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Hoda Vasi Chowdhury & Co

Internship Report on Audit Planning: A Framework of Chartered Accountants

Fall 2015

Internship report

Fall 2015

Report Title: *Audit Planning: A Framework of Chartered Accountants*

Submitted by:

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Submitted to:

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BRAC Business School

BRAC University

Submitted on:

2nd December 2015

Letter of Transmittal

2nd December 2015

Ms. Tanjina Shahjahan
Lecturer & Internship Supervisor
BRAC Business School
BRAC University

Submission of Internship Report

Dear Madam,

With high reverence, I want to state that I have completed my internship report on *Audit Planning: A Framework of Chartered Accountants.* The report is based on my internship program at Hoda Vasi Chowdhury & Co., Chartered Accountants. During the internship period, I got the first hand experience to learn about the audit planning and procedures practiced by chartered accountants. It has helped me to gain thorough understanding about statutory audit. I have tried my best to run an elaborate study and come up with sufficient resources to compile my report in a comprehensive manner. This paper is valuable and a necessity to complete my undergraduate degree.

There were some challenges in order to bring this paper into being. However, with the best of my abilities I have tried to overcome the challenges and complete the report for you. It was a great opportunity for me to experience the vibe of the professional world, and I will like to take this platform to thank you. In the end, I would kindly request you to accept this paper and acknowledge my dedication and efforts.

Thanking you in anticipation.

Yours Sincerely,

Fahmida Mehreen
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Acknowledgement

On the very first note, I will like to thank the Almighty for helping me to complete this paper and my internship program as a whole.

It has been an honor to work with a group of highly enthusiastic people, who have contributed something of theirs to this paper. There are certainly some special ones who cannot go without mention.

Firstly, I express my humble gratitude and indebtedness to my respected internship supervisor, ***Ms. Tanjina Shajahan*** for her guidance, suggestions, encouragement, and cooperation during the internship period and preparation of this report. I also thank her in advance for sparing her valuable time to read this paper.

Next, I express my sincere appreciation to ***Mr. A.F.Nesaruddin, Partner, Hoda Vasi Chowdhury & Co.***, along with ***Mr. Md. Sk. Tarikul Islam, Senior Manager, Hoda Vasi Chowdhury & Co., and Ms. Sabrina Mahzabeen, Audit Senior, Hoda Vasi Chouwdhury & Co.,*** for giving me the opportunity to work with the statutory audit team and for their constant supervision and constructive opinions that have augmented my learning and enriched this report. They have devoted mentionable amount of time to guide me all through. Without their help and support, this paper might not have been a comprehensive one.

Finally, a big note of thanks to the management of the client where this statutory audit was done. Their welcoming environment and assistance helped me to accomplish my tasks.

Contents

Executive Summary

This report is based on ***Audit Planning: A framework of Chartered Accountants***. The purpose of the report is to demonstrate different aspects of audit planning and to put emphasis on its significance. The report has been composed in the context of *Hoda Vasi Chowdhury & Co*., Chartered Accountants, while conducting statutory audit for a public limited company. Please note, that in accordance to the regulations set by Bangladesh Standards on Auditing (BSA) and Securities and Exchange Commission (SEC), the name of the client cannot be disclosed in any part of this report, provided that they are yet to hold their Annual General Meeting for the fiscal year for which this particular audit engagement took place and the report is prepared thereon.

Audit Planning is the fundamental phase where necessary consideration is given to the indispensable areas at the beginning of audit process. During the whole process of audit planning, it is important to keep in mind that the predetermined risks must be taken care to the best of the ability. Risks may appear in ways such as inappropriate representation of financial statements, misstatements of assets, poor or lack of internal control within the organization, non-compliance of corporate governance, market and economy oriented risks, etc. All these should be known prior to the audit engagement so that the auditor is well aware about what to look into and what to watch out for.

Bangladesh, being a developing economy and belonging to the middle income group of countries, is a prospective place for businesses to foster. As different industries are booming, the demand for auditing and financial services is also increasing rapidly. At the same time, rigorous rules and guidelines are being set by the authorities. Therefore, the need for superior financial reporting is irrefutable and unavoidable. Hence, the dedicated services of the chartered accountants, whose elementary work in trade starts with audit planning.

Chapter 1: Introduction

Chapter 1.1: Origin of the Report

The report is prepared for the purpose of analyzing audit planning procedure conducted by *Hoda Vasi Chowdhury & Co,* Chartered Accountants, for statutory audits. This report is a part of completing internship program that is required for completion of Bachelors in Business Administration (BBA) program of BRAC Business School (BBS), BRAC University. As a part of the curriculum, the audit engagement has been handed over to me by *Mr. A.F. Nesaruddin, FCA, Partner of Hoda Vasi Chowdhury & Co.* and approved by my internship supervisor *Ms. Tanjina Shahjahan, Lecturer, BRAC Business School, BRAC University*.

Chapter 1.2: Objective of the report

The primary objectives of the report are:

1. To have basic understanding about the practices of chartered accountants for audit and other financial services
2. To learn in details about how audit planning is designed, conducted, and implemented
3. To ascertain different elements of audit planning, risks and materiality, and corporate governance

The secondary objectives of the reports are:

1. To provide explanations of audit findings and observations and give recommendations accordingly
2. To relate theoretical learning with practical work experience

Chapter 1.3: Scope of the report

Audit planning is a crucial part of audit program. It needs constant updating as audit procedures advance. Furthermore, it is a framework that is adopted by most chartered accountants in order to maintain high auditing standards and to assure proper management integrity. Therefore, this report can be used for the purpose of learning the know-how of audit planning, along with other supplements like corporate governance, risk elements, and ethical rationales. It may successfully serve as a secondary source of information for later studies.

Chapter 1.4: Methodology of the report

Data of the report has been obtained through a couple of sources: Primary source and Secondary Source.

Primary sources:

- Practical statutory audit experience (audit procedures)
- Observation and findings from client
- Discussions with audit team and management of the respective client

Secondary Source:

- Audit Practice Manual (APM) of Institute of Chartered Accountants of Bangladesh (ICAB)
- Study Material of ICAB (Assurance)
- Annual Reports of the client
- Company website
- Other relevant documents such as previous reports

Chapter 1.5: Limitations

Although I received adequate cooperation from my teammates and the management of the respective client, time constraint has been a challenge all through. Getting necessary documents in due time has remained a strenuous issue as well. Moreover, some of the observations and conclusions were drawn wholly based upon my level of understanding, comprehension, and interpretation of a particular statement due to insufficient evidence from the client. Therefore, any error that may have arisen in the report is subject to inadequate information and time lags. Nonetheless, in spite of all these limitations, I have tried with utmost sincerity to minimize discrepancies and errors.

Chapter 2: Organization Profile and Job Responsibility

2.1: Organization Profile

Hoda Vasi Chowdhury & Co. is a chartered accountants firm. It is a USAID approved Audit Firm (in 1993, Regional Inspector General/Singapore accorded approval HVC as eligible Auditors to perform USAID project in Bangladesh). Currently, they have 3 offices including their National Office located at Kawran Bazar in the capital of Dhaka. They also have other local offices: one in Dhaka and one in Chittagong. It is a partnership form of business, mainly run by 7 active partners.

Organization Structure

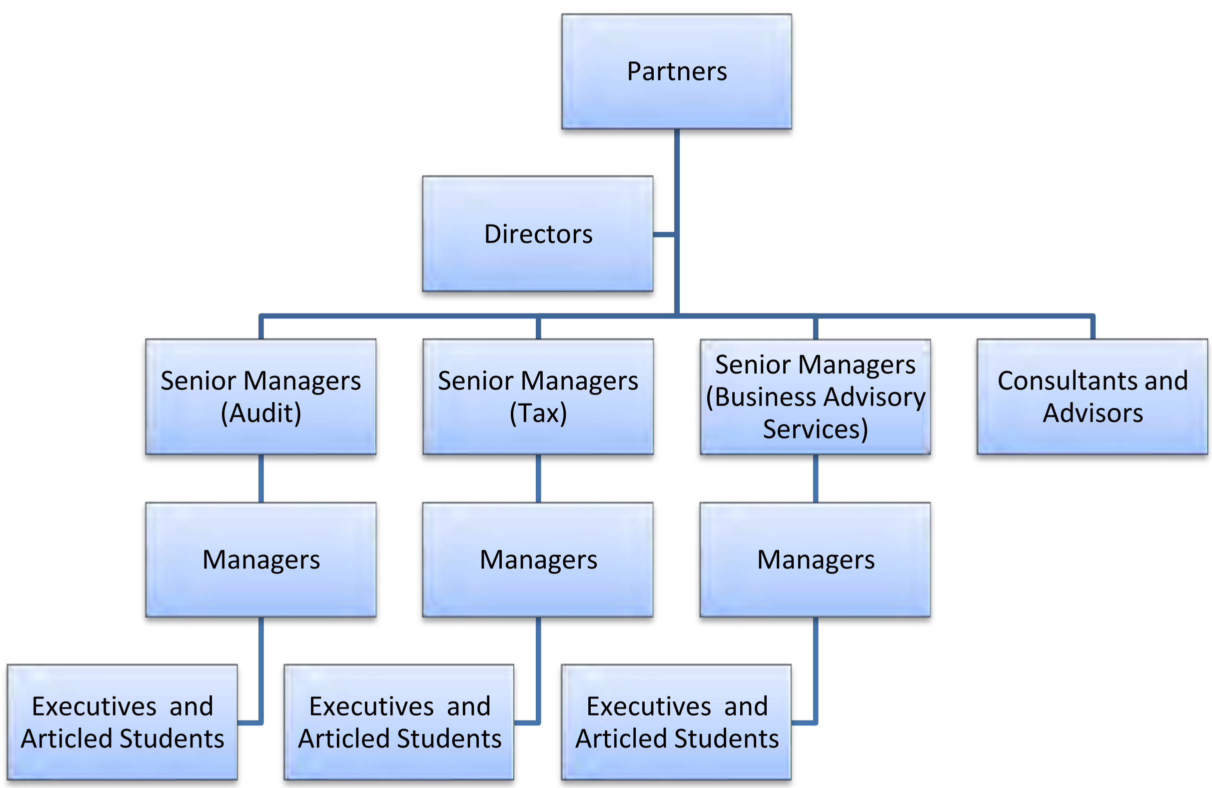


Figure 1: Organization Hierarchy of Hoda Vasi Chowdhury & Co.

Vision

To uphold the reputation and recognition as one of the best professional service provider in this region

Mission

To excel with relentless efforts for the steady growth of their clients and to keep pace with global growth and development technology and professionalism with high ethical standards

Strengths		
Organizational	**Operational**	**Professional Approaches**
1. Vast experience and high level competence of about 50 years 2. Average experience of 20 years of the professionals 3. Professional commitment 4. More than 200 professionals from different disciplines	1. Understanding client's needs and expectations 2. Direct supervision by partners 3. Extensive training and development programs 4. Customized approach to each task 5. Complete understanding of national, regional and international legal and professional requirements 6. Understanding International Standards	1. Establishing the need criteria 2. Mapping the value delivery system 3. Identifying core business processes 4. Developing methodology and task 5. Focusing the path forward connecting to tomorrow 6. Understanding the strength, weakness, opportunities and constraint of assigned tasks

Table 1: Strengths of Hoda Vasi Chowdhury & Co.

Areas of service

In order to help the clients keep pace with competitive and fast moving business environment, HVC offers wide range of services. Its expertise extends into different areas of financial, taxation, management and advisory matters. The most valued services fall under 4 main categories:

- Audit
- Tax
- Consulting
- Business Advisory

Further breakdown of services under each category are as follows:

Audit and Assurance

- Statutory/Annual Audit
- Special Purpose Audit/Review
- Agreed Upon Procedures Work
- Negative Assurance
- Interim Review
- Internal Audit
- Operational Audit
- Performance and Compliance Audit
- Corporate Governance
- US GAAP/ UJS GAAS Reporting
- Corporate Governance
- Basel II Implementation

Fiscal and Taxation

- Corporate Tax
- Value Added Tax (VAT)
- Other Indirect Tax
- Individual Tax Including Expatriate Tax
- Tax Advisory Services
- Tax Planning & Tax Compliance

- Tax Due Diligence
- Transfer Pricing

Business Advisory and Transaction Services

- Due Diligence
- Business Valuation
- Corporate Restructuring
- IPO Assistance
- Capital Market Advisory
- Joint Venture and Business Collaboration
- Feasibility Study
- Technical Collaboration
- Company Formation and Corporate Services
- Setting up Liaison / Branch Office
- Enterprise Risk Management
- Information Security and Risk Management
- Setting up Provident, Gratuity, Pension Funds
- Market Research, Survey and Studies

Management Consulting and Other Special Services

- Development Project Management
- Donor Funded Project Assistance
- IT Systems Design and Implementation
- Executive Search and Selection
- Immigration Verification Services
- Foreign Remittance
- Forensic Investigation
- Salary survey
- Training & Capacity Building
- Financial System Design
- Accounting Manual and Chart of Accounts Preparation
- Health & Nutrition Surveys
- Outward Remittance Certification

- Cash Incentive / Subsidy Certification
- Salary & Benefit Survey
- Work Permit & Visa Processing for Expatriates

Business Process Outsourcing (BPO)

- Payroll Management
- Book-keeping & Accounting
- Secretarial Services
- Personal Tax
- VAT, TDS
- Airlines Remittance services
- Provident Fund accounting
- Statutory return preparation & filing
- Quarterly return preparation & filing
- Document Management and record keeping
- Disaster Recovery and Business Community Support

Associate Consultants

HVC has a number of associate consultants to work on special projects and services, namely

- Health & Nutrition
- Human Resources
- Engineering
- Material Surveyor

Corporate Governance

The Corporate Governance is at the initial stage in our country. In the changing landscape of the regulatory and business environment, HVC stands well positioned to provide quality advice and other services on Corporate Government matter to a diverse client base. The vast and broad array of resources enables HVC to bring value and prospect for our clients. Detailed discussion is provided in the later part of the report with references available in the appendix.

Chapter 2.2: Job Responsibility and Job Description

Being a member of the statutory audit team for a publicly listed company, there were a number of jobs that had been assigned to me. The following are some of the tasks which I had undertaken:

- Understanding and analyzing the content of Audit Planning File
- Updating Audit Planning File
- Running audit procedures for items on financial statements i.e. Cash and cash equivalents, specific heads under administrative, selling and distribution overhead
- Running audit procedures on off-balance sheet items i.e. Commitments and Contingent Liabilities
- Physically inspecting vehicles at factory site and at head office premises to verify the legitimacy of information on documents
- Verifying and recording Corporate Governance Compliance (as per Notification No. SEC/CMRRCD/2006-158/134/Admin/44)
- Reporting observations and recommending alterations/adjustments in the financial statements as per findings and computations

Job Description

For each of the above mentioned job responsibilities, various kinds of activities had to be performed.

Understanding and analyzing the content of Audit Planning File: Planning file, as mentioned previously, is a vital document in case of a statutory audit. That is because all informations, starting from the basic information about the client and how its different internal control runs till the summary of financial analysis (e.g. ratio analysis with explanations), are recorded in this file. Before commencing my work at the client's office I was instructed to learn about audit planning from Audit Practice Manual (APM) of ICAB. This learning helped me to know how audit planning file is designed and why it is of much importance.

Updating Audit Planning File: The file is initially prepared based on the primary information which is gathered through previous documents such as past annual reports, and from information directly obtained through respective contact personnel. As the audit progress further, more information is accumulated and the planning file is updated accordingly. With such being the case, it is needless to say that an audit planning file may require to be updated all through the audit engagement. Moreover, when engaged partner or manager reviews audit progress, often the planning file is used a source of reference to relate to tasks completed till date for the sake of simplicity. While doing audit for the respective listed client, one of my jobs was to keep a check on the information in the planning file and make changes as required from time to time. At the end of the audit engagement the file was updated with documents, consisting the latest and final information, some of which are due to be published in the annual report for the year ended 2014-2015.

Running audit procedures for financial statement items: Coming to the heart of auditing, multiple audit procedures have to be run to validate and verify the disclosed information. Also, it must be kept in mind that based on the auditor's findings and remarks, changes are brought about in the financial statements before the final draft is prepared and signed by the signatories. For the client I served, I took charge to go over the following items:

- ***Cash and cash equivalents:*** Cash and cash equivalents comprises of items such as cash in-hand, cash at banks, and fixed deposits. For these items the audit procedures have been test of control and substantive procedures (test of detail classes of transactions, account balances, and disclosures). All opening balances have been confirmed from last year's annual report. Closing balance of cash in-hand at factory and at head office has been verified through surprise cash count on the first day of new financial year. Further verification was made through internal audit reports prepared throughout the year by the Internal Audit Department of the company. Cash at banks has been verified by matching ledger balances with bank statements, bank confirmations, and reconciliation statements. FDR has been verified through bank statements and FDR certificates. Also, FDR interest calculation, for both income & accrued, and FDR lien list has been verified and documented for reference.
- ***Administrative, Selling, and Distribution overheads:*** For this segment, I have vouched and checked specific heads like *Audit/Professional/Legal fees, Leave encashment, and Meeting expenses*. The audit procedures have been substantive procedures (test of detail classes of transactions, account balances, and disclosures). Just like Cash and cash equivalents, the opening balances were confirmed through previous years audited financial statements. The ledgers of the abovementioned items were collected and vouchers were selected for sampling. Based on the selected samples, control sheet had to be prepared and the reason for changes during the current year had to be determined and documented for further workings.
- ***Running audit procedures on off-balance sheet items:*** Off-Balance Sheet items comprised of 2 parts: Commitments and Contingent liabilities. The samples for contingent liabilities/off balance sheet items have been selected as random, unusual, and material transactions. The audit procedures for contingent liabilities/off balance sheet items have been substantive procedures (test of detail classes of transactions, account balances, and disclosures). Commitments as Letter

of Credit (LC) with respective banks have been checked and verified through bank confirmations/certificates. Contingent liabilities as bank guarantees, for both local and foreign, have also been verified through bank confirmations/certificates. For VAT and Tax claim, verification was done through lawyer's confirmation. Different values of cases were confirmed through calculations obtained from management and cross matched with the writ petition numbers confirmed by the lawyer. All relevant calculations and documents have been filed for reference.

- ***Physically inspecting vehicles at factory site and at head office premises:*** Samples for vehicles have been selected based on the availability of the vehicles on the particular date at the particular location i.e. factory and head office. Documents for all vehicles have been collected for reference and selective documents have been filed as samples. It is notable that approximately 43% of the vehicles could be physically checked within a time span of 2 days. The audit procedure for vehicles has been physical inspection of the vehicle and validation of related documents such as registration certificate, tax token, insurance certificate, purchase invoice, etc. The reasons for which the remaining vehicles could not be checked are because vehicles were on trip and were not available for inspection at factory site, and motor vehicles (mostly motor cycles used by marketing personnel) were not available at office premises for inspection. Besides, for some vehicles like cargo vessels, it is practically not possible to run physical inspections. However, relevant documents of all vehicles were collected, investigated, and stored for future references. The findings were reported to the superiors of the audit team and discussed with the management of the client as well. Apart from physically inspecting the vehicles, the factory site visit gave me an opportunity to learn about different functions and operations that are run by the business such as the production procedure, the sales and delivery procedure, logistics support, and other operations of the associates of the respective company.

Verifying and recording Corporate Governance compliance: During the final week before the audit report and audited financial statements were initialed, the compliance of Corporate Governance was checked in accordance to Corporate Governance Notification, dated 7 August 2012, by the Securities and Exchange Commission (SEC). Factors such as size of the board, independent directors, audit committee, etc has been checked and compliance has been confirmed. An imperative source of information was previous years Certificate on Compliance of Corporate Governance, audited by a separate external auditor. Further discussion on Corporate Governance is available in ***Chapter 4***.

Lastly, based on the observations and findings from the studied portion, suggestive measures were communicated to the management and necessary adjustments in figures and disclosures were made in the financial statements upon discussion with the management of the client. Further suggestive measures where passed on through management letter issued by the auditor to the respective client after the final signing of the audit report and audited financial statements.

Chapter 2.3: Auditor's Viewpoint

Auditor's Responsibility

Coming to the responsibility of the auditor, the *Audit Practice Manual (2009)* by Institute of Chartered Accountants of Bangladesh (ICAB) says that it is auditors' key duty to express independent opinion about the financial statements through proper audit procedures. The audit procedures are conducted in accordance to Bangladesh Standards on Auditing (BSA) and those standards require complying with the ethical standards. On that note, audit is planned and performed to attain reasonable assurance about whether the financial statements are free from material misstatements.

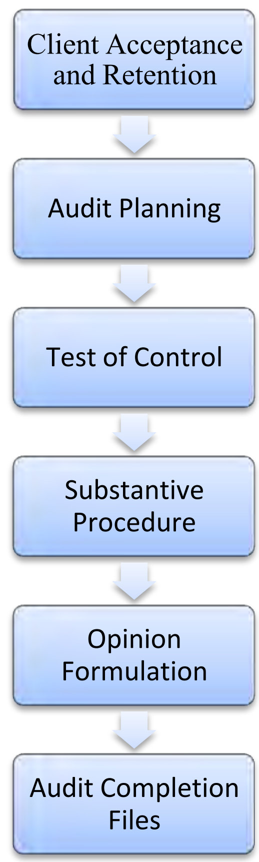
The audit procedure involves carrying out functions to obtain audit evidence about the disclosures made in the financial statements by the companies. The procedure selected for this purpose is dependent on auditor's judgment. In a conventional scenario it includes assessment of audit risks, whereby the audit risks are analyzed and evaluated from multiple angles such as general risks, industry conditions, regulatory conditions, business operations, investments, finance, financial reporting, objectives and strategies, control environment, and such like. These assessments are part of audit planning and encompass understanding of management integrity. However, it is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. It is a vital part of the audit to verify the appropriateness of accounting policies in order to justify the reasonableness of accounting estimates and fair representation of financial statements made by management.

Chapter 3: Audit Planning and Risk Management

International Financial Reporting Standards (IFRS) defines Audit Planning as the crucial stage at the beginning of audit process which ensures that required attention is given to the necessary areas, probable problems are predetermined to be analyzed thoroughly in course of audit process, audit task is completed effectively and efficiently, and work is properly coordinated between the engaging parties."

For an audit to be successful, sound planning between the auditor and the client is essential in order to maintain a productive and communicative environment. It must be noted that ethical standards be maintained at all times and no compromise must be made under any circumstances. In accordance to *Assurance Study Manual of ICAB (2009,* the following are the key steps in audit planning:

There are six major steps in an audit:



Step 1: Client Acceptance and Retention: Client is accepted and retained through:

1) Ensuring professional qualification as per laws and regulations
2) Ensuring availability of adequate resources
3) Communicating with present auditors

Once the above mentioned steps have been conducted, an Audit Engagement Letter is issued to the client.

Step 2: Audit Planning: The basis of planning should focus on what the organization does, how it conducts its operations, what are the risks that must be taken into account, and how will the audit be conducted; next section details 'Audit Planning'.

Step 3: Test of Control: This is required to comprehend the implementation of internal controls that are associated with audit.

Step 4: Substantive Procedure: This is a test that creates conclusive evidence regarding the components in the financial statements.

Step 5: Opinion Formulation: An independent audit opinion is the final outcome of an audit. Special attention to some areas such as inadequate books and records, lack of information from different branch offices, doubt over going concern, etc may be required.

Step 6: Audit Completion Files: A number files starting from the Audit File Index till the final analytical review are documented and stored for a certain period of time (as stated in laws and international standards).

Audit Planning:

While planning an audit, the auditor and the client discuss over issues such as scope and objective of the audit, the availability and accessibility of informations and other vital resources, evaluation of existing controls, and other remaining steps of audit. The *Audit Practice Manual (2009)* emphasizes on the fact that continuous risk assessment is required, especially for statutory audits

As mentioned earlier, the client is notified about the acceptance of audit through an engagement letter. The letter contains scope and objective of the audit, key personnel, auditor's responsibilities, terms and conditions, audit fees, and other relevant informations and disclosures.

In an initial meeting the client puts forward the units or areas that are to be examined along with available resources such as personnel, equipments, other facilities, etc. It is important that the client recognizes the special areas that will need to be looked at. This makes the audit process more effective.

In a *preliminary engagement activity* the auditor gathers important informations about the organization to have a general view of the operations. The information may be obtained through previous reports, files, documents, or even through interactions with different employees.

After the preliminary engagement activity, comes the *Internal Control Review*. This is one of the core rudiments in overall audit process. It is quite time consuming and might as well be a lengthy process depending on the type and size of the organization. For instance, the auditor gathers information about non-current assets, current assets, capital and reserves, long term liabilities, current liabilities, etc. This review assists the auditor to identify the areas of risks and ways to work out through those risky units by designing an efficient fieldwork. The preparation of audit program concludes with preliminary survey. Further, it spots out the necessary fieldworks, and takes auditing to the next phase i.e. *fieldwork*.

Coming to fieldworks, it focuses on transaction testing and informal communications. Various tests for verification and validation of information are run. Random sampling, block sampling, etc are used. It is used to determine whether the internal controls are running as per what has been stated by the client. It wraps up with a list of significant findings that will be incorporated in the draft audit report.

Once fieldwork is successfully completed, a summary i.e. Management Letter for control issues and immaterial items, is prepared by the auditor that is inclusive of findings, recommendations, and conclusions. The *working papers* keep track of all findings and notes how it may be dealt with. The *draft report* is discussed and reviewed by the auditor as well as the management of the organization so that necessary amendments from the part of the client can be brought about before the *final audit report* is prepared, signed, and published.

Three most important factors to be mindful of during auditing are:

1. *Ethical Position:* As mentioned earlier, audit is based largely on value judgment. Therefore, compromising with ethics at any point will violate the code of conduct. It must be kept in mind that an auditor is independent and is free to give reasonable judgments based on facts, and they are accountable to stakeholders like government, shareholders, and society as a whole.
2. *Risk Assessment:* The degree of risk associated with numerous elements of internal control (usually measured on a scale of low, medium, high)
3. *Materiality:* The threshold or cutoff point after which financial information plays a crucial role in decision making. Determining the extent of materiality is of high importance.
4. *Sampling*: Engaged management may determine the size of the sample in accordance to the sampling table provided in the Audit Practice Manual. Sample size is determined based on the correlation of population size and materiality. For instance, if the population size is BDT 10 million and corresponding materiality is BDT 1 million, it brings us to the conclusion that population size is ten times of materiality. With this, we refer back to the table (risk level on the column and proportion of materiality on the rows) to determine the projected sampling size. Detailed discussion on materiality is provided in ***Chapter 3.4***. In case if the maximum sample size is not available the required number of selection will be larger.

Chapter 3.1: Audit Planning Summary

I. Approval of Planning, Review of Planning at Completion Stage, and Acceptance Procedures

Audit Planning Summary serves as a foundation of pre-auditing and post-auditing work. The vivid guideline is available both in the Audit Practice Manual (2009) and Assurance Study Manual (2009). It includes three major parts:

Approval of Planning and Review of planning at completion stage take the structure of a declaration on behalf of the statutory auditor, signed by the audit engagement partner, a practicing chartered accountant, on a particular date before the commencement of the audit. It provides confirmations about the qualitative and ethical standards that are to be maintained in accordance to the enforced regulatory laws all through the task.

1. Approval of planning

Approval of planning precisely chalks out a list of strategies and standards, Below is a standard format of Approval of planning as designed by *Institute of Chartered Accountants of Bangladesh (ICAB)* and is widely used by all practicing members of ICAB as per the standards set in 2009.

I confirm that:

1. An overall strategy has been established for the audit.
2. As audit plan has been developed in order to reduce risk to an acceptably low level.
3. In particular the risks of material misstatement in the financial statements due to fraud have been considered.
4. The overall strategy and audit plan been properly documented in a planning memorandum.
5. The acceptance procedures set out have been followed.
6. The audit planning checklist has been properly completed.
7. The audit has been planned with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated!

________________________ ________________________

Audit Engagement Partner Date

Once the abovementioned document is checked and sanctioned by the audit engagement partner, it is passed on to the respective manager and audit seniors who shall be in charge of monitoring, managing, and working through the functional areas. Conventionally, an audit engagement involves one audit partner, one manager, and one or more seniors depending on the size of the organization and volume and complexity of tasks that are to be undertaken.

2. Review of planning at completion stage

Following this, comes the review of planning at completion stage. This is a statement declaring that all the procedures and standards, as per audit planning approval, has been properly implemented and followed and no discrepancies have been made. Similar to approval of audit, this document is a part of audit planning file and is enclosed at the end with the signature of the audit engagement partner. Below is the format of Review of audit planning at completion stage:

Review of planning at completion stage

I confirm that:

1. The overall strategy and audit plan were updated as necessary during the course of audit.
2. All issues arising from the audit plan have been addressed on the file.
3. The audit plan has been cross-referenced to where he relevant work was performed.
4.

________________________ ________________________

Audit Engagement Partner Date

3. Acceptance Procedures

According to Companies Act 1994, “a Chartered Accountant shall not accept appointment or continue as auditor if the firm has any interest likely to conflict with carrying out the audit properly” and BSA 2004 requires compliance with ICAB and IFAC Code of Ethics.

Based on the aforementioned declaration of code of conduct and practice, a questionnaire is prepared and answered for assessment in order to justify the legitimacy for accepting the audit appointment. The questionnaire presupposes knowledge of ICAB/IFAC Code of Ethics. It is mandatory to have it filled annually for all clients to make certain that the standards have been complied with. Note to be made: audit is a task that calls for high integrity and strong ethical standards. As mentioned time and again, any form of incongruity in terms of ethics is absolutely prohibited.

The questionnaire is composed, encompassing numerous key areas that are vital to be studied thoroughly before accepting an agreement. In the chapter *Audit Planning Summary* in Audit *Practice Manual (2009,* the following phase is indispensible:

1. Undue dependence on an audit client
   a) Do the total fees for this client/group of clients exceed:

i. 10% of the annual fee income of the audit firm or the part of the firm by reference to which the audit engagement partner's profit share is calculated?
ii. 15% of the annual fee income of the audit firm or the part of the firm by reference to which the audit engagement partner's profit share is calculated?
iii. Is this client/group of clients highly prestigious?
iv. Is this client/group of clients a listed or public interest client or group?

2. Loans to or from a client; guarantees; overdue fees
3. Goods and services; hospitality
4. Litigations
5. Family or other personal relationships
6. Ex-partners or senior employees
7. Mutual business interest
8. Beneficial interests and trusteeship
9. Associated firms
10. Provision of other services, specialist valuations and advocacy
11. Rotation of audit engagement partner (no more than 10 years)
12. Adequate resources
13. Proper performance

IFAC Ethical Standards require appropriate safeguards. That is, an external independent quality control review should ascertain regular annual fee income that is to be charged significantly as part of the total fee, depending on the structure of the firm and whether the firm is well established or newly created. The stated percentages i.e. 10% and 15% are a guideline (rule of thumb) and would be 5% and 10%

respectively for listed or public interest organizations. As a matter for fact, a public interest client is one that would attract national attention if a problem were publicized.

Safeguards

If any of the above questions has been answered with a 'yes', specification of the safeguard must be provided as a means of justification to preserve integrity and independence, and to ensure the availability of resources and the ability to perform the audit properly.

Once all these documentation has been successfully completed, the engagement partner signs a final declaration, stating the satisfaction about the procedures regarding the acceptance and continuance of engagement with the client for the particular financial year, and that the conclusion reached in this regard is appropriate and have been properly documented. All relevant information has been obtained from the firm (along with network firms, where applicable) to determine and evaluate circumstances and relationships that may create a threat to independence. Furthermore, evaluation on breaches of information has been run, if any, of the firm's independence policies and necessary measures have been taken to eliminate any threat and to bring it back to an acceptable level by applying safeguards. Conclusion on independence and other relevant issues is discussed within the firm which is essential to support the view. Finally, the client is notified of all significant facts and matters that bear upon the firm's objectivity and independence.

This particular piece of declaration is reviewed and signed by a second partner of the firm for authentication.

From this part of the observation and learning in the context of audit planning, it can be seen that integrity, uprightness, and highest ethical standards are the backbone of chartered accountants and the entire audit practice largely counts on the precision and diligence of the auditor.

Chapter 3.2: Ethical Issues

Safeguards Applied

For an audit to be acceptable to all stakeholders, the looming threats must be considered in advance so that it can be scrutinized as per need for the audit report to be flawless to the utmost extent. For such, a safeguard form is prepared where nature of probable threats is highlighted and feasible response to those threats is suggested and noted. As per the set rule in *Bangladesh Standards on Auditing*, the extent of threat is ranked as *high, medium, or low*. The suggestive measures to surpass the threats are ticked out. What more, the form provides a framework for assessing the extent of any threat to the firm's independence from the provision of accounting as well as tax compliance services. Therefore, it must be illustrated that the form provides only an indication of the service of any threats and the possible safeguards that are suitable to be applied. The specific safeguards that are to be applied and their sufficiency is a matter of professional judgment and are subject to variance.

Nature of Threats

- Preparation of statutory accounts from management accounts where little or no adjustment is required and the client approves any adjustments and narratives in accounts
- Preparation of statutory accounts from trial balance or management accounts where significant adjustments are required but where the client approves those adjustments and narratives in the accounts
- Preparation of statutory accounts from books of original entry where significant adjustments are required but where the client approves those adjustments and narratives in the accounts
- The firm maintains the accounting records and or prepares management accounts
- The firm completes VAT returns
- The firm prepares the tax computations that are routine with little need for any judgment
- The firm prepares the tax computations where there are contentious items whose treatment may be disputed by NBR

Response to Threats

- If any threats are insignificant, no action is required
- The file contains evidence that the possible threats have been considered and the treatment of relevant matters have been discussed and agreed in principle with the client
- In addition to the file notes, different staffs were used to carry out the non-audit works
- In addition to the file notes, different managers/partners were responsible for non-audit works
- There will be a second partner review of at least the statutory accounts, planning, completion and any contentious areas where judgment was required by the auditor
- The file will be subject to external hot review

Once this checklist of threats and combats are prepared, it is approved by the engagement partner with the verification that appropriate safeguards have been applied in relation to the threats which have been identified under various ranges, and that the stated solutions are sufficient to safeguard the firm's independence.

Chapter 3.3: Audit Planning File Index

The permanent audit file index gives a comprehensive list of several matters that are of relevance and that should be documented in the permanent audit file. It may be said to be a requirement of statutory audit. A table with a checklist is prepared where boxes are ticked based on the tasks that has been done and reference to working papers are provided accordingly for further details, if needed.

The objective of permanent audit file is to maintain documentation and information which are relevant to the ongoing audit and maybe used for future references. It is compulsory that the file be reviewed, at least annually, with material that is no longer of use to be removed from the file and archived. The file should not be considered as a permanent repository for documents that may once have been relevant and applicable.

As mentioned in the Audit Practice Manual (APM) by The Institute of Chartered Accountants of Bangladesh (ICAB), forms have been designed for the purpose of recording the basic information, which should be kept in the permanent audit file. These items include:

- Background Information
- Details of bankers and professional advisors
- Know your client checklist
- Register of laws and regulations
- Details of related parties
- Significant accounting policies

Know your client checklist: This is an *aide-memoire* for recording information in compliance with BSA 315: *Understanding the entity and its environment and assessing the risks of material misstatement.* It should be completed as a fundamental part of panning process.

Register of Laws and Regulations: As the name suggests, it is a form for documenting significant and vital rules and regulations which affect the operation of the client company. As per BSA 250: *Consideration of laws and regulations in an audit of financial statements requires the auditor to*:

- Obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework (BSA 250.15)
- Obtain a general understanding of the procedures followed by the entity to ensure compliance with that framework (BSA 250.15.1)
- Perform further audit procedures to help identify instances of non-compliance with those laws and regulations where non-compliance should be considered when preparing the financial statements (BSA 250.18)

It is required that the form must be tailored to suit the client. This calls for more than an indistinguishable note about the applicability of the Companies Act 1994 and employment legislation. Therefore, it requires specific comments on:

- The procedure the client has in place to ensure compliance with each requirement
- The audit approach for determining compliance

Furthermore, the form is split in order to consider the aforementioned laws and regulations which relate to the accounts, to the business in general, and to specific client.

Chapter 3.4: Assessment of Risk and Materiality

The assessment of risk and materiality are two of the core planning procedures. To be specific, the assessment of risk is at the heart of audit approach as set out in BSA. In accordance to APM approach, audit risk interacts with materiality and population value to determine sample sizes.

The biggest impact of the change in BSA is in the approach to risk. There are a couple of risks as per BSA:

1. BSA 315: Understanding the entity and its environment and assessing the risks of material misstatements
2. BSA 330: The auditor's procedures in response to assessed risks

Audit risk is present in all audit engagements and while giving audit opinions on financial informations and disclosures in the financial statements. These risks may arise 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". The third component i.e. sampling risk is absolutely mandatory under all circumstances and is rarely eliminated. As a matter of fact, it is certain that some risks will remain, but the purpose of this process is to minimize risk and bring it within control limits. It is important that during the audit procedures, misstatements be detected in the accounts (if any) and adequate corrective measures are taken in due time. This is why regardless of the size of the company, assessment of audit risk is mandatory.

Analytical Review

Analytical review is a useful source of audit evidence, which includes:

Figure 2: Analytical Review Process

During the audit engagement at the respective client, the analytical review was prepared by audit executive under the guidance and supervision of job in-charge and was reviewed by the manager. With reference to the analytical review prepared for the above mentioned client, it can be stated that, "*The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the Company and its environment (BSA 520.8). The auditor should apply analytical procedures further at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding of the Company (520.13).*"

From my practical audit engagement experience, it may be reasonable to put forward that analytical review is not widely used to the extent it should be. For smaller companies, analytical review is not necessarily conducted. A form of final analytical review in general is carried out but it may be of little use to direct audit procedure towards the areas of importance by the time it is prepared. Thus, it remains only as a matter of formality and compliance rather than a useful facet.

Tests of controls

Bangladesh Standards on Auditing (BSA) require a much greater consideration of the client's system of internal control than what was required as per old standards. In the light of the "old school" the testing of internal control was entirely optional. But, that is no longer the case as per new regulations.

As a part of understanding the entity and its environment, it is essential to weigh up and observe the design and implementation of all controls which are relevant to the audit. This needs more than mere enquiry; it needs further elaborate work such as inspecting documents, tracing transactions, etc. The testing of the operational effectiveness of internal controls (compliance testing) is compulsory where:

- The risk assessment includes an expectation that controls are operating effectively, or
- Substantive tests alone do not provide adequate evidence of their operation

The initial stage in this process is to complete the Internal Control Questionnaire (ICQ) to determine the controls that run over the major business processes. During the statutory audit of the respective client for the year ended 2014-2015, a complete ICQ was prepared to be documented in the planning file, as well as specific ICQs in regards to the main items of financial statements such as non-current assets, sales and trade receivables, purchase, inventory and trade payables, and cash and cash equivalents were prepared for each of the separate document files. Where there is a need for test of controls or where a decision is made to do so, the ICQ allows the auditor to record how the operation of controls will be tested. The reliance on the controls based on findings and considerations should also be recorded therein.

Fraud Risk

Fraud risk assessment is conducted as part of audit planning in order to determine:

- Risk factors relating to misstatements arising from fraudulent financial reporting
- Risk factors relating to misstatements arising from misappropriation of assets

In the context of my audit experience at the mentioned listed company, it may be remarked that a high possibility of incorrect financial reporting and misstatements of assets value may be embarked on by the companies for the purpose of increasing earnings per share and making investment in the company look lucrative. However, this gives a false picture to the stakeholders, particularly to the existing and potential shareholders. Their unawareness about the actual financial position of the company may cause them to take wrong investment decisions, which eventually will lead to an extreme state of loss. at this point, we can consider the example of Enron; an American company which had to cease operation upon being found to have published overstated profit and share price. The auditor of the company was also held responsible for this decisive act and had to face penalty set by the court. This has remained as one of the biggest scandals of all time in the global finance market. It sets an example as to what the consequences of a fraud may turn out to be. Therefore, keeping forth all ethical standards, fraud risk assists to determine the chances of scope of any such fraud which may hamper the reputation of the company as well as the auditor, and harm the stakeholders.

Materiality

According to the definition of Bangladesh Standards on Auditing, which is adopted from IASB framework for the purpose of Preparation and Presentation of Financial Statements, Materiality means:

"Information is material if its omission or misstatements could influence the economic decisions of the 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." – BSA 320.3

Audit work is affected in two ways in regards to materiality:

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

For accounts to be true and fair, it must be free of material misstatements. No basis should be applied blindly and the level of materiality in general should be correlated with the size of the business. However, under certain circumstances items can be material by nature despite its size or magnitude.

It is conventionally perceived that for trading entities, auditing will include turnover-based materiality; for investment entities, auditing will include asset-based materiality.

A guide for determining the level of materiality is set out by ICAB mentioned below. It must be emphasized that the table is guidance only. The level of materiality is a matter for professional judgment. Under no circumstances should materiality be 'calculated' as an average of the three parameters.

Limit in Taka	Parameters		
	Profit before taxation	**Total assets**	**Turnover**
0-50,000,000	10%	3.0%	3.0%
50,000,001-100,000,000	10%	2.5%	2.5%
100,000,001-200,000,000	10%	2.0%	2.0%
200,000,001-560,000,000	10%	1.5%	1.5%
Above 560,000,000	10%	1.0%	1.0%

Table 2: *Quantitative Materiality as per guidance of ICAB*

To comply with these given guidelines, a performance material threshold is prepared. It is prepared for assessing the risk of significant misstatement, and determining the nature, timing and extent of further audit procedures. The materiality threshold consists of:

- Planning materiality
- Performance materiality
- Materiality threshold

Planning materiality is usually close to turnover parameter, especially in the case of manufacturing companies. For investment companies, it is somewhere between turnover parameter and net asset parameters.

In case of the respective audited client, turnover-based materiality has been followed. It is a manufacturing and trading entity which calls for turnover-based materiality to be applied. To compute materiality, the parameters used were as follows:

- Profit before taxation materiality = 10%
- Total asset materiality = 1%
- Turnover materiality = 1%

Performance materiality and materiality threshold were computed as per following:

- Performance materiality to be 90% of planning materiality
- Materiality threshold to be up to 5% of planning materiality

It is important to know that setting materiality as too low will increase sample sizes. This, in turn, will make audit procedure lengthy and time consuming and audit efficiency will be adversely affected. Also, the work of auditing firm becomes questionable because too low materiality reflects very precise judgment about the truth and fairness of the disclosed information, which puts auditor's integrity at stake. Thus, in general it is advised that the table be accepted for use in all, apart from any exceptional cases.

Analysis

In the light of the risks discussed above, it can be said that regardless of the industry and type of business, certain risks are inherent to the business and has to be managed in order to avoid any adverse effects. For measuring risks, facets like financial analysis such as ratio analysis, vertical analysis (measuring items as a percentage of sales on statement of profit or loss and other comprehensive income and as a percentage of totals assets on statement of financial position), and horizontal analysis (percentage change between two or more number of years) may be used. Knowing the company's own strengths, weaknesses, opportunities and threats are very important. For that, having vivid knowledge about the company's own internal control is very crucial. Simultaneously, keeping track of industry information and rival companies is also important. This enables the company to make use of its strengths, work on its weaknesses, convert some of the strengths into opportunities, reap benefits from the existing opportunities, and to eradicate the threats to the utmost extent. Nowadays, all industries are dynamic and organizations are volatile. Therefore, for risk management the organization must have proper control over its operations and performance, and be adaptive. The company must maintain good terms with third parties and stakeholders like suppliers, dealers/distributors, customers, shareholders, and so on. It relates to both financial and non-financial performance of the company. A positive word of mouth can play a significant role in determining the market positioning of a business. During times of unrest such as political turmoil, recession, environmental hazards, etc the organization must be able to recover within the shortest possible time. For that, having strong disaster recovery system is essential. Along with all these, staying updated about rules and regulations set by different regulatory bodies is needed. The world is a global village and the organizations are part of the society. Therefore, keeping the benefit of all in mind, the businesses should abide by the rules. That not only makes them more compliant, but also elements a number of risks which otherwise would pose as threats and backfire.

Based on the quantitative materiality, I had calculated the materiality for my respective client as follows:

Particulars	**Figures in BDT (June'14-March'15)**	**Figures in BDT (Projected for the year 2015)**	**Parameter applicable**	**Materiality in BDT**
Profit before taxation	665,421,135	887,228,180	10%	88,722,818
Total assets	12,300,957,353	12,300,957,353	1%	123,009,574
Turnover	6,241,793,395	8,322,391,193	1%	83,223,912

Since it is a manufacturing business, the materiality is based on turn over. The estimated materiality is set at Tk. 85,000,000. Any discrepancy greater than Tk. 85,000,000, in case of turnover, will be considered as material misstatement and changes in management decision are inevitable.

Chapter 4: Corporate Governance

Chapter 4.1: Overview

Corporate Governance is the framework of rules, regulations, and practices with the help of which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders such as financiers, customers, management, employees, government, the community, etc.

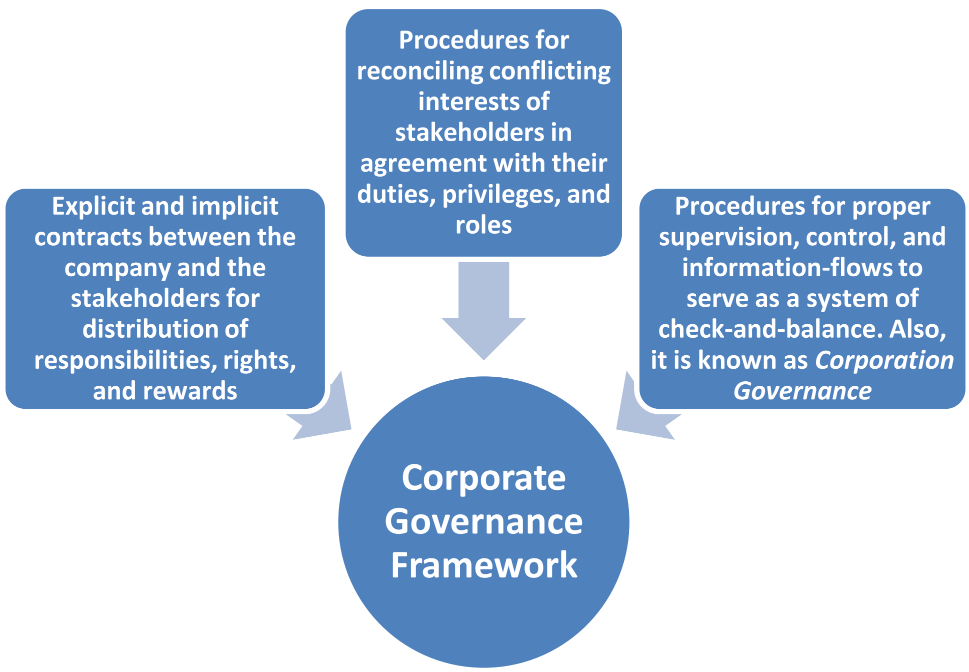


Figure 3: The Corporate Governance Framework

On the other hand, corporate governance has got some limitations and challenges which need to be tackled. They are identified to be as follows:

1. ***Adoption of a standard framework:*** The first challenge is to adopt corporate governance in line with standard framework in making the management accountable and responsible to the Board and the Board to the shareholders/stakeholders.

2. ***Function of independent wings:*** In corporate governance framework, there are several independent internal and external branches for ensuring accountability in organizing resources and reporting thereof. The question arises regarding the biasness of the board of directors. The selection and appointment of independent directors arises as a requirement of *Securities and Exchange Commission (SEC) Corporate Governance Guidelines*. The Board appoints such directors, which is subject to approval at the Annual General Meeting (AGM).
3. ***Transparent disclosures:*** The top-most challenge in the context of Bangladesh for implementation of corporate governance is the disclosure of adequate and appropriate information in the financial statements. Only few companies as listed with Stock Exchanges, excluding some large reputable companies, disclose information correctly. If we look at the similar pattern of reporting on the same information as required by law, Bangladesh Financial Reporting Standards (BFRSs), and regulations of regulators, most of the companies are found to be varied in presentation with adequate and appropriate information from each other, with the exception to banks and financial institutions.
4. ***Protecting shareholders' interest:*** In the motion of protecting the interest of the shareholders, challenges come up in order to ensure compliance of laws and policies. The nomination committee may be biased to nominate any directors instead of someone who may act for the interest of shareholders. Such biasness is not merely against corporate governance but is also a part of Internal Control Questionnaire (ICQ) and management integrity.
5. ***Focus on short term profit:*** The Board has a propensity to make profit. Therefore, it operates with strategies to confine and uphold market position under all circumstances through diversified products and service qualities and other strategies for accomplishing competitive advantage.

In a developing country like Bangladesh, fighting against challenges is quite intricate because of:

1. Different forms of business i.e. proprietorship, partnership, or limited liability companies have capital market participation but has a knack to hold supremacy in the form of family business control.

2. Government's political participation in the Board of state-owned banks, financial institutions, or any other state-owned organizations.

3. Obsolete laws to administer and gratify corporate governance framework and the failure to face the challenges on numerous justifications, in conjunction with establishing the rule of law.

4. Inferior human resources or inadequately cultured workforce that is not dynamic and fails to adapt to changes or recognize challenges which are aligned with professional integrity and ethical values.

Chapter 4.2: Certification of Compliance of Corporate Governance Guidelines

Certification of Compliance of Corporate Governance Guidelines is a report on the compliance of conditions of the Corporate Governance Guidelines. For each fiscal year, the compliance of Corporate Governance Guidelines is reviewed by Chartered Accountants. Based on the examination, the responsible member of Institute of Chartered Accountants of Bangladesh (ICAB), is required to provide a certificate about whether the company is in line with the said conditions of Corporate Governance. The certification is published in the annual report for the company for public disclosure.

The examination is conducted with the intention of providing a certification which is confined to the procedures including implementation as espoused by the organization to make sure that the compliance of the stated conditions abides by Corporate Governance Guidelines and correct reporting of the status of the compliance. The certificate is prepared on the basis of the collected evidence and representation gathered through inspection.

Nonetheless, it is important to bear in mind that it is neither an audit nor an expression of opinion on the financial statements of the organization. This declaration is clearly stated on the certificate for precise understanding of the stakeholders.

Chapter 4.3: Report on compliance of Corporate Governance Guideline of BSEC

The presentation on the status of compliance with the conditions imposed by the Bangladesh Securities and Exchange Commission's Notification dated 7th August 2012, issued under section 2CC of the Securities and Exchange Ordinance, 1996 is referred to as the Report on compliance of Corporate Governance Guideline of BSEC.

The report comes in a specific format as per the guideline. It focuses on a number of key areas such as:

1. Board of Directors (BoD)
    - Independent Directors
    - What "Independent Director" means

- Qualification of Independent Directors (ID)
- The additional statements to be accompanied with the Director's Report
- Pattern of Shareholding and name wise details (disclosing aggregate number of shares)
- Appointment/Re-appointment of a director

2. Chief Financial Officer, Head of Internal Audit, & Company Secretary
3. Audit Committee
    - Constitution of the Audit Committee
    - Chairman of the Audit Committee
    - Reporting of the Audit Committee
    - Reporting to the Board of Directors

4. External/Statutory Audit
5. Subsidiary Company
6. Duties of Chief Executive Officer (CEO) and Chief Financial Officer (CFO)
7. Reporting and Compliance of Corporate Governance

For further details, see Corporate Governance Notification attached in Appendix 1.

Chapter 4.4: Evaluation

In the light current perspective, it may be said that the need for intensifying corporate governance comes with a global demand for a sound and transparent corporate world system. Previously, corporate governance was viewed as an overall coordination or control mechanisms, for both external and internal purposes, which provided an effectual means of good corporate behavioral process. This process ensures accountability of those who matter most in maximizing the value for the shareholders in a fully transparent manner. The laws in Bangladesh has been be updated to cater corporate governance structure and to make the board of directors accountable and devoted to the compliance of the Corporate Governance code meticulously. The regulators, Securities and Exchange Commission (SEC), Bangladesh Bank, Insurance Regulatory and Development Authority (IRDA), etc has enhanced their capacity to monitor the corporate governance compliance.

However, my personal audit experience discloses that a significant number of investors are unaware about the basic components of corporate governance. Simply based on the market hype, they are investing their money into the stock market without having much knowledge about the imperative factors such as those associated with corporate governance. This ultimately results in unfavorable market conditions such as the stock market crash in Bangladesh in 2010. Therefore, as much as it is the responsibility of the auditor to check and evaluate the corporate governance compliance, it is also the responsibility of the stakeholders, more essentially the shareholders, to be well aware about the different components of corporate governance and about its compliance. Otherwise, the certification will not ultimately be beneficial.

Chapter 5: Challenges and Way Forward

While working with the statutory audit team of Hoda Vasi Chowdhury & Co in audit engagement for the year ended 30 June 2015 at publicly listed company, numerous and frequent challenges had to be dealt with. Some of these challenges arose because of the limitations of the client, while the others came about because of the limitations of third party. Either way, the responsibility to identify the challenges and to find reasonable solutions is on the part of the auditor. In regards to the problems, the company cooperated to mitigate the problems and to come to a rational solution upon the request of the auditor. Some of the key problems and possible remedies are as follows:

To be on time

It has happens almost all through the audit process, that collecting required and relevant documents is time consuming and strenuous. As per the rule of most companies, each document that is being asked from the organization for verification and validation, a requisition has to be submitted, normally to the Deputy General Manager (Accounts and Finance) or other personnel in charge for approval. Once approved, it is forwarded to the responsible personnel in the accounts and finance department to deliver necessary documents. All these formalities take up a lot of time. Because of the delay, the audit team has to face troubles with time management. On certain days the productivity of the team members were fairly low because of inadequate supporting documents, while on other days they were absolutely employed with excess work load. Had the problem of these time lags not remained, the work could have paced up.

Remedy: To overcome the problem of getting all documents and rudiments in due time, job responsibility is allocated among different team members. Based on the portion of task that is taken up by each team member, requisitions are submitted and respective documents are received when delivered by the client. In case if the client is taking more than anticipated time, gentle reminders are given to the particular personnel to ensure that the documents are in hand by the earliest time possible. If the documents are unavailable due to some technical reasons, the team members sit in person with the personnel in-charge and take updates which are noted on the working paper.

Getting all relevant documents

Even though the client documents all information to prepare financial statement as per Bangladesh Accounting Standards (BASs) and Bangladesh Financial Reporting Standards (BFRSs), some of the documents were difficult to track down. This was mainly because of technical and operational reasons.

For instance, getting the bank balance confirmations from all the banks where the company maintains an account was a setback. Not all bank confirmations came on time. Problems included failure to deliver the request letter for bank confirmation which has been sent by the auditor with the approval of the Chief Financial Officer (CFO) of the client and the Engagement Manager of the auditor. One reason for delivery failure was marked to be inaccurate address of the bank to which the letter was sent. Another problem arose because of *Error of Transposition* i.e. the back account number was incorrect. As a result, bank failed to provide a bank balance confirmation. Besides these, some of the documents could not be obtained initially due to delay in updating the informations for the respective period. Such was the case in case of *contingent liabilities*. It is an off-balance sheet item and was not updated when the first draft of financial statements were provided to be worked out with. Hence, it could only be treated precisely till almost towards the end. Furthermore, some of the documents could not be obtained because the company failed to trace them and declared them as lost.

Remedy: To overcome the challenge of getting all relevant documents, the audit team members run a cross checking process between the documents that have already been received and that are yet to be received. Based on the findings, the accounts and finance department officials are consulted. Additional documents may also be required to meet auditor's need. For example, to complete vouching, associated vouchers are needed along with the ledgers. Thus, they are sought from the client. In case of any discrepancies such as bounced back request letter for bank confirmation and so on, firstly the auditor informs the client about the issue, followed by suggestive measures put forward by the auditor to alleviate the problem. A drawback of this solution is related to identification of critical problems. Complex issues may have to be addressed and solved collaboratively by the auditor and the client. Auditor's requirements are third party dealings and demands to be backed up by client to extract information from all pertinent parties.

Updating audit planning documents and other working papers

Initially, all workouts are run as per the first draft of financial statement that is provided by the client. Later, if there are any changes the revised draft of the financial statement is provided. Hence, figures have to be adjusted all over again. At times it becomes difficult, particularly if it happens towards the end of the audit. Time is constricted and the volume of paperwork is high. Not all the data can be updated in due time. As a consequence, some of the figures remain unadjusted in the audit planning file and on the working papers.

Remedy: To mitigate the problem of updating audit planning documents and other working papers, it can be said that this is an inherent challenge. As mentioned above, in the light of the first draft of financial statement, documents and files are updated. Nonetheless, draft financial statement is subject to adjustments in most of the cases. Some of these adjustments are a result of auditor's findings; some are simple updates made by the client. Whichever cases it may fall under, the auditor have to bear with it and aim to fulfill the undertaken task to the utmost extent. They simply have to put in extra effort to cover up and bring about as many alterations as possible within extremely short period of time. These inherent risks are a part of *Assessment of Audit Risks*, a core part of audit planning.

Coordinating with other departments

For certain clarifications, other departments along with accounts and finance department and/or internal audit department have to be consulted. For example, to verify legal expenses, the legal department has to be consulted for authenticity. In case if the company has any litigations or law suits from previous fiscal year(s) the current status can be verified as per the supporting documents which are in possession of the legal department. For other purposes, marketing, sales, or commercial department may have contributions to make. However, this coordination is also subject to protocols. Proper channel for effective communication is created only through engaged accounts and finance department personnel. Once again, time lag comes down as a challenge.

Remedy: This challenge can be easily toned down through proper cooperation of the accounts and finance department officials. It is needless to say that within the organization, the departments are well connected and can communicate to a deeper extent than external parties like statutory auditors. Therefore, if the accounts and financial department is fully engaged to aid the audit team with resources from other departments, a great deal of problem is resolved without much challenge and worry from the side of the auditor.

Inadequate resources

Resources and supplies such as computers, access to the computerized system, and such like may prove to be a challenge. It reduces productivity and makes work process lengthy. Proper safety measures such as active antivirus may also be missing.

Remedy(s): The problem of inadequate resources can be dealt with in a couple of ways.

- The auditors can take their own charge and make arrangements on their accord such as carrying their own laptops or get laptops from firm's head office.
- The auditor can request the client to make arrangements that is essential to facilitate audit process. They may be asked to provide access to the computerized system. If that is not possible

then alternate modes have to be managed. This is effective, provided that the client is accommodative enough to help out the auditors.

Chapter 5.1: Recommendations

In order to overcome the diagnosed problems, several strategies are formulated by the statutory auditors. Provided that a properly chalked out timeline is set by the auditor in collaboration with the client(s), they have deadlines to meet. Therefore, they take up the challenge to get past all hurdles in an ideal and professional manner. As mentioned earlier, problems may arise because of either party. Nonetheless, it is the auditor who needs to take charge to get the job done. The audit team can discuss problems among themselves and get observations and feedbacks from engaged partner and manager.

The above mentioned remedies are not flawless, as a matter of fact. Besides being time consuming, it may also call for harmony between the auditor and the client(s). It must be kept in mind throughout the audit process that such kind of work can only be done efficiently and be effective if the client is dynamic and is open to changes. If the client is steadfast at criticizing the auditor, it will only make auditor's job further difficult and their productivity will fall significantly, which in turn, may hamper the quality of reporting. For that reason, if the client is willing to get an audit report of high standard and get over the negative chain reaction, they should sign up to combine forces with the auditor. Maintaining good faith and mutual understanding can be commanding enough to curtail many trials and tribulations.

Chapter 6: Conclusion

Hoda Vasi Chowdhury & Co is a well recognized and well reputed organization, serving the financial sector for decades. They are valued both in country and abroad for their high quality services to local and multinational organizations belonging to several of sectors including textiles, power and utilities, banks, insurance, cement and building materials, and many more. Professional services like audit, tax consultancy, and business advisory services are aided to public limited companies and to other forms of businesses. Qualified professionals and highly trained workforce is contributing to its massive progress. Their dedication in serving the clients with utmost sincerity and by complying with all standing rules and regulations is their key to success. Display of high professionalism at all times has made them an epitome in the society.

In this report, I have tried my level best to explain the mechanism of audit planning and how it is being put into practice by leading chartered accountants. Audit planning is an essential component in standard audit engagements. It is used for the purpose of ascertaining the level of audit risk in the perspective of internal control of the client, risk of fraud and error in reporting, and misstatement of figures and disclosures in the financial statements. An efficient audit planning is powerful enough to eradicate audit risks to the maximum extent. Independent analysis and examination of the data eliminates the scope of "questionable integrity" and ensures transparency from both management and owners. Auditors are responsible for ensuring that the respective parties are not engaged with any form of illegitimate act in order to serve their own goals. Auditing determines the accuracy of financial statements by studying the numbers and the reliability of the financial statements by investigating both numeric and non-numeric factors. This provides more authentic information to the stakeholders.

In today's complex and dynamic business environment, there is no alternative to quality information for decision making because even a slightest variance can bring about a big difference. Hoda Vasi Chowdhury & Co believes that quality control can be ensured through transparency and proper practice of profession. Therefore, firm supervision and observation of the auditors can alleviate the threat of fraudulent activities, if not completely eliminated. I, upon completion of my internship program and starting my work life as an audit executive, would like to take the opportunity to state that in a profession that is looked upon with high reverence, it is our duty for those in the profession to guard its good name with our integrity and equanimity.

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Appendix

Status of compliance with the conditions imposed by the Commission's Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012 issued under section 2CC of the Securities and Exchange Ordinance, 1969 is prepared below:

(Report under Condition No. 7.00)

Condition No	Title	Compliance Status		Remarks
		Put "√ "In the appropriate Column		(If Any)
		Complied	Not Complied	
1	**Board of Directors**			
1.1	Board size numbers (number of board members - minimum 5 and maximum 20)			
1.2	**Independent Directors**			
1.2 (i)	At least one fifth(1/5) of the total number of Directors shall be Independent Directors			
1.2 (ii)	**Independent Director means a Director:**			
1.2 (ii) a)	who either does not hold any share in the company or holds less than 1 percent (1%) shares of the total paid-up capital shares of the company			
1.2 (ii) b)	who is not a sponsor of the company and is not connected with the company's any sponsor or director or shareholder who holds one percent (1%) or more shares of the total paid-up shares of the company on the basis of family relationship. His/her family members also should not hold above mentioned shares in the company			

1.2 (ii) c)	who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies			
1.2 (ii) d)	who is not a member, director or officer of any stock exchange			
1.2 (ii) e)	who is not a shareholder, director, or officer of any member of stock exchanges or an intermediary of the capital market			
1.2 (ii) f)	who is not a partner or executive or was an partner or an executive during the preceding 3 years of the company's statutory audit firm			
1.2 (ii) g)	who shall not be an independent director in more than three listed companies			
1.2 (ii) h)	who has not been convicted by a court of a component jurisdiction as a defaulter in payment of any loan to a bank or Non-Bank financial Institution (NBFI)			
1.2 (ii) i)	who has not been convicted of a criminal offense involving moral turpitude			
1.2 (iii)	Independent Director(s) shall be appointed by BoD and approved by the shareholders in the Annual General Meeting (AGM)			
1.2 (iv)	The post of independent director(s) cannot remain vacant for more than ninety (90) days			
1.2 (v)	The board shall lay down a code of conduct of all Board members and annual compliance of the code to be recorded			
1.2 (vi)	The tenure of office of an independent director shall be for a period of 3 (three) years, which may be extended for 1 (one) term only			
1.3	**Qualification of Independent Director (ID)**			
1.3 (i)	Independent director shall be knowledgeable individual with integrity who is able to ensure compliance with financial, regulatory and corporate laws and can make meaningful contribution to business			

1.3 (ii)	Independent Director should be a Business Leader/Corporate leader/Bureaucrat/University Teacher with Economics or Business Studies or Law background/Professionals like Chartered Accountants, Chartered Secretaries. The independent director must have at least 12 (twelve) years of corporate management/professional experience			
1.3 (iii)	In special cases the above qualifications may be relaxed subject to prior approval of Commission			
1.4	The Chairman of the Board and the Chief Executive Officer (CEO) shall be different individuals. The Chairman shall be from among the directors. The Board of Directors shall clearly define respective roles and responsibilities of the Chairman and the CEO			
1.5	**The Director's Report shall include the following additional statements:**			
1.5 (i)	Industry outlook and possible developments in the industry			
1.5 (ii)	Segment-wise or product wise performance			
1.5 (iii)	Risks and Concerns			
1.5 (iv)	A discussion on Cost of goods sold, Gross Profit Margin and Net Profit Margin			
1.5 (v)	Discussion on continuity of any Extra-Ordinary gain or loss			
1.5 (vi)	Basis of related party transactions - a statement of all related party transactions should be disclosed in the annual report			
1.5 (vii)	Utilization of proceeds from public issues, rights issues and/or through any other instrument			
1.5 (viii)	An explanation if the financial results deteriorate after the company goes for None Initial Public Offering (IPO)			
1.5 (ix)	If significant variance occurs between Quarterly Financial performance and Annual Financial Statements, the management shall explain about the variance			

1.5 (x)	Remuneration to directors including independent directors			
1.5 (xi)	The financial statements present fairly its state of affairs, the result of its operations, cash flows and changes in equity			
1.5 (xii)	Proper books of account have been maintained			
1.5 (xiii)	Adaptation of appropriate accounting policies and estimates			
1.5 (xiv)	IAS/BAS/IFRS/BFRS, as applicable in Bangladesh, have been followed and adequate disclosure for any departure			
1.5 (xv)	The system of Internal control is sound in design and has been effectively implemented and monitored			
1.5 (xvi)	Going Concern (ability to continue as going concern)			
1.5 (xvii)	Highlight and explain significant deviations from the last year's operating results			
1.5 (xviii)	Key operating and financial data of at least preceding 5 (five) years shall be summarized			
1.5 (xix)	Reason of non-declaration of Dividend			
1.5 (xx)	The number of Board meetings held during the year and attendance by each director			
1.5 (xxi)	**Pattern of shareholding and name wise details (disclosing aggregate number of shares):**			
1.5 (xxi) a)	Parents/Subsidiary/Associated Companies and other related parties			
1.5 (xxi) b)	Directors, Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO), Head of Internal Audit (HOIA) and their spouses and minor children			
1.5 (xxi) c)	Executives			
1.5 (xxi) d)	Shareholders holding ten percent (10%) or more voting interests in the company			
1.5 (xxii)	**In case the appointment/re-appointment of a director, disclose:**			
1.5 (xxii) a)	a brief resume of the director			

1.5 (xxii) b)	nature of his/her expertise in specific functional areas			
1.5 (xxii) c)	names of the companies in which the person also held the directorship and the membership of committees of the board			
2	**Chief Financial Officer, Head if Internal Audit & Company Scretary**			
2.1	Appointment of CFO, HOIA, and CS and defining their respective roles, responsibilities & duties			
2.2	The CFO and the CS shall attend the meetings of the Board of Directors			
3	**Audit Committee**			
3 (i)	The Audit Committee shall be the sub-committee of the BoD			
3 (ii)	The Audit Committee shall assist the BoD in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business			
3 (iii)	The Audit Committee shall be responsible to the BoD. The duties of the Audit Committees shall be clearly set forth in writing			
3.1	**Constitution of the Audit Committee**			
3.1 (i)	The Audit Committee shall be composed of at least 3 members			
3.1 (ii)	The BoD shall appoint members if the Audit Committee who shall be directors of the company and shall include at least 1 (one) Independent Director			
3.1 (iii)	All members of the Audit Committee should be "financially literate" and at least 1 (one) member shall have accounting or related financial management experience			
3.1 (iv)	Expiration of the term of service of Audit Committee members making the number lower than 3 (three) and fill up the vacancy(ies) by the Board no later than 1 (one) month from the date of vacancy(ies)			
3.1 (v)	The Company Secretary shall act as the secretary of the Audit Committee			

3.1 (vi)	The quorum of the Audit Committee meeting shall not constitute without at least 1 (one) independent director			
3.2	**Chairman of the Audit Committee**			
3.2 (i)	The BoD shall select the Chairman of the Audit Committee, who shall be an Independent Director			
3.2 (ii)	Chairman of the Audit Committee shall remain present in the AGM			
3.3	**Role of Audit Committee**			
3.3 (i)	Oversee the financial reporting process			
3.3 (ii)	Monitor choice of accounting policies and principles			
3.3 (iii)	Monitor Internal Control Risk Management process			
3.3 (iv)	Oversee hiring and performance of external auditors			
3.3 (v)	Review the annual financial statements before submission to the Board fir approval			
3.3 (vi)	Review the quarterly and half yearly financial statements before submission to the board for approval			
3.3 (vii)	Review the adequacy of internal audit function			
3.3 (viii)	Review statement of significant related party transactions submitted by the management			
3.3 (ix)	Review Management Letters/Letter of Internal Control weakness issued by the statutory auditors			
3.3 (x)	Disclosure to the Audit Committee about the uses/applications of IPO funds by major category (capital expenditure, sales and marketing expenses, working capital, etc.), on a quarterly declaration of financial results. Further, on an annual basis, shall prepare a statement of funds utilized for the purposes other than those stated in the prospectus			
3.4	**Reporting of the Audit Committee**			
3.4.1	**Reporting to the Board of Directors**			
3.4.1 (i)	Reporting to the BoD on the activities of the Audit Committee			
3.4.1 (ii) a)	Reporting the BoD on conflicts of interest			

3.4.1 (ii) b)	Reporting to BoD on any fraud or irregularity or material defect in the internal control system			
3.4.1 (ii) c)	Reporting to BoD on suspected infringement of laws			
3.4.1 (ii) d)	Reporting to BoD on any other matter			
3.4.2	Reporting to BSEC (if any material impact on the financial condition and results of operation, unreasonably ignored by the management			
3.5	Reporting to the Shareholders of the Audit Committee activities, which shall be signed by the Chairman and disclosed in the Annual Report			
4	**External/Statutory Auditors**			
4 (i)	Non-engagement of appraisal or valuation services or fairness opinions			
4 (ii)	Non-engagement in designing and implementation of Financial Information System			
4 (iii)	Non-engagement in Book Keeping or other services, related to the accounting records or financial statements			
4 (iv)	Non-engagement in Broker-dealer services			
4 (v)	Non-engagement in actuarial services			
4 (vi)	Non-engagement in internal audit services			
4 (vii)	Non-engagement in any other services that the Audit Committee determines			
4 (viii)	No partner or employees of the external audit firms shall possess any share of the company during the tenure of their assignment			
4 (ix)	Audit/certification services on compliance of corporate governance as required under clause (i) of condition No. 7			
5	**Subsidiary Company**			
5 (i)	Provisions relating to the corporation of the BoD of the holding company shall be made applicable of the BoD of the subsidiary company			
5 (ii)	At least 1 (one) Independent Director on the BoD of the holding company shall be a director on the BoD of the subsidiary company			

5 (iii)	The minutes of the Board meeting of the subsidiary company shall be placed for review at the following Board meeting of the holding company			
5 (iv)	The minutes of the respective Board meeting of the subsidiary company shall state that they have reviewed the affairs of the subsidiary company also			
5 (v)	The Audit committee of the holding company shall also review the financial statements, in particular the investments made by the subsidiary company			
6	**Duties of Chief Executive Officer (CEO) and Chief Financial Officer (CFO)**			
6(i)	The CEO and CFO shall certify to the Board that they have reviewed financial statements for the year and that to the best of their knowledge and belief			
6 (i) a)	These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading			
6 (i) b)	These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws			
6 (ii)	There are, the best of knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violation of the company's code of conduct			
7	**Reporting and Compliance of Corporate Governance**			
7 (i)	Obtaining certificate from a practicing Professional Accountant/Secretary regarding compliance of conditions of Corporate Governance Guidelines of the BSEC and include in the annual report			
7 (ii)	Directors statement in the director's report whether the company has complied with these conditions			