.

- The report may be written either in English or Nepali Language. OAG may require the auditor to present the English or Nepali translation of the report as the case may be.

10. Conservation of working paper documents

The auditor must properly maintain and store the working papers for a period of three years from the completion of audit and shall provide to OAG for inspection when requested during that period.

11. Quality Assurance Program

Because of the importance of ensuring a high standard of work by the auditors, it should pay particular attention to quality assurance programs in order to improve audit performance and results.

OAG may require an auditor to establish systems and procedures to confirm that integral quality assurance processes have been established and operated satisfactorily. OAG may establish its own quality assurance arrangements and perform independent appraisal of auditor's work.

12. Relationship and Responsibilities

The auditor shall perform his duties as assistance to Auditor General of Nepal and shall be responsible for implementation of relevant auditing standards in its work.

Auditee will ensure that all records are available, all accounting and adjustments are made, and all other necessary steps are taken to make it possible for the auditor to perform the necessary work.

(Model Representation Letter)

The Auditor

Address

Subject: Management Representation

Dear Sir,

We are writing at your request to confirm our understanding that your audit of the balance sheet of as at 16 July, the related profit and loss account and the related cash flow statement for the year then ended was made for the purpose of enabling you to express an opinion as to whether the financial statements give a true and fair view in accordance with generally accepted accounting standards in Nepal. In connection with your audit we confirm to the best of our knowledge and belief the following representation made to you during your audit.

1. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with generally accepted accounting standards in Nepal including the appropriate disclosure of all information required by statute.
2. We have made available to you all financial records and related data including minutes of all meetings held during the year.
3. There have been no:
 - Irregularities and illegal acts involving any member of management or employees who have significant roles in the system of internal accounting control;

- Irregularities and illegal acts involving other employees that could have a material effect on the financial statements;

- Material litigation which remains unprovided at the year end, violations or possible violations of laws or regulations, the effect of which should be considered for disclosure in the financial statements or as a basis for recording a loss contingencies.

4. There are no:

- Material transactions that have not been properly recorded in the accounting records underlying the financial statements;

- Events that have occurred subsequent to the balance sheet date that would require disclosure in the financial statements.

4. The Company has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged.

Appendix 1 contd...

5. The Company has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

6. The Company has not disbursed any loans and advances during the year to:

- Any organization or companies in which the directors, managers or guarantors of the Company have any interests.

- Any relatives of the directors.

7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

8. We have recorded or disclosed all liabilities, both actual and contingent, in the financial statements.

9. The Company has complied in all material aspects with the applicable laws and regulations

We further acknowledge that we are responsible for preparation of the financial statements establishing and maintaining an internal control structure and complying with the laws and regulations applicable to the Company.

Yours faithfully,

For

Authorized Signatory

Appendix 2

Illustrative Form of Auditor's Unqualified Report

Independent Auditors' Report on the

Financial Statement

We have audited the financial statement of (Auditee's name) for the year ended 16 July The financial statement is the responsibility of(Auditee). Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and guidelines issued by the Auditor General of Nepal. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The results of our tests disclosed the following significant matters which are summarized below and given in detail in our preliminary audit report dated _____. (Delete if an unqualified opinion is issued)

In our opinion, except for the effects of the significant matters as discussed in the preceding paragraph, the financial statement referred to above presents fairly in all material respects, the state of affairs of the as at 16 Julyand the net profit and cash flows for the year then ended in accordance with the generally accepted accounting principles and certain international accounting standards where applicable

This report is intended for the information of and the Office of the Auditor General of Nepal. However, upon release by the Office of the Auditor General of Nepal, this report is a matter of public record and its distribution is not limited.

Auditor

Appendix 2 contd....

Examples of Opinions

(Other than Unqualified)

These examples incorporate the principles set forth in this standard but are not intended to suggest standard wording for particular circumstances.

Qualified Opinion-Scope Limitation:

- We have audited the financial statements in accordance with.....except as explained in the following paragraph.
- We did not observe the counting of the physical inventories as of 31st December, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.
- In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities.

Qualified Opinion-Disagreement

on Accounting Policies- Inappropriate

Accounting Method

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Accounting Standards. The provision for the year ended December 31, should be xxx based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the fixed assets should be reduced by accumulated depreciation of xxx and the loss for the year deficit should be increased by xxx and xxx, respectively.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, these financial statements.

Appendix 2 contd.....

Qualified Opinion-Disagreement

on Accounting Policies-Inadequate

Disclosure

On January 15,, the Company issued debentures in the amount of xxxxx for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earning after December 31,

In our opinion, except for the omission of the information included in the preceding paragraph, the financial statements.

Paragraph Expressing

Adverse Opinion

In our opinion, because of effects of the matters discussed in the preceding paragraph, the financial statements do not give a true and fair view of (or 'present fairly') the financial position of XYZ Company at December 31, and the result of its operations for the year then ended in accordance with Accounting Standards.....(Mention applicable accounting standards).

Paragraph Expressing

Disclaimer of Opinion

Because of the significance of the matters discussed in the preceding paragraph, we are not in a position to, and do not, express an opinion on the financial statements.

Appendix 2 contd....

Example of an Auditor's Report

With Paragraph Emphasizing a

Going Concern Uncertainty

AUDITOR'S REPORT TO.....

(Scope paragraph)

We have audited the financial statements in accordance with INTOSAI Standards on Auditing.

(Opinion paragraph)

In our opinion, the financial statements give a true and fair view of ('present fairly') the financial position ofat.....and the results of its operation for the year then ended in accordance with.....(and comply with.....).

(Paragraph emphasizing a going concern uncertainty)

Without qualifying our opinion we draw attention to Note X in the financial statements. The Company incurred a net loss of Rs.....during the year ended December 31, and, as of that date, the Company's current liabilities exceeded its current assets by Rs.....and total liabilities exceeded its total assets by Rs. These factors, along with other matters as set forth in Note X, raise doubt that the Company will be able to continue as a going concern.