[Date]

[To the Board of Directors/Management]
[Client Name]
[Client Address]

Subject: Audit Engagement Letter - Inherent Limitations Disclosure

Dear [Name],

This letter confirms our understanding of the terms and objectives of our audit engagement. While we will conduct our audit in accordance with generally accepted auditing standards, we wish to bring to your attention the inherent limitations of an audit.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with auditing standards.

An audit is not designed to detect all errors or the presence of fraud. Fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, intentional omission, or misrepresentation. Therefore, the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.

Furthermore, an audit is based on selective testing of data; it does not involve the examination of all information and transactions. Our audit opinion is an expression of reasonable assurance, not absolute assurance, regarding the financial statements.

Management remains responsible for the preparation and fair presentation of the financial statements and for maintaining effective internal controls to prevent and detect fraud or error.

Please sign and return the attached copy of this letter to indicate your acknowledgment of these terms.

Sincerely,

[Your Name/Firm Name]

Acknowledged by [Client Name]:
Signature: ____________________
Date: ____________________