



ACNABIN
Chartered Accountants

Internship Report

Audit Procedure in Bangladesh:

A Case Study on ACNABIN Chartered Accountants





ACNABIN
Chartered Accountants



SUBMITTED TO:

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June 26, 2015



ACNABIN
Chartered Accountants

Letter of Transmittal

June 26, 2015
Ms. Tanjina Shahjahan
Lecturer
BRAC Business School
BRAC University

Subject: Submission of Internship report.

Dear Ms. Tanjina Shahjahan

It is a pleasure to be able to handover the report of my internship program to you on “**Audit procedure in Bangladesh: A case study on ACNABIN Chartered Accountants**”.

The internship program has provided me the opportunity to work with the employees of ACNABIN Chartered Accountants which gave me valuable insights about the life in an organization. This really helped me significantly to enhance my practical knowledge.

This task has also given me the opportunity to explore the activities of audit firms. The report contains a working procedure of Chartered Accountants. It was a great pleasure for me to have the chance to work on the firm which remains number 1 position in Bangladesh.

I, therefore, convey my thanks to you for your kind cooperation, supervision and advice in conducting and preparing this report. I have completed the whole program with great enthusiasm. I appreciate you will assess my report considering the limitations of the study.

Sincerely yours,

Ishrat Rahman
Id: 11104063
BRAC Business School

Letter of Approval

This is to certify that Ishrat Rahman, ID.11104063, a student of BRAC University of BRAC Business School has completed the internship report titled “ **Audit Procedure in Bangladesh: A Case Study on ACNABIN Chartered Accountants**”, under my supervision. Her internship placement was at ACNABIN Chartered Accountant Firm. I am pleased to state that she has worked hard in preparing this report and she has been able to present a good picture of the concerned organization. The data and findings presented in the report seem to be authentic.

I wish her every success in life.

.....
Ms. Tanjina Shahjahan
Lecturer
BRAC Business School
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.....
Md. Mahedi Hasan
Manager
Audit & Consultancy
ACNABIN, Chartered Accountants

Acknowledgement

It is indeed a great pleasure and honor on mine to have the opportunity to submit this report after three months of practical orientation on ACNABIN, Chartered Accountants by the blessings of Allah- The Most Gracious and Merciful.

I convey my deepest appreciations to my honorable supervisor Ms.Tanjina Shahjahan for her continuous guidance and whole-hearted supervision and supporting me in preparing this internship report. I thank her for being a constant source of inspiration.

I would like to convey my utmost appreciation to Md. Mahedi Hasan, ACA, Manager, ACNABIN Chartered Accountants for his sincere guidance and supervision. My successful completion of internship program in ACNABIN, Chartered Accountants would not have possible without the help of some kind-hearted people.

My sincere gratitude goes to Mr. Amitabh Devnath, Manager, ACNABIN Chartered Accountants, for reviewing the whole report so carefully and for giving me valuable advices and suggestions to complete the whole thing in a right manner. Last but not the least; I would like to express my deepest gratitude to the officers and personnel of ACNABIN for their continuous support and valuable suggestions, cooperation and assistance in the preparation of this report.

I would like to show my gratitude towards some of my friends who gave their selfless effort to conduct the study. Finally, I thank my organization, BRAC University and Office of Career Services and Alumni Relations (OCSAR) for giving me the opportunity of self-development through practical experience.

Executive Summary

This report titled “Audit Procedures of a Chartered Accountant Firm – A Case Study on ACNABIN Chartered Accounting” is an outcome of BBA internship program. Such programs facilitate us to apply our understanding of the theoretical knowledge in the practical field. This report contains the details of the audit practice followed by ACNABIN Chartered Accountants.

ACNABIN Chartered Accountants - an independent a member of Baker Tilly International, which is the world’s 8th largest network - as my first experience to professional world. ACNABIN has established a close working relationship with many international and national consulting firms for providing services to clients in Bangladesh. In this way ACNABIN has enriched its professional base for serving the clients interest in best manner.

In these twelve weeks internship program, I was allocated in the Rangs Group as an Audit staffs. I have worked in this report followed by the knowledge that I have gained from working, trainings and my personal experiences.

The first part of the report consist an introduction and description of the project. The second part of the report contains of background of ACNABIN. In the third part I have tried to discuss about the audit procedure of Bangladesh and in the fourth part about the audit procedures followed by ACNABIN in details. I have introduced my learning in the fifth part and in the sixth part my audit practice in Rangs is discussed with their company overview and financial ratios. Followed by this in the next sections I have tried my best to include my finding and recommendations from my point of view to carry out audit engagement in ACNABIN and to minimize such problems. In part eight, I have drawn an overall conclusion



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CHAPTER 1

+ Introduction

+ Description of the Project

- ❖ *Objective of the Project:*
- ❖ *Methodology of the Project:*
- ❖ *Limitations of the Project:*



Introduction

In order to boost the classroom knowledge it is necessary to enter into the corporate world. This is the place where a student can gain hands-on knowledge, experience of the practical and professional world. Thus we are required to undertake an internship program in any operating organization.

An internship is an excellent way for an intern to authenticate the creditability of a chosen career option to pursue. As I have aimed to study Chartered Accountancy after completion of my Graduation, I choose ACNABIN to complete my internship program which is a prominent Chartered Accountancy firm in Bangladesh. My BBA Program, the twelve weeks internship program gave me the opportunity to gain practical knowledge on how an accounting firm operates in reality.

This study gave me an opportunity to observe and perform the audit procedures. I was assigned as an audit student of ACNABIN and was engaged for the audit of RANGS Workshop Ltd, RANGS Ltd and RANCON Motors Ltd, which I choose to complete my internship. This report will brief my gathered practical experience on audit procedure.



Description of the Project

Objective of the Project:

Internships are required to enrich the practical working knowledge by relating it to the theoretical education provided. There is vast dissimilarity between this theoretical based and reality based operation of an organization. Hence, to minimize this gap and complete our wisdom in our line of study, it is essential to work in an organization. Also, it creates a base for our career. Thus to complete our graduation, the internship is a pre-requisition.

The purpose of this internship placements are:

- Internship provides an intern with first time working experience.
- Internship enables us to relate our theoretical knowledge with practical knowledge.
- Internship helps to adjust an intern with the organization's environment.
- Internship helps building up confidence with in an intern to become a successful employee.
- Internship enables to have an overall idea on the audit procedure of ACNABIN Chartered Accountants.
- Internship helps to gain practical knowledge on how audit is performed in corporations, companies and non-profit making organizations.
- Internship helps in to identify about how to accumulate and process evidences to make an audit report.



Methodology of the Project:

The preparation of internship report which gives the understandings on “Audit procedure in Bangladesh: A case study on ACNABIN Chartered Accountants”, the information is collected from two type of sources

- Primary sources
- Secondary sources

- Primary sources are:-
 - Information collected by working with audit teams.
 - Information collected by conversing with engagement partners, audit managers, audit staffs and articled students.
 - Information collected by interviewing clients.
 - Information collected by observing during working period.

- Secondary sources are:-
 - Information collected from Annual audit report, management audit report, accounting system and audit working papers audited by ACNABIN.
 - Information collected from the different publications of the Institute of Chartered Accountants of Bangladesh (ICAB).
 - Information collected from various files and books like Bangladesh Standards of Auditing (BSA).
 - Information collected from Internet.



Limitations of the Project:

The objective of the project was to make a thorough study on external audit procedures. On course of my internship, though I had the opportunity to avail many facilities, I also had to face numerous obstacles. These obstacles can be named as limitations of the study. A few of them are as follows –

- **Time Constraint**

Internship period is only for 12 weeks which shorten the task participation on this vast course of auditing practice.

- **Firm's Code of Conduct**

In order to maintain the firm's secrecy and confidentiality the firm restricts its information which did not allow me to provide in-depth information of the firm's audit procedure.

- **Limitation in Practical Environment**

I was given with limited responsibility due to lack of my practical knowledge, which limited the scope of knowing and understanding the whole process of audit.



CHAPTER 2

Background Information Of ACNABIN

- ❖ *Introduction*
- ❖ *History*
- ❖ *Firm's Profile*
- ❖ *Vision, Mission and Strategic Intent*
- ❖ *Services Provided by ACNABIN*
- ❖ *Major category of clients receiving services:*
- ❖ *Training*
- ❖ *Operational Organogram of ACNABIN*



Background Information Of ACNABIN

Introduction

At present, ACNABIN is ranked as No. 1 Chartered Accountants Firm by Bangladesh Bank. The global affiliations of ACNABIN have enabled the firm and its people to obtain training overseas and up-to-date information and knowledge in the profession. Currently, ACNABIN is an independent member firm of Baker Tilly International, an international accounting network of 149 firms in 125 countries. ACNABIN was associated with Arthur Andersen, LLP the then global leader in the profession till the closure of the accounting conglomerate in 2002.

Since the firm's inception, ACNABIN has been providing market survey, management review and consultancy services to clients actively involved in industry, trade, finance, microfinance, education, health, social services, and agriculture in the private, public and NGO sectors throughout Bangladesh, as well as to various UN agencies and other development partners. ACNABIN has been appointed by various governmental and non-governmental organizations to carry out consultancy services for donor aided development projects. Many of those engagements involved projects funded by international agencies such as the World Bank, ADB, UNDP, UNICEF, UNFPA, WFP, CIDA, DFID, FAO, ILO, IFAD, NORAD, SIDA, USAID, UNCDF, ODA, European Commission (EC), LWF/DWS, KfW-Germany, BftW, GTZ, Stromme Foundation, CARE International, DANIDA and Save the Children. ACNABIN has sufficient depth in conducting market survey with expert resources as well as it has adequate logistics facilities backhand and personnel to be able to carrying out research and its plan implementation. It is undoubted that the organization possesses demonstrable knowledge of commodities and services procured by UN Agencies. ACNABIN is also an enlisted auditor of USAID and European Commission.



History

ACNABIN was formed in February 1985, with a mission to continually add value by helping clients succeed. The firm is in public practice for more than 29 years. Seven chartered accountants founded this partnership with a vision to build an institution which would foster an environment for leadership, continuous growth, learning, and collaborations. Over the past twenty-nine years, the firm has become one of the leading and most reputable chartered accountancy firms in Bangladesh with global affiliations. At present, ACNABIN has ten partners whose expertise in audit, review, consulting, and taxation has established the firm as a multidisciplinary professional organization. All the partners have many years of experience of working in Bangladesh and with international consultants and organizations operating both locally and overseas.

Firm's Profile:

Name of the Firm	• ACNABIN Chartered Accountants
Date of Registration	• 15th February 1985
Address	• BDBL Bhaban (13th and 14th Floor), 12 Kawran Bazar C/A, Dhaka-1215
Phones	• (880-2) 8144347-52
Fax	• (880-2) 8144353
E-mail	• acnabin@bangla.net
Web	• http://www.acnabin-bd.com
Branch Office	• House # 734, Road # 26, CDA Residential Area, Chittagong.



Vision, Mission and Strategic Intent

Vision:

“We go beyond the traditional auditor and client relationship by becoming your Trusted Business Advisor.”

Mission:

“We adhere to the strictest principles of client confidentiality. The sensitive and competitive nature of proprietary information-and the maintenance of trust-demands it. We have built our success on such principles. We do our utmost to earn-and keep-client trust.”

Strategic Intent:

“We want to become trusted leader in the market ensuring highest level of professional ethics and competencies. While securing safe & trusted position in the market for financial institutions, telecommunications, foreign branch & liaison offices and NGOs/NPOs, we still see wider space for us to get involved in other sectors in the country and in the region.”

Values:

“We are passionate about helping our clients, while at the same time developing our people’s potential.”

“Our culture is driven by the Baker Tilly Internal core values:

- To lead by example
- To deliver quality services with integrity
- To communicate openly, to act ethically
- And to foster a community built around civic responsibilities and teamwork.



Services Provided by ACNABIN

Services Offered

ACNABIN provides a wide range of high quality services of divertive nature to its clients in the private and public sectors in Bangladesh. It also renders services to international development agencies and expatriate consultants those are associated with various projects in Bangladesh.

Services offered cover the following areas:

- Statutory audit
- Internal audit
- Special audit
- Management audit
- Performance audit
- Financial review
- Accountancy
- Taxation-individuals, companies, banks, branch offices, Liaison offices
- Accountancy and management training
- Company formation and secretarial work
- Investigation of frauds and irregularities
- Setting up branch office and setting up Liaison office
- Companies' registration with Board of Investment, Ministry of Industries, etc.
- Work permits, visa, security clearance of expatriates
- Bank accounts opening for foreign clients
- Obtaining permission from the central bank regarding inward and outward remittance
- Obtaining trade license, factory license, Import Registration Certificate, Export Registration Certificate, Bonded warehouse facility, VAT registration, Membership of Trade Association/chambers, etc.
- Providing services regarding setting up of office, drafting rent/lease agreement, recruitments of staff, etc.
- Preparation of manual and policy guidelines in respect of finance, accounts, internal control, inventory, procurement, operation, administration, human resources, etc.
- Services relating to fixed assets management, inventory management, etc.



- Services regarding share issue, right issue, initial public offering, prospectus, etc.
- Outsourcing of accounting services, payroll, internal audit, etc.
- Helping clients in adopting international and local accounting standards
- Tax planning and tax management of expatriates
- Business plan developments
- System development
- Feasibility study of projects
- Management consultation/development
- Due Diligence Review
- Data processing with computers
- Privatization consultancy (includes pre-privatization review, restructuring, valuation in particular and privatization assistance in general)
- Company acquisition, merger, spin off, amalgamation, etc.
- Liquidation and winding-up of companies
- Micro-finance consulting
- Human Resource Development Issues
- Organizational consulting services
- Designing computerized systems for MIS and accounting and its implementation
- Share/business/asset valuation
- Other services as per needs of the clients.



Major category of clients receiving services

Manufacturing and Trading

- Apparel
- Chemical processing
- Engineering
- Cement
- Fabricated products
- Pharmaceuticals
- Jute goods/garments/textiles, etc.
- Food products

Commercial services

- Courier and cargo services
- Hospitals
- Airlines
- Hotels

Finance

- Banking
- Investment
- Insurance
- Capital Market
- Security Service
- Companies

Energy and Telecommunications

- Oil and gas
- Power and power generation
- Telecommunication
- Mining

Non-profit organizations

- NGOs
- Charitable organization
- Universities
- Foundations



Training

The firm being of international standard one believes in giving due importance and impetus to a steady and continuous process of professional training/education so as to keep pace with the latest development/technique. As it is well known Andersen maintained one of the largest and prominent professional education and training centers in the world located in the United States and also had a network of other major sister training centers in Europe and Asia.

In May 1994, two of our partners actively participated in a workshop on Supreme Audit Institution held in Singapore. In January, 1997 also the firm participated in the training workshop held in Bangkok on USAID Rules and Regulations.

As a matter of routine, two of its partners took part in Andersen Worldwide SC Regional Representative Firm's Training Program held in January 1994 in New Delhi, India. Partners also participated in such program in Dubai, UAE during February 1997. Such other programs held in St. Charles, Chicago, USA, The Netherlands, Dubai and India were also attended by our partners.

In March 1998 partners along with two other senior staff members took the opportunity to participate in the training course on "Procedures for Procurement & Disbursement under the World Bank's Financed Project" held at BRAC Center for Development Management, Rajendrapur, Bangladesh. This is a part of a continuous process for updating the knowledge in its concerned spheres of work and also to widen the horizon of latest know how.

In August 2011 our Partners visited Australia to attend a World Conference of Baker Tilly International to update themselves on the latest developments of the profession.

In November 2011 our Partners visited Malaysia to attend Regional Conference of Baker Tilly International to update regional changes in profession.



Operational Organogram of ACNABIN

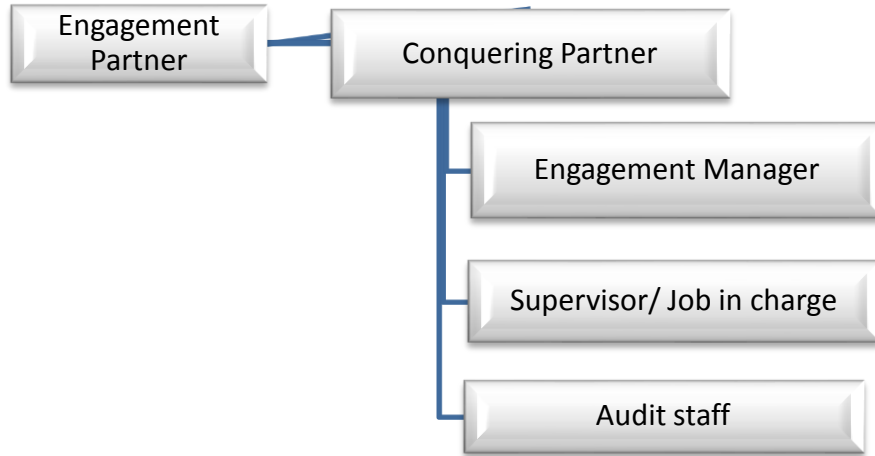


Fig: List of number of current personnel employed in ACNABIN Chartered

SL	Personnel Designation	Number
1.	Partners	07
2.	Professional Staff:	
	- Senior Director : Taxation	01
	- Director: Audit & Consultancy (Chartered Accountant)	01
	- Manager: Audit & Consultancy (Chartered Accountant)	02
	- Manager: Taxation & Corporate Affairs (Chartered Accountant)	02
	- Deputy Manager: Taxation & Corporate Affairs	02
	- Deputy Manager: Audit & Consultancy	08
	- Senior Assistant Manager: Audit & Consultancy	04
	- Senior Assistant Manager: Taxation & Corporate Affairs	01
	- Assistant Manager-Audit & Consultancy	03
	- Assistant Manager-Taxation & Corporate Affairs	03
	- Executive and Junior Executive-Audit, Consultancy & Taxation	03
3.	Articled Students	172
4.	Intern	26
5.	Supporting Staff	30
	TOTAL	



CHAPTER 3

AUDIT PROCEDURE IN BANGLADESH

- ❖ *General Definition of audit process and procedure*
- ❖ *Audit process and procedures in Bangladesh*



AUDIT PROCEDURE IN BANGLADESH

General Definition of audit process and procedure

Auditing is a significant part of the company's compliance efforts. Properly executed, audits will enable to identify conduct which may violate the federal and state laws or detect weaknesses in the claim development and submission process. Audits also will enable to appropriately target and measure the effectiveness of its educational efforts, ensure that appropriate corrective actions have been taken and quickly identify problems in the claim development and submission process which give rise to civil or criminal exposure.

- **AUDIT PROCESS:**

It is a sequential order of steps followed by the auditor in the examination of client records. The audit process may vary depending upon the nature of the engagement, its objectives, and type of audit assurance desired. The process includes understanding the particular client's environment, conducting the auditing procedures and tests, appraising the audit results, and communicating the results to interested parties.

- **Auditing procedure:**

It is auditor technique in gathering auditing evidence to substantiate the reliability of the accounting records. The auditor evaluates whether the information presented is logical and reasonable. Examples of auditing procedures are observing assets to verify existence and amount (e.g., fixed assets), collecting independent confirmations from external parties (e.g., bank confirmation), evaluating internal control, appraising management's activities, and obtaining management representations. The audit procedures to be followed on an engagement are indicated in the audit program. The work papers indicate what has been done on the audit.



Audit process and procedures in Bangladesh

The audit firm of Bangladesh are regulated and guided by the Institute of Chartered Accountants Of Bangladesh. ICAB has suggested and provided the firm with different subject regarding auditing. Like others it has suggested auditing procedures that can be followed by the audit firm in Bangladesh in its Audit Practice Manual.

Audit process suggested by Audit Practice Manual (APM) may be summarized as follows.

1. Planning.
2. Collection of evidence.
3. Controlling and recording.
4. Review and opinion.

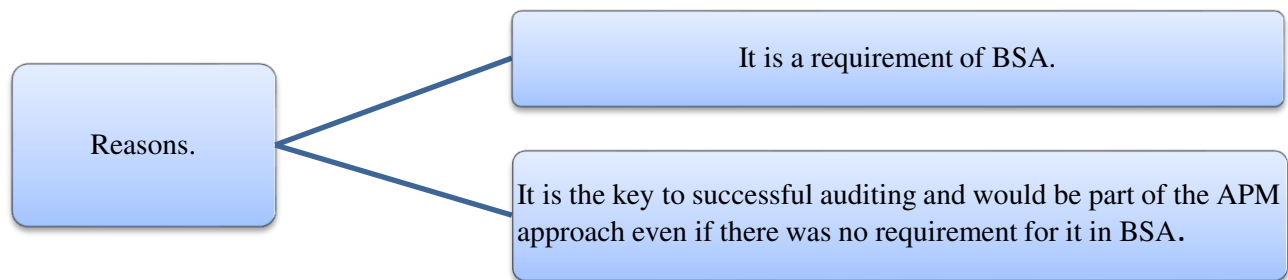
Figure: Audit Process



1. Planning

In order to assist in a disciplined approach to planning and to ensure compliance with BSA, the APM provides documentation enabling a record of planning to be kept, demonstrating the approach adopted for each audit and the reasons for that approach.

Figure: Planning is essential for two reasons:



In addition to the standard documentation there should always be a client-specific planning memorandum setting out:

- What the entity does;
- How it conducts its business;
- Where the risks and issues are, and
- How these will be audited.



These separate stages should not be considered to be mutually exclusive, but part of a continuous process of review. It is probably fair to suggest that analytical review is not as widely used as it could be, particularly in the audits of smaller companies. Some form of final analytical review is generally carried out but, by that stage, it may be of little use in directing the audit towards areas of importance.

▪ **Assessment of risk and materiality**

The assessment of risk and materiality are two of the principal planning procedures. The assessment of risk in particular is at the core of the approach to audit set out in the BSA. In the APM approach audit risk interacts with materiality and population value to determine sample sizes.

▪ **Analytical review**

Analytical review can be a useful source of audit evidence. It may include:

- A preliminary analytical review
- An extensive analytical review, and/or
- A final analytical review.

▪ **Tests of controls**

Bangladesh Standards on Auditing (BSA) require a much greater consideration of the client's system of internal control than was the case under the old standards. Under the old regime the testing of internal controls was entirely optional. This is not the case under BSA. In addition, as before, the auditor may choose to test the effectiveness of controls where this is more effective than relying solely on substantive procedures.

- As part of understanding the entity and its environment it is a requirement to evaluate the design and implementation of all controls relevant to the audit.
- Evaluating the design and implementation of controls requires more than just enquiry; further work such as inspecting documents or tracing transactions through the system is required.
- Testing of the operational effectiveness of internal controls (compliance testing) is mandatory where: the risk assessment includes an expectation that controls are operating effectively, or substantive tests alone do not provide sufficient evidence of their operation.



2. Collection of audit evidence

The APM audit programs are comprehensive and designed to deal with most eventualities. However, it is crucial that the programs are tailored to meet particular circumstances of the client.

▪ **Audit sampling**

The question of how many items to test has always been a debatable subject. It is far better to design tests directly relevant to the client rather than to merely 'fill in the forms'. Tailoring or drafting of programs using the APM as an aide-memoire is therefore encouraged. Clearly, any sample must be representative of the whole population and it must be sufficiently large to enable credible conclusions to be formed.

The exercise of judgment must ultimately determine the sufficiency of sample sizes. The use of inherent risk factors, materiality and population characteristics may give a useful theoretical starting point but ultimately judgment must prevail. The standard risk model does at least provide a benchmark against which to assess the reasonableness of your judgment.

▪ **Evaluation of errors**

Errors found in the performance of audit tests must be evaluated to determine their impact on the population being tested and on the accounts as a whole. Evidence suggests that, at times, auditors have difficulty in making this evaluation.



3. Controlling and recording

This section provides detailed guidance on the use of the documentation, including the way in which the forms should be completed for the preparation of a well-documented audit file.

▪ **ASSESSMENT OF RISK**

Audit risk is present in the giving of any audit opinion on financial statements. Elements of audit risk include those arising:

- from the business environment in which the entity operates;
- from the operation of the entity's control systems; or
- from the failure of audit procedures, including 'sampling risk'.

▪ **General risk assessment**

General risk relates to the commercial and regulatory environment in which the audit client operates. It is also affected by the business risks the entity faces and an assessment of the integrity of management. This assessment should assist in determining the riskiness of the engagement as a whole. The higher the perceived risk, the lower the audit risk that the auditor is willing to take and the greater the audit assurance that is needed.

▪ **Specific risk assessment**

The assessment of specific risk achieves two objectives:

- It may be used in the context of the very small company to assess the extent to which the full audit program approach can be foregone in the particular circumstances of the audit in question. This approach must always be documented and justified, not simply applied without reason; and
- It may be used to pull together the various risks identified.



▪ **Vouching the total population**

It may be that a total population is tested in the audit of very small companies. For example, it may be that a very small company has 12 invoices a year and that it has been decided to examine all 12. The inherent risk assessment will not be applied, and would make no difference, in these circumstances.

The general risk assessment must still be considered because the vouching of all 12 invoices cannot, on its own, provide all the audit evidence that we require forming a reasonable conclusion that all income has been completely and accurately recorded in the company's accounting records.

▪ **MATERIALITY**

BAS 320.3 reiterates the following definition of materiality which is taken from the IASB 'Framework for the Preparation and Presentation of Financial Statements'. 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful'. 'True and fair' accounts are those free of 'material' misstatement. For this reason above all others, an assessment of materiality should always be made.

Materiality affects audit work in two ways.

- It is one of the factors which influences the nature and extent of the tests of detail.
- It influences decisions as to whether or not an auditor should seek adjustment for actual and projected errors and for assessing the significance of areas of disagreement on judgmental matters.



- **Recording**

After collecting the adequate sample, it is important to record in double entry systems so that the proper recording of the transaction can be determined. It also helps to observe whether the accounting procedure used by the client is correct or not and what are the implication of the given journals. BSAs also suggest different procedures for recording the transactions and there treatment regarding situation.

Assuming that the ethical issues have been properly addressed, it may be possible to use audit evidence derived from work carried out in the preparation of the accounts.

Such accountancy work must have been properly planned with specific audit objectives in mind, properly controlled, recorded and subject to adequate review. In such circumstances it may be that sufficient audit evidence can, in respect of certain assertions, be obtained to obviate the need for further detailed testing. Remember, however, that such audit evidence will not provide evidence of, for example, completeness, continued existence or title, thus still requiring top up audit work to be done.



4. Review and opinion

This section deals with how partner can review the overall audit and form an opinion. APM provides some checklists which can be used to review the overall performance of the client. Some example for check list can be as follows:

- Partner completion
- Audit completion
- Audit standards review questionnaire
- Internal control system questionnaire
- Critical review of accounts questionnaire
- Justification of audit report etc.

The first task of the auditor is to get answer about the review check list. If the answers satisfied the audit team and partners, they may form unqualified opinion about the client. In other cases they may opinion other than unqualified opinion.

A conclusion should be drawn for each audit area. This is vitally important. Not only should the summary sheet be concluded upon, but for each main test within each area, the relevant working paper should state:

- The aim of the tests;
- The work performed;
- The results obtained, and
- The conclusion reached.

The conclusion section provides the following options:

- **Planning**

Particularly where there has been significant tailoring of the audit approach, it is essential that there is evidence to show that the partner has approved the approach being taken to the audit of the particular section before the work is commenced. This will also serve to improve the efficiency of the audit.



▪ **Final completion stage**

The conclusion requires confirmation of a number of different things. This includes confirmation that:

- The work detailed in the audit program has been carried out;
- The results have been adequately recorded;
- All necessary information has been collected for the preparation of the statutory accounts, and
- Subject to any minor matters highlighted on B5 or B8, the objectives have been met.

▪ **Alternative conclusion**

The summary sheet should state clearly the alternative conclusion reached, with adequate explanation for the conclusion to be understood. The alternative conclusion must be brought to the attention of the partner.

Before reaching an alternative conclusion, consideration should be given to whether or not there are any additional audit procedures that could be carried out to enable a satisfactory confirmation of the audit objectives to be given.



CHAPTER 4

AUDIT PROCEDURE OF ACNABIN

- ❖ *Audit procedures followed by ACNABIN*
- ❖ *Engagement Procedures*
- ❖ *Audit Procedures*



AUDIT PROCEDURE OF ACNABIN

Audit procedures followed by ACNABIN

The primary goal of ACNABIN at the time of involving in any audit engagement is to provide the opinion on Financial Statements in accordance with Bangladesh Standards on Auditing (BSA) as well as International Standards on Auditing (ISA). ACNABIN also seek to provide auditing and management consultancy services that are innovative, efficient and most importantly responsive to the client's needs.

It is another fact that before starting the audit procedure there presents a series of more procedures. For example audit engagement letter, audit clearance letter, team meeting etc.

Engagement Procedures

Before discussing the Audit Procedures followed by ACNABIN, I will try to focus on the engagement procedures through which ACNABIN is engaged/ recruited by the client to perform the audit. Before starting the audit work, some letters are exchanged between ACNABIN and clients. ACNABIN faces three kinds of situations in engagement process:

- Engagement with new client.
- Engagement with existing client
- Directly appointed by the client.



- **NEW CLIENTS**

In case of new clients, four letters are exchanged between ACNABIN and client including acceptance letter of appointment at the time of involving with the new client. Following stages are followed by both ACNABIN and client:

- **STAGE – 1: Client requires for technical and financial proposal from the ACNABIN**

Client generally gives circular with the newspaper or directly wants proposal for audit from the audit firm. In case of direct offer they request to the audit firm to submit a quotation for the cost of conducting audit of the client. They also mention the specific date to confirm the decision taken by the audit firm and completion date for audits. The client firm mentions here the key areas of the audit in the form of attachment. It assures that if ACNABIN audits client's firm, they will supply the formal terms of reference/audit mandates to govern the conduct of audit.

- **STAGE – 2: The technical and financial proposal is sent by ACNABIN to the client**

After reviewing the client letter or paper's circular, audit firm drafts a proposal letter to the client. The proposal letter contains technical and financial proposal for carrying out the subject of audit. ACNABIN estimates its personnel costs after considering the mandates to be utilized and using the minimum hourly rate of fees as prescribed by The Instituted of Chartered Accountants of Bangladesh (ICAB). The firm also mentions that as it is an estimate, the cost may vary with variation in number of mandates estimated to be utilized for the job.



➤ **STAGE – 3: Acceptance by the client on the basis of proposal of ACNABIN – A letter of contract**

After receiving proposal letters from various audit firms, client then selects the one which is favorable to them, and it appoints the audit firm for audit purpose. From the technical and financial proposal of the ACNABIN the client company understands the nature of the audit (such as independent, external) to assess the organization's internal control system in administering the matter of audit.

➤ **STAGE – 4: A letter is sent by ACNABIN to the client confirming to work with the client – Confirmation Letter**

After receiving the acceptance letter from the client, ACNABIN provides confirmation letter describing the firm's willingness to work with the client.

▪ **EX-CLIENTS OR CLIENTS FROM LAST YEAR**

Three letters are exchanged between the ACNABIN and client:

- **Willingness letter for reappointment:** In this letter ACNABIN wants to audit this year. It can request to increase audit fee or change some other conditions.
- Client sends appointment letter.
- ACNABIN accepts this appointment.

▪ **CLIENTS WILLING TO APPOINT ACNABIN**

If the client is interested to work with ACNABIN, then it directly sends an appointment letter to the firm which includes all terms and conditions. If all terms and conditions are favorable to the ACNABIN then it accepts the appointment and sends a letter to the client as an auditor.



Audit Procedures

There are seven steps involved in the procedures that come one after another. The procedures followed by the ACNABIN are basically inspired by the approaches suggested by ICAB in Audit Practice Manual. Steps are as follows:

1. Identity Overall Goals
2. Gather & Evaluate Initial Information
3. Assess General Risks
4. Assess Account Specific Risk
5. Develop Efficient And Effective Audit Plan Program
6. Conduct Audit Testing
7. Evaluate And Communicate Audit Results

1. Identify Firm's Overall Goals

The purpose of ACNABIN in conducting an audit is to express an opinion as to whether the financial statements are prepared and presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). The Firm's policies on Generally Accepted Accounting Principles are contained in Accounting Standards. The audit team considers these standards in formulating an opinion. In forming an opinion, the audit team also addresses responsibilities for:

- Errors
 - Irregularities and other matters
 - Efficiency
-
- **Errors**

Errors are unintentional misstatements or omissions of accounts of disclosures in financial statements. The audit team is required to design the audit to provide reasonable assurance of detection of material errors. The In-charge of an audit team is responsible to ensure existence or occurrence of asset or liabilities which are rightfully owned by the clients at given date and recorded completely with accurate balance or value and disclosed properly. Errors may arise for

 - Mistakes in gathering or processing accounting data from which financial statements.



- incorrect accounting estimates arising from oversight or misinterpretation of facts and;
- Mistakes in the application of accounting principles relating to amount, classification, and manner of presentation or disclosure.

▪ **Irregularities and other matters**

This is basically deals with the risk and materiality. Irregularities are basically intentional misstatements or omission of amounts or disclosures in financial statements, including fraudulent financial reporting and misappropriation of assets. So there is always a risk that material irregularities may occur and not be detected. This risk is increased by the possibility of management's override of internal controls, collusion, forgery, or unrecorded transactions. But this can be reduced by taking some steps regarding detection of irregularities, misstatement etc.

▪ **Efficiency**

The auditing procedure should be efficient in manner but that should not exceed the budget of the project or audit engagement. Performing an efficient audit involves:

- Performing front-end risk assessment and planning with adequate partner and manager involvement.
- If it is a recurring audit then the same team of previous year can be appointed.
- Designing the combination of audit procedures based on the risk assessment that will efficiently reduce the risk of undetected material misstatements to an appropriately low level.
- Assigning work to adequately trained and supervised persons with appropriate experience and skill levels.



2. Gather & Evaluate Initial Information

To conduct the efficient audit, it is important to have clear idea about the client. For this reason ACNABIN, when get engaged in an audit project, it at first request for some basic information of the client, like what is the basic business of the client, what is the foundation of the establishment of the business or how the business is being operated, who are the major buyer or seller etc. These information help to understand the following subjects:

- Understanding the client's activities and operation
- Considering the internal control structure
- Identifying client's expectation
- Considering materiality.

▪ Understand the operation of clients

The auditor understands of the entity and its environment should include information about each of the following categories:

- Industry, regulatory, and other external factors, including the applicable financial reporting framework.
- Nature of the entity.
- Selection and application of accounting policies.
- Objectives, strategies and related business risks.
- Measurement and review of financial performance.
- Entity's internal control.

▪ Consider internal control structure

As per BSA-610, audit team can ask for help from internal auditors. Again internal control structure provides an overall idea about the risk that must be considered. If the client has a strong internal control then the audit risk can be minimized. And this will have an effect on sample size also. But if the client does not have an internal control system there may exists high possibility of material misstatement and audit risk, thus increase in sample size. To check internal control an internal control questionnaire is prepared. A standard internal control system checklist is given below:



AUDIT QUESTIONNAIRE

INTERNAL CONTROL QUESTIONNAIRE (I C Q)

Please complete the following questionnaire by ticking the appropriate box. Where the answer is "No" and where you feel that a "Yes", "No" or "N/A" does not answer the question adequately, please provide further details on a separate sheet.

	Yes	No	N/A
1. ACCOUNTING PRACTICE			
(a) Is the system of internal control such that proper accounts are produced?			
(b) Are accurate periodic management accounts prepared?			
(c) Can the accounts be produced simply by extracting figures from the ledgers or is it necessary to analyze and adjust ledger figures?			
(d) Is the basis of accounting consistent with that of the previous year?			
2. CASH & CASH EQUIVALENTS (1)			
(a) Is access to cash area strictly restricted to others?			
(b) Is there a system of periodic surprise cash count? If so how often carried out and by whom?			
(c) Whether Fidelity Guarantee Insurance coverage obtained for Cashier?			
(d) Are Cashiers prohibited from performing bookkeeping duties?			
(e) Does the cashier prepare a Daily settlement Report duly checked and signed by a Managerial Staff?			
(g) Whether recovery of loan in cash used for office expenses without depositing the same into Bank?			
(h) Whether Cash Balance agrees with the balance of General Ledger and checked by responsible officer daily?			



(i) Whether cash is kept under dual control?			
(j) Whether Cash-in-Safe policy has been taken with adequate limit of sum-insured?			
(k) Whether cash-in-transit policy has been taken with adequate limit of sum insured depending on times and level of regular cash carried?			
3. CASH & CASH EQUIVALENTS (2)	Yes	No	N/A
(a) Whether all Bank Reconciliation Statements are prepared on a timely basis and properly reviewed by a responsible person not associated in preparation of bank reconciliation statements			
(b) Whether persons responsible for passing entries for bank transaction are restricted to banking correspondences?			
(c) Whether Banking correspondences are directly addressed to Managerial staff?			
(d) Whether jobs related to Bank reconciliation are allocated in such a way that job done by one employee is automatically checked by another staff / officer?			
(e) Whether balance certificates are obtained from the banks of all accounts at least at the year-end?			
(f) Whether all material items shown as being out-standing on the bank reconciliation statements are accounted for or cleared on a timely basis?			
4. INVESTMENTS			
(i) Are purchases and sales of securities approved by appropriate authority of the Bank?			
(ii) Whether security scripts are checked upon receipt of the same and preserved at safe custody of the Corporation?			
(iii) Whether direct control is exercised over physical custody of Investment scripts?			
(iv) Whether a subsidiary ledger is maintained showing full particulars of Investments?			
(v) Whether all documentation for purchases and sales are			



preserved by the Bank?			
(vi) Whether separate persons are responsible for accounting, physical custody, trading and approval of investments?			
(vii) Whether aggregate balance appearing in Investment subsidiary Ledger/ Cards are agreed regularly with the balance/balances appearing in General Ledger as a matter of regular practice?			
(viii) Whether periodic reconciliation is prepared for physical existence of Investments and that appearing in General Ledger of the Bank?			
(ix) Whether incomes including original cost of investments are collected in due course or on maturity and properly accounted for?			
(x) Whether responsible officials properly verify ownership / transfer of investments?			
(xi) Whether all income on investments is accrued at the year-end and properly accounted for?			
(xii) Whether adequate provision has been made for decrease in the market value of investments, loss of investments, and non-realization of investments due to introduction of new law?			
(xiii) Whether costs of investment are verified with the market quotations and differences, if any are ascertained at the year-end and properly accounted for? Or properly disclosed in the Accounts?			
4. FIXED ASSETS	Yes	No	N/A
(i) Whether the Organization has any established policy in acquisition and disposal of Fixed Assets?			
(ii) Are budgets for capital expenditures approved by the Board of Organization?			
(iii) Are approved budgets communicated in writing to:			
i) Purchase Department?			
ii) Accounts Department?			



iii) Branch offices?			
(iv) Are written authorizations required for incurring capital expenditures for items included in the Budget?			
(v) Is the authority to incur capital expenditures restricted to specified officials?			
(vi) Are purchases of capital items subject to same control measures as are applicable to purchases of stores, etc.?			
(vii) Are receipts of capital items subject to same procedures as applicable to stores etc.?			
(viii) Is there proper check to see that amounts expended do not exceed the amount authorized?			
(ix) Are supplementary authorizations required for excess expenditure?			
(x) Is there an established procedure for moving any capital items from one location to another?			
(a) Is written authority required for			
- Scrapping of fixed assets?			
- selling of fixed assets?			
(b) Is there authority to permit scrap/sell of fixed assets restricted to specified officials?			
(c) Are limits specified are this regards?			
(d) Are sales of fixed assets subject to same procedures as are applicable to sales of stores, etc.?			
(xi) Are reports issued promptly in respect of			
(a) Units sold?			
(b) Units scrapped?			
(c) Units moved from one location to another?			
(xii) Are fixed assets under construction			
(a) Subject to separate control account in General Ledger?			
(b) Controlled by job number?			
(xiii) Is expenditure on wages, materials and stores charged to			



capital account on a reasonable basis?			
(xiv) Is there any official responsible for ensuring that allocation of expenditure between capital and revenue is in conformity with accounting policy?			
(xv) Is a register of all fixed assets (including fully depreciated assets) maintained?			
(xvi) Is the register regularly written up throughout the year?			
(xvii) Is the register periodically tattled with the financial account records?			
(xviii) Is the following information available in the register?			
(a) Supplier's name			
(b) Date of purchase			
(c) Cost (including additions, improvements, exchange rate adjustments etc.)			
(d) Location and identification number			
(e) Rate of depreciation and estimated life.			
(f) Accumulated depreciation and depreciation charge for the year			
(g) Estimated salvage value			
(xix) Is there a list of title deeds for the landed properties and buildings?			
(xx) Are title deeds of properties kept in safe place?			
	Yes	No	N/A
(xxi) If they are lodged as security, are certificates obtained to that effect periodically?			
(xxii) Are registration books of vehicles periodically verified?			
Verification			
(xxiii) Are fixed assets physically verified periodically?			
(xxiv) Is the ownership of the fixed assets properly checked by			



a responsible officer of BIWTC			
(xxv) Is there a written procedure for such verification?			
(xxvi) Does the procedure provide for verification/ confirmation of fixed assets with third parties?			
(xxvii) Are reports prepared on such verification?			
(xxviii) Do such reports indicate damaged obsolete items of fixed assets?			
(a) Are discrepancies disclosed by such reports investigated?			
(b) Are the records and financial accounts corrected with proper authority?			
(xxix) Are damaged/obsolete items disclosed by such reports, removed from the records and financial accounts with proper authority?			
(xxx) Is there satisfactory control over the acquisition and write off of such items?			
(xxxi) Are there physical safeguards against theft or loss of tools and other movable equipment?			
(xxxii) Are fixed assets shown at their original cost?			
(xxxiii) Is there a plant register which is periodically agreed with			
(a) Assets on hand?			
(b) Financial accounts?			
Insurance	Yes	No	N/A
(xxxiv) Are the following risks covered in respect of buildings and machinery:			
a) Fire			
b) Strike, riot and civil commotion			
c) Flood			
d) Earthquake			
(xxxv) Does the official, who decides on the value for which policies are taken, review periodically the adequacy of			



the insurance cover?			
a) Is there loss-of-profits insurance cover?			
b) Is there machinery-breakdown insurance cover?			
c) If the answer to (a) or (b) is negative, is it due to a specific decision taken by senior officials?			
(xxxvi) Is there an official who decides on the value for which policies are taken?			
(xxxvii) Are the fixed assets insured on reinstatement basis?			
(xxxviii) Are major additions and disposals supported by properly authorized vouchers and tested by you?			
(xxxix) Are you satisfied with the principles followed for depreciation of fixed assets including idle assets?			
(xxxx) For fixed assets other than property, are items in the plant register identified with the actual assets?			
6A. OTHER ASSETS	Yes	No	N/A
(i) Whether unused stock of stationery and stamps are shown as stocks in Balance Sheet?			
(ii) Are all entries properly approved, recorded and adequately documented?			
(iii) Whether unused stock of stationery and stamps are physically checked at the balance sheet date and properly valued at the latest cost price?			
(iv) Whether clearing entries are cleared promptly and transferred to appropriate Accounts?			
(v) Does the systems provide for periodic review and follow-up by officials of the Bank?			
6B. SECURITY DEPOSITS AND PREPAYMENTS			
(i) Whether a periodical review is carried by Internal auditor as to its status?			
(ii) Whether security deposits are received as soon as its			



purposes are served?			
(iii) Whether refund of such security deposits is authorized by high officials of the Bank?			
(iv) Whether adjustments of security deposit, if any, are regularly checked and reported upon to Management of the Bank?			
(v) Whether adequate provision is made for doubtful deposits, if any?			
(vi) Are the validity and valuation of prepayments satisfactory?			
7. BORROWINGS			
(i) Are proper recordings made in the relevant books and subsidiary Ledger/Cards maintained in respect of each class of borrowings showing full particulars thereof?			
(ii) Whether proper documentation like sanction letters, disbursement advises, etc. is preserved by the Corporation?			
(iii) Are all documentation in support of conversion of borrowings into equity maintained within the knowledge of higher officials of the Corporation?			
8. PAYMENTS			
(i) Whether vouchers prepared, checking thereof approval and disbursements are done by separate persons?			
(ii) Whether supporting are preserved along with payment vouchers or with ready reference for easy tracings?			
(iii) Whether payments made by Branches of the Bank are made as per set rules as to nature of payment and limits?			
(iv) Whether undelivered cheques/PO is lying for unusually long time?			
(v) Whether provisions for acknowledgement are ensured in all cases?			
(vi) Whether higher officials regularly check the payments			



particularly the large ones and exceptional items?			
(vii) Whether calculation of interest on borrowings is done mechanically and checked by other persons?			
9. INCOME			
(i) Whether calculation of interest on loans and advances is done mechanically?			
(ii) Whether there are provisions for checking of such calculations done mechanically or manually?			
(iii) Whether calculation of interest, checking and accounting thereof are done by separate persons?			
(iv) Whether posting of interest are made to sub-borrowers accounts without delay?			
(v) Whether income receivables particularly from investments are followed up and efforts made for prompt collections?			
(vi) Whether report of income or any receipts are made promptly?			
(vii) Are expenses allowed out of collections on various accounts?			
(viii) Whether commission receivable for various services rendered by the Corporation is consistently followed for all cases and basis is also followed?			



ACNABIN consider the activities of internal auditing and their effect, if any, on external audit procedures. So they try to:

▪ **Understand and Assess Internal Auditing**

As external auditors, we should obtain a sufficient understanding of internal audit activities of the client that assists us in planning the audit and developing an effective audit approach. During the course of planning the audit, we should perform a preliminary assessment of the internal audit function when it appears that internal auditing is relevant to the external audit of the financial statements in specific audit areas.

▪ **Evaluate and Test the Work of Internal Auditing**

To use specific work of internal auditing, we evaluate and test the work of internal auditing to confirm its adequacy for the external auditing purposes. The evaluation of specific work of internal auditing involves consideration of the adequacy of the scope of work and related programs and whether the preliminary assessment of the internal auditing remains appropriate. This evaluation may include consideration of whether:

- The work is performed by persons having adequate technical training and proficiency as internal auditors and the work of assistants is properly supervised, reviewed and documented;
- Sufficient appropriate audit evidence is obtained to afford a reasonable basis for the conclusions reached;
- Conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and
- Any exceptions or unusual matters disclosed by internal auditing are properly resolved.
- The external auditor would record conclusions regarding the specific internal auditing work that has been evaluated and tested.



- **Identify client's expectation**

As external auditor, we should identify the client's expectation and design and perform the audit to meet the client expectation.

- **Consider materiality**

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Materiality should be considered by the auditor when:

- Determining the nature, timing and extent of audit procedures; and
- Evaluating the effect of misstatements.

3. Assess General Risks

The assessment of risk is accomplished using a “top-down” approach. The audit team focuses initially on high level information. The nature and extent of documentation will vary significantly based on an entity's size, complexity, ownership characteristics, and level of risk. The ability to identify, assess, and manage risk is often indicative of an organization's ability to respond and adapt to change. Risk assessment therefore helps organizations to quickly recognize potential adverse events, be more proactive and forward-looking, and establish appropriate risk responses, thereby reducing surprises and the costs or losses associated with business disruptions. This is where risk assessment's real value lies: in preventing or minimizing negative surprises and unearthing new opportunities. The more real-time and forward-looking the analysis of potential risks, the more controllable the achievement of objectives becomes. During audit planning and risk assessment, we obtain initial audit evidence in order to:

- Effectively assess the inherent risk of potential financial statement misstatements,
- Identify indicators of possible going concern problems, and
- Identify account specific risk and design an overall audit approach to provide reasonable assurance of detecting material misstatements.



4. Assess Account Specific Risk

In this step, audit team has to determine the risk related to specific account like sales, account receivables, payroll and personal file, acquisition and payment cycle, inventory and cash balances. Audit team also can take guideline from the APM questionnaire for the assessment. By having the answers in the questionnaire, audit team can assess how much risk is related to that specific account.

For example, sales cycle, the normal cycle may be the transaction should be recorded when the product is delivered to customer. But the audit team observed that client's sales are recorded when products are shifted in the carriage.

That implies that there exists risk for material misstatement in revenue, account receivable etc. accounts. To assess those risks audit team can perform

- Test of control and
- Substantive test of transaction.

5. Develop Efficient And Effective Audit Plan Program

In this step, Job In charge makes an overall plan about how audit can be performed. The purpose of the overall audit strategy is to develop an effective response to the risk of material misstatement. The auditor considers what they found in preliminary planning activities such as client acceptance, ethical position of the audit firm and their understanding of the entity and its environment, including its internal control, to develop an effective and efficient overall audit strategy that will appropriately respond to assessed risks.

The overall audit strategy includes consideration of planned audit responses to specific risks through the development of the audit plan. The overall audit strategy also helps the auditor determine the resources required for the engagement, including engagement staffing. Therefore, at a minimum the following matters should be included in the overall audit strategy:



- Relevant characteristics of the audit engagement, such as the reporting framework used in order to set the scope of the engagement.
- Key dates for reporting and other communications
- Setting of materiality
- Preliminary risk assessment and whether internal controls are to be tested
- Consideration of resources available and how they are to be used.

6. Conduct Audit Testing:

In this stage the field work starts. During the fieldwork phase, audit evidence is gathered by the auditor/s working methodically through the work plan or checklist, for example interviewing staff, managers and other stakeholders associated with the client's, reviewing client's documents, printouts and data (including records of client's activities such as security log reviews), observing client's processes in action and checking system security configurations etc. Audit tests are performed to validate the evidence as it is gathered. Audit work papers are prepared, documenting the tests performed.

The first part of the fieldwork typically involves a documentation review. The auditor reads and makes notes about documentation relating to and arising from the client's (such as the Statement of Applicability, Risk Treatment Plan, client's policy *etc.*). The documentation comprises audit evidence, with the audit notes being audit working papers.

Technical compliance tests may be necessary to verify that IT systems are configured in accordance with the organization's information security policies, standards and guidelines. Automated configuration checking and vulnerability assessment tools may speed up the rate at which technical compliance checks are performed but potentially introduce their own security issues that need to be taken into account.

The output of this phase is an accumulation of audit working papers and evidence in the audit files.



7. Evaluate And Communicate Audit Results:

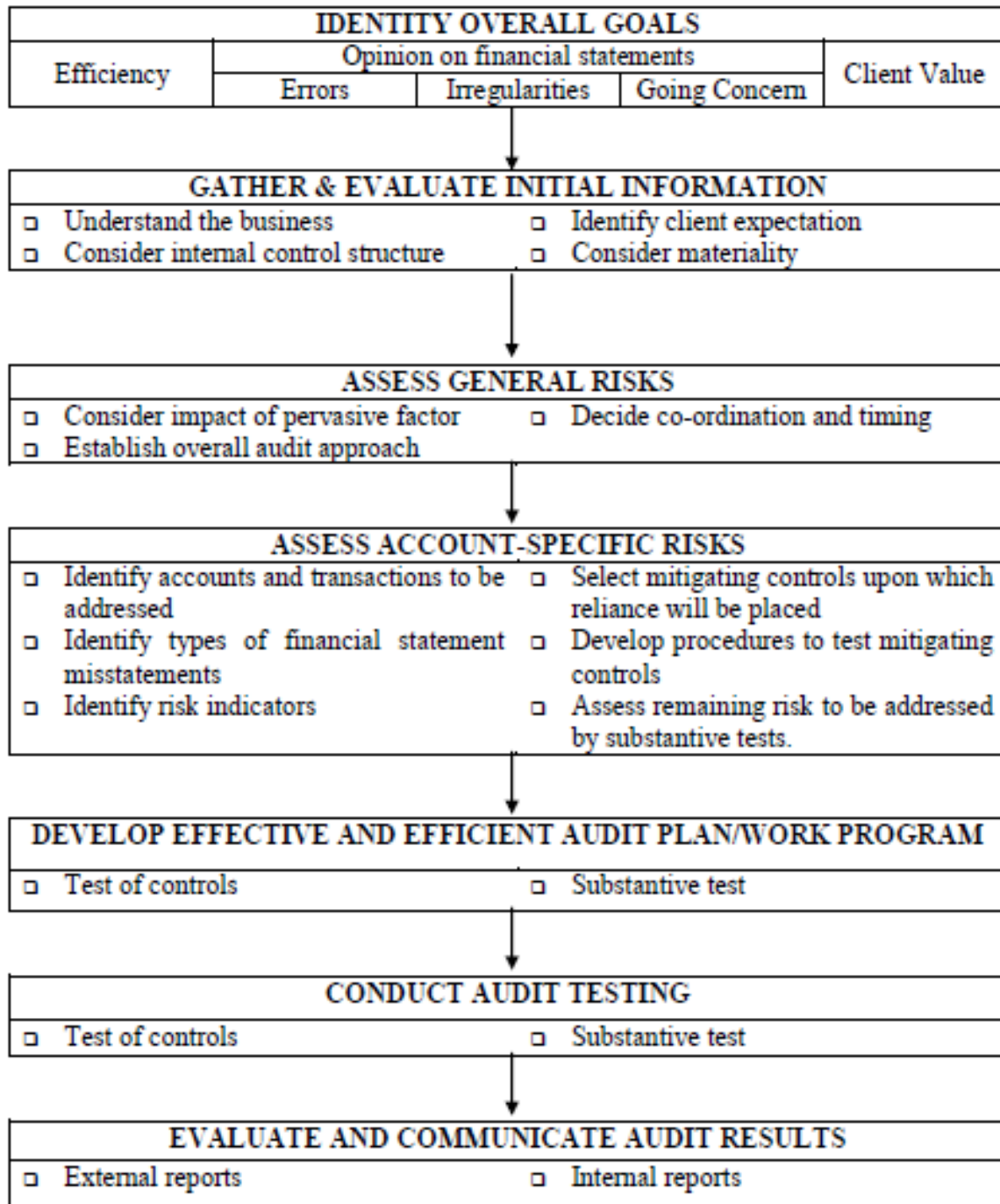
Once the auditor has completed gathering evidence relating to the financial statement assertions the audit enters the completion phase. First the sufficiency and appropriateness of the evidence gathered is evaluated. The preliminary assessments of the risk of material misstatement (as identified during the planning phase) are used to evaluate the sufficiency and appropriateness of the evidence collected. The auditor shall obtain sufficient appropriate evidence in order to reach and justify a conclusion on the fairness of the financial statements. Should the auditor determine that sufficient appropriate evidence was not obtained; additional substantive procedures need to be performed. Once the auditor is content with the sufficiency and appropriateness of the evidence, the completion phase can continue.

The next stage of this phase is to determine the final materiality figure and to evaluate all misstatements identified. The auditor can either accept the planning materiality figure as the final materiality figure or lower it. However, the auditor should never increase the planning materiality figure during the completion phase. The auditor then aggregates the total identified misstatements and determines if it causes the financial statements to be materially misstated.

The list of identified misstatements is discussed with the client, and the client is given the opportunity to correct some or all of the identified misstatements should they wish to do so. If the uncorrected misstatements are judged to be material, the auditor issues an opinion that explains that the financial statements are materially misstated. If the uncorrected misstatements do not cause the financial statements to be materially misstated, ACNABIN may issue a report with an **unqualified opinion**. But if misstatements cause financial statements to be materially misstated, ACNABIN may issue a report with **other than unqualified opinion**.



Figure: ARTHUR ANDERSEN Audit Process (that is still followed by ACNABIN)





CHAPTER 5

LEARNING PART

- ❖ *Introduction*
- ❖ *Nature of the Job*
- ❖ *Job Responsibility*



LEARNING PART

Introduction

In 12 weeks of internship I was assigned at the Rangs Workshop Limited, Tejgaon from my firm ACNABIN Chartered Accountants for the audit of: Rangs Workshop Ltd, Rangs Ltd and Rancon Motors Ltd to complete my internship program as an audit staff. During my internship program most importantly I realized how to work under the pressure of responsibilities maintaining chain of commands and working in a team. ACNABIN taught me to work with rules and regulations, where I have gained the understanding on how to reach a mutual understanding between different people while working together. This practical orientation is necessary for the development and preparation of a person before entering into the corporate world. The things that I have learned at ACNABIN Chartered Accountants are:

- Meaning of responsibility
- Responsibility to the profession
- Necessity of commitment
- Auditing and Reporting responsibilities
- Working with ethics
- Working Independently
- Client dealings
- Working with Generally accepted auditing standards
- Punctuality and regularity is very important
- Ability to interact with different sorts of people



Nature of the Job

Worked in a Chartered Accountancy firm named ACNABIN, Chartered Accountant as an Audit Staff from 22 January 2015 to 16 April, 2015.

Job Responsibility

- Preparing and developing the checklist and audit program for audit, accounting and consultancy works.
- Identifying the nature and extent of analytical procedure and select risk level.
- Preparing planning memorandum, strategy memorandum, risk analysis, internal control questionnaire (ICQ).
- Planning the audit procedure based on the nature, timing, activities and financial involvement of the organization.
- Preparing meeting MEMO for discussion with management and partners about the audit issues and observations.
- Required improvement and implementation of various control systems.
- Review administrative and operating procedures of manual, fixed assets, travel management, training, contracts and delegation of authorities for checking the compliance.



CHAPTER 6

CLIENT'S AUDIT PROCEDURE

- ❖ *RANGS WORKSHOP LTD. Company Overview*
- ❖ *Financial Ratios of Rangs Workshop Ltd.*
- ❖ *Audit procedures of RWL*
- ❖ *Outcome of Our Audit at RANGS WORKSHOP Ltd.*



CLIENT'S AUDIT PROCEDURE

In the course of my Internship period I was assigned as an audit staff for performing the audit of Rangs Group. ACNABIN was being engaged to audit the company RANGS Ltd, RANGS WORKSHOP Ltd and RANCON MOTORS Ltd for a period of 3months. There they send an audit team where I was one of them. I am giving a small overview on the audit of Rangs Workshop Ltd.

RANGS WORKSHOP LTD. Company Overview

Rangs Workshop Limited was set up with the intention of providing world class services for the car owners who really care. To repair the vehicle by the people who actually built it in Japan with the identical component 'Genuine Parts' made in Japan and to set up a standard for vehicle workshop in Bangladesh. Over the years Rangs Workshop has remained true to providing customers with the very best in product and services. The engineers are dedicated to quality and their 'Attention to detail' can be the source for inspiration for other professionals. Rangs possesses two of the most well equipped and modern automobile workshop. Rangs regularly send the engineers and mechanics to Mitsubishi Japan to gain the latest technical updates. A well-stocked inventory guarantees efficient and cost effective supply of genuine Mitsubishi spare parts.

- A new and modern service-engineering workshop has been opened in the Industrial area of Dhaka City. RWL has two service centers. One of them is in Dhaka and the other in Chittagong.
- RWL serves approximately 15,000 vehicles annually.
- RWL not only caters to Mitsubishi owners, but also well equipped to provide services to other branded automobiles.



Financial Ratios of Rangs Workshop Ltd.

Profitability ratios

Gross profit margin: the gross margin reveals the amount that an entity earns from the sale of its products and services, before the deduction of any selling and administrative expenses.

$$\text{Formula} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Net profit margin: Net profit margin is the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales.

$$\text{Formula} = \frac{\text{Net Profit}}{\text{Net Sales}}$$

Return on equity: Return on equity compares the annual net income of a business to its shareholders' equity. The measure is used by investors to determine the general level of return that an organization is generating in proportion to the investment they have made in it.

$$\text{Formula} = \frac{\text{Net Profit}}{\text{Shareholders Equity}}$$

Return on shareholder's equity: This ratio measures the rate of return that shareholders receive on their investment in your business. In other words, it tells the shareholders how much the company is earning for each of their invested money.

$$\text{Formula} = \frac{\text{Net Profit after Tax}}{\text{Shareholders Equity}}$$

Return on assets: The return on assets compares the net earnings of a business to its total assets. It provides an estimate of the efficiency of management in using assets to create a profit.

$$\text{Formula} = \frac{\text{Net Profit}}{\text{Total Assets}}$$



Liquidity Ratios

Current ratio: The current ratio measures the ability of an organization to pay its bills in the near-term. The ratio is used by analysts to determine whether they should invest in or lend money to an entity.

$$\text{Formula} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Quick ratio: The quick ratio focuses on the liquid assets, and gives a better view of how well a business can pay off its immediate obligations.

$$\text{Formula} = \frac{\text{Current Assets} - (\text{Inventories} + \text{Prepayments})}{\text{Current Liabilities}}$$

Efficiency Ratios

Receivables Turnover Ratio: Accounts receivable turnover is the number of times per year that a business collects its average accounts receivable. The ratio is intended to evaluate the ability of a company to efficiently issue credit to its customers and collect funds from them in a timely manner.

$$\text{Formula} = \frac{\text{Net Credit Sales}}{\text{Average Receivables}}$$

Inventory Turnover Ratio: The inventory turnover formula measures the rate at which inventory is used over a measurement period. One can use the formula to see if a business has an excessive inventory investment in comparison to its sales level, which can indicate either unexpectedly low sales or poor inventory planning.

$$\text{Formula} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Payable Turnover Ratio: Accounts payable turnover is a ratio that measures the speed with which a company pays its suppliers.

$$\text{Formula} = \frac{\text{Cost of Goods sold}}{\text{Average Payable}}$$



Assets Turnover: The total asset turnover ratio compares the sales of a company to its asset base. The ratio measures the ability of an organization to efficiently produce sales, and is typically used by third parties to evaluate the operations of a business.

$$\text{Formula} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

Debt Ratios

Debt Ratio: The debt ratio measures the proportion of assets paid for with debt. One can use the ratio to reach conclusions about the solvency of a business. A high ratio implies that the bulk of company financing is coming from debt; this is a risky financial structure.

$$\text{Formula} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Times Interest Earned Ratio: It measures the ability of an organization to pay its debt obligations. The ratio is commonly used by lenders to ascertain whether a prospective borrower can afford to take on any additional debt.

$$\text{Formula} = \frac{\text{EBIT}}{\text{Interest Expense}}$$



Table 1: Calculations of Profitability ratios

Profitability Ratio	Equation	2012 – 2013	2013 – 2014
Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Net Sales}}$	$\frac{94,852,665}{238,228,531}$ = 40%	$\frac{83,395,893}{203,077,972}$ = 41%
Net profit margin	$\frac{\text{Net Profit}}{\text{Net Sales}}$	$\frac{44,211,552}{238,228,531}$ = 19%	$\frac{33,855,385}{203,077,972}$ = 17%
Return on equity	$\frac{\text{Net Profit}}{\text{Shareholders Equity}}$	$\frac{38,915,062}{383,586,845}$ = 10%	$\frac{29,919,578}{404,838,825}$ = 7.4%
Return on shareholder's equity	$\frac{\text{Net Profit after Tax}}{\text{Shareholders Equity}}$	$\frac{44,211,552}{383,586,845}$ = 12%	$\frac{33,855,385}{404,838,825}$ = 8%
Return on assets	$\frac{\text{Net Profit}}{\text{Total Assets}}$	$\frac{44,211,552}{664,416,368}$ = 7%	$\frac{33,855,385}{708,676,842}$ = 5%
Interpretation: Overall the profitability ratios show a very little change between two years. Though the percentage has dropped in the year 2013-2014 compared to the year 2012-2013 still not bad indicative of the company's performance.			



Table 2 Profitability Ratio

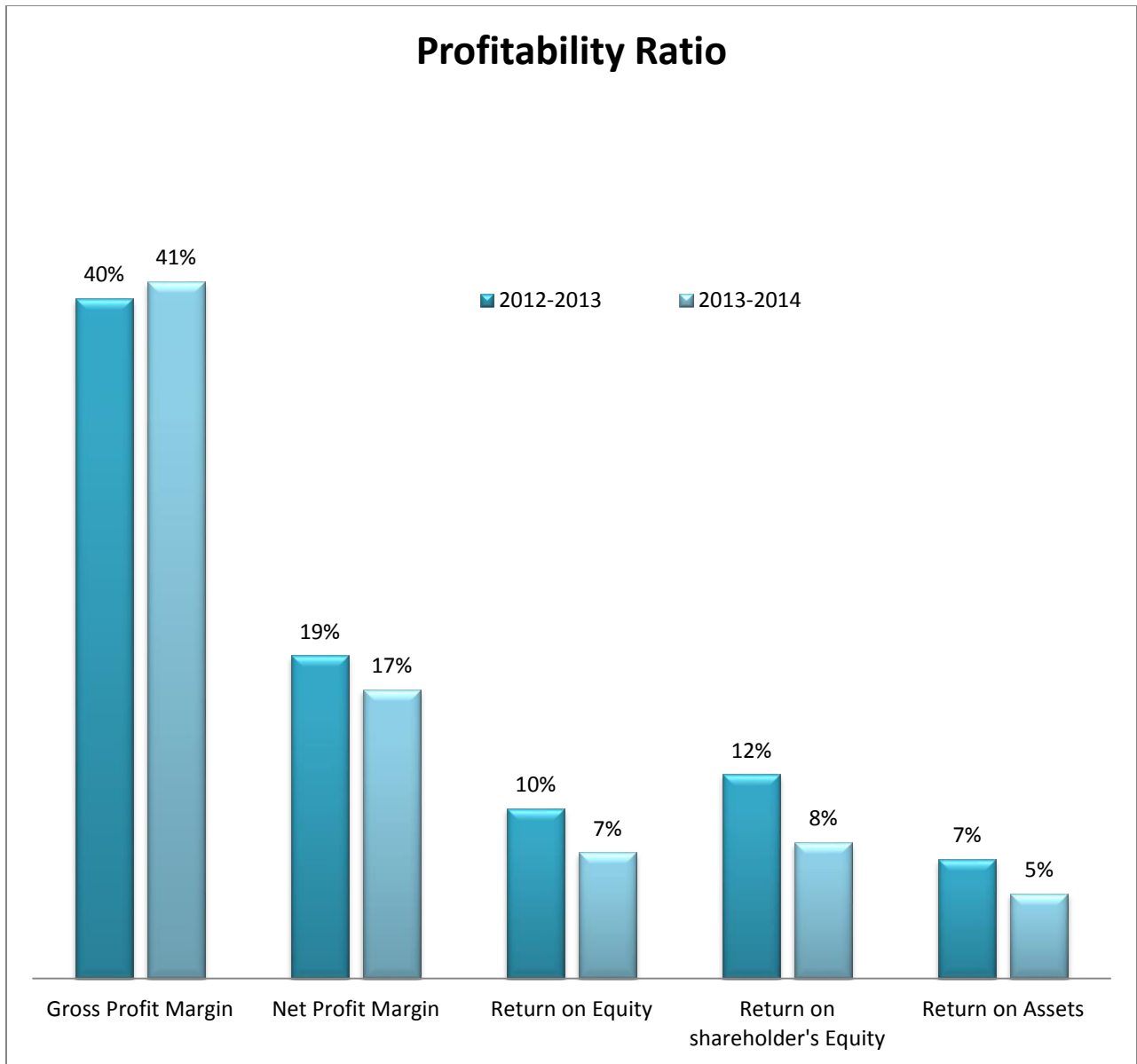




Table 3: Calculations of Liquidity Ratios

Liquidity Ratio	Equation	2012 – 2013	2013 – 2014
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{479,528,940}{280,829,523}$ =1.7 : 1	$\frac{505,997,848}{303,838,017}$ =1.7 : 1
Quick ratio	$\frac{\text{Current Assets} - (\text{Inv.} + \text{Prepay})}{\text{Current Liabilities}}$	$\frac{479,528,940 - 122,220,490}{280,829,523}$ = 1.27 : 1	$\frac{505,997,848 - 129,669,082}{303,838,017}$ =1.24 : 1

Interpretation: Overall the liquidity ratio is of little change compared to its previous year. Therefore the ratio is a good indicator that how fast RWL is capable of paying its current liability with the current assets they have.

Table 4 Liquidity Ratio

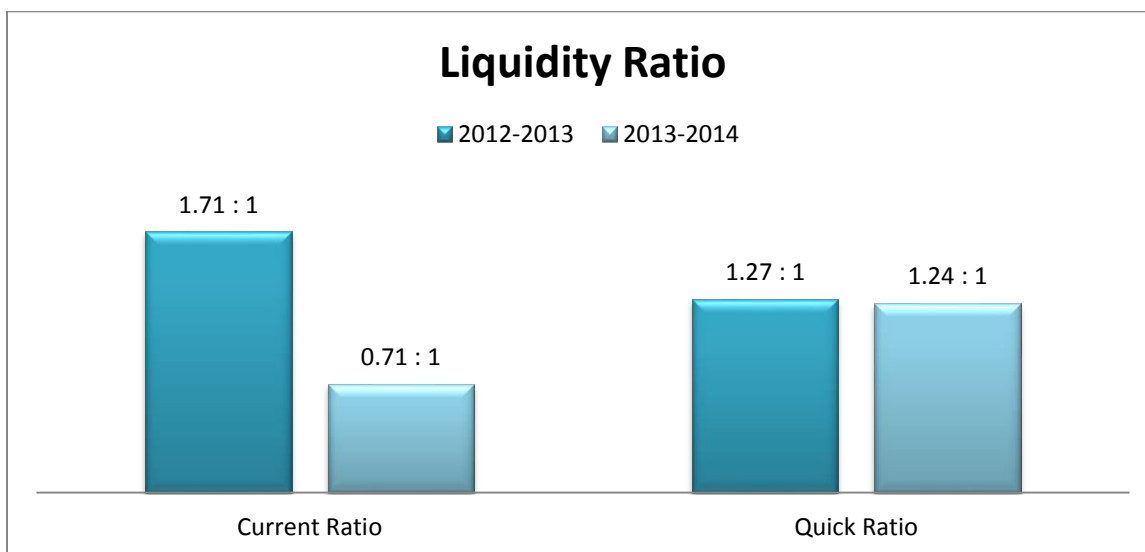




Table 5: Calculations of Efficiency Ratios

Efficiency Ratio	Equation	2012 – 2013	2013 – 2014
Receivables Turnover Ratio	$\frac{\text{Net Credit Sales}}{\text{Average Receivables}}$	$\frac{39500322}{62,111,433} * 365$ = 232 days	$\frac{37,957,487}{56,701,591} * 365$ = 244 days
Inventory Turnover Ratio	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	$\frac{129,130,081}{143,375,866} * 365$ = 329 days	$\frac{112,460,036}{119,682,079} * 365$ = 342 days
Payable Turnover Ratio	$\frac{\text{Cost of Goods sold}}{\text{Average Payable}}$	$\frac{708,009,88}{143,375,866} * 365$ = 180 days	$\frac{508,345,75}{119,682,079} * 365$ = 155 days
Assets Turnover	$\frac{\text{Net Sales}}{\text{Total Assets}}$	$\frac{664,416,368}{238,228,531} * 365$ = 1019 days	$\frac{708,676,842}{203,077,972} * 365$ = 1274 days
<p>Interpretation: it analyzes how well a company uses its assets and liabilities internally. The receivable days have increased and payable days have decreased compared to previous year which is not a good indicator for the RWL.</p>			



Table 6 Efficiency Ratio

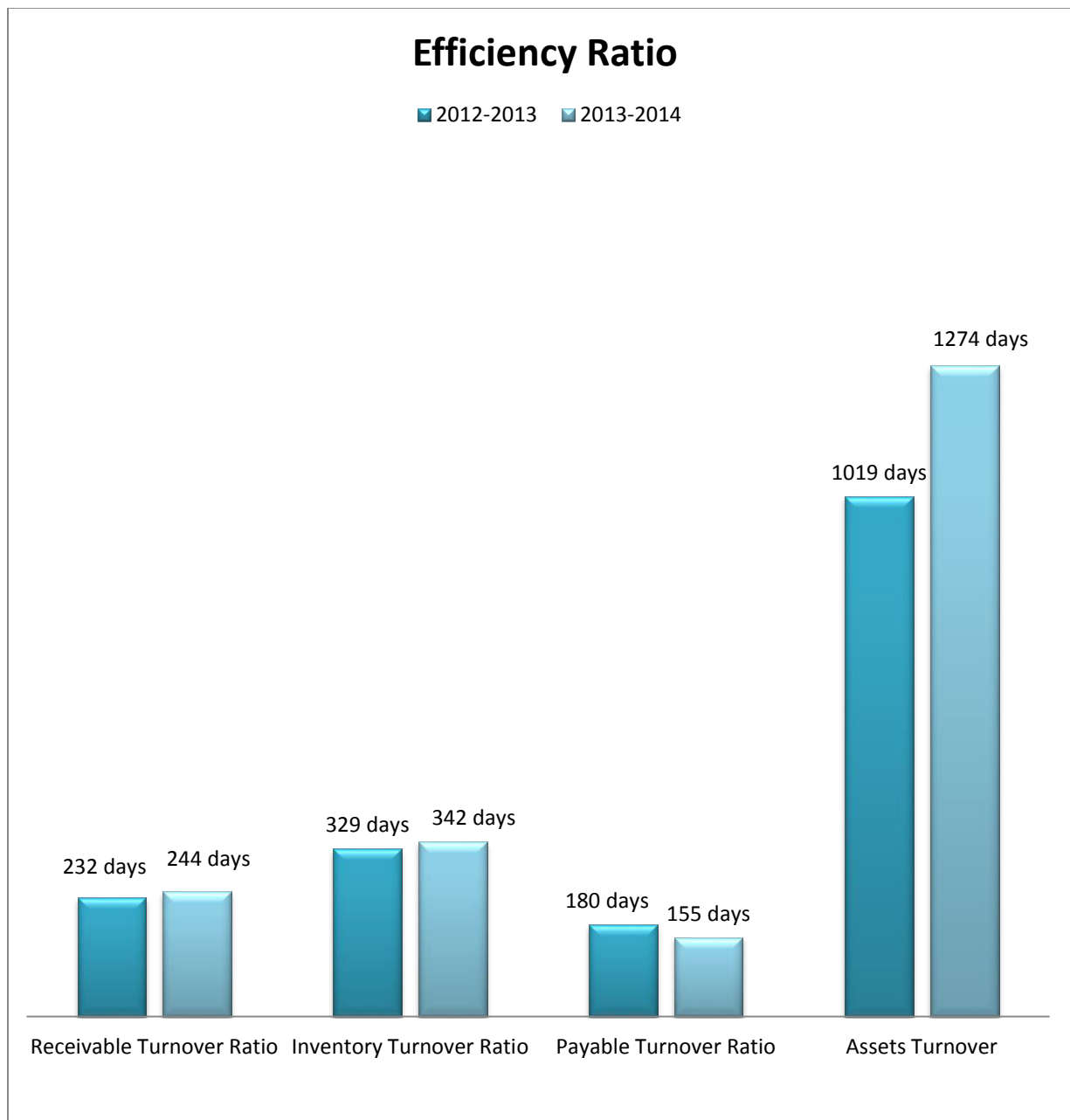
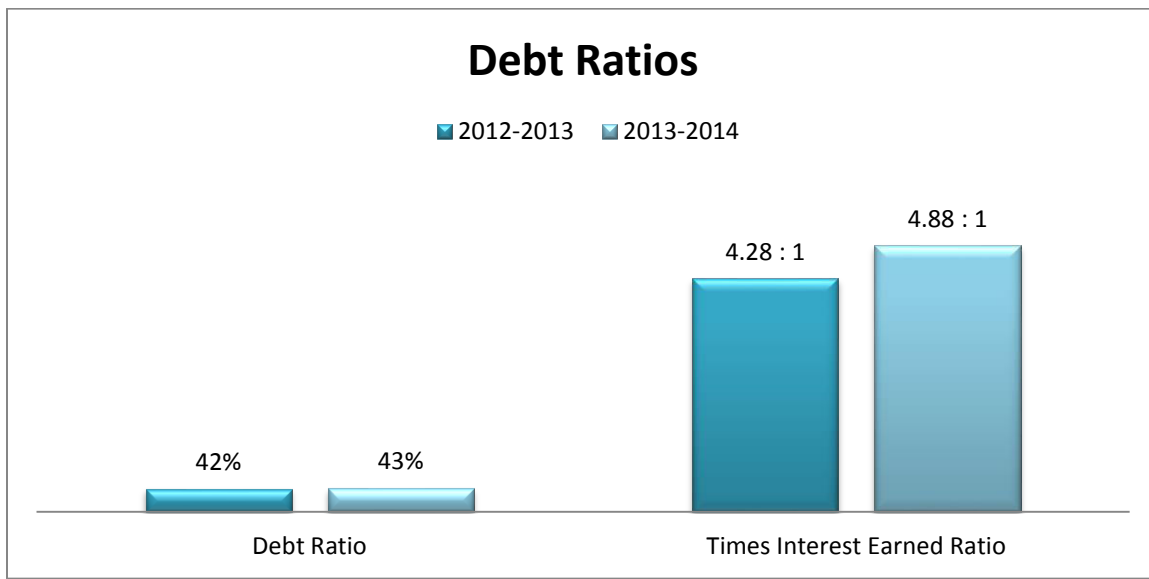


Table 7: Calculation of Debt Ratios

Debt Ratio	Equation	2012 – 2013	2013 – 2014
Debt Ratio	$\frac{\text{Total Debt}}{\text{Total Assets}}$	$\frac{280,829,523}{664,416,368}$ = 42%	$\frac{303,838,017}{708,676,842}$ = 43%
Times interest earned ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	$\frac{38,915,062}{9,099,865}$ = 4.28 : 1	$\frac{29,919,578}{6,134,175}$ = 4.88 : 1

Interpretation: Debt ratios are used to determine the overall level of financial risk a company and its shareholders face. In general, the greater the amount of debt held by a company the greater the financial risk of bankruptcy. Overall we can conclude that RWL is not utilizing its assets properly.

Table 8: Debt Ratio





Audit procedures of RWL

Identify Firm's Overall Goal

Rangs engaged ACNABIN in conducting an audit and to expressing an opinion as to whether the financial statements are prepared and presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). Our audit team considered these standards in formulating an opinion taking into accounts the errors, irregularities and efficiency of Rangs Group.

Gather & Evaluate Initial Information

After our audit team got engaged in Rangs' audit project, we have collected some basic information of the Rangs Workshop Ltd, Rangs Ltd and Rancon Motors ltd. We went through what their basic business are, to understand their operations, considered their internal control structure and also identified their expectations.

Master Organogram

Auto Division (RL- RWL- RML)

Figure: Master Organogram of RL- RWL-RML

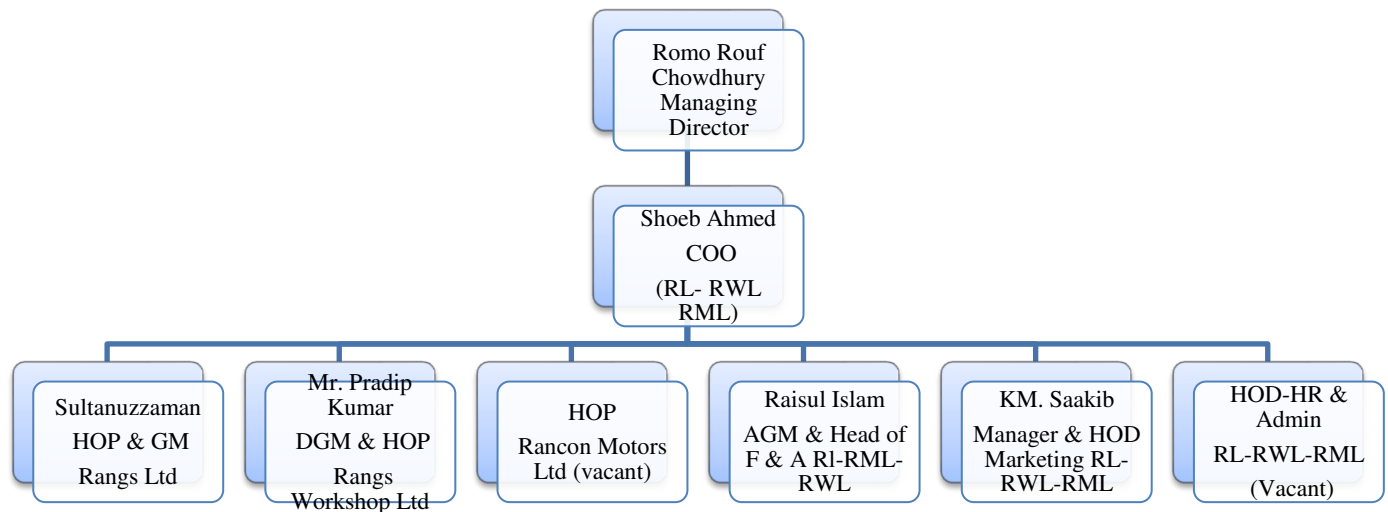
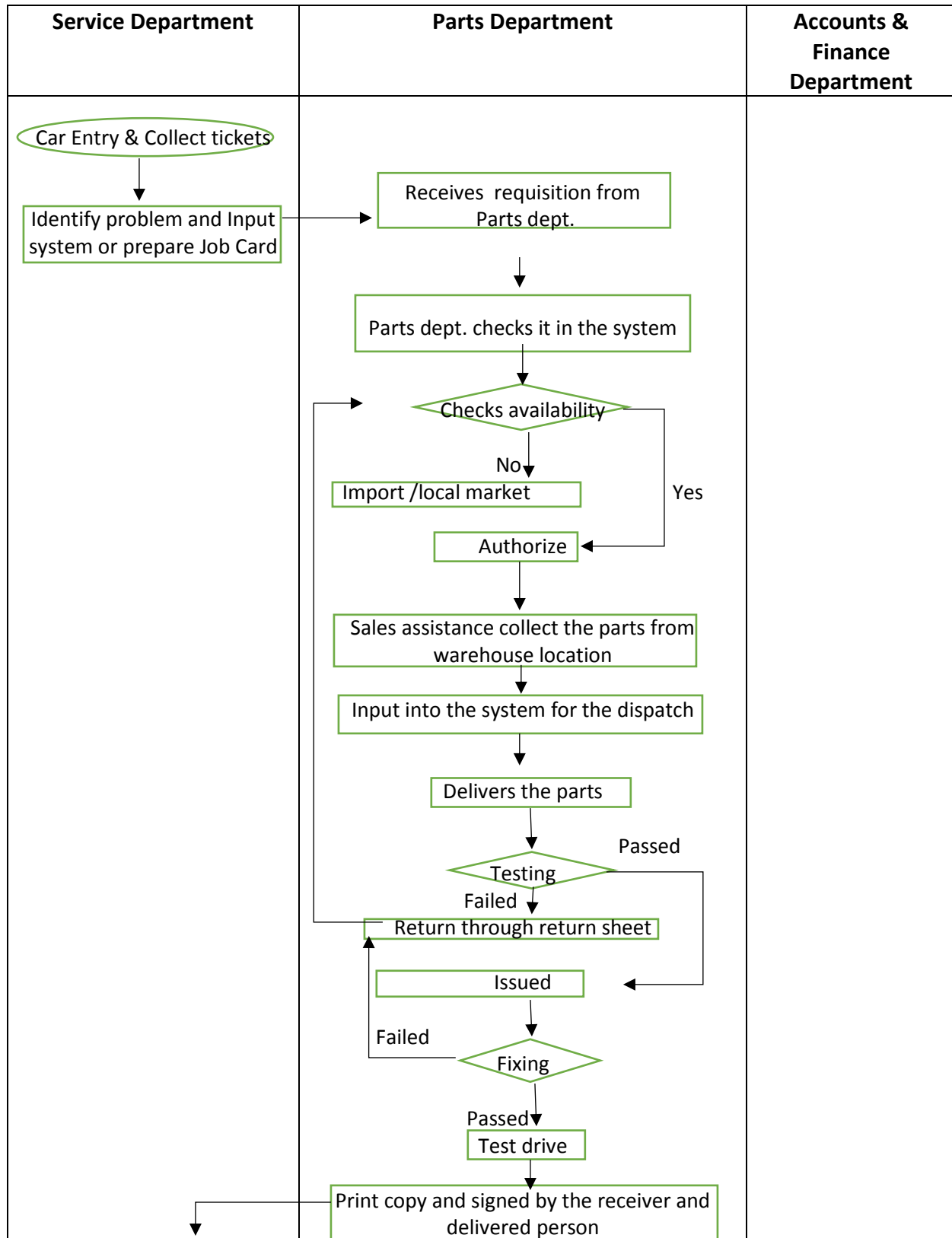
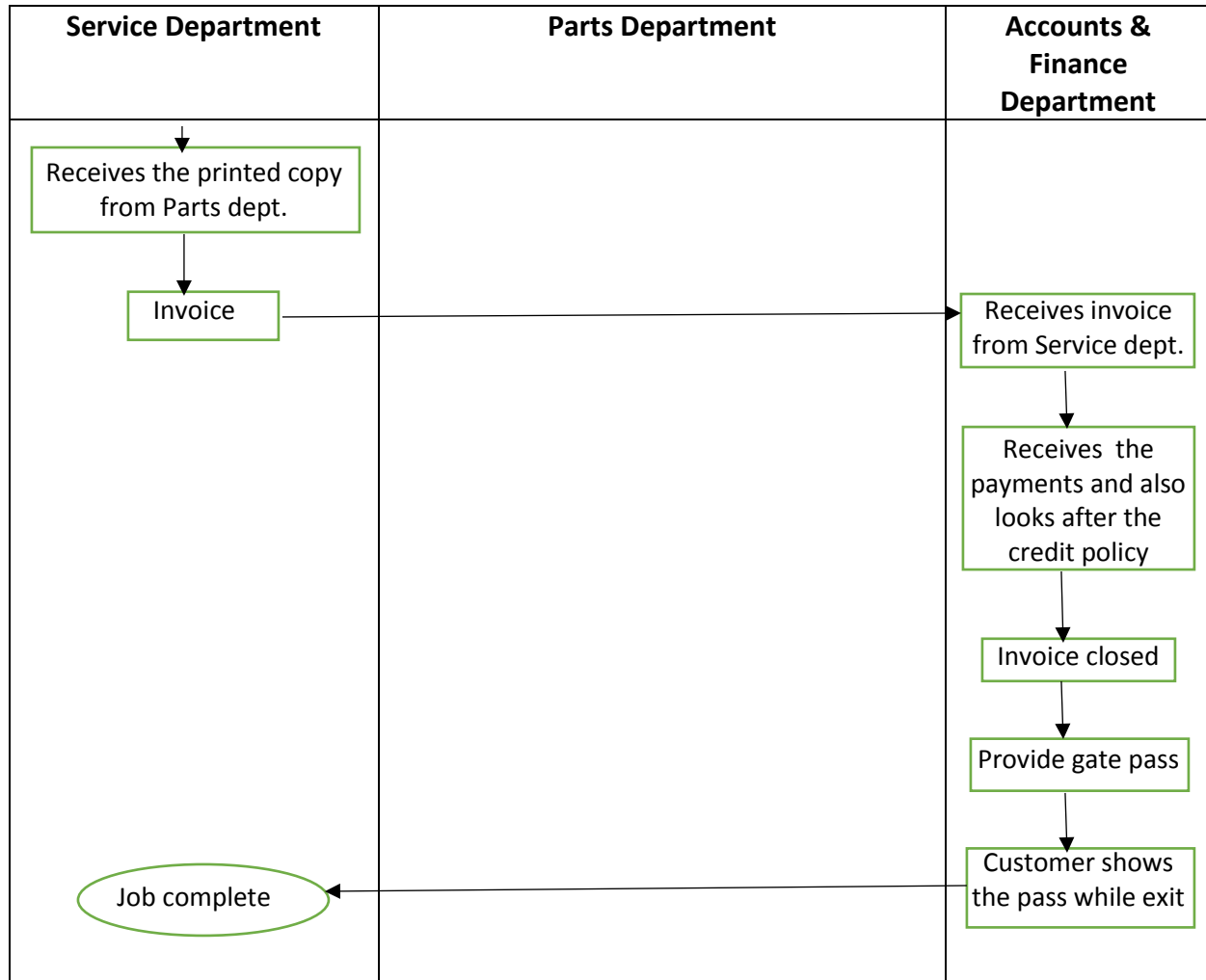




Table 9 Process Flow Chart for Service and Parts Department of RWL







Assess General risks of clients

During audit planning and risk assessment, we obtain initial audit evidence in order to:

- Effectively assess the inherent risk of potential financial statement misstatements,
- Identify indicators of possible going concern problems, and
- Identify account specific risk and design an overall audit approach to provide reasonable assurance of detecting material misstatements.

Risks Area

▪ CASH

Risks

- Cash transactions may not be recorded accurately
- Cash may not exist

Steps

- Confirm selected bank accounts and special arrangements
- Review confirmation replies
- Test accounts where there is no confirmation
- Test bank reconciliations

▪ ACCOUNT RECEIVABLE

Risks

- The accounts receivable listing or individual balances may be inaccurate
- Accounts receivable balances may not exist
- Accounts receivable may not be collectible
- Bad debts write-offs may not be valid
- Sales transactions may be processed in the wrong period

Steps

- Agree a detailed listing of accounts receivable to the summary
- Positively confirm selected accounts receivable balances



- Review confirmation replies
- Test accounts where there is no confirmation
- Assess adequacy of allowance for doubtful accounts
- Review bad debt write-offs
- Test sales/accounts receivable cutoff

▪ **INVENTORY**

Risks

- Inventory records may not be complete
- Inventory transactions may be processed in the wrong period
- Inventory items may not exist
- Inventory carrying values may not be realizable

Steps

- Observe physical inventory
- Examine receiving and issuing activity
- Test obsolete, slow-moving, scrapped or damaged listing
- Test client's costing of inventory detail

▪ **ACCOUNTS PAYABLE**

Risks

- The accounts payable listing may not be accurate
- There may be unrecorded accounts payable balances
- Accounts payable transactions may be processed in the wrong period

Steps

- Agree detailed accounts payable listing to summary
- Test for unrecorded liabilities



Assess Account Specific Risk

In this step, our audit team determined the risk related to specific account like sales, account receivables, payroll and personal file, acquisition and payment cycle, inventory and cash balances. There is also a guideline from the APM questionnaire for the assessment. By having the answers in the questionnaire, audit team can assess how much risk is related to that specific account.

Develop Efficient and Effective Audit Plan Program

Job In charge made an overall plan about how audit can be performed. Audit strategy is to develop an effective response to the risk of material misstatement, considering what we found in preliminary planning activities such as client acceptance, ethical position of the audit firm and their understanding of the entity and its environment, including its internal control, to develop an effective and efficient overall audit strategy that will appropriately respond to assessed risks.

Audit Plan Program

Table 10: Audit Plan Program

Work Progress Report (WPR)													
Client: RANGS WORKSHOP Ltd.		Job No.: A-15039		Reporting By:				Reporting Period: 04- 02-15 to 09-04-15					
S. L. #	Accounts Head	Audit program	client procedure	Flow chart	Meeting minutes	ICQ	Opening balance confirmation	Lead & sub schedule	Large & Unusal Items	Analytical Review	Vouching	Audit High Lighted Point	Physical verification
1	Advanced Deposit & prepayment	WIP	Done	Done	Done	Done	Done	Done	Done		N/A	Done	N/A
2	Cash & Bank Balance	WIP	Done	Done	Done	Done	Done	Done	Done		N/A	Done	N/A
3	Trade Debtor	WIP	Done	N/A	Done	Done	Done	Done	Done		N/A	Done	N/A
4	Noncurrent Asset	WIP	Done	Done	Done	Done	Done	Done	Done	Done	N/A	Done	N/A
5	Investment	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	N/A	Done	N/A
6	Inventories	WIP	Done	Done	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
7	Intercompany Debtors	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
8	Intercompany Creditors	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
9	Loan from Bank	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	N/A	Done	N/A
#	Liability for Other Finance	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
#	Administrative Expenses	WIP	Done	Done	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
#	Selling & Marketing Expenses	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
Future Plan: (Upto next week)													
Accounting Period Ending 30 June 2014													
1	Advanced Deposit & prepayment (13-14)	16.04.15	12.04.15	13.04.	12.04.15	12.04.15	13.04.15	13.04.15	13.04.15	15.04.15		15.04.15	
3	Sundry Debtor (13-14)	16.04.15	12.04.15	13.04.	12.04.15	12.04.15	13.04.15	13.04.15	13.04.15	15.04.15		15.04.15	
1	Investment	16.04.15	12.04.15	12.04.	12.04.15	12.04.15	12.04.15	12.04.15	12.04.15	16.04.15	16.04.15	12.04.15	N/A
2	Inventories	16.04.15	13.04.15	13.04.	13.04.15	13.04.15	13.04.15	13.04.15	13.04.15	16.04.15	16.04.15	13.04.15	N/A
3	Administrative Expenses	16.04.15	14.04.15	14.04.	14.04.15	14.04.15	14.04.15	14.04.15	14.04.15	16.04.15	16.04.15	14.04.15	N/A
4	Selling & Marketing Expense	16.04.15	15.04.15	15.04.	15.04.15	15.04.15	15.04.15	15.04.15	15.04.15	16.04.15	16.04.15	15.04.15	N/A
5	Marketing Expenses	16.04.15	15.04.15	15.04.	15.04.15	15.04.15	15.04.15	15.04.15	15.04.15	16.04.15	16.04.15	15.04.15	N/A



Conduct Audit Testing

In this stage the field work started. During the fieldwork phase, audit evidence is gathered by working methodically through the work plan or checklist, for example interviewing staff, managers and other stakeholders associated with the client’s, reviewing client’s documents, printouts and data (including records of client’s activities such as security log reviews), observing client’s processes in action and checking system security configurations etc. Audit tests are performed to validate the evidence as it is gathered. Audit work papers are prepared, documenting the tests performed.

Figure: Sample of Meeting Minutes on RWL



Client Name: RANGS WORKSHOP LIMITED		Job No: A - 15039	
Place: Rangs Workshop Limited, Tejgaon		Prepared By: Ishrat	Date: 10.03.15
Meeting Date: 09.03.2015	Meeting Time: 4:56PM to 5:16PM	Reviewed By:	Date:

Meeting Notes

Purpose:

Meeting on Salaries

Attendees:

From Client

1. Md. Rafiqul Islam Jestu.
Sr. Executive
Finance & Accounts

From ACNABIN

1. Md. Iqramul Hasan Atik
2. Ishrat Rahman

The following discussions were held in the meeting:

1. Nature of Salary Expense

Salary Expense is one of the Administrative Expense at RWL. It is provided on the basis of regular requirement. There is no amount range of salary expense in the policy. Salaries are paid through cheques.

2. Procedures

Salary expense is recorded by the HR Department. End of every month HR submits a report consists of deduction, addition and penalty on salary of the employees to the Accounts. Accounts department prepare the salary sheet according to the instruction of HR and sent it to the Audit department. After checking all of the documents audit department pass it to the head of the accounts. Then Accounts department prepare a payment voucher. Employee collect the net pay by their bank account.



Figure: Sample of Client Procedure of RWL



Client: R WL

Job No: A-15039

Prepared by: Ishrat Rahman Date: 19.04.15

Subject: Salary Expense

Reviewed by: _____ Date: _____

Client procedure

1. Nature of Salary Expense

Salary Expense is one of the Administrative Expense of RWL. It is provided on the basis of regular requirement. There is no amount range of salary expense in the policy. Salaries are paid through cheques.

2. Procedures

Salary expense is recorded by the HR Department. End of every month HR submits a report consists of deduction; addition and penalty on salary of the employees to the Accounts. Accounts department prepare the salary sheet according to the instruction of HR and sent it to the Audit department. After checking the entire documents audit department passes it to the head of the accounts. Then Accounts department prepare a payment voucher. Employee collects the net pay from the bank.

3. Segments:

RWL records different types of salary expenses under administrative expense. These are given below.

<p><u>Addition consists of:</u></p> <ul style="list-style-type: none"> a) Basic b) House rent c) Conveyance d) Medical Allowance e) Other facility: <ul style="list-style-type: none"> ▪ Car maintenance ▪ Fuel Allowance ▪ Car Allowance ▪ Transport Allowance ▪ Fixed/overtime allowance ▪ Provident fund 	<p><u>Deduction consists of:</u></p> <ul style="list-style-type: none"> a) Provident fund b) Tax c) PF loan adjustment d) Salary advance adjustment e) Mobile expense f) Canteen g) Bike deduction h) Monthly car maintenance i) Absent payable 	<p>Net Payment=</p> <p>Addition components</p> <p style="text-align: center;">-</p> <p>Deduction components</p>
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4. Provident fund:

Provident fund is applicable for permanent employees. Both employer and employees contribute 10% of basic salary to the fund and 5% of gross salary is also kept as provident fund.

5. Others

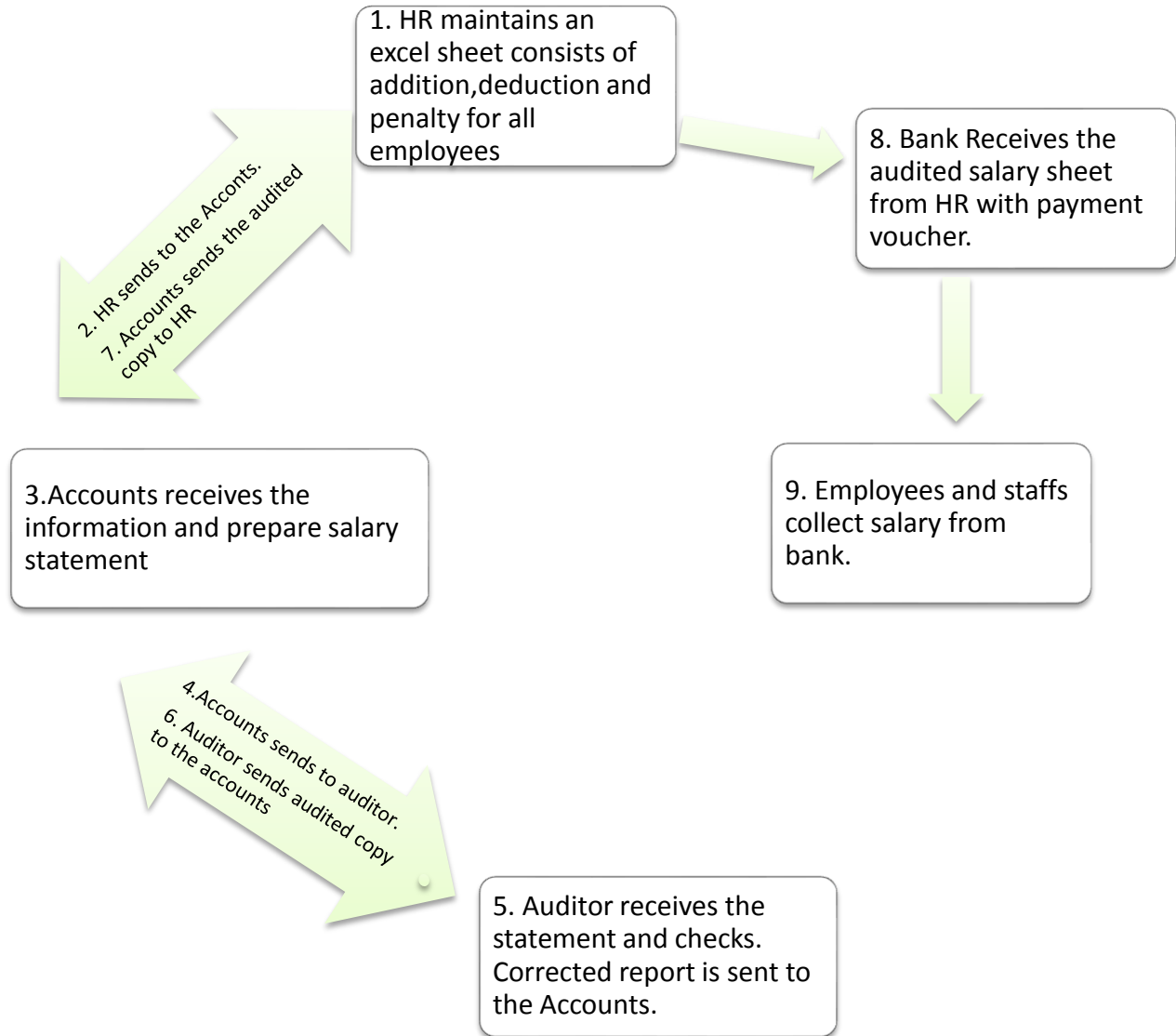
- Increment basis depend on directors
- Bonus - 75% of gross salary, two festive bonus and rarely performance bonus
- Worker gets salary. If overtime, in that case hourly rate is applied this was not applicable previously.
- Reconciliation if required is done face to face. Though no problem of such type has taken place yet, as it is checked by the internal auditor.
- In case of switching of job salary is given at the time of settlement.
- Possibility of giving loan against salary is very low because of less authority approval.
- All documents are available to the HR regarding salary expenses.

6. Accounting treatment

When salary is paid, Journal entry is:

Salary expense.....	Dr.	***
Bank.....	Cr.	***

Figure: Process Flow Chart of RWL Salaries





Evaluate And Communicate Audit Results:

After gathering evidence relating to the financial statement assertions the audit enters the completion phase. First the sufficiency and appropriateness of the evidence gathered is evaluated by using the risk of material misstatement. The auditor then justifies a conclusion on the fairness of the financial statements. The auditor then aggregates the total identified misstatements and determines if it causes the financial statements to be materially misstated. This step is not yet done and the work is in progress at ACNABIN.

The list of identified misstatements will be discussed with the Rangs Group, and they will be given the opportunity to correct some or all of the identified misstatement. Based on this, the auditor will issue an opinion that explains that the financial statements are materially misstated or not. ACNABIN thus issue a report with an **unqualified opinion** or report with **other than unqualified opinion**.



Outcome of Our Audit at Rangs Workshhop Ltd.

After conducting our audit we have found weakness in internal control system and accounting system. However, due to confidentiality issue, I am not in a position to share all the observations. A few observations along with fact, effect and recommendation is given below:

▪ **No advanced register**

Fact: the advance register is not maintained. The advanced is paid against I Owe You slip. The only document for the advanced is the I.O.U slip.

Ref: Meeting minutes

Effect:

- There is a chance that the advance amount may not adjust duly.
- The reason of advance may not identify due to non-existence of the register

Recommendation:

- It is better to use separate advanced register for the fair and clear information on advanced payment.

▪ **Lack of internal control**

Fact: the advanced internal control is not proper because the advanced adjustment time is fifteen (15) days but when someone fails to make adjustment within 15 days the advanced receivers are reminded through the mail correspondence. No other measure is taken against the responsible person.

Ref: Meeting minutes

Effect:

- Malpractice may occur due to lack of internal control system

Recommendations:

- The management should immediately establish an internal control mechanism to establish an adjustment process for advance and take necessary actions against the employees who fail to adjust the advance with the prescribed time.



▪ **No advanced limit**

Fact: the RWL does not have any advanced limit. The advanced is paid from the petty cash maximum limit BDT 500000. When the petty cash limit exceed then the rest amount is paid from the bank.

Ref: Meeting minutes

Effect:

- Advance amount may take for personal purpose
- It indicates that the company has a weak working capital management system.

Recommendations:

- The organization should establish a limit for advance receipt based on the delegation of power of the employees.

▪ **Collection from trade debtor is not proper**

Fact: the credit customer whether listed or non-listed when they fail to pay the credit amount at the due time the collection process is not proper. These credit customer are only communicated but does not take any further measure to collect the credit due amount.

Ref: Meeting minutes

Effect:

- It indicates that the company has a weak working capital management system.
- There is a chance that the company may lose money.

Recommendation:

- The company should immediately set up a recovery unit to collect the due amount from the customer.



▪ **No Provision for bad debt**

Fact: The entire credit customer does not make the payment. Some of them are turned to defaulter but there is no provision for bad debt for the recognition of those credit customers.

Ref: Meeting minutes

Effect:

- Current year's profit may be overstated due to not charging bad debt.

Recommendation:

- A provision should be maintained based on the recoverability test of the receivable amount.



CHAPTER 7

FINDINGS & RECOMMENDATIONS



FINDINGS & RECOMMENDATIONS

Audit procedures are designed to detect material misstatements in the financial statements and focus on the financial aspects of transactions and events. Despite of this there are numerous loopholes in the system that undermines the prospects of this glorious profession.

In this report, on my behalf, I would like to share some of the complications that I observed during my working as an audit staff and would like to recommend some solutions according to my point of view. The findings and recommendations are discussed below.

- *Use of Professional Judgment*

Findings: An auditor may at times misjudge a situation which may cause the auditor to overlook a misstatement in the financial statement and provide their opinion based on that.

Recommendations: All the situations should be discussed properly with the client as well as with the staffs before giving or publishing the final opinions in forming sound professional judgments.

- *Use of Sampling*

Findings: Auditors apply sampling techniques to limit the number of transactions and balances selected for audit testing in order to perform the audit efficiently and cost effectively. The results may not however be representative of the entire population and may fail to detect a material misstatement in the financial statements due to the inability of auditors.

Recommendations: Auditors need to perform as detailed testing as possible, from the samples they choose out of the entire population of transactions and balances. So the result is more accurate and fair.



- *Management Representations*

Findings: Although auditors collect audit evidence from a range of sources, they focus more on external evidence. Too often they have to rely on the representations of management in order to assess the reasonableness of the matters concerning financial statements. This is usually difficult to corroborate management representation of appropriateness.

Recommendations: Internal evidence should also be considered by the management to get more reliable form of audit evidence and for the representations about the appropriateness of their judgments with external evidence.

- *Risk of Fraud*

Findings: By their very nature, frauds are intended to be concealed by the guilty party and therefore pose a very high risk of remaining undetected by the auditors.

Recommendations: Though this is an inherent risk, auditors can reduce it by applying sounder audit methodology and procedures.

- *Time Constraints*

Findings: Auditors face strict time constraints, above that firm's involve audit staffs in an audit engagement without having prior knowledge of client's business. Members' lacking in knowledge about the client's business, take much of their time to understand and start dealing with the client.

Recommendations: Before going to the client, supervisor or in charge should give some brief idea about the client's business to all the members of the audit team so that they can finish their job in time to provide their opinion on the financial statements.



- *Work programs are not followed properly*

Findings: Work programs contain step by step instructions to carry out the audit work. But in most of the cases, work programs are not followed properly, just touch each account head to save time. As a result, auditor's miss some important issues to be discussed.

Recommendations: Work programs must be properly introduced to the juniors/ new students and must be followed as much as possible in each audit engagement.



CHAPTER 8

CONCLUSIONS



CONCLUSIONS

In the report, Audit Procedure in Bangladesh: A case study on ACNABIN CHARTERED ACCOUNTANT, I have tried my level best to deliver the shadow of audit procedure that ACNABIN follows in offering service to its client's. Chartered Accountancy is one of the most respectable professions in Bangladesh. It is mainly a step by step process. From engagement to report submission the step is followed with reasonable and professional care and maintaining all rules and regulations and standards set by the ICAB. ACNABIN is doing a great job with their seamless internal control, disciplinary policies and strong chain of command. Their inflexible ethical moral has earned them a brand status in the market.

Although there are many gaping holes in the policies set by ICAB that undermine the prospects of this glorious profession. In some cases, the auditors of ACNABIN violate some audit standards and not carry out their audit tasks properly. As a result, the quality of audit work cannot be ensured all the time. But if these loopholes are removed, ACNABIN can maintain its current status and will remain No. 1 Chartered Accountants Firm according to the rating of Bangladesh Bank.

The auditing profession has contributed and will be contributing a greater extent, ensuring transparency and efficiency of internal control system of various sectors of Bangladesh. The achievement of the auditors will be after having the maximum people of the country be aware of their rights and then proper transparency will be set conquering all obstacles.



CHAPTER 9

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REFERENCES

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CHAPTER 10

APPENDIX



Table 11: Income Statement of RWL

Rangs Workshop Ltd					
Statement of Comprehensive Income					
For the Year Ended 30th June, 2014					
Accounts Description	Notes	FY 2013-2014	Margin	FY 2012-2013	Margin
Total Revenue		203,077,972		238,228,531	
Sales Revenue - Parts Sales	IS-1.02	146,376,381		176,117,098	
Service Revenue - Service Sales	IS-1.01	56,701,591		62,111,433	
Cost of Sold Goods & Service		119,682,079		143,375,866	
Cost of Goods Sold	IS-2.01	88,781,477		123,950,668	
Cost of Service Providing	IS-2.02	30,900,602		19,425,198	
Gross Profit		83,395,893	41%	94,852,665	40%
Total Operating Expenses		53,476,315	26%	55,937,603	23%
Human Resource (HR) Cost	IS-3.01	28,849,445		37,782,668	
Selling Cost	IS-3.02	287,699		396,042	
Marketing Cost	IS-3.03	84,786		642,220	
Administrative Cost	IS-3.04	24,254,385		17,116,673	
Operating (Income/Loss) Before Interest & Depreciation & Tax		29,919,578	15%	38,915,062	16%
Financial Cost	IS-4	6,134,175		9,099,865	
Operating (Income/Loss) Before Depreciation & Tax		23,785,403		29,815,196	
Non Operating Income	IS-5	25,206,530		23,418,592	
Total Non Operating Expenses		-		-	
Net (Income/Loss) Before Depreciation & Tax		48,991,933		53,233,788	
Depreciation Cost	IS-6	12,536,548		6,022,236	
Net Income Before Tax		36,455,385	18%	47,211,552	20%
Income Tax Expenses	IS-7	2,600,000		3,000,000	
Net Income After Tax		33,855,385	17%	44,211,552	19%
Earning per Share (Per Share value Taka 1,000.00)		1,693		2,211	



Table 12: Balance sheet of RWL

Rangs Workshop Ltd
Statement of Provisional Financial Position
As At June 30,2014

Accounts Description	Notes	FY 2013-2014	FY 2012-2013
Total Current Assets:		505,997,848	479,528,940
Cash In Hand	BS-1	328,130	500,000
Cash At Bank	BS-2	5,886,292	11,493,865
Accounts Receivable	BS-3	36,317,696	39,597,278
Intercompany Receivable	BS-4	319,498,689	302,734,207
Advance Deposit & Prepayment	BS-5	19,974,348	6,995,153
Stock in Hand	BS-6	109,694,734	115,225,337
Stock in Transit	BS-7	-	-
Stock At port	BS-8	-	-
Term Deposite	BS-9	-	-
Other Current Assets	BS-10	14,297,958	2,983,100
Data Migration Balance	BS-12	-	-
VAT Current Accounts	BS-11	-	-
Total Non Current Assets		202,678,994	184,887,428
Property Plant & Equipment	BS-13	267,338,657	122,360,450
Capital Work In Progress	BS-14	-	-
Accumulated Depreciation	BS-15	(80,399,162)	(63,820,906)
Investment	BS-16	15,739,500	126,347,884
Other Non Current Assets	BS-17	-	-
Intangible Assets	BS-18	-	-
Total Assets		708,676,842	664,416,368
Total Currents Liabilities		303,838,017	280,829,523
Accounts Payable	BS-19	20,152,301	81,516,848
Intercompany Payable	BS-20	134,060,748	18,279,745
Other Current Liabilities	BS-21	1,615,375	1,120,197
Short Term Loan from Bank	BS-22	10,316,082	30,838,738
Provisions	BS-23	39,977,428	51,397,262
Data Migration Balance	BS-26	-	-
Other Non Current Liabilities	BS-25	97,716,082	97,676,733
Long Term Loan		-	-
Equity	BS-27	404,838,825	383,586,845
Total Liabilities & Owners Equity		708,676,842	664,416,368
Total Assets		708,676,842	664,416,368
Reconciliation		-	-
Working Capital		202,159,830	198,699,417



Figure: Vouching Format

Client RWL			Job No A-15039			Prepared By			Date:					
Subject Vouching- Rent Revenue			Audit Perio 30-Jun-13			Reviewed By			Date:					
SL No	Particulars	W/P Ref.	Voucher No.	Voucher Date	Amount (Tk)	A	B	C	D	E	F	G	I	Remarks
1						√	√	√	√	√	√	√	√	Ok
2						√								Ok
4														Ok
5														OK
6														Ok
7														Ok
8														Ok
9														Ok
10														Ok
11														Ok
12														Ok
<u>Voucher Examination Check Point</u>														
A= Authorization, Certification and Approval as per TOA (Table of Authority)														
B= Budget approval/Note of approval by country representative or not														
C= Cash or Bank payment as per organizational policy														
D= Documentation as per requirements **														
E= Entry posting correct or not														
F= Fairness or not														
G= GL (General Ledger)														
I= Invoice amount tallies with work order and cheque amount														



Figure: Bank balance confirmation form

**STANDARD FORM TO CONFIRM ACCOUNT
BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS**

RANGS Workshop Ltd.

CUSTOMER NAME

| Bank ASIA,
| Branch Gulshan,
| Bay's Galleria
|

We have provided to our accountants the following information as of the close of business on 30.06.2013 regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank please complete this form by furnishing the balance in the appropriate space below*. If during the process of completing this confirmation, additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s)

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*
RANGS Workshop Ltd.	000433000294		

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO. DESCRIPTION	BALANCE	DATE DUE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COLLATERAL

(Customer's Authorized Signature)

(Date)

The information presented above by the customer is in agreement with our records. No other deposit or loan accounts have come to our attention except as noted below.

(Financial Institution Authorized Signature)

(Date)

(Title)

EXCEPTIONS AND/OR COMMENTS

Please return this form
directly to our accountants:

ACNABIN Chartered Accountants
--

*Ordinary, balances are intentionally left blank if they are not available at the time the form is prepared.



Figure: Balance Confirmation Form

ACNABIN Chartered Accountants							
Client:	RWL	Job No.:	A -15038				
Subject:	Sub schedule of Director's Loan	Prepared by:	Ishrat Rahman	Date:	3/5/2015		
Accounting Period:	1 July 2012 to 30 June 2013	Reviewed by:		Date:			
							Amount in BDT
Ledger code	Particulars	W/P ref.	Balance as of 30 June. '12	Balance as of 01 July. '12 (According to Audit Report)	Difference	Remarks	
1.1.004.001	Mr.ARC /Mrs.ZRC Loan		43,859,234.46	43,859,234.46	-		
	Mr.Amanullah Chowdhury Loan		40,916,874.42	40,916,874.42	-		
	Mr.Romo Rouf chowdhury Loan		(68,160,134.29)	(68,160,134.29)	-		
	Mrs.Mahfuz Hossain**		500,000.00	500,000.00	-		
	Mrs.Romana Rouf Chowdhury		(173,745.79)	(173,745.79)	-		
	Mrs.Farhana Haq Chowdhury**		(115,205,556.07)	(115,205,556.07)	-		
	Mrs.Zakia Rouf Chowdhury		(291,104.00)	(291,104.00)	-		
	Ms.Amiran Hossain**		85,748.46	85,748.46	-		
	Ms.Amreen Hossain**		115,094.49	115,094.49	-		
	Mr. Nafis Khandakar**		(43,066,034.86)	(43,066,034.86)	-		
	Mostafizur Rashid Bhuiyan DHS**		(6,452,397.96)	(6,452,397.96)	-		
					-		
	Director's Loan		(147,872,021)	(147,872,021)	-		
					-		



Figure: Format of Meeting Minutes



Client Name:		Job No: A - 15038	
Place: Rangs Workshop Limited, Tejgaon		Prepared By:	Date:
Meeting Date:	Meeting Time:	Reviewed By:	Date:

Meeting Notes

Purpose:

Attendees:

From ACNABIN

From Client

The following discussions were held in the meeting:

Figure: Format of client procedure



Client:

Subject:

Audit Period:

Job No:

Prepared by:

Reviewed By:

Date:

Client Procedure



Figure: Format of Internal Control Questionnaire

ACNABIN Chartered Accountants			
Client: Rangs Workshop Ltd.	Prepared by :	Date:	Ref:
Year end:	Reviewed by:	Date:	

Inventory – Internal Control Evaluation Questionnaire

SL	Questions	Responses
<i>Analytical Procedures and Management and Independent Controls</i>		
1.	Whether there have any policy & procedure regarding Intercompany Transaction.	No
2.	Is the Balance is before reconciliation or after reconciliation? What is the condition of last year un-reconcile amount?	
3.	In which case intercompany transaction occurs?	
4.	Is there any board regulation about intercompany transactions?	
5.	Is there any meeting minutes on decision about intercompany trans.?	
6.	Who is the approval authority to authorize intercompany trans.?	
7.	Is there any request from subsidiary org. for inter transaction?	
8.	Is the transaction occurred between the same category organizations?	
9.	Is there any time limit to recover the transaction?	
10.	When and how inter transaction reconciliation occurs?	



Figure: Format of Work plan and Work progress report

Work Progress Report (WPR)													
Client: RANGS WORKSHOP Ltd.		Job No.: A-15039		Reporting By:			Reporting Period:			04- 02-15 to 09-04-15			
S. L. #	Accounts Head	Audit program	client procedure	Flow chart	Meeting minutes	ICQ	Opening balance confirmation	Lead & sub schedule	Large & Unusal Items	Analytical Review	Vouching	Audit High Lighted Point	Physical verification
1	Advanced Deposit & prepayment	WIP	Done	Done	Done	Done	Done	Done	Done		N/A	Done	N/A
2	Cash & Bank Balance	WIP	Done	Done	Done	Done	Done	Done	Done		N/A	Done	N/A
3	Trade Debtor	WIP	Done	N/A	Done	Done	Done	Done	Done		N/A	Done	N/A
4	Noncurrent Asset	WIP	Done	Done	Done	Done	Done	Done	Done	Done	N/A	Done	N/A
5	Investment	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	N/A	Done	N/A
6	Inventories	WIP	Done	Done	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
7	Intercompany Debtors	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
8	Intercompany Creditors	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
9	Loan from Bank	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	N/A	Done	N/A
10	Liability for Other Finance	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
11	Administrative Expenses	WIP	Done	Done	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
12	Selling & Marketing Expenses	WIP	Done	N/A	Done	Done	Done	Done	Done	WIP	Done	Done	N/A
Future Plan: (Upto next week)													
Accounting Period Ending 30 June 2014													
1	Advanced Deposit & prepayment (13-14)	16.04.15	12.04.15	13.04.	12.04.15	12.04.15	13.04.15	13.04.15	13.04.15	15.04.15		15.04.15	
3	Sundry Debtor (13-14)	16.04.15	12.04.15	13.04.	12.04.15	12.04.15	13.04.15	13.04.15	13.04.15	15.04.15		15.04.15	
1	Investment	16.04.15	12.04.15	12.04.	12.04.15	12.04.15	12.04.15	12.04.15	12.04.15	16.04.15	16.04.15	12.04.15	N/A
2	Inventories	16.04.15	13.04.15	13.04.	13.04.15	13.04.15	13.04.15	13.04.15	13.04.15	16.04.15	16.04.15	13.04.15	N/A
3	Administrative Expenses	16.04.15	14.04.15	14.04.	14.04.15	14.04.15	14.04.15	14.04.15	14.04.15	16.04.15	16.04.15	14.04.15	N/A
4	Selling & Marketing Expense	16.04.15	15.04.15	15.04.	15.04.15	15.04.15	15.04.15	15.04.15	15.04.15	16.04.15	16.04.15	15.04.15	N/A
5	Marketing Expenses	16.04.15	15.04.15	15.04.	15.04.15	15.04.15	15.04.15	15.04.15	15.04.15	16.04.15	16.04.15	15.04.15	N/A