A

Thesis Paper

on

A General Overview on Bank Audit Procedures by CA Firms in Bangladesh

Submitted by:

Name: Abdul Kaium Sharif

ID: EMBA2003021016

Program: EMBA

EMBA (Major in Accounting)

Semester: Summer-2021

Submitted to:

Department of Business Administration

Submitted for the partial fulfillment of the degree of

Executive Master of Business Administration

Sonargaon University (SU)

Dhaka- 1215

Date of Submission: September 28, 2021

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Supervised By:

Farjana Yeasmin Chowdhury

Lecturer

Department of Business Administration
Sonargaon University

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Letter of Transmittal

Date: September 28, 2021

Farjana Yeasmin Chowdhury
Lecturer
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Thesis paper

Dear Madam,

With humble honor and respect, I am submitting my thesis paper on **"A General Overview on Bank Audit Procedures by CA Firms in Bangladesh"**. As per partial accomplishment of the requirements for the EMBA degree, this thesis has been carried out under your supervision.

This report is an integral part of our academic courses in completion of the EMBA program, which has allowed me to have an insight into the bank audit procedure practiced by chartered accountancy (CA) firms. I hope this report reflects on the contemporary issues of the bank audit procedure, audit risk assessment, addressing audit risk, performing audits, and compliance with Bangladesh Bank guidelines & IFRSs that are being practiced by organizations in our country.

In completing the report, I tried my best to blend all my knowledge and imparted every available detail, and also attempted to avoid unnecessary amplification of the report.

I humbly request you to accept this report for your kind evaluation.

Sincerely,

Abdul Kaium Sharif
ID: EMBA2003021016
Department of Business Administration
Sonargaon University (SU)

Certificate of Supervisor

This is to certify that, the thesis paper **"A General Overview on Bank Audit Procedures by CA Firms in Bangladesh"** has been prepared as a part of the completion of the EMBA program from the Department of Business Administration, Sonargaon University (SU), carried out by Abdul Kaium Sharif, bearing ID: EMBA2003021016 under my supervision. The report or the information will not be used for any other purposes.

……

Farjana Yeasmin Chowdhury
Lecturer
Department of Business Administration
Sonargaon University (SU)

Student Declaration

I am Abdul Kaium Sharif, a student of Executive Master of Business Administration, ID: EMBA2003021016 from Sonargaon University would like to solemnly declare here that this report on "A General Overview on Bank Audit Procedures of CA Firms in Bangladesh" has been authentically prepared by me. While preparing this report, I did not breach any copyright act internationally. I am further declaring that I did not submit this report anywhere for awarding any degree, diploma, or certificate.

Sincerely, Yours,

Abdul Kaium Sharif
ID: EMBA2003021016
Program: EMBA
Major: Accounting
Semester: Summer-2021

Letter of Authorization

Certified that this project report titled **"A General Overview on Bank Audit Procedures by CA Firms in Bangladesh"** is the bona fide work of Abdul Kaium Sharif, who researched under my supervision. Certified further that, to the best of my knowledge, the work reported herein does not form part of any other project report or dissertation based on which a degree or award was conferred on an earlier occasion on this or any other candidate.

……

Farjana Yeasmin Chowdhury
Lecturer
Department of Business Administration
Sonargaon University (SU)

Acknowledgment

I would like to express my sincere gratitude to my thesis supervisor Farjana Yeasmin Chowdhury, lecture of the Department of Business Administration, Sonargaon University. Her patience, enthusiasm, co-operations, and suggestions made me present this thesis work to produce in the present form. Her brilliant, skillful supervision enriched this study higher than my expectation. I could not remain any more without giving heartfelt thanks to my supervisor for her painstaking supervision throughout the study period. This research work would not be possible without hit stimulation inspiration and cooperation.

Further, yet importantly, a sense of respect goes to my colleague Mr. Mustafa for his powerful support for helping me to collect information and regular encouragement in every step to make me in the present stage. Similarly, other colleagues are also subjecting to special thanks for their inspiration and cooperation in my study.

The officials of the government and non-government banks and other concerned authorities are also thankful for their keen interest and significant support while conducting the study. Distinguished personalities, the locals, and the others stakeholders contacted interviewed and the source of information revealed are also thankfully acknowledged.

I also would like to thank all my respected teachers in the Department of Business Administration who directly and indirectly provide me inspiration and valuable suggestions during this study.

Executive Summary

The core objective of the Thesis paper is to fulfill the partial requirement of accomplishment of the EMBA degree. This Thesis paper is prepared based on my professional experience on audit in the different institutions being auditor identifying the key points of the bank audit procedure, audit risk assessment, addressing audit risk, performing audits, and compliance with Bangladesh Bank guidelines & IFRSs that are being Practiced by organizations in our country as well as how it differs from the general audit.

Banks play a central role in the economy. They hold savings of public, provide a means of payment for goods & services, finance the development of business. Therefore, Banks must command the confidence of the public and those with whom they do business. Thus, the stability of the banking and financial systems, both nationally and internationally, is recognized as a matter of public interest. Banking is such a unique industry where CA firms do not want their competitor to fail. As a result, naturally, stakeholders' expectation from external or statutory auditors of a bank are much higher than an audit of another entity.

I split my paper into five chapters. In chapter one I have discussed the scope, aim, method and limitations of my study. Then in chapter two, I have discussed legal framework, special consideration of bank audit and bank audit workflow. Next in chapters three and four, I have described specific guidelines for auditing several items of bank financial statements and departures from IFRSs. Finally, in chapter five, I have addressed my findings and related recommendations.

The firms have to consider several factors other than general audit while doing bank audits. Such as Custody of a large number of monetary items, Assets that can rapidly change in value, Operate with high leverage (capital to assets), Short-term deposit, solvency, liquidity issues.

In the enactment of preparing this report, I have endeavored to collect information regarding audit procedures followed by different firms in Bangladesh, as well as from my colleague, banks, and experience from my end.

Acronyms and Elaboration

Acronyms	Elaboration
BB	Bangladesh Bank
BDT	Bangladeshi taka
BRPD	Banking Regulation and Policy Department
BSEC	Bangladesh Securities and Exchange Commission
CA	Chartered Accountancy/Chartered Accountant
CRR	Cash Reserve Ratio
DTL	Demand and Time Liabilities
FRC	Financial Reporting Council
IAS	International Accounting Standards
ICAB	The Institute of Chartered Accountants of Bangladesh
IFRS	International financial reporting standards
ISA	International Standards on Auditing
MoF	Ministry of Finance
RBCA	Risk Based Capital Adequacy
SDBs	Specialized Banks
SLR	Statutory Liquidity Ratio

Chapter One
Contextual of the Study

Introduction

After the independence, the banking industry in Bangladesh started its journey with 6 Nationalized commercialized banks, 3 State-owned Specialized banks, and 9 Foreign Banks. In the 1980s banking industry achieved significant expansion with the entrance of private banks. Now, banks in Bangladesh are primarily of two types:

1. **Scheduled Banks:** The banks that remain in the list of banks maintained under the Bangladesh Bank Order, 1972.

2. **Non-Scheduled Banks:** The banks which are established for special and definite objectives and operate under any act but are not Scheduled Banks. These banks cannot perform all functions of scheduled banks.

61 scheduled banks in Bangladesh operate under full control and supervision of Bangladesh Bank, which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991. Scheduled Banks are classified into the following types:

- **State-Owned Commercial Bank (SOCBs):** There are 6 SOCBs that are fully or majorly owned by the Government of Bangladesh.

- **Specialized Banks (SDBs):** 3 specialized banks are now operating which were established for specific objectives like agricultural or industrial development. These banks are also fully or majorly owned by the Government of Bangladesh.

- **Private Commercial Bank (PCBs):** There are 43 private commercial banks that are majorly owned by individuals/ private entities. PCBs can be categorized into two groups:

- **Conventional PCBs:** 33 conventional PCBs are now operating in the industry. They perform the banking functions in conventional fashion, i.e. interest-based operations.

- **Islami Shariah-based PCBs:** There are 10 Islami Shariah-based PCBs in Bangladesh and they execute banking activities according to Islami Shariah-based principles, i.e. Profit-Loss Sharing (PLS) model.

- **Foreign Commercial Bank (FCBs):** 9 FCBs are operating in Bangladesh as the branches of the banks which are incorporated abroad.

There are now 5 non-scheduled banks in Bangladesh which are:

1. Ansar VDP Unnayan Bank,
2. Karmashangosthan Bank,
3. Grameen Bank,
4. Jubilee Bank,
5. Palli Sanchay Bank

The abovementioned banks have to appoint an auditor for every income year/financial year. As Section 39 (1) of the Bank Company Act, 1991 (as amended up to date), requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

Scope of the Study

To fulfill the partial requirement of accomplishment of the EMBA degree, I have been assigned to submit a Thesis Paper on **"A General Overview on Bank Audit Procedures by CA Firms in Bangladesh"**, which explored a vast scope for the study. The coverage of this study focused on the audit procedures of Banks by CA firms. For the bank audit, auditors have to consider additional risk factors as a bank has:

- Custody of large volumes of monetary items, including cash and negotiable instruments, whose physical security has to be ensured. This applies to storage and the transfer of monetary items, making banks vulnerable to misappropriation and fraud, causing the establishment of formal operating procedures, well-defined limits for individual discretion, and rigorous systems of internal control.

- Engagement in a large volume and variety of transactions in terms of number and value requires complex accounting and internal control systems and widespread use of Information Technology (IT).

- Operation through a wide network of geographically dispersed branches and departments necessitating a greater decentralization of authority and dispersal of accounting and control functions, with consequent difficulties in maintaining uniform operating practices and accounting systems, particularly when the branch network transcends national boundaries.

- Assumption of significant commitments with no transfer of funds. These items, called 'off-balance sheet items, may not involve accounting entries, and failing to record such items may be difficult to detect.

- Engagement in transactions that are initiated at one location, recorded at a different location, and managed at yet another location.

- Direct Initiation and completion of transactions by the customer with no intervention by the bank's employees. For example, over the Internet or mobile or through automatic teller machines (ATMs).

- Integration and linkages of national and international settlement systems could pose a systemic risk to the countries in which they operate.

- Regulatory requirements by governmental authorities often influence accounting and auditing practices in the banking sector.

- A short-term deposit, solvency, liquidity issue, Assume significant commitments, Widespread of branches and departments and Cross border involvement and FX issue

As per the current legislation in place, an auditor of a Bank shall conduct the audit in compliance with the following acts, rules, and regulations:

- International Standards on Auditing (ISA);
- International Financial Reporting Standards (IFRS);
- The Companies Act, 1994;
- The Bank Company Act 1991 (as amended up to date)
- Specific regulations issued by Bangladesh Bank (e.g. Prudential Guidelines for Banks); and

- Bangladesh Securities and Exchange Commission (BSEC) Rules and Regulations (if applicable).

In my report, I will depict how the bank audit differs from other audits, such as company audit, management audit, functional audit, special audit, and forensic audit. With the severe limitation regarding confidentiality issues, I prepared this paper with the help of my practical knowledge as an auditor.

A bank audit is done to gain objective insight into how a bank is operating and whether it is doing so in compliance with laws, industry standards, and its policies. It is also done to mitigate risks and perform an in-depth inspection of a bank's transactional records and reports to ensure that everything is being done ethically and accurately.

Bank audits are required to protect the consumer and their interests. Statutory bank audits identify and prevent violations of the law that might lead to fraudulent activity or put the consumer at risk.

In conclusion, this report will cover the differences in audit procedures between general audit and bank audit. The study also involves the analysis of the difference of IFRS and BB requirements in transaction recording & valuation, reports on other legal and regulatory requirements (as per ISA), and other factors.

The objective of The Study

The objectives of this report are enumerated below:

- Depict the bank audit strategy, processes and internal control, risk assessment and planned procedures, general procedures, financial reporting, and completion.
- Differences between general audit and bank audit considering ISA and existing rules and regulations.
- Requirements of BB regarding bank audit and accounting.
- Details assessment between IFRS and BB circulars for specific items of the bank.
- Reporting requirement as per BB circulars and a detailed assessment with other audits.
- To depict laws requirements for bank audit.
- To demonstrate how much significant is Security and risk management, including operational, strategic, reputation, credit, compliance, and IT and cyber risk for bank audit. Furthermore, compliance checks whether there is any evidence of law violations, money laundering, fraud, and any other anomalies.
- Demonstrate the audit methodology for the risk factors described in the scope of the study section.

Methodology of The Study

Considering the specifics of the thesis problem and presented hypotheses, I decided to adopt and follow a combination, the mixed study design of concurrent type, a questionnaire for the one focus group of statutory auditors, and concurrently interviews have been conducted with bank employees to explore their views and expectations on the statutory audit function. Someone will argue that these methods are commonly accepted when it comes to thesis work and measuring the attitude of the selected population regarding the qualitative thesis. Survey research designs are flexible enough to cause problems defining and putting boundaries to what represents survey research strategy and what does not. The questionnaires were delivered to statutory auditors through e-mail and were collected in the same way. Interviews were conducted with bank employees since it is reasonable to expect that they are familiar with the subject of the thesis, therefore the opportunity for personal and immediate conversation was used to provide further explanations on thesis topics and questions asked. Semi-structured interview allowing the interviewee to express additional views and perceptions to those questions preliminary planned was developed and completed.

I have chosen to use mail interviewing through a prepared questionnaire for statutory auditors because it has the advantage of the absence of an interviewer which can be considered as less threatening by the interviewee showing a willingness to answer sensitive questions. But, the absence of the interviewer means a lack of additional explanations regarding the questionnaire or aiding respondents while answering questions and puts high demands on the design of the paper questionnaire.

The design of the questionnaire is crucial and number of issues need to be considered. These include asking relevant and accurate questions, phrasing questions logically, asking questions in sequence, and piloting the questionnaire. Two basic criteria need to be considered in determining the questions that should be asked and included in the questionnaire survey. These two criteria are the relevance of the questionnaire and the accuracy of the questionnaire. Questionnaire relevancy refers to the extent to which the questions address the research questions, and therefore should be included in the questionnaire. Questionnaire accuracy refers to the extent to which the information collected by the designed questionnaire is reliable and valid.

The questions can be open-ended or closed-ended. In the case of open-ended questions, the participants are free to give their answers in their own words. In closed-ended questions, the participants are free to select from several possible answers provided. Open-ended questions offer the advantages and disadvantages that the respondents can give their opinions as precisely as possible in their own words, but they can be difficult to analyze. However, closed-ended questions are very convenient for collecting data and are usually easy to analyze. They are also answered more easily and quickly and therefore could be expected to help with the overall response rate to questions.

It was necessary to construct a questionnaire of reasonable length and the questionnaire consisted of three pages including the cover page. The questions were grouped into two main parts, the first one asking about the technical capacity and experience of the firm and the interviewee, the second one contained attitude questions. The questionnaire used in this research used two different kinds of scales; the nominal scale and the ordinal scale. In the first part of the questionnaire, the nominal scale was used to collect data on the background information about the participants. Statutory auditors were invited to tick a particular classification or characteristic such as number of employees in the audit firm or internal audit department, average years of experience, number of audit engagements undertaken in the last year and past five years, frequency and type of training provided to employees. In the second part of the questionnaire, a five-point was used to measure the participants' perceptions regarding the bank audit procedure performed by the related CA firm. This was designed to examine the extent to which statutory auditors agreed or disagreed with several statements. This part of the questionnaire for statutory auditors is segregated into two parts: statements regarding the perceptions about the difference between general audit and bank audit

procedure. Additional statements were included to investigate the perception of the participants regarding the following issues: (a) adequate resource of the firm for performing bank audit (b) availability of sufficient guidance for implementation BB guidance in the audit; (c) the role of the engagement partner; (d) the relative importance of control reliance strategy for the overall audit process.

For the face-to-face interviews with bank employees, at the start of the interviewing process, I have introduced the respondents to the subject, the thesis question, and a list of topics that we would like to discuss with them. The interviews were planned to last a maximum of 15 minutes with the agreement of the 12 respondents with considerable experience as a banker. My principal intention was to identify the additional work they have performed to face the auditor. Thus, I started my interviews by asking the respondents to briefly introduce themselves and provide information on their practice. At times during the interviews, we tried to reformulate what the respondents said to confirm understanding of what they were telling. Questions were also added if there was a need for clarification of issues the respondents brought to my attention during the interviews. Interviewees were asked to provide information on their views and perceptions regarding the purpose of statutory audit of financial statements of banks, whether auditors responsibilities and reporting requirements in respect of annual audit exercise should be enhanced, eventual changes of audit report format, additional requirements for disclosures related to risk and internal controls, the extent of relying on to risk information and internal controls in the decision-making process, etc.

The abovementioned questionnaires were developed based on ISA, IFRS, Bank Company Act 1991, and BB circulars.

Primary Sources:

1. Working experience (more than 8 years) in a CA firm.
2. Information collected from various statutory auditors of the banks. and
3. Information collected from various bank employees.

Secondary Sources:

1. Auditor's report and audited financial statements of various banks.
2. Disclosure report published by various banks.
3. Report and publication published by Bangladesh Bank. and
4. Newspaper and website.

Limitations of The Study

- Time constraint. Three months is not enough for such a comprehensive study. It is very challenging to collect all information in such a short time.

- Statutory auditors do not disclose any information which they classified as confidential documents. Therefore, I have to conduct a significant portion of the thesis based on the publicly available documents.

- Statutory auditors follow a professional code of ethics. One of the codes is confidentiality. As the thesis is conducted on bank audit, in some cases I was unable to cite reference of information used for this report.

- I have used information from reports published by various banks. As such, the credibility and accuracy of the reports published by the bank were not conducted.

- Information collected from statutory auditors of various banks is qualitative. Therefore, the understanding of the question can vary from auditors to the auditor so can the answers.

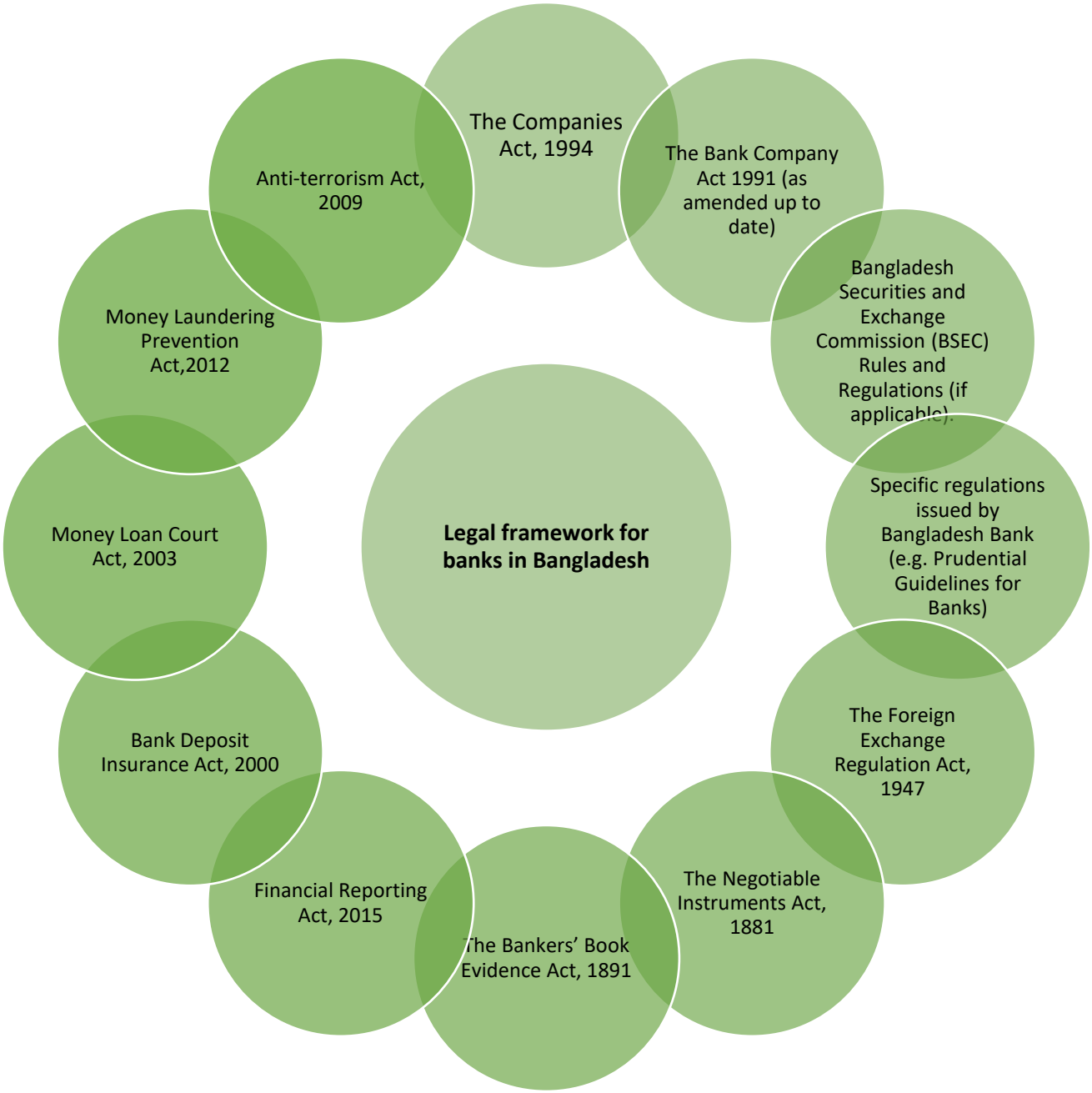
- Due to Covid 19 pandemic the government has implemented a nationwide shut down. My thesis period was covered by the shutdown. So, in some cases I have to rely on oral communication. I was also unable to verify some information source and integrity.

Chapter Two
Audit Workflow

Legal Framework

The banking industry is the pivot of any economy and its financial system. Banks are one of the foremost agents of financial intermediation in an economy like Bangladesh and, therefore, the development of a strong and resilient banking system is of utmost importance. The banking institutions in the country are working in a competitive environment and their regulatory framework is aligned with the international best practices. Thus, financial deepening has taken place in Bangladesh and continues to be in progress with a focus on orderly conditions in financial markets while sustaining the growth momentum. Banks have certain characteristics distinguishing them from most other commercial enterprises.

There is an elaborate legal framework governing the functioning of banks in Bangladesh. The principal enactments which govern the functioning of several types of banks are:



Audit of Accounts & Appointment of Auditor

Every banking company is required to prepare a Balance Sheet, Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity and a Liquidity Statement in the forms set out in the First Schedule to the Act or as near thereto as the circumstances admit. The forms of the first schedule of the Bank Companies Act, 1991 has been amended under subsection 38(4) of the act through BRPD Circular No. 14 dated: June 25, 2003.

As per the provisions of the relevant enactments, the auditor of a banking company is to be appointed at the annual general meeting of the shareholders, whereas the auditor of a nationalized bank is to be appointed by the concerned bank acting through its Board of Directors. In either case, approval of the Reserve Bank is required before the appointment is made. The auditors of the SDBs are to be appointed by the Banking and Financial Institution Division, MoF.

An auditor of the bank has to consider the following matters especially:

- the particular nature of risks associated with the transactions undertaken;
- the scale of banking operations and the resultant significant exposures which can arise within a short period;
- the extensive dependence on IT to process transactions;
- the effect of the statutory and regulatory requirements;
- the continuing development of new products and services and banking practices which may not be matched by the concurrent development of accounting principles and auditing practices.

The evolution of technology and providing services through Net Banking and Mobiles has exposed banks to huge operational and financial risks.

The auditor should consider the effect of the above factors in designing his audit approach. It is imperative for Statutory Auditors to have detailed knowledge of the products offered and risks associated with them, and appropriately address them in their audit plan to the extent they give rise to the risk of material misstatements in the financial statements.

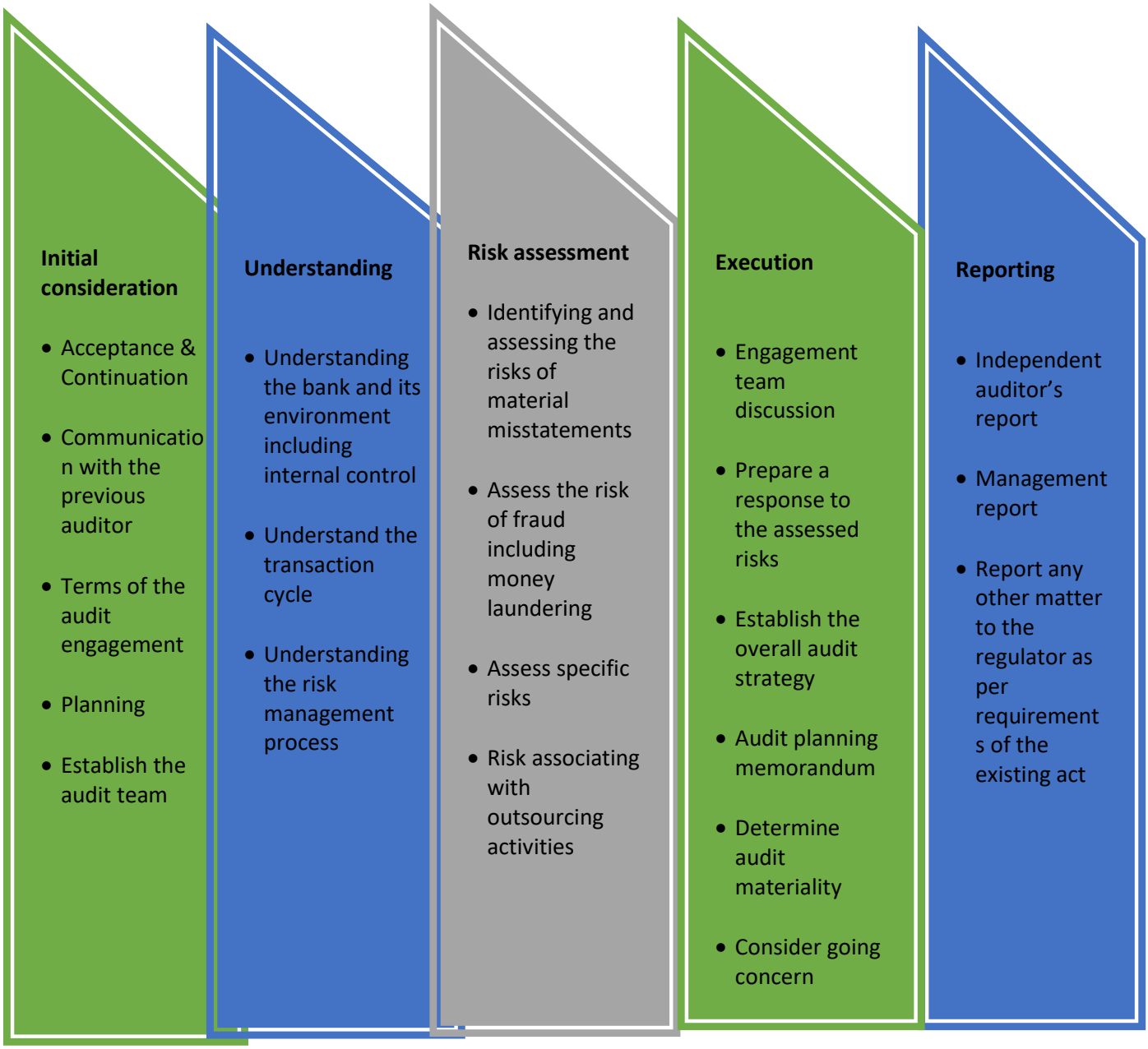
In today's environment, the banks use different applications to carry out different transactions which may include data flow from one application to another application; the auditor while designing his plans should also understand interface controls between the various applications.

Bangladesh Bank, the central bank and apex regulatory body for the country's banks, was established in Dhaka as a body corporate vide the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) with effect from 16th December 1971. At present it has ten offices located at Motijheel, Sadarghat, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Barisal, Rangpur, and Mymensingh in Bangladesh; total manpower stood at 6341 (officials 4879, subordinate staff 1462) as of April 22, 2021.

Therefore, the auditor of the bank needs to carefully consider circulars and letters published by the BB from time to time.

Conducting an Audit

The audit of banks or their branches involves the following stages –



Initial Considerations

- **Acceptance & Continuance**

  The assessment of engagement risk is a critical part of the audit process and should be done before the acceptance of an audit engagement since it affects the decision of accepting the engagement and in planning decisions if the audit is accepted.

- **Communication with Previous Auditor**

  As per existing rules adopted by ICAB, a chartered accountant in practice cannot accept a position as an auditor previously held by another chartered accountant without first communicating with him/her in writing.

- **Terms of Audit Engagements**

  ISA 210, "Agreeing the Terms of Audit Engagements" requires that for each period to be audited, the auditor should agree on the terms of the audit engagement with the bank before beginning significant portions of fieldwork. It is imperative that the terms of the engagement are documented, to prevent any confusion as to the terms that have been agreed upon about the audit and the respective responsibilities of the management and the auditor, at the beginning of an audit relationship. This is usually done in the form of an engagement letter which is written by the auditor and acknowledged by the bank.

- **Planning**

  The audit plan needs to be properly documented concerning timing, the extent of checking, audit procedures to be followed at assertion level and should be flexible and updated or changed, as and when necessary.

- **Establish the audit Team**

  The assignment of qualified and experienced professionals is an important component of managing engagement risk. The size and composition of the engagement team would depend on the size, nature, and complexity of the bank's operations.

Understanding

- **Understanding the Bank and Its Environment Including Internal Control**

  An understanding of the bank and its environment, including its internal control, enables the auditor:

  - to identify and assess risk;
  - to develop an audit plan to determine the operating effectiveness of the controls, and to address the specific risks.

- **Understand the Transaction Cycle**

The transaction cycle produces financial and operational information for management's use and it also contributes to the bank's internal control. Thus, understanding the transaction cycle is necessary to identify and assess the risks of material misstatement whether due to fraud or not, and to design and perform further audit procedures.

- **Understanding the Risk Management Process**

  Management develops controls and uses performance indicators to aid in managing key business and financial risks.

Risk assessment

- **Identifying and Assessing the Risks of Material Misstatements**

  ISA 315 requires the auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures.

- **Assess the Risk of Fraud including Money Laundering**

  As per ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor's objective is to identify and assess the risks of material misstatement in the financial statements due to fraud, to obtain sufficient appropriate audit evidence on those identified misstatements and to respond appropriately. The attitude of professional skepticism should be maintained by the auditor to recognize the possibility of misstatements due to fraud.

  The BB has framed specific guidelines that deal with the prevention of money laundering and "Know Your Customer (KYC)" norms. The BB has from time to time issued guidelines ("Know Your Customer Guidelines - Anti Money Laundering Standards"), requiring banks to establish policies, procedures, and controls to deter and to recognize and report money laundering activities.

- **Assess Specific Risks**

  The auditors should identify and assess specific risks of material misstatement at the financial statement level which refers to risks that relate to the banking industry and the use of IT therein.

- **Risk Associated with Outsourcing of Activities**

  Modern-day banks make extensive use of outsourcing as a means of both reducing costs as well as making use of the services of an expert not available internally. There are, however, certain risks associated with outsourcing of activities by banks and therefore, it is quintessential for the banks to effectively manage those risks.

Execution

- **Engagement Team Discussions**

  The engagement team should hold discussions to gain a better understanding of the bank and its environment, including internal control, and to assess the potential for material misstatements of the financial statements.
- **Response to the Assessed Risks**

ISA 330 “The Auditor’s Responses to Assessed Risks” requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. The auditor should design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

- **Establish the Overall Audit Strategy**

  ISA 300 “Planning an Audit of Financial Statements’’ states that the objective of the auditor is to plan the audit so that it will be performed effectively. For this purpose, the audit engagement partner should:

  - establish the overall audit strategy, before the commencement of an audit; and
  - involve key engagement team members and other appropriate specialists while establishing the overall audit strategy, which depends on the characteristics of the audit engagement.

- **Audit Planning Memorandum**

  The auditor should summarize the team’s audit plan by preparing an audit planning memorandum to:

  - Describe the expected scope and extent of the audit procedures to be performed by the auditor.
  - Highlight all significant issues and risks identified during their planning and risk assessment activities, as well as the decisions concerning reliance on controls.
  - Provide evidence that they have planned the audit engagement appropriately and have responded to engagement risk, pervasive risks, specific risks, and other matters affecting the audit engagement.

- **Determine Audit Materiality**

  The auditor should consider the relationship between the audit materiality and audit risk when conducting an audit. The determination of audit materiality is a matter of professional judgment and depends upon the knowledge of the bank, assessment of engagement risk, and the reporting requirements for the financial statements. Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement or a combination of both.

- **Consider Going Concern**

  In obtaining an understanding of the bank, the auditor should consider whether there are events and conditions which may cast significant doubt on the bank’s ability to continue as a going concern.

Reporting

An auditor's report is a written letter from the auditor containing their opinion on whether a company's financial statements comply with IFRS and are free from material misstatement.

The statutory audit report is typically published with the company's annual report. The auditor's report is important because it is the only creditable report banks can be published and depict their financial position and financial performance.

For reporting auditor must follow ISA 700-799 unless other reporting format requirements exist as per law.

Special Considerations in IT Environment

As in today's environment, all banks have embarked upon large-scale computerization, which has resulted in changes in the processing and storage of information. The importance, extent of use, and complexity of a Bank's IT system affect the organization and procedures employed by the entity to achieve adequate internal control. Thus, while the overall objective and scope of audit do not change simply because data is maintained on computers, the procedures followed by the auditor in study and evaluation of the accounting system and related internal controls and the nature, timing, and extent of other audit procedures are affected in the IT environment.

The key security control aspects that an auditor needs to address when undertaking an audit in a computerized bank include:

- Ensure that authorized, accurate, and complete data is made available for processing.
- Ensure that in case of interruption due to power, mechanical, or processing failures, the system restarts without distorting the completion of the entries and records.
- Ensure that the system prevents unauthorized amendments to the program.
- Verify whether "access controls" assigned to the staff-working match with the responsibilities as per manual. The auditor needs to ensure that access and authorization rights given to employees are appropriate.
- Verify that segregation of duties is ensured while granting system access to users and that the user activities are monitored by performing an activity log review.
- Verify that changes made in the parameters or user levels are authenticated.
- Verify that charges calculated manually for accounts when the function is not regulated through parameters are properly accounted for and authorized.
- Verify that all modules in the software are implemented.
- Verify that exceptional transaction reports are being authorized and verified daily by the concerned officials. The auditor needs to understand the nature of the exception and its impact on financials.
- Verify that the account master and balance cannot be modified/amended/altered except by the authorized personnel.

- Verify that all the general ledger accounts codes authorized by Head Office are in existence in the system.

- Verify that balance in general ledger tallies with the balance in the subsidiary book.

- Verify that important passwords like database administrator and branch manager's password are kept in a sealed cover with the branch manager so that in case of emergency and the absence of any of them, the passwords could be used to run the system promptly.

- Verify that the backup media is stored in a fireproof cabinet secured with a lock and key and also that the off-site backups are preserved for an emergency.

- Verify that the anti-virus software of the latest version is installed in servers/PCs of branches to prevent data corruption, and is being regularly updated for new viruses.

- Verify that security patches are applied to systems as and when they are released by the vendors/developers.

- Verify that access to the computer room is restricted to authorized persons only.

BASEL III framework

Basel III norms relate to the Capital Adequacy requirement compliance which the Bank has to achieve as contained in the BASEL III accord. Basel capital adequacy norms are meant for the protection of depositors and shareholders by prescriptive rules for measuring capital adequacy, thereby evolving methods of determining regulatory capital and ensuring efficient use of capital.

Basel III accord strengthens the regulation, supervision, and risk management of the banking sector. It is a global regulatory standard on the capital adequacy of banks, stress testing as well as market liquidity risk. The Basel III accord aims at:

a) improving the banking sector's ability to absorb shocks arising from financial and economic stress, irrespective of reasons thereof;

b) improving risk management and governance practices; and

c) strengthening banks' transparency and disclosure standards.

BB has published "Guidelines on Risk-Based Capital Adequacy" Revised Regulatory Capital Framework for banks in line with Basel III in 2014. The Committee introduced transitional arrangements to implement the new standards that help ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy.

In line with the Basel framework, Bangladesh Bank issued transitional arrangements for Basel III implementation in Bangladesh. The phase-in arrangements for Basel III implementation in Bangladesh are also described in the said guidelines. An auditor of the bank needs to put special consideration on whether or not the bank was able to keep adequate capital in the financial year as per said guidelines.

Chapter Three
Internal Control and Audit Procedure in Certain Selected Areas

System of Internal Control in Banks

Banks are required to implement and maintain a system of internal controls for mitigating risks, maintain good governance, and meeting the regulatory requirements. Furthermore, the auditor needs to check whether or not these internal controls are implemented in the bank. Given below are examples of internal controls that are typically implemented in a bank:

General

- The staff and officers of a bank should be shifted from one position to another frequently and without prior notice.
- The work of one person should always be checked by another person (usually by an officer) in the normal course of business.
- The arithmetical accuracy of the books should be proved independently every day.
- All bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards, etc.) should be kept in the possession of an officer, and another responsible officer should verify the issuance and stock of such stationery.
- The mail should be opened by a responsible officer. Signatures on all the letters and advice received from other branches of the bank or its correspondence should be checked by an officer with the signature book.
- The signature book and the telegraphic codebook should be kept with responsible officers and access should be allowed only to authorized officers.
- The bank should take out insurance policies against loss due to all the risks such as fire, natural calamities, theft, and employees' infidelity.
- The financial powers of officers of different grades should be clearly defined.
- There should be surprise inspection of head office and branches at the periodic interval by the internal audit department. The irregularities pointed out in the inspection reports should be promptly rectified.

Cash

- Cash should be kept in the joint custody of two responsible officers.
- In addition to normal checking by the cash in charge, cash should be test-checked daily and counted in full occasionally by a responsible officer other than those handling the cash. Actual cash in hand should agree with the balance shown by the Day Book every day.
- The cash officer should have no access to the customer's ledger accounts and the Day Book. This is an important safeguard as the Bank managements are often tempted to use cash officers because of their shorter working hours as ledger clerks in the absence of regular staff etc. This can result in

substantial losses to the bank.

- The counterfoil of cash receipt vouchers (e.g. counterfeits of pay-in- slips lodged by the depositors) should be signed by an officer in Cash Department, in addition to the receiving cashier.

- Payments should be made only after the vouchers (e.g. cheques, demand drafts, etc.) have been passed for payment by the authorized officer and have been entered into the customer's account.

- Receipt and payment scrolls or their totals should be compared with the cash column of the Day-Book by independent persons.

- High-value cash receipts and payments should be verified by a higher officer/ branch manager and the excess cash balance should be remitted to the currency chest according to the branch's retention limit daily.

- Where the teller system is prevalent-

    - A limit should be placed on the powers of tellers to make payment.

    - All vouchers relating to the accounts of customers which the tellers handle should first be sent to them and entered by them in the ledger.

    - Total payment made by a teller should be reconciled with the cash columns of the Voucher Summary Sheet of the ledger concerned every day.

    - There should be a frequent rotation of tellers.

Loans and Advances

- The bank should make advances only after satisfying itself as to the creditworthiness of the borrowers and after obtaining sanction from the proper authorities of the bank.

- All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made.

- Sufficient margin should be kept against securities taken to cover any decline in the value thereof and to comply with Bangladesh Bank directives. Such margins should be determined by the proper authorities of the bank as a general policy or after detailed scrutiny for specific accounts.

- All the securities should be received and returned by the responsible officer. They should be kept in the Joint custody of two such officers.

- All securities requiring registration should be registered in the name of the bank or otherwise accompanied by the documents sufficient to give the title of the bank.

- In the case of goods in the possession of the bank, the contents of the packages should be test-checked at the time of receipt. The godowns/warehouses should be regularly and frequently inspected by a responsible officer of the branch concerned, in addition to inspectors of the bank.

- The market value of goods should be checked by officers of the bank by personal inquiry in addition

to the invoice value given by the borrowers.

- As soon as any increase or decrease takes place in the value of securities proper entries should be made in the Drawing Power Book and Daily Balance Book. These entries should be checked by an authorized officer.

- All accounts should be kept within both the drawing power and the sanctioned limit as per prescribed norms.

- All the accounts which exceed the sanctioned limit or drawing power or are against unapproved securities or are otherwise irregular should be brought to the notice of the Management/Head Office regularly.

- The operation (in each advance account) should be reviewed at least once every year.)

Inter-branch account

- The accounts should be adjusted only based on advice (and not on the strength of entries found in the statement of account) received from other branches,

- Prompt action should be taken preferably by the central authority if any entries (particularly debit entries) are not responded to by any branch within a reasonable time.

Compliance with CRR And SLR Requirements

Cash Reserve Ratio (CRR)

Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank. One of the important determinants of cash balances to be maintained by banking companies and other scheduled banks is the requirement for maintenance of a certain minimum cash reserve. While the requirement for maintenance of cash reserve by banking companies is contained in The Bank Company Act 1991 (as amended up to date) corresponding requirement for scheduled banks. The BB, from time to time, reviews the evolving liquidity situation and accordingly decides the rate of CRR required to be maintained by scheduled commercial banks. Therefore, the auditor needs to refer to the master circular issued from time to time in this regard to ensure compliance with CRR requirements.

Statutory Liquidity Ratio (SLR)

SLR is the requirement that every scheduled commercial bank in Bangladesh is required to maintain in the form of certain liquid assets such as cash in hand, balance with Bangladesh Bank and its agent bank, treasury bills, bonds, and debentures before providing credit to the customers. The Bangladesh Bank requires statutory auditors of banks to verify compliance with SLR requirements. The objective of maintaining SLR is to have an amount in the form of liquid assets which can be used to handle a sudden increase in demand for the amount from the depositors. The resultant report is to be sent to the top management of the bank and the Bangladesh Bank.

Audit Approach and Procedure

- Obtain an understanding of the relevant circulars/ instructions of the BB, particularly regarding the composition of items of DTL requirements

- Collect weekly trial balance as of Thursday and these are consolidated at the head office. Based on this consolidation, the DTL position is determined for every reporting Thursday. The statutory auditor should verify the correctness of the trial balances relevant to the dates selected by him/her. The auditors should also examine the cash balance at the branch on the selected dates.

- Examine, on a test basis, the consolidations regarding the DTL position prepared by the bank regarding the related returns received from branches. The auditor should examine whether the valuation of securities done by the bank as per the guidelines prescribed by the BB.

Loans and Advances

Before beginning verification of loans and advances and balances, the auditor should obtain an accurate schedule of accounts in the prescribed format. Advances generally constitute the major part of the assets of the bank. There is a substantial number of borrowers to whom a variety of advances are granted. The audit of advances requires major attention from the auditors. The following are the audit procedures involved in the verification of loans and advances:

Evaluation of Internal Controls over Loans and Advances

- Examine loan documentation;

- Examine the validity of the recorded amounts;

- Examine the existence, enforceability, and valuation of the security;

- Ensure compliance with the terms of sanction and end-use of funds.

- Ensure compliance with Loan Policy of Bank as well as BB norms including appropriate classification and provisioning.

- Review the operation of the accounts;

Substantive Audit Procedures

- Check whether the amounts included in the balance sheet for advances accounts are outstanding as of the date of the balance sheet.

- Check that advances represent the amount due to the bank.

- Verify that amounts due to the bank are appropriately supported by Loan documents and other documents as applicable to the nature of advances.

- Ensure there are no unrecorded advances.

- Check that the stated basis of valuation of advances is appropriate and properly applied and that the recoverability of advances is recognized in their valuation.

- Verify that the advances are disclosed, classified, and described per recognized accounting policies and practices and relevant statutory and regulatory requirements.

- Check that appropriate provisions towards advances have been made as per the RBI norms, Accounting Standards, and generally accepted accounting practices.

- Examine all large advances while other advances may be examined on a sample basis.

- Verify completeness and accuracy of interest being charged

Recoverability of Advances

- Review periodic statements submitted by the borrowers indicating the extent of compliance with terms and conditions.

- Review latest financial statements of borrowers.

- Review reports on inspection of security.

- Review Auditors' reports in the case of borrowers enjoying aggregate credit limits of Rupees 10 lakh or above for working capital from the banking system.

Verification of provision for loans and advances is an important aspect of audit of advances relates to their classification and provisioning. This implies that a proper provision should be made in respect of advances where the recovery is doubtful. The Bangladesh Bank has prescribed objective norms for determining the quantum of provisions required in respect of loans and advances.

Capital

The auditor should verify the opening balance of capital regarding the audited balance sheet of the previous year. In case there has been an increase in the capital during the year, the auditor should examine the relevant documents supporting the increase.

For example, in case of an increase in the authorized capital of a banking company, the auditor should examine the special resolution of shareholders and the Memorandum of Association. An increase in subscribed and paid-up capital of a banking company, on the other hand, should be verified regarding prospectus/other offer documents, reports received from Registrars to the issue, bank statements, returns filed with the Registrar of Companies, etc.

Capital Adequacy

The term 'capital adequacy' is used to describe the adequacy of capital resources of a bank concerning the risks associated with its operations. Adequacy of the capital of banks has been the subject matter of consideration by banking authorities around the world for several decades. An international agreement on a

common risk-based capital framework and definition of bank capital was framed by the Committee on Banking Regulations and Supervisory Practices of the G-1O Nations (popularly known as the Basel Committee) and was formally adopted in 1988. It was also adopted by all the twenty-five countries that were either full members of the Organization for Economic Co-operation and Development (OECD) or had special lending arrangements under the International Monetary Fund's (IMF) general borrowing procedures.

The framework attempted to relate a bank's capital needs to its risk profile. Besides serving to strengthen the soundness and stability of the banking system, it also sought to give banks an incentive to hold lower-risk assets, incorporate off-balance sheet exposures explicitly into capital assessments, and achieve greater uniformity in the application of capital standards to banks across different countries. The prescribed minimum capital standards for risk-based capital were to apply to banks on a transitional basis beginning at the year-end of 1990 and were to be fully in place by the end of 1992.

Capital Adequacy Measures in Bangladesh

In Bangladesh, the statutes governing various types of banks lay down the minimum capital requirements for them. Besides, there are also requirements for the maintenance of statutory reserves. Considering the variations in minimum capital requirements.

To cope up with the international best practices and to make the bank's capital shock-absorbent 'Guidelines on Risk-Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel II) was introduced from January 01, 2009, as a parallel run with BRPD Circular No. 10, dated November 25, 2002 (Basel I). At the end of a parallel run, the Basel II regime started on January 01, 2010, and the guidelines on RBCA came fully into force with its subsequent supplements/revisions. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital, and Disclosure requirement as stated in the guidelines had to be followed by all scheduled banks for statutory compliance.

Basel III reforms are the response of the Basel Committee on Banking Supervision (BCBS) to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. "Basel III: A global regulatory framework for more resilient banks and banking systems" (known as Basel III capital regulations) in December 2010. Basel III reforms strengthen the bank-level i.e. micro-prudential regulation, to raise the resilience of individual banking institutions in periods of stress. Besides, the reforms have a macroprudential focus also, addressing system-wide risks, which can build up across the banking sector, as well as the procyclical amplification of these risks over time. These new global regulatory and supervisory standards mainly addressed the following areas:

- raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis
- increase the risk coverage of the capital framework
- introduce leverage ratio to serve as a backstop to the risk-based capital measure
- raise the standards for the supervisory review process (Pillar 2) and
- public disclosures (Pillar 3) etc.

The macro-prudential aspects of Basel III are largely enshrined in the capital buffers. Both the buffers i.e. the capital conservation buffer and the countercyclical buffer are intended to protect the banking sector from periods of excess credit growth.

In line with the Basel framework, Bangladesh Bank issued transitional arrangements for Basel III implementation in Bangladesh. The phase-in arrangements for Basel III implementation in Bangladesh are as follows:

Phase-in Arrangements for Basel-III Implementation in Bangladesh

Particulars	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 (CET) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%
Minimum CET-1 Plus Capital Conservation Buffer	4.50%	5.125%	5.75%	6.375%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%
Phase-in deductions from CET-1					
Excess Investment over 10% of a bank's equity in the equity banking, financial and insurance entities/	20%	40%	60%	80%	100%
Phase-in deductions from Tier-2 Revaluation Reserve (RR)					
RR from Fixed Assets, Securities and Equity Securities	20%	40%	60%	80%	100%
Leverage Ratio	3.00%	3.00%	3% Readjustment	Migration to pillar 1	
Liquidity Coverage Ratio	≥ 100% (From sep)	≥ 100%	≥ 100%	≥ 100%	≥ 100%
Net Stable Funding Ratio	≥ 100% (From Sep)	≥ 100%	≥ 100%	≥ 100%	≥ 100%

The basic approach of the capital adequacy framework is that a bank should have sufficient capital to provide a stable resource to absorb any losses arising from the risks in its business. Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument.

To calculate capital under the capital adequacy framework, the capital of banks shall be classified into two tiers. The total regulatory capital will consist of a sum of the following categories:

1. Tier 1 Capital (going-concern capital)

    a) Common Equity Tier 1
    b) Additional Tier 1

2. Tier 2 Capital (gone-concern capital)

From a regulatory capital perspective, going-concern capital is the capital that can absorb losses without triggering the bankruptcy of the bank. Gone-concern capital is the capital that will absorb losses only in a situation of liquidation of the bank.

Deposits

In carrying out an audit of deposits and liabilities, the auditor is primarily concerned with obtaining reasonable assurance that all known liabilities are recorded and stated at appropriate amounts.

- Verify the balances in individual accounts on a sample basis.
- Examine whether the balances as per subsidiary ledgers tally with the related control accounts in General Ledger. In case of any differences, the auditor should examine the reconciliation prepared by the branch in this regard.
- Check the calculations of interest on a test check basis.
- Examine whether the procedure for obtaining balance confirmation periodically has been followed consistently. Examine, on a sampling basis, the confirmations received.
- Examine whether the deposit receipts and cash certificates are issued serially and all of them are accounted for in the registers.
- Examine whether foreign currency deposits have been converted into BDT at the rate notified on this behalf by the head office.
- Examine whether any resultant increase or decrease has been taken to the profit and loss account.
- Verify that interest on deposits has been paid based on 360 days in a year.
- Examine that interest accrued but not due on deposits is not included under the relevant deposits but is shown under the head ‘other liabilities and provisions’.
- Examine the inoperative/ dormant accounts carefully.
- Ensure that framework relating to ‘Know Your Customer’ and Anti- Money Laundering measures are formulated and put in place by the bank.

Chapter Four
Departures from IFRSs and legal & regulatory requirements

Departures from IFRSs

Bank has to prepare the financial statements per International Financial Reporting Standards (IFRSs) as adopted by the Financial Reporting Council (FRC) under the Financial Reporting Act, 2015 and the requirements of the Bank Company Act, 1991 (as amended up to date), the rules and regulations issued by Bangladesh Bank (BB), the Companies Act 1994. In case any requirement of the Banking Companies Act, 1991 (as amended up to date), and provisions and circulars issued by Bangladesh Bank differ with those of IFRSs, the requirements of the Banking Companies Act 1991 (as amended up to date), and provisions and circulars issued by Bangladesh Bank shall prevail.

Followings are the departures of IFRSs, which the bank auditor need to carefully consider during the audit:

Presentation of financial statements

IFRS

As per IAS 1 Presentation of financial statements, financial statements shall comprise a statement of financial position as at the end of the period, a statement of profit or loss and other comprehensive income for the period, a statement of changes in equity for the period, a statement of cash flows for the period, notes - comprising significant accounting policies and other explanatory information. As per IAS 1, the entity shall also present current and non-current assets and liabilities as separate classifications in its statement of financial position.

Bangladesh Bank

The presentation of the financial statements in the prescribed format (i.e. balance sheet, profit and loss account, cash flow statement, statement of changes in equity, liquidity statement) and certain disclosures therein are guided by the First Schedule (section 38) of the Banking Companies Act 1991 (as amended up to date) and BRPD circular no. 14 dated 25 June 2003 and subsequent guidelines of Bangladesh Bank. In the prescribed format there is no option to present assets and liabilities under current and non-current classifications.

Investments in shares and securities

IFRS

As per requirements of IFRS 9, classification and measurement of investment in shares and securities will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. Based on these factors it would generally fall either under "at fair value through profit or loss account" or under "at fair value through other comprehensive income" where any change in the fair value (as measured per IFRS 13) at the year-end is taken to profit and loss account or other comprehensive income respectively.

Bangladesh Bank

As per BRPD circular no. 14 dated 25 June 2003 investments in quoted shares and unquoted shares need to be revalued at the year-end at market price and as per book value of the last audited balance sheet respectively. Provision should be made for any loss arising from diminution in value of the investment; otherwise, investments have to be recognized at cost.

Revaluation gain/loss on Government securities

IFRS

As per the requirement of IFRS 9 where securities will fall under the category of fair value through profit or loss account, any change in the fair value of assets is recognized through the profit and loss account. Securities designated as amortized costs are measured at the effective interest rate method and interest income is recognized through the profit and loss account.

Bangladesh Bank

HFT securities are revalued based on mark to market and at year-end, any gains on the revaluation of securities that have not matured as at the balance sheet date are recognized in other reserves as a part of equity and any losses on the revaluation of securities that have not matured as at the balance sheet date are charged in the profit and loss account. Interest on HFT securities including amortization of discount needs to be recognized in the profit and loss account. HTM securities that have not matured as at the balance sheet date are amortized at the year-end and gains or losses on amortization need to recognize in other reserves as a part of equity.

Provision on loans and advances

IFRS

As per IFRS 9, an entity shall recognize an impairment allowance on loans and advances based on expected credit losses. At each reporting date, an entity shall measure the impairment allowance for loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on these loans and advances has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable information, including that which is forward-looking. For those loans and advances for which the credit risk has not increased significantly since initial recognition, at each reporting date, an entity shall measure the impairment allowance at an amount equal to 12 months expected credit losses that may result from default events on such loans and advances that are possible within 12 months after reporting date.

Bangladesh Bank

As per Bangladesh Bank instructions vide different circulars, a general provision @ 0.25% to 2% under different categories of unclassified loans (standard/SMA loans) and special general provision for Covid-19 @ 1% on PBD (Payment by deferral) facilitated accounts, should be maintained regardless of objective evidence of impairment. And specific provision for sub-standard/doubtful/bad-loss loans should be made at 5%, 20%, 50% and 100% respectively on loans net off eligible securities (if any). Also, a general provision @ 0.5% - 1% should be provided for certain off-balance sheet exposures. Such provision policies are not specifically in line with those prescribed by IFRS 9.

Recognition of interest in suspense

IFRS

Loans and advances to customers are generally classified at amortized cost as per IFRS 9 and interest income is recognized by using the effective interest rate method to the gross carrying amount over the term of the loan. Once a loan subsequently becomes credit-impaired, the entity shall apply the effective interest rate to the amortized cost of these loans and advances.

Bangladesh Bank

As per BRPD circular no. 14 dated 23 September 2012, once a loan is classified, interest on such loans are not allowed to be recognized as income, rather the corresponding amount needs to be credited to an interest in a suspense account, which has to be presented as a liability in the balance sheet.

Other comprehensive income

IFRS

As per 'IAS 1- Presentation of Financial Statements, Other Comprehensive Income (OCI) is a component of financial statements or the elements of OCI are to be included in a single Other Comprehensive Income statements.

Bangladesh Bank

Bangladesh Bank has issued templates for financial statements which are to be followed by all banks. The templates of financial statements issued by Bangladesh Bank do not include Other Comprehensive Income nor are the elements of Other Comprehensive Income allowed to be included in a single Other Comprehensive Income (OCI) Statement. As such the Bank does not prepare the other comprehensive income statement. However, elements of OCI, if any, should show in the statements of changes in equity.

Financial instruments - presentation and disclosure

In several cases, Bangladesh Bank guidelines categories, recognize measures, and present financial instruments differently from those prescribed in IFRS 9. As such full disclosure and presentation requirements of IFRS 7 and IAS 32 cannot be made in the financial statements by the bank.

Financial guarantees

IFRS

As per IFRS 9, financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due per the original or modified terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. The financial guarantee liability is subsequently measured at the higher of the amount of lass allowance for expected credit losses as per impairment requirement and the amount initially recognized less, income recognized per the principles of 1FRS 15. Financial guarantees are included within other liabilities.

Bangladesh Bank

As per BRPD circular no. 14 dated 25 June 2003, financial guarantees such as a letter of credit and letter of guarantee will be treated as off-balance sheet items. No liability needs to be recognized for the guarantee except the cash margin. However, a general provision @ 0.5% -1% is should provide against such a guarantee.

REPO transactions

IFRS

When an entity sells a financial asset and simultaneously enters into an agreement to repurchase the same (or a similar asset) at a fixed price on a future date (REPO or stock lending), the arrangement is accounted for as a collateralized borrowing and the underlying asset continues to be recognized in the entity's financial statements. This transaction will be treated as borrowing and the difference between the selling price and repurchase price will be treated as interest expense.

Bangladesh Bank

As per BB circulars/guidelines, when a bank sells a financial asset and simultaneously enters into an agreement to repurchase the same (or a similar asset) at a fixed price on a future date (REPO or stock lending), the arrangement is accounted for as a normal sale transaction and the financial assets should be derecognized in the seller's book and recognized in the buyer's book.

Cash and cash equivalents

IFRS

Cash and cash equivalent items should be reported as cash items as per 'IAS 7- Statement of Cash Flows'.

Bangladesh Bank

Some cash and cash equivalent items such as 'money at call and on short notice', treasury bills, Bangladesh Bank bills, and prize bonds do not show as cash and cash equivalents. Money at call and on short notice is presented on the face of the balance sheet, and treasury bills and prize bonds should show in investments.

Non-banking assets

IFRS

No indication in the name of a Non-banking asset is found in any IFRS.

Bangladesh Bank

As per BRPD circular no. 14 dated 25 June 2003, there must exist a face item named Non-banking asset.

Cash flow statement

IFRS

AS per 'IAS 7- Statement of Cash Flows' the Cash flow statement can be prepared using either the direct method or the indirect method. The presentation is selected to present these cash flows in a manner that is most appropriate for the business or industry. The method selected is applied consistently.

Bangladesh Bank

As per BRPD circular no. 14 dated 25 June 2003, cash flow is a mixture of direct and indirect methods.

Balance with Bangladesh Bank (CRR)

IFRS

Balance with Bangladesh Bank should be treated like other assets as it is not available for use in day-to-day operations as per 'IAS 7- Statement of Cash Flows'.

Bangladesh Bank

Balance with Bangladesh Bank should disclose as cash and cash equivalents.

Presentation of intangible asset

IFRS

An intangible asset must be identified and recognized, and the disclosure must be given as per 'IAS 38- Intangible Assets'.

Bangladesh Bank

There is no regulation for intangible assets in BRPD circular no.14 dated 25 June 2003.

Off-balance sheet items

IFRS

There is no term in the name of off-balance sheet items in any IFRS; hence there is no requirement for disclosure of off-balance sheet items on the face of the balance sheet.

Bangladesh Bank

As per BRPD circular no.14 dated 25 June 2003, off-balance sheet items (e.g. Letter of credit, Letter of guarantee, etc.) must be disclosed separately on the face of the balance sheet.

Loans and advances net of provision

IFRS

Loans and advances shall be presented at amortized cost net of any write-down for impairment (expected credit losses that result from all possible default events over the life of the financial instrument).

Bangladesh Bank

As per BRPD circular no.14 dated 25 June 2003, provision on loans and advances should be presented separately as liability and cannot be netted off against loans and advances.

Auditor's Report

Before finalizing the Audited Financial Statements, a tripartite meeting shall be held among Bangladesh Bank, the bank concerned and the external auditor (s). The concerned bank shall arrange the meeting at their premises with prior consent from the concerned inspection department of Bangladesh Bank where representatives from concerned Department of Banking Inspection must take part. Representative (s) from Department of Off-site Supervision may also attend the meeting. A team shall represent bank including at least a member from the Audit Committee.

In case of Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank, a quadripartite meeting shall be arranged including participation of the Ministry of Finance, Bangladesh Bank, the bank concerned and the external auditor (s) before finalizing the Audited Financial Statements.

Matters to be discussed in the tripartite/quadripartite meeting shall include issues mainly related to asset quality and provisional figure of provision requirement, the results of the annual audit, presentation and content of the annual accounts, identified weaknesses in internal controls, detection of irregularities and/or frauds, and compliance with legal and other prudential requirements.

Bangladesh Bank may call bipartite or tripartite meetings, as and when necessary, to bring a matter to the attention of a bank and/or its auditor (s), if the matter is of such importance that the auditors' knowledge of it could significantly affect the form of their audit or how they carry out their reporting responsibilities.

In addition, the external audit firms, individually or in a body, are encouraged to have regular discussions with Bangladesh Bank on different existing and emerging key risks & systemic issues and on accounting techniques and auditing issues at the national level.

As per Section 213, paragraph 2 of the Companies Act, 1994, an auditor shall, amongst other inquire about the following:

a) Whether loans and advances made by the company based on security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the company or its members:

b) Whether transactions of the company which are represented merely as book-entries are prejudicial to the interests of the company;

c) If the company is not an investment company or a banking company, whether any assets of the Company comprising of shares, debentures and other securities, have been sold at a price less than at which they were purchased by the company;

d) whether loans and advances made by the company have been shown as deposits;

e) whether personal expenses have been charged to revenue account; and

f) If any shares have been allotted for cash, whether cash has actually been received, and if no cash has actually been so received, whether the position as stated is correct, regular and not misleading.

As per para 4, the auditor's report shall state;

- whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purposes of his audit;

- whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him; and

- whether the company's balance sheet and profit and loss account dealt with by the report agree with the books of account and returns.

As per Section 39, Para 3 of the Bank Company Act 1991, as amended up to date, in addition to the requirements of Section 213 of the Companies Act 1994, an auditor of a Bank shall also state the following matters in his/her report:

- Financial statements of the Bank have been drawn up in conformity with prevailing rules, regulations and accounting standards as well as related guidance issued by Bangladesh Bank;

- Adequate provisions have been made for advance and other assets which are in our opinion, doubtful of recovery;

- The records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;

- The information and explanations required by auditors have been received and found satisfactory;

- Capital Adequacy Ratio (CAR) as required by the Bangladesh Bank has been maintained adequately during the year;

- Minimum coverage of risk-weighted assets during the course of audit; and

- Any other matter which need to be brought to the attention of shareholders.

The following additional reporting requirements have been inserted through amendment in 2013, where an auditor is also supposed to report on:

- Adequacy of internal audit, internal control and risk management related process;

- Any fraud/forgery, irregularities or administrative error or anything harmful for the Bank committed by the officer-staff of the bank or its associated entity came to the attention of the auditor; and

- If applicable, whether subsidiary company has been audited and properly consolidated

Paragraph 4 of section 39 also requires an auditor of a Bank to report on the following matters immediately to Bangladesh Bank:

- Any serious violation of the Bank Company Act 1991;

- Due to loss, capital of entity came down below 50%;

- Any other serious noncompliance occurred, including doubt on repayment of due to creditors; and

- There is doubt whether assets are adequate to meet demand of creditors.

Chapter Five
Finding, Recommendations and Conclusion

Finding and Recommendations

A bank must conduct regular audits to ensure that they comply with the law and industry standards. An audit team should be unbiased, meaning they should operate solely as the audit team to avoid any conflicts of interest. A bank audit function gives objective insight into how business is operating and if it is checking all the boxes of being efficient, safe, accurate, and abiding by all regulations. With an independent and unbiased review, an audit can add value to business. However, doing an audit of a bank is a major assignment for any CA firm. Before accepting a bank audit, the firm should assess whether the firm has resources to do the assignment on time. The firm also should consider the followings:

- There are around 60 (Sixty) banks in Bangladesh and the eligible CA firms for doing bank audit are 41 (Forty-one). So, there is a competitive pressure. Thus, the CA firm should estimate the costs of engagement whether it suffices to compensate for the engagement.

- Incorporate clauses of time limitation, compensation and risk of information technology in the engagement letter.

- Bangladesh Bank publishes circulars and circular letter throughout the year. Before starting the audit engagement, the firms should ensure whether all the related directions from BB incorporated in the audit program and risk assessment process.

- For investment made by bank, the BB has published several instructions, including how to record related journal entries. The firm should inquire of those individuals involved in the financial reporting process about any inappropriate or unusual activity relating to the processing of journal entries and document their responses. The firm should also evaluate the process and related controls for the creation, approval, posting and review of standard and non-standard journal entries and other adjustments.

- Because of lack of general knowledge of information technology, some CA firms cannot perform an expected audit of items of financial statements. Such as deposit, interest expense and letter of credit. This also includes reporting requirements of banks. The firms should arrange proper training for bank audit team and include bankers in the audit team.

- Every bank has to deal with enormous transactions in a financial year. The firms should establish a risk-based audit approach to bank audit.

- There are additional requirements for accounting estimates for banks. The firm should document the estimation methods used, including where applicable the model used, whether there has been or ought to have been a change in the methods from the prior period, and if so, why, an understanding of the underlying assumptions, whether and, if so, how management has assessed the effect of estimation uncertainty. Review the outcome of the accounting estimates included in the prior period financial statements (this may include the prior period or interim financial statements) or, where applicable, its subsequent re-estimation for the current period.

- The firms should increase the number of communications with those charged with governance (Audit Committee). The auditor should make a timely communication with those charged with governance.

Conclusion

Under Section 39 of the Banking Companies Act, 1991 (amended up to date), an External Auditor conducts the statutory audits of bank's financial statements with a view to Provide reasonable assurance about the reliability of the statements; and also certify whether those are prepared under all applicable accounting, auditing, and reporting standards. External auditor plays an essential role in the regulatory framework; as properly conducted audits foster market confidence and contribute significantly towards greater financial stability.

The external auditor (s) must possess resources and level of knowledge, expertise, experience and skills as determined by Bangladesh Bank to perform their duties with professional competence in conformity with domestic legal and regulatory stipulations and international accounting and auditing standards. Auditors should possess and maintain a high standard of integrity, honesty & financial discipline, and abide by the Code of Ethics of International Ethics Standards Board for Accountants (IESBA) for the practicing-chartered accountants and its members all the time.

Although external auditors are not, by definition, part of a banking organization and therefore, are not part of its internal control system, they have an important impact on the quality of internal controls through their audit activities, including discussions with management and recommendations for improvement to internal controls. The external auditors provide important feedback on the effectiveness of the internal control system.

The current audit procedures by CA firms for bank audit are in the development phase. Amongst other limitation the local firms need to proof their audit quality. Due to continues pressure from regulatory bodies and unexpected deferrals of required provision and capital maintenance requirements from BB, it is really a complicated assignment for the CA firms. The bank audit is also a cash cow for the firms. As it also brings cash subsidy certification. The existing auditing standards recommend not to accept an audit, which crosses the limit of income threshold. As the bank audit require a extensive focus, the firms should assess the resources and capabilities of doing such audit.

Reference:

- https://www.icab.org.bd
- https://www.bb.org.bd
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- IFRS
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- IAS