

(Format of Management Letter/Reportable Conditions-To be printing on the
letterhead of Firm)

Date: _____

To,
The Executive Director/Audit Committee

(Mention Name and address of the client)

Sir,

**SUB: Reportable Conditions, which we have observed during our
statutory audit for the F.Y. _____**

In planning and performing our audit of the financial statements of the (**Name of the client**) for the year ended 31st March, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be **reportable conditions**. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect the organisation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

1. Improper Segregation of Duties: Our audit revealed that there is not a proper segregation of duties in most of the functions of the company. For example:
 - a) Bank Operations: We observed that the person who submits the bills and approves the bills for payment is also one of the signatory to the cheques. This practice is an invitation to the troubles. In our opinion there should be separate department or person for signing of the cheques. The person who is handling cash transactions is also responsible for preparing bank reconciliation
2. Fixed Asset's (FA) Record: We have observed that the company has not maintained the Fixed Assets Register properly

Further, Physical verification of FA should be done periodically and each item of assets should be marked properly, so that the same could be traced into the records maintained by the Institute.

As regard "Impairment of fixed assets", we are of the opinion that the institute should prepare itself to comply with the requirement of AS- 28 as issued by ICAI, which is applicable to your institute w.e.f. 01.04.2008.

3. There is no system in operation at the company level, which takes care about MIS or Internal Control system to improve the working of the company. In the absence of which the management could not get the information for control purposes. The non-implementation of the same results in the following:

P A R Y & CO.
Chartered Accountants

- a) Company is unable to prepare any meaningful budgets on periodic basis;
 - b) No comparison of actual with budgets;
 - c) Non preparation of Interim financial statements on timely basis;
 - e) No adequate system to record the time of employees etc, since no time-card system in operation;
4. The company did no Physical verification of Inventory periodically and it is our suggestion that the same should be conducted periodically.
 5. Company did not received balance confirmation letter from Debtor and creditors.
 6. Company did not receive balance certificates from banks.
 7. Company did not received confirmation letter from the parties from whom it has taken unsecured loan.
 8. Company has made some transactions with the related parties and did not prove that transaction was made at arm length price.

This report is intended solely for the information and use of the management (i.e. Executive Director/Executive Body/Governing Council/General Body/owners) and others within the organization and is not intended to be, and should not be used, by anyone other than these specified parties.

For P A R Y & Co.
Chartered Accountants

(Name & Signature of Partner)

For a more precise idea about the Contents of Management Report please refer the following:

1. An indication that the purpose of the audit was to report on the financial statements, and not to provide assurance on internal control;
2. A definition of reportable conditions; and
3. A statement that the communication is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

EXAMPLES OF REPORTABLE CONDITIONS

Examples of reportable conditions include:

1. Deficiencies in the design of internal controls such as:
 - a. Lack of appropriate controls (e.g., segregation of duties, reviews and approvals, safeguarding of assets)
 - b. Inadequate procedures with respect to identification and application of accounting principles (e.g., improper use or application of accounting principles, failure to provide complete and appropriate output, etc.)
2. Failure in the operation of controls, such as evidence of:
 - a. Problems with respect to accounting information (e.g., misstatements, inaccurate or incomplete information, etc.)
 - b. Failure to safeguard assets
 - c. Intentional failures (e.g., override of controls, failure to perform required control tasks, willful wrongdoing, falsification of records, misapplication of accounting principles, misrepresentations to the auditor)
 - d. Lack of appropriate qualifications or training of client personnel
3. other reportable conditions:

- a. absence of appropriate control consciousness
- b. failure to follow up and correct previously identified deficiencies
- c. evidence of significant undisclosed related party transactions
- d. evidence of bias or lack of objectivity