

**The authentication and audit
procedure of alternative cash
assistance**



Internship report on
The authentication and audit procedure of alternative cash
assistance

Under the guidance of:

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30th August, 2017

Letter of Transmittal

30th August, 2017

Mr. Saif Hossain

Senior Lecturer

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Subject: Submission of the internship report.

Dear Saif Sir,

It brings me a great joy to be able to prepare my internship report under your guidance and to finally deliver the report titled- “The Authentication and Audit Procedures of Alternative Cash Assistance” to you. The report is prepared based on the practical knowledge I have gained by working under Acnabin Chartered Accountants.

This course not only gave me practical knowledge of work field but also gave me the chance of working under various departments of an audit firm. As Acnabin Chartered Accountants provide various services under various departments, it was difficult to gather information supporting my topic but still I have given my maximum effort to gather as much relevant information as possible.

Therefore, I pray and hope that the report serves its actual purpose and the assessment of the report is done considering the limitations of accessibility.

Sincerely yours,

Mahjabin Sultana Ema

ID: 13304058

BRAC Business School, BRAC University.

Letter of Approval

This is to confirm that Mahjabin Sultana Ema, ID: 13304058, a student of BRAC University of BRAC Business School has finished the internship report on “The authentication and audit procedure of alternative cash assistance”, under my supervision. Her placement was at Acnabin Chartered Accountants Firm. I am satisfied and delighted with her hard work in preparing this report. She was able to fulfill the objectives of the report as well as present a good picture of the concerned organization. The necessary data and information used in preparing this report is well referenced and authentic.

I wish her success in life.

.....

Mr. Saif Hossain

Senior Lecturer

BRAC Business School

BRAC University

Acknowledgement

First, I admire Allah- The Great and Merciful, for giving me the chance to achieve my BBA program from BRAC University which has empowered me for successful completion and submission of the report timely.

Secondly, I convey my gratitude and appreciation to my honorable supervisor Mr. Saif Hossain, Senior Lecturer and BBA Coordinator of BRAC Business School, BRAC University, for the co-operation and guidance provided all the time for completing my report. Saif sir's support boosted my confidence up and helped me to finish the report on time. I would like to convey my utmost appreciation to Mr. Mahmudur Rahman ACA (deputy manager), Md. Masum Billah and Idris Ali (articled student) of ACNABIN for their constant support and appreciation. Without their help it would not have been possible to write this report. Their suggestion and guidance helped me a lot in preparing this report. Furthermore, I provide my sincere gratitude to all other staffs who have helped me and gave me their valuable time within their busy work schedule and helped me in making my report resourceful providing all other necessary information.

Finally, I convey my gratitude to BRAC University for providing me such opportunities to work and gain knowledge of the professional field.

.....

Mahjabin Sultana Ema

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Executive Summary

The report titled- “The authentication and audit procedure of alternative cash assistance”, is the result of internship program of Bachelor of Business Administration program. In the academic life only theoretical knowledge is earned and through internship program the university ensures the practical knowledge. This report contains the information of the audit procedure of alternative cash assistance of Acnabin Chartered Accountants.

Export sector of a country has become the most important factor for the development of that country. In the today’s globalized world, increase of export has become the major concern for the government of developing countries. Alternative cash incentive is a way through which government is trying to increase the export of Bangladesh. Bangladesh Bank declared cash incentive in 1994 as a rewarding factor upon the export. Cash incentive facility is declared for many sectors and an exporter can avail this facility only if he has not applied for duty drawback or bonded warehouse facility. There are certain other criteria which an exporter needs to fulfill in order to claim for cash incentive. All of these criteria are provided by Bangladesh bank. I have covered all the information regarding this facility, sectors in which it is given and at what percentage, reasons and conditions of this facility, procedures of audit etc. in this report.

Cash incentive facility is provided by Bangladesh Bank on behalf of the government. Previously cash incentive was given with the help of commercial bank’s approval, but due to some fraudulent activities it is now audited with the help of external auditors. The audit firm works as the third party and gives assurance (certificate and calculation as per Bangladesh Bank’s requirement). The exporter can only get incentive from Bangladesh bank if his documents get certified by the auditors. Bangladesh bank provides incentive through the exporter’s commercial bank.

To get the exporter’s document audited, Bangladesh bank pays the audit fee to the audit firms. The audit fee is fixed as per file. I have included a part in the report showing whether Bangladesh bank saves or losses money by appointing external auditors for cash incentive audit. Cash incentive was introduced in order to promote the export sector and increase the export quantity. Thus at the end of the report, I have included a part showing whether cash incentive declaration has put any positive effect on the export quantity of Bangladesh.

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Chapter One

Introduction



1.1 Introduction:

Audit is the process through which an organization evaluates and examines its financial statements. By performing audit an organization makes sure that all the records are in a reasonable and correct representation of the transaction they claim to represent. Audit can be done in two ways- internal audit can be done by the employees of the organization and the external audit can be done by an outside firm. Moreover, audit can also include examination of compliance with applicable terms, laws and regulations. Three types of audit are performed by the Chartered accountants. Those are- financial statement audit, operational audit and compliance audit. The financial statement audit provides independent declaration that the financial statement is presented in a true and fair view and gives confirmation to the shareholders about the company's true financial performance and position. The operational audit provides the organization the information through which they can reduce the waste and increase profit. It justifies if the organization is operating efficiently. On the other hand, the motive of doing compliance audit is to regulate whether the client is following specific processes, guidelines and principles set by higher authority. Though audit outcomes are informed to a huge range of people, compliance audit findings are informed only to the concerned organization.

Alternative cash assistance can be considered as a compliance audit. Cash incentive on export is a monetary assistance provided by the government in order to boost the export of domestic goods and to keep domestic products competitive in the global market. Alternative cash incentive audit is a different type of audit by which the auditors have to justify the applicant's application file with the terms of reference (TOR), Bangladesh Bank's circular and import policies in order to certify proper amount of cash incentive for the applicants. Cash incentive will be provided to the exporters who will not take the advantage of bonded warehouse and duty drawback facilities. Moreover, cash incentive is a motivational aspect offered by the government of Bangladesh to increase export and to establish a strong relationship between some sector's exporters and manufacturers such as- textile, shrimp, handicraft, and jute etc. However, this monetary support is paid after the fulfillment of some conditions. Among them the most important condition is that the amount of this facility has to be determined by the external auditors of the negotiating bank or by the auditors appointed by Bangladesh Bank.

Globalization has made the world a place of intense competition. Now-a-days fraudulent activities and errors have increased due to this intense competition. Many fraud people try to avail cash incentive and due to this reason government has given some criteria for getting incentive. Cash incentive is provided in order to increase the total export percentage of domestic products and is given on the net freight on board value. As there are so many chances of fraudulent activities here, a great importance of fair audit activities is required for the directly and indirectly related parties.

1.2 Overview of the Acnabin Chartered Accountants

1.2.1 History of the organization:

In 15th February 1985, Acnabin Chartered Accountants was formed. It is an independent member of “BAKER TILLY INTERNATIONAL”. In 1993 the United States Office of Regional Inspector General/Audit, Singapore, approved the firm to perform financial audits of USAID fund recipients in Bangladesh. It also represented the former ANDERSEN WORLDWIDE, SC in BANGLADESH. The main objective of the organization is to constantly add value by building a strong connection with its clients and making them succeed. It was the largest partnership firm of that time and had a vision of building an organization which would provide an environment for leadership, constant growth, learning and relationships. Due to the institute’s good learning practice, the firm has become one of the leading and trustworthy chartered accountancy firms in Bangladesh. The institute has also developed some global affiliations. Acnabin is declared as the number one audit firm in Bangladesh for the audit of banks and financial institution according to Bangladesh bank (central Bank of Bangladesh), in November 2010. The firm contains ten partners who are experts in various fields such as- accounting, reviewing, auditing, business consulting, business process outsourcing, taxation and many more. The partner’s expertise has established the firm as a multidisciplinary body. Moreover, the firm’s partners also have experience of working with many international consultants and organizations operating locally or globally. Acnabin has its main office at BDBL Bhaban (Level-13), 12 Kawran Bazar C/A, Dhaka-1215 and its branch office at Jahan Building No. 7 (1st Floor, North Side) 59 Agrabad Commercial Area Chittagong-4100. Phones: (880-2)

8144347-52, Fax #: (880-2) 8144353, E-mail: acnabin@bangla.net, Web: <http://www.acnabin-bd.com>.

1.2.2 Acnabin's Tactical Commitment:

The firm desires to become reliable leader in the market by providing its clients the best service and highest level of professional competencies and ethics. Though the firm established benign and reliable relationship with different financial institutions, telecommunications, foreign branch, liaison offices and NGOs/NPOs, there are still other sectors in the country and in the region where the firm can build relationship.

1.2.3 Acnabin's Mission:

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

1.2.4 Acnabin's Vision:

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

1.2.5 Partners:

ACNABIN is the combination of the first seven partner's names. These seven partners combined their knowledge, skills and experience and created Acnabin in 1985. The seven partners are:

- Aziz-uddin
- Chowdhury
- Nurun Nabi
- Anwaruddin
- Bari
- Iftekhar Hossain
- Nayeem

Recent ten partners name, designation, educational qualification and email address are presented below:

Table 1: Acnabin's Partners

SL	Name	Educational Qualification	Designation	E-mail
1.	ABM Azizuddin	B.Com. (Hons.), M. Com., FCA	Senior Partner	aziz@acnabin-bd.com
2.	Iftekhhar Hossain	B.Com., FCA	Senior Partner	i.hossain@acnabin-bd.com
3.	A.S.M Nayeem	B.Com (Hons), M.Com, M.Sc (UK), FCA, FCCA	Senior Partner	nayeem@acnabin-bd.com
4.	Mohammad Nurun Nabi	B.Sc., FCA	Senior Partner	nabi@acnabin-bd.com
5.	ATMA Bari	FCA, FCEA	Senior Partner	atmabari@acnabin-bd.com
6.	Md. Moniruzzaman	B. Com (Hons), M.Com., FCA	Partner	monir@acnabin-bd.com
7.	Md. Rokonuzzaman	FCA	Partner	rokon@acnabin-bd.com
8.	Md. Mominul Karim	B.Com.(Hons.), M.Com., FCA	Partner	mominulkarim@acnabin-bd.com
9.	Md. Reajul Islam	B.B.M (Mysore University, India), FCA	Partner	reaz@acnabin-bd.com
10.	Muhammad Aminul Hoque	BBA, MBA (DU), FCA	Partner	amin@acnabin-bd.com

Chapter Two

Literature Review



Literature Review

2.1 Literature:

As there has been only few research work done on this topic, the literature of this field is not very rich. I have seen some of the works and for more disclosure I am describing those works in my report.

Cash incentives can be provided for many reasons such as- to increase foreign direct investment and to increase export of domestic goods. Cash incentive is assistance provided by a country's government in the form of monetary, tax or legal incentives. When the government provides incentive in order to support the exporters and to make them increase their export, it is known as export incentive. The reason behind providing cash incentive for export is to keep domestic products competitive in the global market. Incentives can be categorized in a number of different ways. Such as-

Direct incentives:

- Cash payments.
- Tax breaks.

Indirect incentives:

- Reductions in the rate of direct taxation, either permanent or temporary.
- Reductions in indirect taxation either permanently or temporarily.

Incentives can be also categorized as fiscal or non-fiscal. Fiscal incentives might include direct monetary support or tax breaks whereas non-fiscal incentives might include exemptions from certain regulations.

Alternative cash incentive is one type of direct and fiscal incentive system. Bangladesh government provides alternative cash incentive to the exporters through Bangladesh Bank. Cash incentive is only provided to an exporter if he do not avail duty drawback or bonded warehouse facility from Bangladesh Bank. Though cash incentives should be directly provided to the exporter on the export value, there are certain errors and fraudulent manipulation. Thus, cash

incentive needs to be audited before giving it to the exporters. Cash incentive falls under compliance audit.

2.2 Alternative Cash Incentive:

Ours is a developing country and in a country like ours, it is very important to export domestic products. The country's economy depends on foreign currency. To encourage the export related activities our government has taken many steps and cash incentive is the most common between them. Cash incentive is the assistance in the form of cash given to any party on its fulfillment of certain conditions. The government provides three options to the final exporter-

a. Duty drawback: Duty drawback is the facility of getting refund of all the duty paid in the port for imported products used in exported goods. The exporter can claim the refund within six months of export. There are three ways of receiving the refund. They are- (i) actual drawback, (ii) national drawback and (iii) flat-rate drawback. Among three, flat-rate drawback is the most preferred way of getting refund.

b. Bonded warehouse: For the deposit and storage purpose of imported goods, National Board of Revenue has licensed bonded warehouse facility. After getting approved by NBR, industries outside export processing zone can enjoy such facility. Sectors which apply for bonded warehouse are- ready made goods, leather industries, light engineering (bicycle), pharmaceuticals etc.

c. Cash incentive: Cash incentive can be taken upon the total exported value of the ultimate exported goods. Though an exporter can use any of the three facilities, most of them go for the cash incentive.

The goods which are exported needs to be produced locally and go through a total procedure in Bangladesh to be eligible for the application of cash incentive. There are different rates for different types of exportable goods which are determined by Bangladesh Bank. As for example- Textiles or garments sector of Bangladesh gets 5% cash incentive on the realized amount of the exported goods. If, the L/C amount is USD 400,000, the export amount was USD 300,000 and the realized amount is USD 250,000. They will get incentive of USD 10,000 (USD 250,000 *

80%* 5%), having no wastage. Maximum 80% of realized amount is considered for calculating cash incentive.

The calculation of payable cash incentive can be done by the applicant and the bank both but due to some dishonest methods used by a group of people it is now forwarded to a third party. The third party needs to provide a certificate assuring the actual amount of incentive payable by Bangladesh Bank. Previously, many companies applied for an amount of money which was more than they actually should get and with the help of particular bank they got that amount. To avoid the manipulation, audit is done in favor of the client and government.

2.3 Reasons behind Providing Cash Incentive Facility:

There are many reasons behind providing cash incentive to the exporters. The main reasons are-

- To increase the export of the country.
- To establish the backward linkages of different sectors.
- To increase foreign remittance and to increase the foreign currency reserve.
- To use the local raw materials instead of foreign raw materials for example- using local yarn instead of foreign yarn in garments industries.
- To make the local raw materials and finished products competitive of some selected sectors such as fabrics and garments than that of the neighboring countries like India, Thailand etc.
- To assist more in value addition in different sector. For example- Government only provide cash incentive to the garments sector if they use locally produced yarn and accessories rather than using foreign yarn and accessories in their products. If the garments sectors do so, the value of locally made products will increase.
- To find out new countries for export and increase export.

2.4 History of Cash Incentive in Bangladesh:

In July 1994, Bangladesh introduced cash incentive or export subsidy program. It was then known as „Cash Compensatory Scheme (CCS)“ and was one kind of motivating mechanism to

increase export and also to establish the backward linkage. Primarily it was introduced to aid the export of goods produced from jute by various government and non-government mills and to aid RMG sector of our country. The then rate of cash incentive was 15% of realized export value. After seeing the increase in the export and use of local raw- materials in the production, the Govt. expanded the facilities to several and included several new products in it. In April 2000, cash incentive was introduced for leather goods and In December 2002, it was introduced for agricultural products. Several many sectors such as- frozen shrimps and fish, agro products and processed agro products, bone meal, bi-cycle, commodities made of hogla, straw, coir of sugarcane was included in the cash incentive facility. Though government also declared cash incentive for tobacco in 2003, in 2008 it has been cancelled. In 2004-2006 potato, hatching eggs and day old chicks of poultry industries, liquid glucose, light engineering products, halal meat was included in the cash incentive program.

Till 2016, there are thirteen sectors enjoying cash incentive facility. They are listed below-

- Ready-made garments.
- Apparel Products.
- Leather Goods.
- Frozen Fish and Shrimp.
- Small and medium garments factories.
- Potato, halal meat and agro-products.
- Elephant grass, paddy straw and sugarcane bark.
- Bone dust.
- Pat bottle.
- Ship export.
- Diversified and finished jute goods.
- New products and new market expansion.
- Products of light engineering.

Producers, manufacturers, processors and exporters gets benefit from the cash incentive program. The incentive is provided on the net free on board (FOB) value of the selected commodities shipped in the concerned fiscal year. The Bangladesh Bank has set a fixed rate through which

export value is calculated. Bangladesh Bank appointed auditors of the negotiating bank to audit of the cash incentive cases from 2002. The Bangladesh Bank pays the fund to the negotiating bank on the basis of incentive applied. On the other hand, bank pays out the fund on the basis of certificates given by the audit firm based on the cash incentive cases. Bangladesh Bank has given a set of TOR (Appendix-1) which dictates how the audit work should be done.

2.5 Sectors in which Cash Incentive is given:

Though previously cash incentive was given to some specific sectors, government has recently expanded the sectors of giving cash incentive. The sectors in which cash incentive is given is presented below-

Table 2: Rate of Cash Incentive in different sectors

Sectors	Cash Incentive Rate
Ready-made garments	5%-20%
Apparel Products	4%
Leather Goods	12.50%
Frozen Fish and	2%-5%
Frozen Shrimp	7%-10%
Small and medium garments factories	4%
Potato, halal meat and agro-products	20%
Elephant grass, paddy straw and sugarcane bark	15%-20%
Bone dust	15%
Pat bottle	10%
Ship export	5%
Diversified and finished jute goods	7.5%
New products and new market expansion	3%
Products of light engineering	15%

2.6 Conditions for getting Cash Incentive Facility:

Though there are different conditions for different sectors which need to be fulfilled in order to avail cash incentive facility, there are some common conditions for availing cash incentive facility for all sectors. The common conditions for availing cash incentive are-

- Local yarn produced by a BTMA member mill should be used in the production of the exported product by the exporter.
- The exporter will not avail any duty drawback or bonded warehouse facility for the exported products.
- The cash incentive applicant must submit his application to the negotiating bank within 180 days of the realization of the export proceeds.
- The realization to shipment date should not exceed more than 120 days.
- The recipient of cash incentive stated on local Back to Back L/C for collecting cotton or yarn against the sales contract or L/C will apply for cash incentive facilities after he has used that yarn in his exported products. He will apply to his negotiating bank with the documents of his own exported or supplied fabrics. However, cash incentive will be payable after the realization of the export proceeds.

Above all are the conditions for availing cash incentive on exported products.

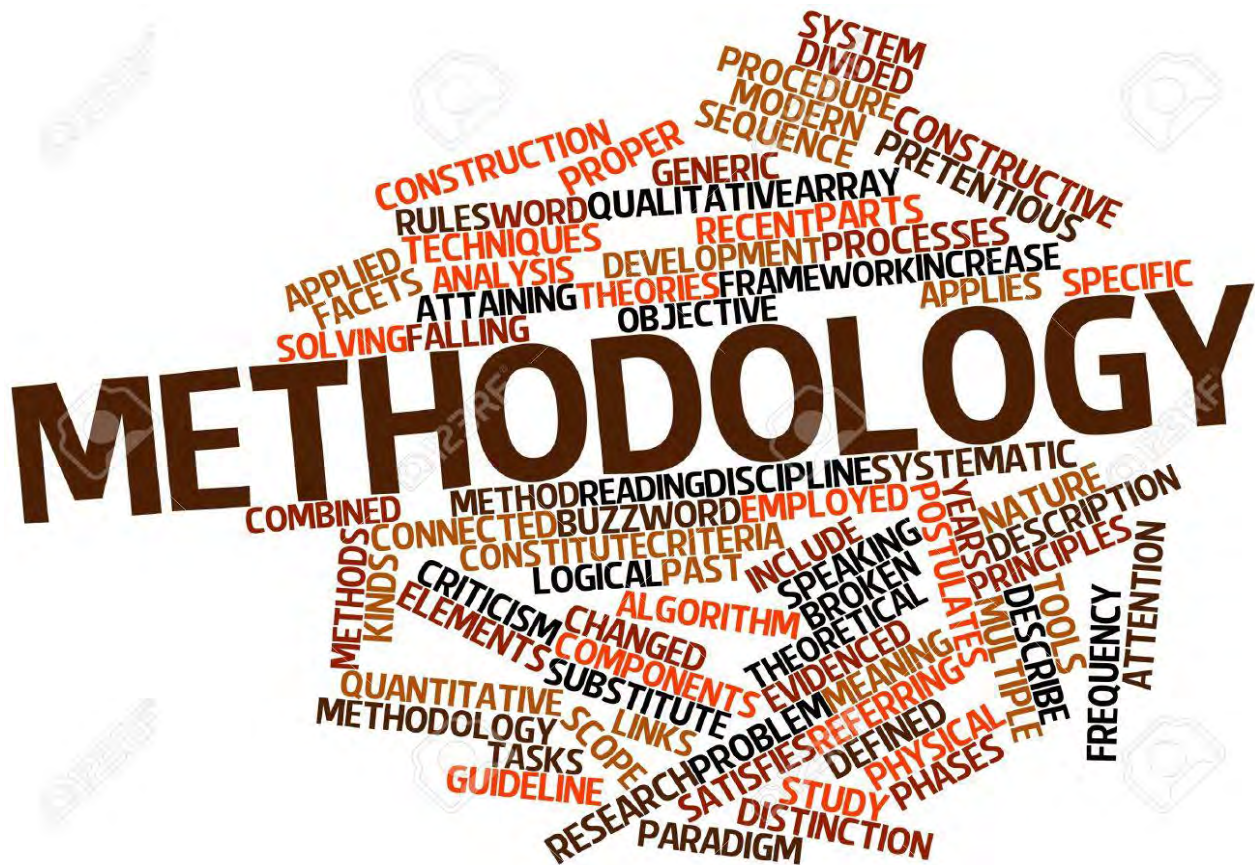
2.7 The importance of knowing cash incentive audit procedure:

In a developing country like Bangladesh, export is a major factor as it has a great impact in the economy. Government is providing cash incentive in order to increase the export quantity and earn more foreign currency. One needs to know the procedures of cash incentive audit so that he can avail this award from government. In order to get cash incentive, any export company needs to get their claim audited from any audit firm. In this report, I am providing the information and procedures auditors follow in the audit of cash incentive. One cannot skip any stage and need to go through each stage in order to get incentive from government.

Moreover, with cash incentive authentication and audit procedure, I have also included some other information related to the topic. The report includes whether cash incentive declaration has increased the export quantity, whether the auditors certify cash incentive according to the circulars provided by Bangladesh bank and whether appointing external auditors saves money of Bangladesh bank or not. All these information is necessary to have a clear thought about cash incentive and its audit procedures.

Chapter Three

Methodology



3.1 Objective:

There are some general or broad and some specific or narrowed down objectives behind this report. They are presented below:

Broad Objective:

The general or broad objective of the study is to complete the partial requirement of the BBA degree from BRAC Business School, BRAC University.

Specific Objective:

- Presenting the audit of Alternative Cash Incentive and its procedure.
- Evaluating whether the cash incentive facilities are instrumental in promoting export of Bangladesh.
- Finding whether cash incentive is provided as per Bangladesh Bank rate requirement / circular in specific sector or not.
- Examining whether Bangladesh Bank can save money by appointing external auditors rather than Bank calculation or not.

3.2 Data Collection

To prepare the report on “The authentication and audit procedure of alternative cash assistance”, I collected the necessary data and information from both primary and secondary sources. The sources are given below:

Primary Sources:

- Working with different cash incentive audit team.
- Discussing with different articulated student (Md. Masum Billah and Idris Ali), engagement partner, audit managers and audit staffs.
- Interviewing the client (Mr. Soumik from Shovon Knitwear Ltd.) about their cash incentive application.
- Going through several cash incentive certificates.
- Observing the seniors and managers.

Secondary Sources:

- Going through the annual audit report, management audit report, accounting system and audit working papers. The information was obtained from various corresponding files of the firm.
- Going through the circulars published by Bangladesh Bank.
- Going through books of audit by different authors.
- Going through the reports related to the export promotion.
- Using internet.

3.3 Data Processing:

After collecting the data, it has to be processed to find out the required information. I have used qualitative approach to find out the results by manually processing the collected data. I have made some tables, chart as well as figures to turn my raw data into valuable information. In order to fulfill my objectives the following tasks need to be performed:

- A chart needs to be prepared in order to show the procedures of cash incentive audit.
- A table needs to be prepared showing the export quantity of any sector before and after declaration of cash incentive in order to compare if cash incentive facilities are instrumental in promoting export of Bangladesh or not.
- A chart needs to be prepared specifying the circulated rate of cash incentive in any industry by Bangladesh bank. Then some other charts needs to be prepared based on the operation of certain companies and the certificate of Acnabin, to know if cash incentive is provided as per Bangladesh Bank rate requirement / circular in specific sector or not.
- Lastly, some charts need to be prepared from the operation of certain companies and certificate provided by Acnabin to calculate if Bangladesh bank is saving money by appointing external auditors or not.

3.4 Data Analysis and Interpretation:

I will use qualitative approach to find out the required result and to fulfill my objective. The report will primarily rely on the judgment and critical reasoning. I will take few operations of some export companies and evaluate those operations. Moreover, I will evaluate if cash incentive declaration has any effect on the increase or decrease of the total export of Bangladesh. For this I will evaluate the situation of export before and after cash incentive declaration. Finally, I will use all the information and results to complete all of my objectives and thus complete my report. I will use APA fifth edition for the references.

3.5 Scope of the study:

An applicant of cash incentive needs to approve their application from an auditor in order to claim incentive from the government. According to Bangladesh Bank, cash incentive audit needs to be conducted by an external auditor. The auditors need to follow some terms of reference (TOR) provided by Bangladesh Bank. Moreover, there are some general foreign exchange circulars which provide the auditors some rules of checking the cash incentive applications. The rates of providing the cash incentive in different sectors changes time to time with different foreign exchange circulars provided by Bangladesh bank. All of these circulars, TOR and audit procedure of cash incentive needs to followed in order to prepare this report.

3.6 Limitations of the study:

The report had the objective of presenting a detailed study on the authentication and audit procedure of cash alternative. In this three months period of my internship, I got hold of much information regarding cash incentive as well as missed many. This report has some limitations as it is based on samples. I have selected some sample banks and companies and collected their information in order to fulfill my objectives. I have found the results based on the samples. The report is fully based on samples thus it cannot be generalized. It is the main limitation of this report.

Chapter Four

Results



4.1 Findings:

4.1.1 Audit of alternative cash incentive and its procedures:

The procedure of doing audit is formal. Finding out the fraud and error is the main objective of audit. An auditor needs to follow certain guidelines to check and confirm whether any error or fraudulent activities has occurred.

There are three types of audit and alternative cash incentive audit is one type of compliance audit. Though other audit results are reported to a broad spectrum of users, compliance audit findings are typically informed to someone who is currently working inside the organization which is being audited. Only the related management is concerned with the findings and extent of the audit maintaining the guidelines and regulations. For this reason, a certain part of work is done by the company's internal auditors.

With the help of cash incentive audit, Bangladesh bank determines whether the applicant is satisfying all the foreign exchange circulars or not. An auditor needs to check all the relevant documents and calculation and confirm the amount of cash incentive. After confirming the amount, the audit firm will provide a certificate to the relevant financial/non-financial export oriented organization. With the help of this certificate the organization can claim cash incentive from Bangladesh bank. There are certain procedures of auditing cash incentive. They are presented below:

- **Application for Cash Incentives submitted by the Exporter:** In this stage, the applicant of cash incentive submits his application along with the other necessary documents to the bank. However, the application can only be submitted after the date of the proceeds is realized. According to Bangladesh bank, an applicant becomes eligible to apply for cash incentive after the exported goods are received. The application should attach other necessary documents which are required by different authorities such as- Bangladesh Bank, The bank of the Exporter, Auditor etc. these documents are initially filled with the application and ultimately kept in the export department of the bank which handles export related documents. Either the client can submit original or attested

photocopies of the documents in the files.

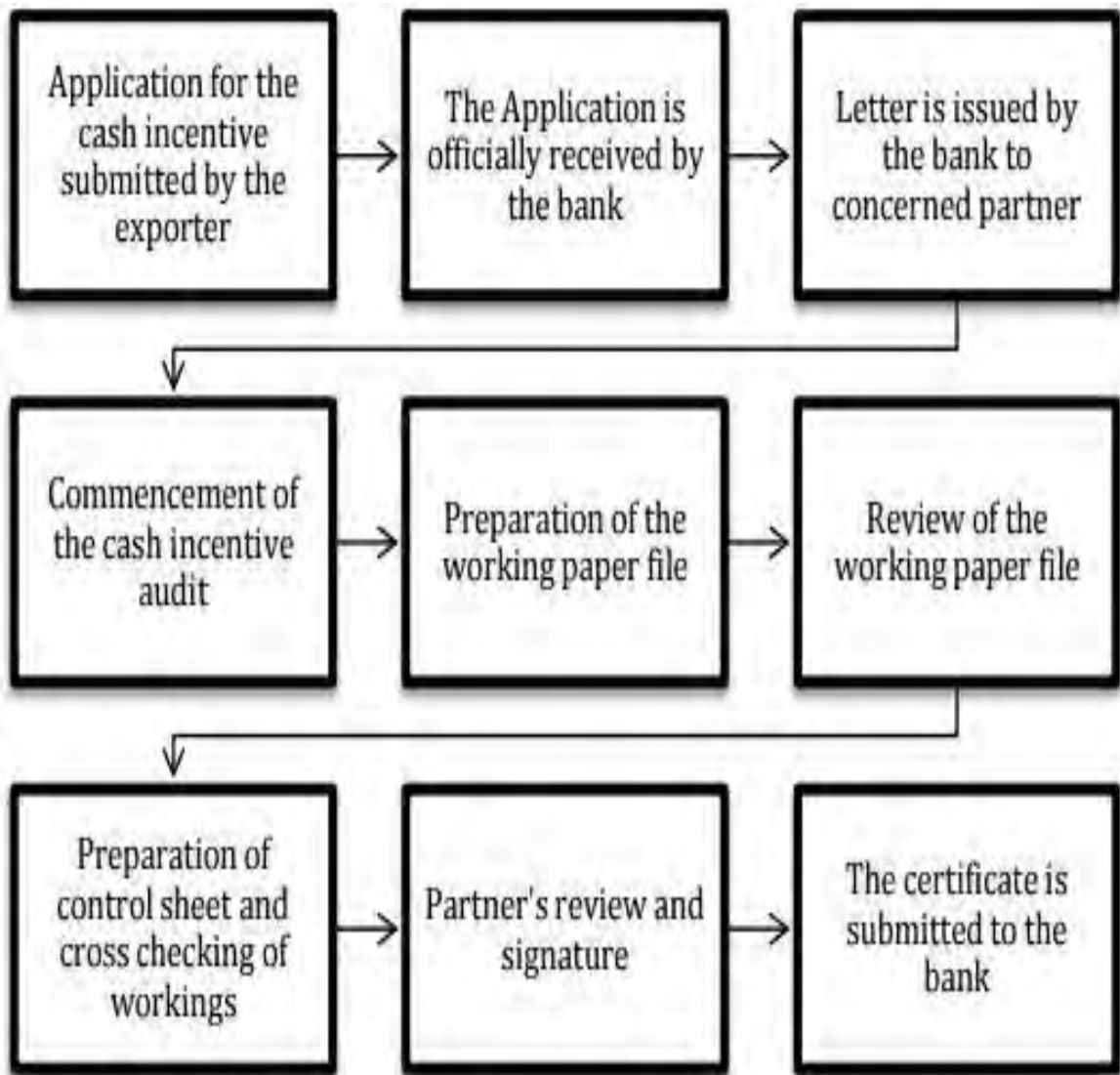


Figure 1: Procedural activities done for cash incentive

- The application is officially received by the bank:** The applicant's application is received by the appropriate branch of the Bank. The export department of the bank takes the file of the application along with the necessary documents. After receiving the documents, the concerned officer of the Bank needs to attest those documents. The officer of the bank checks whether all the documents are in the submitted file before attesting the documents. Any error or incompleteness of the application file is not attested or received by the bank and then the applicant needs to fulfill and make the file in the way and manner required by the bank.

- **Letter is issued by the bank to concerned partner:** After officially receiving the application file, the bank's head office issues a letter to the concerned partner requesting the audit firm to complete the audit work regarding the application for Alternative cash incentives.
- **Commencement of the cash incentive audit:** This stage starts after the receipt of the letter from the head office of the exporter's bank. After receiving the letter, the audit firm directs auditors to the concerned bank and the cash incentive audit officially begins. The bank delivers the applicant's application file to the auditors and the auditors start their work following the guideline provided by Bangladesh bank which is known as Terms of Reference (TOR) in Foreign Exchange Circular no. 291.
- **Preparation of the working paper file:** After the commencement of the audit work, the first responsibility of an auditor is to prepare a working file for each file of application. In order to create a working file, a standard layout is set and provided to the auditors by the audit firm. An auditor needs to fill the working paper in order to organize all the information of the applicant in a format which will be relevant for the audit purpose. Moreover, information is chronologically put down in the working paper from different documents.
- **Review of the working paper file:** After preparing the working paper from the application file, the paper needs to be rechecked in order to avoid any kind of error. Review of working paper file is done by the senior articulated student of any audit firm. During the review he needs to check whether the calculation of the certified amount is accurate and whether the certified amount is calculated considering all the relevant items mentioned in the Bangladesh bank's circulars.
- **Preparation of control sheet and cross checking of workings:** In this stage, the auditors need to prepare a control sheet which will contain all the important and appropriate information regarding each application. The control sheet is made to provide the audit firm a bird's eye view of all the applications. The control sheet is called control sheet as it allows the audit firm to create a database which will facilitates the firm in controlling the application files and working papers systematically. However, the control sheet needs to be checked by the in-charged person of the cash incentive audit. He needs to check if there are any errors or discrepancies between the

control sheet and working paper. If he finds out any error or discrepancies between the papers, he needs to correct those discrepancies and errors by checking the original files.

- **Partner’s review and signature:** After completing all the previous steps, all the workings are submitted to the concerned partner and he finally checks the whole matter. If he finds all the calculation and the certified amount true and fair, the auditors start preparing the certificates of cash incentives. On the other hand, if the partner has any query about the incentive file, he asks the in-charge person to recheck the matter. The certificate of cash incentive is prepared as per the attachment- “Ga” of the Foreign Exchange Circular no. 291 dated June 02, 2002. Individual certificate is prepared for each cash incentive application. At last, the concerned partner of the audit firm issues the cash incentives certificates by signing them.

The format of alternative cash incentives certificate as per the attachment-”Ga” are as follows

SL. #	Bank ID #
Certificate	
<p>Applicant M/S.....exported through export L/C number.....dated..... for \$..... vide exp number of..... Bankbranchcontaining export value of \$..... against which \$..... has been repatriated on.....and cash incentive claim is Tk.....</p> <p>Amount repayable as per TOR after audit is Tk. (In words) only which is hereby certified to be true and fair.</p>	
Signature:	
Date:	
Name of the Partner:	
Name and address of the Audit Firm	

Figure 2: Sample of alternative cash incentive certificate given by auditor

- **The certificate is submitted to the bank:** This is the last stage of the audit of alternative cash incentive. After getting partner's signature on the cash incentive certificate, it is issued. The certificate along with the certified file is then submitted to the Head office of the bank. Lastly, the negotiating bank receives the certificate and the certified amount will be paid to the applicant by the Bangladesh bank only if enough fund is available.

4.1.2 Whether the cash incentive facilities are instrumental in promoting export of Bangladesh:

In a developing country like Bangladesh, earning of foreign currency puts a huge effect on the economy. Ready-made garments sector of our country has become the highest earning source of foreign currency. Some other industries such as- pharmaceuticals, jute, leather, agro, potato etc. are also adding value to our economy but RMG sector is the highest earning sector amongst all other sectors.

To promote the export of Bangladesh, in 1994 cash incentive was introduced. The primary objective of introducing cash incentive was to increase the export of jute products and textiles produced by government and non-government organizations. The then rate of cash incentive was 15% of realized export value. After seeing the increase in the export and use of local raw-materials in the production, the Govt. expanded the facilities to several and included several new products in it. In April 2000, cash incentive was introduced for leather goods and In December 2002, it was introduced for agricultural products. Several many sectors such as- frozen shrimps and fish, agro products and processed agro products, bone meal, bi-cycle, commodities made of hogla, straw, coir of sugarcane was included in the cash incentive facility. Though government also declared cash incentive for tobacco in 2003, in 2008 it has been cancelled. In 2004-2006 potato, hatching eggs and day old chicks of poultry industries, liquid glucose, light engineering products, halal meat was included in the cash incentive program.

To know whether cash incentive facility is instrumental in promoting export of Bangladesh or not, a chart is prepared below containing the information of export of RMG goods after and before introduction of cash incentive facility.

Table 3: Development of the export of RMG sector

Year	Export of RMG (in million \$)	Total (in million \$)	Export Share RMG's to total export	of Increase of export (%)
1993-94	1555.79	2533.90	61.40	
1994-95	2228.35	3472.56	64.17	43.23%
1995-96	2547.13	3882.42	65.61	14.31%
1996-97	3001.25	4418.28	67.93	17.83%
1997-98	3781.94	5161.20	73.28	26.01%
1998-99	4019.98	5312.86	75.67	6.29%
1999	2810.38	3695.46	76.05	30.09%

[Source: Bangladesh Export Statistics (2000), (compiled)]

Here we can see that, after the introduction of cash incentive in the year 1994, the export of RMG products increased by 672.56 (in Million \$). Just between three years, the export of RMG goods doubled due to cash incentive declaration. Lastly, we can see that, the export of RMG goods in just the year 1999 was 2810.38 (in Million \$) and the percentage of increase in export was 30.09%.

To provide a bird's view, I have prepared a bar chart which is presented below:

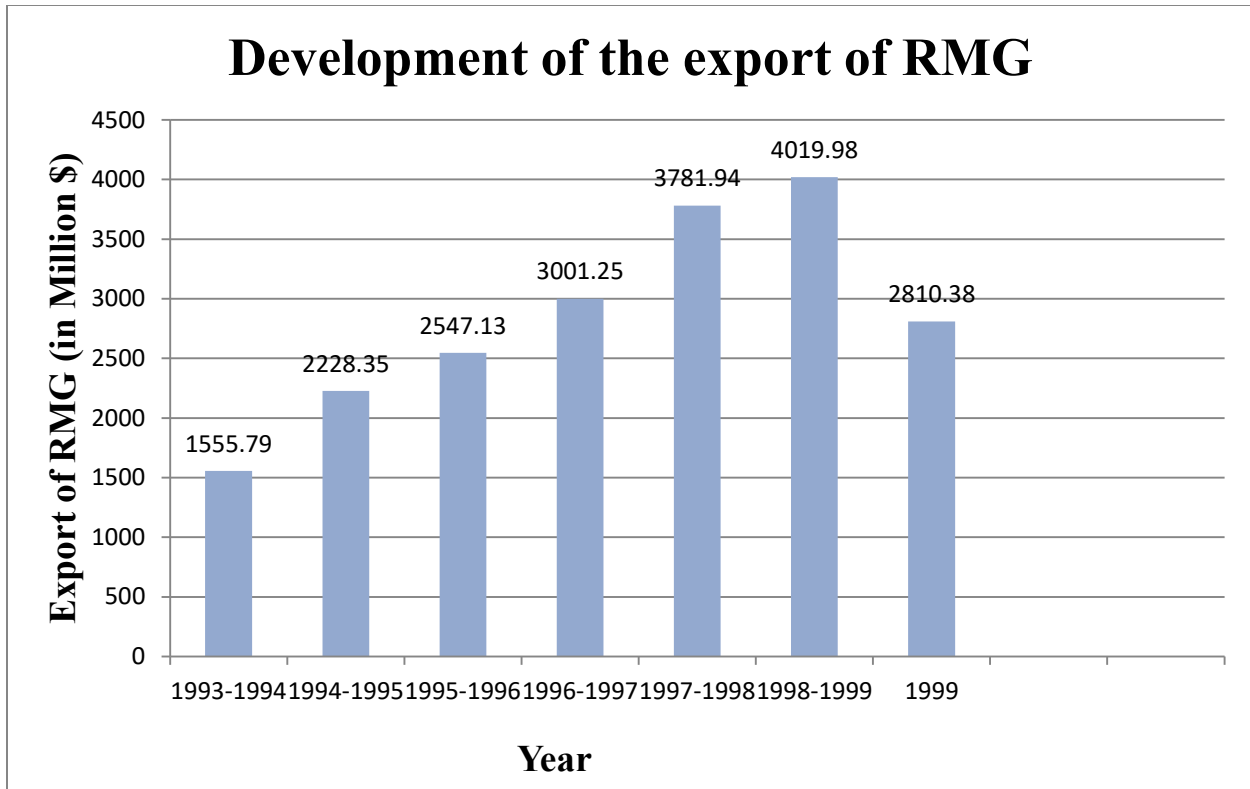


Figure 3: Development of the export of RMG

The above study of the RMG goods export sector has shown the effects of cash incentive on the increase of total exports of Bangladesh and thus it can be said that cash incentive is very instrumental in the promotion of export of Bangladesh.

4.1.3 Whether cash incentive is provided as per Bangladesh Bank rate requirement / circular in specific sector or not:

To know whether cash incentive is provided as per Bangladesh bank's provided rate, I have gone through several circular and some certified cash incentive files. Bangladesh bank has provided certain guidelines which describe the sectors which are eligible of getting cash incentive and also specifies the rate in which cash incentive should be given. The audit firm needs to follow the guideline and certify the amount based on the given rate. The rate of cash incentive changes time to time and auditor needs to be well aware about it. There are some general circulars which describe the criteria of getting cash incentive. According to those circulars the criteria of getting cash incentive for textile products are-

- The producers who use local raw materials to produce their goods will be eligible to apply for cash incentive.
- The producer needs to produce yarn from cotton and manufacture the product in Bangladesh in order to be eligible of getting cash incentive.
- Exporter of grey cloth will not get incentive for this export.
- The party which will be benefited has to be mentioned clearly in the back to back L/C at the time of collecting yarn or fabrics for the production of RMG products against that L/C or back to back L/C. The beneficiary party can only apply for the cash incentive by submitting all the documents to the negotiating bank.
- An exporter can only apply for cash incentive if he does not apply for duty drawback or bonded warehouse facility for raw materials & accessories used in manufacturing the textile goods.

According to the foreign exchange circular no 9, the rate of cash incentive is determined as 5% after deducting VAT and other deductible items declared by Bangladesh bank. The rate is calculated on the repatriated amount of net FOB (in foreign currency) and supply price of local yarn or fabrics whichever is lower.

I have gone through several certified files to find out the difference between the rate declared by Bangladesh bank and the audit firm's certified rate. They are presented below:

4.1.3 (i) I have chosen X Ltd. for my study.

Table 4: Calculation of the difference between BB's declared rate and auditor's certified rate

S.L	Export L/C No.	Date	Repatriated export value (\$)	BB's declared rate	Auditor's certified rate	Difference
1.	411011340119	24.04.2015	56791.66	5%	5%	-

2.	009831542932	28.03.2015	186338.70	5%	5%	-
3.	71335AM302520	07.06.2015	18917.76	5%	5%	-
4.	411011338886	27.03.2015	83564.40	5%	5%	-
5.	8866/6012290/080	15.04.2015	39142.90	5%	5%	-
6.	411011340476	06.05.2015	119128.40	5%	5%	-
7.	25/08775/4006858	30.05.2015	40914.20	5%	5%	-

(Own calculation, source: Certificate by Acnabin)

4.1.3 (ii) I have chosen Y Ltd for my study.

Table 5: Calculation of the difference between BB's declared rate and auditor's certified rate

S.L	Export L/C No.	Date	Repatriated export value (\$)	BB's declared rate	Auditor's certified rate	Difference
1.	.PFL/29/2013	13.01.2013	131464	20%	20%	-
2.	.PFL/104/2013	15.04.2013	76315.50	20%	20%	-
3.	.JAIN/05/2013	20.01.2013	8980	20%	20%	-
4.	.PFL/217/2013	28.05.2013	149222	20%	20%	-
5.	.PFL/215/2013	28.05.2013	150369.50	20%	20%	-
6.	.AI/01/2013	07.01.2013	36181.26	20%	20%	-

(Own calculation, source: Certificate by Acnabin)

4.1.3 (iii) I have chosen Z Ltd for my study.

Table 6: Calculation of the difference between BB's declared rate and auditor's certified rate

S.L	Export L/C No.	Date	Repatriated export value (\$)	BB's declared rate	Auditor's certified rate	Difference
1.	UBIL/PC/09/11	05.05.2011	24674.04	10%	10%	-
2.	110516-BABA-663	16.05.2011	74541.60	10%	10%	-
3.	DJBC-124/2011	15.06.2011	107250	10%	10%	-
4.	P-02/11	15.05.2011	9946.18	10%	10%	-
5.	GL/GUL/04/2011	22.05.2011	28485.44	10%	10%	-

(Own calculation, source: Certificate by Acnabin)

4.1.4 Whether Bangladesh Bank can save money by appointing external auditors rather than Bank calculation or not:

Previously cash incentive was provided as per the calculation made by the exporter's bank. Due to some fraudulent activities by a group of people it is now forwarded to the third party or external auditor. The external auditors need to provide a certificate assuring the actual amount to be paid by the Bangladesh Bank. Before appointing external auditors, many companies did fraudulent activities with the help of particular banks. Because of this Bangladesh bank had to bear a great amount of loss. In order to avoid the fraudulent activity and manipulation, cash incentive audit is done in favor of the client as well as the government.

In order to conduct the audit of cash incentive, Acnabin and other audit firm charge certain amount as audit fee. The fees are listed below:

Table 7: Audit fees taken by Acnabin

Client's claim (Amounts in BDT)	Audit Fee (Amounts in BDT)
Up to 5,00,000	4000
5,00,001 to 10,00,000	5000
10,00,001 or above	7000

To know whether Bangladesh bank saves money by appointing external auditors or not, I have collected some certificates from Acnabin and formed a calculation. I have taken four companies and some of their operations. Firstly, I took the bank's calculated amount and auditor's calculated amount from the certificates and deducted the auditor's amount from the bank's amount to find out the difference. Then I adjusted the appropriate audit fees to find out the net savings or loss. Bangladesh bank can bear a loss even after having a positive difference.

4.1.4 (i) I have chosen X Ltd. for my study.

Table 8: Savings of BB from X Ltd. (Amount in Tk.)

S.L	Export L/C No.	Bank calculation	Certified by auditors	Initial savings of BB	Audit Fees	Net savings or loss of BB
1.	8866/6012290/080	120465	67855	52610	4000	48610
2.	411011338886	189494	147658	41836	4000	37836
3.	411011340476	235359	196220	39139	4000	35139
4.	71335AM302520	44221	42406	1815	4000	(2185)
5.	009831542932	463984	359737	104247	4000	100247
6.	411011340119	104426	104426	-	4000	(4000)

Total	1157949	918302	239647	24000	215647
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(Own calculation, source: Certificate by Acnabin)

4.1.4 (ii) I have chosen Y Ltd for my study.

Table 9: Savings of BB from Y Ltd. (Amount in Tk.)

S.L	Export L/C No.	Bank calculation	Certified by auditors	Initial savings of BB	Audit Fees	Net savings or loss of BB
1.	.PFL/104/2013	1134697	1083689	51008	7000	44008
2.	.PFL/216/2013	1615245	1615245	-	7000	(7000)
3.	.PFL/25/2013	1442440	1438727	3713	7000	(3287)
4.	.PFL/167/2013	1598574	1527988	70586	7000	63586
5.	.JAIN/05/2013	138112	138112	-	4000	(4000)
6.	.PFL/37/2013	1541759	1222489	319270	7000	312270
Total		7470827	7026250	444577	39000	405577

(Own calculation, source: Certificate by Acnabin)

4.1.4 (iii) I have chosen Z Ltd for my study.

Table 10: Savings of BB from Z Ltd. (Amount in Tk.)

S.L	Export L/C No.	Bank calculation	Certified by	Initial savings	Audit Fees	Net savings
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			auditors	of BB		or loss of BB
1.	P-02/11	73552	73552	-	4000	(4000)
2.	110516-BABA- 663	548999	548626	373	5000	(4627)
3.	UBIL/PC/09/11	182464	182464	-	4000	(4000)
4.	GL/GUL/04/2011	210650	210650	-	4000	(4000)
Total		1015665	1015292	373	17000	(16627)

(Own calculation, source: Certificate by Acnabin)

4.1.4 (iv) I have chosen J Ltd for my study.

Table 11: Savings of BB from J Ltd. (Amount in Tk.)

SL. No.	Export L/C No.	Bank calculation	Certified by auditors	Initial savings of BB	Audit Fees	Net savings or loss of BB
1.	HAAIA400715463	1206420	1205814	606	7000	(6394)
2.	LC04934U	1069917	1069525	392	7000	(6608)
3.	LCI 13010125	1209650	1209044	606	7000	(6394)
4.	2912-2012	1070836	1063440	7396	7000	396
Total		4556823	4547823	9000	28000	(19000)

(Own calculation, source: Certificate by Acnabin)

4.1.4 (v) Total savings according to the above four calculation:**Table 12: Calculation of total savings from the above four calculation of cash incentive audit**

SL.No.	Bangladesh bank's net savings or loss (in Tk.)
1.	215647
2.	405577
3.	(16627)
4.	(19000)
Total	585597

From the above calculation it can be seen that, Bangladesh bank is saving a large amount of money by appointing external auditors for the audit of cash incentive. According to my calculations, Bangladesh bank is saving around TK. 585,597/- net. In some of the cases Bangladesh bank needs to bear loss but overall BB saves money with the help of external auditors. I have only taken few operations but if the total export is considered, the total scenario can be found.

So, overall it can be said from the calculations made that Bangladesh bank can save money by appointing external auditor rather than bank calculation.

4.2 Conclusion:

The report titled “The authentication and audit procedure of alternative cash assistance” contains the information which will give a primary knowledge about alternative cash assistance and the procedures as well as criteria of getting it from the government. Cash incentive has become an important issue as it puts a huge impact in our economy. In the report I have provided information which shows that due to cash incentive declaration the export quantity of different

sectors of Bangladesh has changed dramatically. New sectors have been included in cash incentive in order to increase the export of Bangladesh. This resulted in increased number of textile mills, factories, project, farm etc. Cash incentive is declared as a rewarding factor to the exporters of Bangladesh. Through this system the government can also maintain export of the coming future. Cash incentive sector of Bangladesh will act as a facilitator in the global sector in the coming future of quota-free world. The relationship between export of different sectors and cash incentive is positive as after declaration of cash incentive, export is increasing and more foreign currency is earned by Bangladesh. At the time of cash incentive declaration, it was not audited by external auditors. The export companies tend to submit their claim to their concerned bank and the banks approved the claims. Due to some fraudulent activities and errors, Bangladesh bank decided to appoint external auditors for the audit of cash incentive. In order to present a fair and true view, the auditors need to go through the procedures of cash incentive audit provided by Bangladesh bank. The application and other relevant documents need to be accurate in order to avail cash incentive from the government. There are certain criteria provided by Bangladesh bank about the companies who will be able to claim for cash incentive and companies who will not be able to claim for it. Government is not only providing cash incentive to the exporters, they are also providing bonded warehouse and duty drawback facility to the exporters. The auditors need to check whether a company has applied only for one facility or not. Moreover, appointing external auditors, Bangladesh bank is saving money every year and also got the control over fraudulent activities. The auditors help in presenting a fair picture and save public's money. In order to provide cash incentive to the appropriate company, cash incentive applications need to be audited according to the procedures provided by Bangladesh bank.

4.3 Recommendation:

Cash Incentive Audit by independent auditors plays a vital role in protecting the misuse of public's money. Cash incentive audits are not free of problems. All of these problems are solved by the Bangladesh Bank's provided circulars, sincerity of auditors and banks and applicants of cash incentive receiver. The problems or unresolved issues which have found in conducting research study can be solved in the following ways:

- Audit procedure and other activities should be performed as per the latest published circular of Bangladesh Bank. The auditors need to be more sincere in order to keep pace with the changing rates of several cash incentive sectors.
- Audit postponement can help the deceitful activities and cash incentive applier can produce incorrect documents to get cash incentive. So to reduce audit delay auditors should firstly confirm from the bank whether the applicant submitted all the required documents. After getting confirmation auditors should go to the bank to start audit work, this will help them to execute audit work within minimum days.
- Auditors should take some senior auditors or experts before going to visit the factory of applicants. Expert consent is needed to ensure whether goods are actually produced in this factory. Utilization declaration provided by the exporter should be verified by the expert.
- Auditors should not visit the factory at a fixed date. He should rather visit exporter's factory by surprise. If they fix the visiting date, the exporter can manipulate his documents and information.
- Exporters' bank should not be given the power for everything because banks always want to hold its existing clients and tries to attract new clients and for this they sometime attest all the documents of the client without checking its legality. With the collaboration of bank, exporter can go for malpractice.

All of the above are the recommendation of cash incentive authentication and audit procedures.

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