# Internship Report

on

# External Audit Procedure: An Analysis Based on Aziz Halim Khair Choudhury, Chartered Accountants


**Submitted by:**

Ashik Noor Foyezy
ID: BBA1903018042
Program: Bachelor of Business Administration
Major: Accounting
Semester: Summer- 2023

**Submitted to:**

Department of Business Administration
Sonargaon University (SU)






## Sonargaon University (SU)

Dhaka- 1215


**Date of Submission:** 05/09/2023

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**Submitted to:**

**Md. Rasel Hawlader**
Lecturer
Department of Business Administration
Sonargaon University (SU)






## Sonargaon University (SU)

Dhaka- 1215

**Date of Submission: 05/09/2023**

# Letter of Transmittal

September 05, 2023

To,

**Md. Rasel Hawlader**
Lecturer
Department of Business Administration
Sonargaon University, Dhaka.

**Subject: Submission of Internship Report regarding "External Audit Procedure: An Analysis Based on Aziz Halim Khair Choudhury, Chartered Accountants''**

Dear Sir,

With due respect and honor, I would like to inform you that, I have successfully completed the requirements to entitle myself for the practicum report, which is a mandatory requirement to completion of the BBA program. This is a great pleasure for me to submit the practicum report on **"External Audit Procedure: An Analysis Based on Aziz Halim Khair Choudhury, Chartered Accountants".** The main goal of preparing this practicum report is to identify the ways in which we can give a true and fair view of the financial statement that it has presented fairly with all material respect in accordance with the IFRS, IAS, ISA, Company Act and other applicable laws and regulations according to the regulatory bodies. Though I faced some difficulties to collect information for completing my report, I tried my level best to do it in an acceptable way to achieve my aim. Now I need your permission to present it.

So, I am requesting you humbly to give me the permission to present my full practicum report and pave the way smoother to my academic career and oblige thereby.

Sincerely Yours,

**Ashik Noor Foyezy**
ID: BBA1903018042
Major in Accounting
Semester: Summer 2023
Bachelor of Business Administration
Sonargaon University (SU)

# Letter of Authorization

I, Mr. Md. Rasel Hawlader, Lecturer, Department of Business Administration, Sonargaon University (SU) hereby certify that the internship report entitled "External Audit Procedure: An Analysis Based on Aziz Halim Khair Choudhury, Chartered Accountants" has been prepared by Ashik Noor Foyezy, ID: BBA1903018042, Bachelor of Business Administration, Sonargaon University (SU) and submitted as a requirement for the partial fulfillment for the degree of the Bachelor of Business Administration (BBA) completing major in Accounting. To the best of my knowledge, the above-mentioned work has been conducted by the student himself. Any option and/or suggestion made in this study are entirely that of the author of this practicum report. The report is an original work and prepared as a partial requirement of the degree which has been successfully under my supervision.

I wish him every success in his life.

**Md. Rasel Hawlader**
Lecturer
Department of Business Administration
Sonargaon University (SU)

# Student's Declaration

I, Ashik Noor Foyezy, ID # BBA1903018042 a student of Bachelor of Business Administration, Sonargaon University (SU) would like to solemnly declare that this report entitled "External Audit Procedure: An Analysis Based on Aziz Halim Khair Choudhury, Chartered Accountants'' has been prepared by me under the supervision of Md. Rasel Hawlader, Lecturer, Department of Business Administration, Sonargaon University.

Sincerely Yours,

**Ashik Noor Foyezy**
ID: BBA1903018042
Major in Accounting
Semester: Summer 2023
Bachelor of Business Administration
Sonargaon University (SU)

# Acknowledgement

At first, I would like to express my gratitude to the almighty Allah for being so kind as to allow me to work on this practicum project successfully. I am Ashik Noor Foyezy expressing my heartiest gratitude to those who helped me in all the way through to completion of my internship report. At the very beginning, I would like to express my indebtedness and deepest sense of gratitude to Supervisor Md. Rasel Hawlader, Lecturer of Department of Business Administration, Sonargaon University for his encouragement, thoughtful suggestions, proper guidance, and supervision throughout the progress of my thesis work.

I would like to convey my gratitude to Aziz Halim Khair Choudhury, Chartered Accountants where I have completed my internship program as required as a course curriculum to prepare this report. I have acquired experience from the Aziz Halim Khair Choudhury, Chartered Accountants, which truly amplified my level of competency during my working period. It would not have been possible for me to complete this internship successfully without the help of Mr. Md. Aftab Uddin Ahmed FCA, Senior Partner and Mr. Md. Kardar Rahman, Director (Audit & Admin) of Aziz Halim Khair Choudhury, Chartered Accountant. I want to give special thanks to the entire employee and Internship students of Aziz Halim Khair Choudhury, Chartered Accountants.

**Ashik Noor Foyezy**
ID: BBA1903018042
Major in Accounting
Semester: Summer 2023
Bachelor of Business Administration
Sonargaon University (SU)

AHKC/HR/2023-24/250

# To Whom It May Concern

This is to certify that **Ashik Noor Foyezy** son of Kalam Foyezy & Chand Sultana served as an intern in this firm from 1st May 2023 to 31st July 2023.

His performance during the tenure was satisfactory and to the best of my knowledge, he bears a good moral character.

I wish him all the success in life.

**Dhaka**
01 August 2023

**Md. AftabUddin Ahmed FCA**
Sr. Partner

## Executive Summary

This report is based on the "External Audit Procedure: An Analysis Based on Aziz Halim Khair Choudhury, Chartered Accountants.'' These learning experiences are described in detail in the various chapters of this report. Here I am going to be describing the full External audit procedure which I had learned during my internship days. The report is divided into six major chapters. Chapters are again divided into subchapters according to the content of the chapters. In Chapter one, the introduction, objective, objectives, methodology and limitations of the study have been given. In Chapter two, a brief discussion about Organization Profile (AHKC). Its Background, Corporate information, mission, vision and different services which they have provided to their clients and others information. In Chapter three, Literature Review – in Here I have describe about Audit, understanding Audit, Importance of Audit, Difference type of Audit, External Audit in briefly, Reasons of Providing External Audit, condition for External Audit, Limitation faced during the Audit and Needed Documents. In Chapter four, Analysis of the Study – I have described my full audit work through the application of the Audit Procedure from Beginning to End. Their Includes – EOI (Expression of Interest), Proposal, Acceptance, Engagement Letter, Team Discussion, Planning, Field Work, Reviewing, Reporting. In Chapter five, details of the Findings of the Client has been described through Facts. Finally, in chapter six, Recommendations & Conclusion - details of the recommendation of the Client has been described through Management Response. All information has been drawn by described reference. This information has been implied as per laws and Regulations.

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# Chapter: 01
# Introduction

## 1.1 Introduction

Audit is required for all of the organizations nowadays. To give a proper reliance and trust to the intended users who will be benefited for that and organization are also get benefit from it an audit of the Financial Statement to give true and fair is required. An internship is an opportunity where a student can have practical knowledge or experience by working in an organization. As I am a student of major in accounting under the BBA program, I need to do internship on any financial organization which will give me the opportunity to gain practical knowledge.

I choose AHKC Chartered Accountants firm which is the A grade CA firm in Bangladesh and in ranking 1st position in NGO Audit. I have worked in the audit department of AHKC Chartered Accountants.

I have worked in the audit department as an audit representative, which I choose to complete my internship report. This study helps me to observe and perform the audit procedure of External Audit of an audit department. The Partner has helped me to prepare my internship report on the External Audit Procedure.

## 1.2 Objectives of the Study

Broad Objective-

- The broad objective of this report is to gather proper knowledge about External Audit procedures in Bangladesh.

Specific Objectives-

- Examining the system of internal check.
- Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing, etc.
- Verifying the authenticity and validity of transactions.
- Checking the proper distinction between capital and revenue nature of transactions.
- Confirming the existence and value of assets and liabilities.

## 1.3 Methodology of the Study

The study requires a systematic procedure from the selection of the topic to preparation of the final report. To perform the study, the data source was identified and collected classified analyzed, interpreted in a systematic manner and key points were to be found out. The overall process of methodology has been given below-

Data Sources:

- Primary Data

The primary data has been collected from the survey through the Audit structure. This Audit structure is solved by face-to-face Review with the Superiors.

- Secondary Data

  For this survey, I do not use any secondary data. But I have used some statistical tools for analyzing the result.

- Descriptive Research

  To conduct an audit, we had to follow the basic rules. Regarding these rules we have been instructed by audit supervisor to check some specific document and to apply some specific methods or techniques to find out the error or findings of such audit according to its character.

## 1.4 Limitation of the Study

The study is conducted with an objective to make a thorough study of the cash incentive or subsidy procedures. I have got many facilities as well as have confronted few limitations during my study. These limitations are as per the following:

i. Time was very limited for me to collect all the necessary information.

ii. As the internship is my first practical experience; it is unrealistic possible for me to know everything about External audit procedures.

iii. There are many important matters that were directly conducted by the top management level which may also give some sort of restrictions.

iv. Authority did not disclose too much information.

v. Because there have lot of heads to audit we have less time to audit the all the heads properly. We did not audit 100% of the Financial Statement.

# Chapter: 02
# Organizational Profile

## 2.1 Organization Part

Aziz Halim Khair Choudhury (AHKC), Chartered Accountants was established on 1st July 1979 vide Registration No. 23556/79.

## 2.2 Background of the AHKC

Aziz Halim Khair Choudhury (AHKC) is one of the leading Chartered Accountants Firms in Bangladesh duly registered with the Registrar of Joint Stock Companies & Firms.

AHKC is the Exclusive Correspondent Firm of PKF International Limited (PKF), UK in Bangladesh, a Global Network of Independent Accounting and Consultancy Firms which administers a network of legally independent member firms which carry on separate businesses under the PKF name.

AHKC has at present seven partner's firm with cumulative experiences of over 160 years in processing diverse expertise in the fields of auditing, accounting, taxation, management consultancy, corporate finance, investigation, secretarial service, information technology, consultancy in public offering and fund raising, feasibility and market study etc.

## 2.3 Corporate information of the AHKC Firm

| | |
|---|---|
| **Name of organization** | Aziz Halim Khair Choudhury, Chartered Accountants |
| **Founded** | 1979 |
| **Chairman** | M A HALIM GAZNAVI FCA |
| **Headquarters** | House no: 75/A, Abasar Bhaban (2nd floor), Road # 5/A, Dhanmondi, Dhaka-1209 |
| **Total number of employees** | 130 |
| **Additional Number of Branch** | 02 (Baridhara and Uttara) |
| **Type** | Partnership |
| **Specialties** | Auditing, accounting, taxation, management consultancy, corporate finance, investigation, secretarial service, information technology, consultancy in public offering and fund raising, feasibility and market study |
| **Contact detail** | PABX: +880961339090-92 |
| **Website** | www.ahkcbd.com |

**Table 1: Corporate Information**

## 2.4 AHKC- Vision

Our VISION is to turn knowledge into value for the benefit of our clients and our people. Our aim is to provide clients with a globally consistent set of multidisciplinary audit, tax and accounting services based on updated subject specific knowledge.

## 2.5 AHKC- Mission

Our MISSION is to become a professional accounting and consulting firm presenting a comprehensive range of services to exceed the Needs of our Clients by fostering an environment that encourages personal and professional growth and a passion for our Core Values. We will continue to be recognized as an innovative leader in the community – known for timely delivering precise, tailored and quality professional services through a multi-disciplinary approach.

## 2.6 Five core values of AHKC

**PASSION |** We have an appetite for progress, strive to exceed our clients' expectations and provide opportunities to our people to grow personally and professionally.

**TEAMWORK |** We are advisers without borders. Member and correspondent firms are independently owned and managed, but strong personal relationships allow us to work seamlessly. We treat members' and correspondents' clients as if they were our own.

**CLARITY |** We initiate clear and direct action, are open and transparent at all times, and are consistent with our approach.

**QUALITY |** We apply the highest standards of quality to our work, and are all party to the PKF Commitment.




**INTEGRITY |** We have shared standards and a mutual respect for entrepreneurs and influential leads, which extends our voice and reach. There is a strong sense of support and encouragement to make things happen, together.

## 2.7 About PKF International of AHKC

PKF International Limited (PKFI), the tenth largest network of accounting and business advisory firms with more than 300 member and correspondent firms in around 150 countries, offices in 440 cities across 5 continents, administers the PKF network of legally independent member firms.

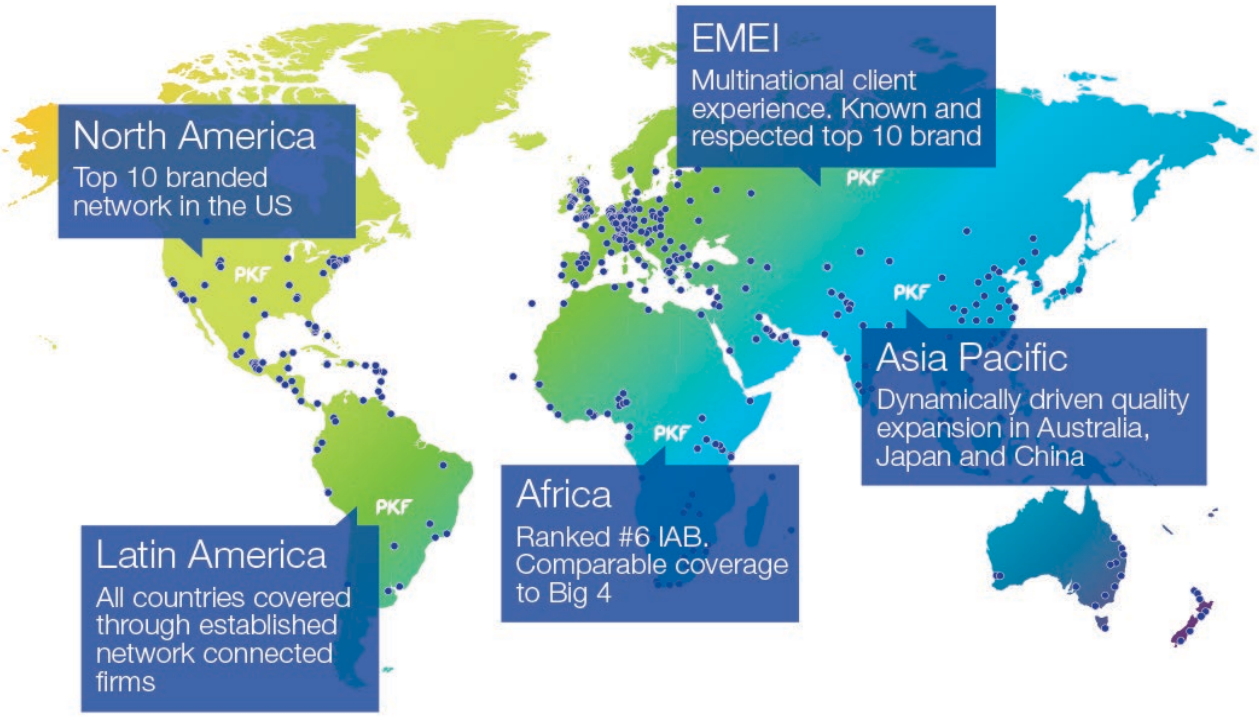
over 400 offices worldwide

operating in 150 countries

over 15,000 staff across the globe

member firms generate over $1 billion in aggregate fee income

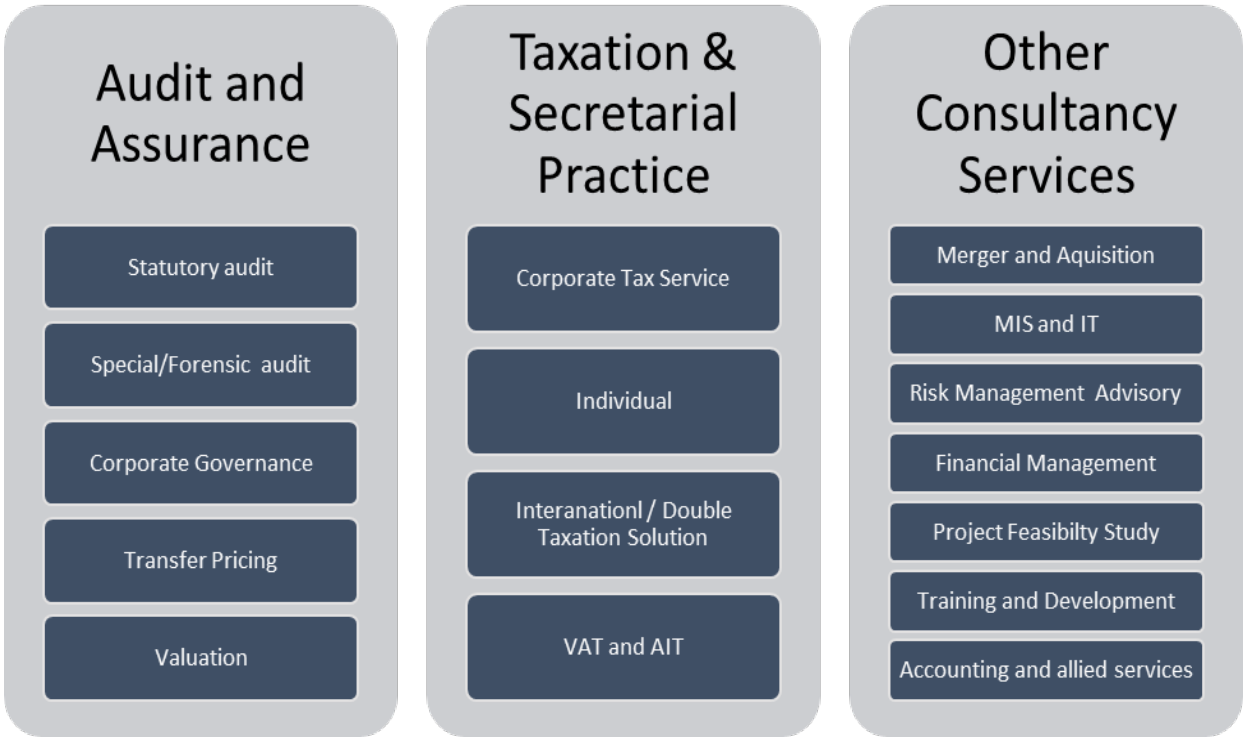
Top 10 ACCOUNTANCY Network Brand



## 2.8 Services of AHKC



AHKC, being privileged with best strengths of services sector organization i.e. People, Process and Technology offers following services:




AHKC provides a wide range of high-quality services of diversified nature to its clients in the private and public sectors in Bangladesh. It also renders services to international development agencies and expatriate consultants who are engaged with various projects in Bangladesh.

## 2.9 AUDIT AND ASSURANCE of AHKC



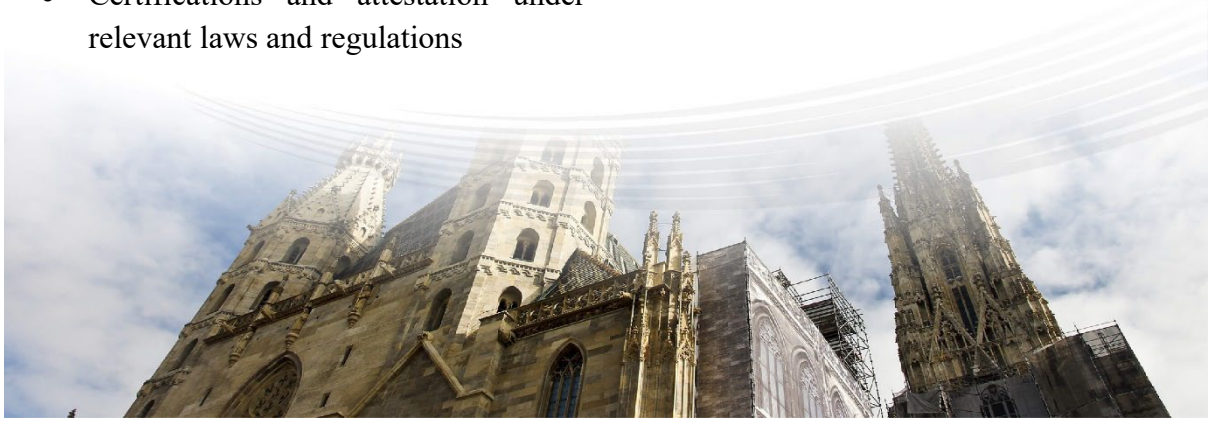

Our audit approach is supported by the core objective of audit of financial statements; which is to express an independent opinion on whether the financial statements as a whole have been prepared in accordance with International Financial Reporting Standards (IFRS) to give a true and fair view of the financial position and results of the entity. In order to achieve the objective (and to express an opinion), we perform our audit in accordance with International Standards on Auditing.

We believe that independent auditors perform the valuable role of being a trusted intermediary between the providers of business information and the users of that information.

AHKC provides the following audit and assurance related services:

- External audit of financial statements as per local statutory requirements
- Review of financial statements
- Agreed upon procedures engagements as per ISRS 4400
- Special purpose audits
- IFRS reporting
- Cost audits
- Audit of retirement benefit plans
- Certifications and attestation under relevant laws and regulations



## 2.10 Taxation & Secretarial Practice of AHKC



AHKC's tax team is committed to provide clients with highest standard of professional counsel and direction in all of its diverse practice areas. The tax team caters a large portfolio of different clients, which comprise of manufacturing, services and retail sector.

We provide our clients an innovative tax service for their sophisticated and complex transactions. Our tax specialists are fully conversant with the complex laws and the techniques for strategic tax planning.

We also have association with the relevant law bars and associations, to keep our knowledge base updated at all the times.

We ensure that our staffs attend the seminars and conferences held by professional institutes to stay in line with the prevalent practices

The Taxation and Secretarial Practices of AHKC comprises of highly qualified practitioners with extensive local and international experience.

Our taxation services include:

| Domestic | International | Corporate Services |
|---|---|---|
| • Tax compliance and advisory<br>• Indirect taxes<br>• Mergers & Acquisitions/ due diligence<br>• Corporate Tax Management | • Transfer Pricing Services<br>• Tax Treaty Interpretation<br>• Foreign Direct Investment<br>• Global mobility | • Company Incorporation<br>• Branch registration<br>• Licenses<br>• Corporate liquidations<br>• Shareholding structuring & restructuring |

## 2.11 IMPORTANT ENLISTMENTS



AHKC, an Exclusive Correspondent Firm of PKF International Limited, UK, a Global Network of Independent Accounting Firms, by its quality assurance, has achieved the following enlistments:

- One of the leading CA Firms duly enlisted by **Bangladesh Bank**.
- One of the leading CA Firms duly enlisted by **NGO Affairs Bureau.**
- One of the leading CA Firms duly enlisted by the **Microcredit Regulatory Authority (MRA).**

- One of the leading CA Firms in Bangladesh duly enlisted by the **European Economic Community (EEC),** Dhaka and engaged in auditing of four different large scale projects funded by them in bulk through I) Bangladesh Rural Development Board (BRDB), Dhaka, II) Bangladesh Tea Board (BTB), Chittagong having two projects and III) Institute of Integrated Rural Development (IIRD), Dhaka.
- One of the leading CA Firms duly enlisted by the **Bangladesh Securities and Exchange Commission (BSEC),** Dhaka and is engaged in auditing of various companies under Securities and Exchange Rules.
- One of the leading Valuation Firms duly enlisted by the **Bangladesh Securities and Exchange Commission (BSEC),** Dhaka, and is engaged in the valuation of various companies under Securities and Exchange Rules.
- One of the leading CA Firms duly enlisted by the **Insurance Development and Regulatory Authority (IDRA),** Dhaka, and is engaged in auditing various insurance companies.
- One of the leading CA Firms duly enlisted by the **Palli Karma-Sahayak Foundation (PKSF),** Dhaka for auditing **PKSF PNGOs** working across the country having been appointed by **PNGOs.**
- One of the leading CA Firms duly enlisted by the **PKSF,** Dhaka for auditing **PKSF PNGOs** working across the country having been appointed by **PKSF.**
- One of the leading CA Firms in Bangladesh duly enlisted by **HELVETAS Swiss Inter cooperation Bangladesh (former SDC),** Dhaka an International NGO for auditing Village and Farm Forestry Projects implemented by various PNGOs in Bangladesh.

# Chapter: 03
# Theoretical Discussion

## 3.1 Audit

The term audit usually refers to a financial statement audit. A financial audit is an objective examination and evaluation of the financial statements of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent. The audit can be conducted internally by employees of the organization or externally by an outside Certified Public Accountant (CPA) firm.

KEY TAKEAWAYS

- There are three main types of audits: external audits, internal audits and Internal Revenue Service (IRS) audits.
- External audits are commonly performed by Certified Public Accounting (CPA) firms and result in an auditor's opinion which is included in the audit report.
- An unqualified, or clean, audit opinion means that the auditor has not identified any material misstatement as a result of his or her review of the financial statements.
- External audits can include a review of both financial statements and a company's internal controls.
- Internal audits serve as a managerial tool to make improvements to processes and internal controls.

## 3.2 Understanding Audit

Almost all companies receive a yearly audit of their financial statements, such as the income statement, balance sheet, and cash flow statement. Lenders often require the results of an external audit annually as part of their debt covenants. For some companies, audits are a legal requirement due to the compelling incentives to intentionally misstate financial information in an attempt to commit fraud. As a result of the Sarbanes-Oxley Act (SOX) of 2002, publicly traded companies must also receive an evaluation of the effectiveness of their internal controls.

Standards for external audits performed in the United States, called the generally accepted auditing standards (GAAS), are set out by Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA).2 Additional rules for the audits of publicly traded companies are made by the Public Company Accounting Oversight Board (PCAOB), which was established as a result of SOX in 2002.3 A separate set of international standards, called the International Standards on Auditing (ISA), were set up by the International Auditing and Assurance Standards Board (IAASB)

## 3.3 Importance of Audit

You must conduct audits regularly to understand different aspects of your business. And, audits can help catch issues early on before they snowball into big mistakes. If you don’t conduct audits, you may find yourself reviewing inaccurate information, which can impact your business later.

Before you kick the idea of audits to the curb, think about how they can benefit your small business. Audits can help you:

- Find financial problems
- Catch errors
- Boost your business's bottom line
- Stay organized
- Make better business decisions

This article has been updated from its original publication date of April 18, 2019.

## 3.4 Different Types of Audits

### 3.4.1. Internal Audit

Internal audits take place within your business. As the business owner, you initiate the audit while someone else in your business conducts it.

Businesses that have shareholders or board members may use internal audits as a way to update them on their business's finances. And, internal audits are a good way to check in on financial goals.

Although there are many reasons you may conduct an internal audit, some common reasons include to:

- Propose improvements
- Monitor effectiveness
- Make sure your business is compliant with laws and regulations
- Review and verify financial information
- Evaluate risk management policies and procedures
- Examine operation processes

### 3.4.2. External Audit

An external audit is conducted by a third party, such as an accountant, the IRS, or a tax agency. The external auditor has no connection to your business (e.g., not an employee). And, external auditors must follow generally accepted auditing standards (GAAS).

Like internal audits, the main objective of an external audit is to determine the accuracy of accounting records.

Investors and lenders typically require external audits to ensure the business's financial information and data is accurate and fair.
Audit reports

When your business is audited, external auditors usually give you an audit report. Audit reports include details of the audit process and what was found. And, the report includes whether your

financial records are accurate, missing information, or inaccurate.

#### 3.4.2.1 Financial Statements

Financial statements/reports are formal records of the financial activities and position of a business, person, or other entity.

Relevant financial information is presented in a structured manner and in a form which is easy to understand. They typically include four basic financial statements accompanied by a management discussion and analysis:

- A balance sheet or statement of financial position, reports on a company's assets, liabilities, and owners equity at a given point in time.
- An income statement—or profit and loss report (P&L report), or statement of comprehensive income, or statement of revenue & expense—reports on a company's income, expenses, and profits over a stated period. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.
- A statement of changes in equity or statement of equity, or statement of retained earnings, reports on the changes in equity of the company over a stated period.
- A cash flow statement reports on a company's cash flow activities, particularly its operating, investing and financing activities over a stated period.

### 3.4.3. IRS Tax Audit

IRS tax audits are used to assess the accuracy of your company's filed tax returns. Auditors look for discrepancies in your business's tax liabilities to make sure your company did not overpay or underpay taxes. And, tax auditors review possible errors on your small business tax return.

Auditors usually conduct IRS audits randomly. IRS audits can be conducted via mail or through in-person interviews.

### 3.4.4. Financial Audit

A financial audit is one of the most common types of audit. Most types of financial audits are external.

During a financial audit, the auditor analyzes the fairness and accuracy of a business's financial statements.

Auditors review transactions, procedures, and balances to conduct a financial audit.

After the audit, the third party usually releases an audit opinion about your business to lenders, creditors, and investors.

### 3.4.5. Operational Audit

Operational audits are similar to internal audits. An operational audit analyzes your company's goals, planning processes, procedures, and operation results.
Generally, operational audits are conducted internally. However, an operational audit can be external.

The goal of an operational audit is to fully evaluate your business's operations and determine ways to improve them.

### 3.4.6. Compliance Audit

A compliance audit examines your business's policies and procedures to see if they comply with internal or external standards.

Compliance audits can help determine whether or not your business is compliant with paying workers' compensation or shareholder distributions. And, they can help determine if your business is compliant with IRS regulations.

### 3.4.7. Information System Audit

Information systems audits mostly impact software and IT companies. Business owners use information system audits to detect issues relating to software development, data processing, and computer systems.

This type of audit ensures the system provides accurate information to users and makes sure unauthorized parties do not have access to private data.

Also, IT and non-software businesses should regularly conduct mini cybersecurity audits to ensure their systems are secure from fraud and hackers.

### 3.4.8. Payroll Audit

A payroll audit examines your business's payroll processes to ensure they are accurate. When conducting payroll audits, look at different payroll factors, such as pay rates, wages, tax withholdings, and employee information.

Payroll audits are typically internal. Conducting internal payroll audits helps prevent possible external audits in the future.

Businesses should conduct internal payroll audits annually to check for errors in their payroll processes and remain compliant.

### 3.4.9. Pay Audit

Pay audits allow you to identify pay discrepancies among your employees. A pay audit can help you spot unequal pay at your company. During a pay audit, analyze things like disparities due to

race, religion, age, and gender.

Pay audits can also help you ensure workers are paid fairly based on your business's industry and location.

## 3.5 External Audit in Briefly

An external audit is an examination that is conducted by an independent accountant. This type of audit is most commonly intended to result in a certification of the financial statements of an entity. This certification is required by certain investors and lenders, and for all publicly-held businesses.

The objectives of an external audit are to determine:

- The accuracy and completeness of the client's accounting records;
- Whether the client's accounting records have been prepared in accordance with the applicable accounting framework; and
- Whether the client's financial statements present fairly its results and financial position.

I will discuss here about External audit. How the whole process is done I will discuss it briefly.

External auditors are required to comply with professional auditing standards such as the International Standards on Auditing and ethical guidelines such as those issued by IFAC in order to maintain a level of quality and trust of all stakeholders in the auditing exercise.

## 3.6 Reasons of Providing External Audit

1. **Legislative Compliance–** your business may be required to have an external audit due to government regulations such as Australian Securities and Investments Commission rules regarding large companies or foreign ownership etc. However, even if it is not mandatory to lodge audited accounts with an external party, an external audit can ensure that you are complying with the various state or federal legislation applicable to your business. This independent review can give you surety that your business is complying with regulations.
2. **Good Governance–** having an external audit shows to the outside world that your business strives to achieve the best standards possible. Also that the business is not concerned by the scrutiny an external auditor will bring to the financial and non-financial affairs of the business. This is even more relevant when the business involves non-related shareholders/investors. Additional comfort can be provided to the non-related parties or silent investors that the business is being conducted in accordance with correct principles.
3. **Fraud Prevention–** whilst we all like to think as business owners we only hire the most trustworthy people, you can't pick a fraudster from looking at them. An external audit will review the business records and processes without the conflict of personal relationships, which is hard to overcome in family-owned businesses.
4. **Tendering for Work–** if your business is in an industry where tendering for work is commonplace, such as the construction industry, often having audited financial statements as part of the tender process can give you a head start on other businesses that don't present audited accounts.

5. **Bank Requirements–** financing can often be a major hurdle for businesses throughout their business life. Presentation of audited accounts to the bank when organizing finance can often carry more weight to your application as it provides some extra certainty to the bank about your financial position and the processes implemented in your business.
6. **Process Improvement–** even if nothing unusual is found as part of the external audit process, having an external audit can help to find areas in your business where your internal controls can be improved or where certain processes can be automated or streamlined.

## 3.7 Conditions for External Audit

Not all companies or organizations must have a statutory audit. Small companies are usually exempt, unless they are charities (which must follow the specific guidelines for that sector) or members of a wider group.

To be exempt from audit, a small company must meet two out of three of the following criteria for two consecutive years (or its first year for new companies):

- Turnover should not be more than £10.2m
- The balance sheet total should not be more than £5.1m
- The average number of employees should not be more than 50

It's important to note, however, that even if your company meets the criteria outlined above, there may still be cases when a statutory audit is required, for example if a shareholder, lender or grant provider requests one.

There are other exceptions to when audit exemption applies. For detailed guidance, always check with a qualified accountant with auditing expertise. There are heavy fines for failing to comply with auditing regulations, so it's important to be absolutely sure of your obligations.

## Limitation of an Audit

- Subjective
- sampled
- limitations of systems
- information from third parties
- limitations of reporting, includes estimates

## Needed documents of the External Audit file

| Sources of information about new clients | |
|---|---|
| **Enquiries** of other sources | Bankers, solicitors |
| Review of **documents** | Most recent annual accounts, listing particulars, credit rating |
| **Previous accountants/auditors** | Previous auditors should be invited to disclose fully all relevant information |
| Review of **rules and standards** | Consider specific laws/standards that relate to industry |

# Chapter: 04
# Analysis of the Study

## 4.1 Procedure of External Audit of AHKC

To start any audit first we have to give EOI (Expression of Interest), when they give us the acceptance letter then the procedures starts. The procedure of External audit are shown in the following chart-

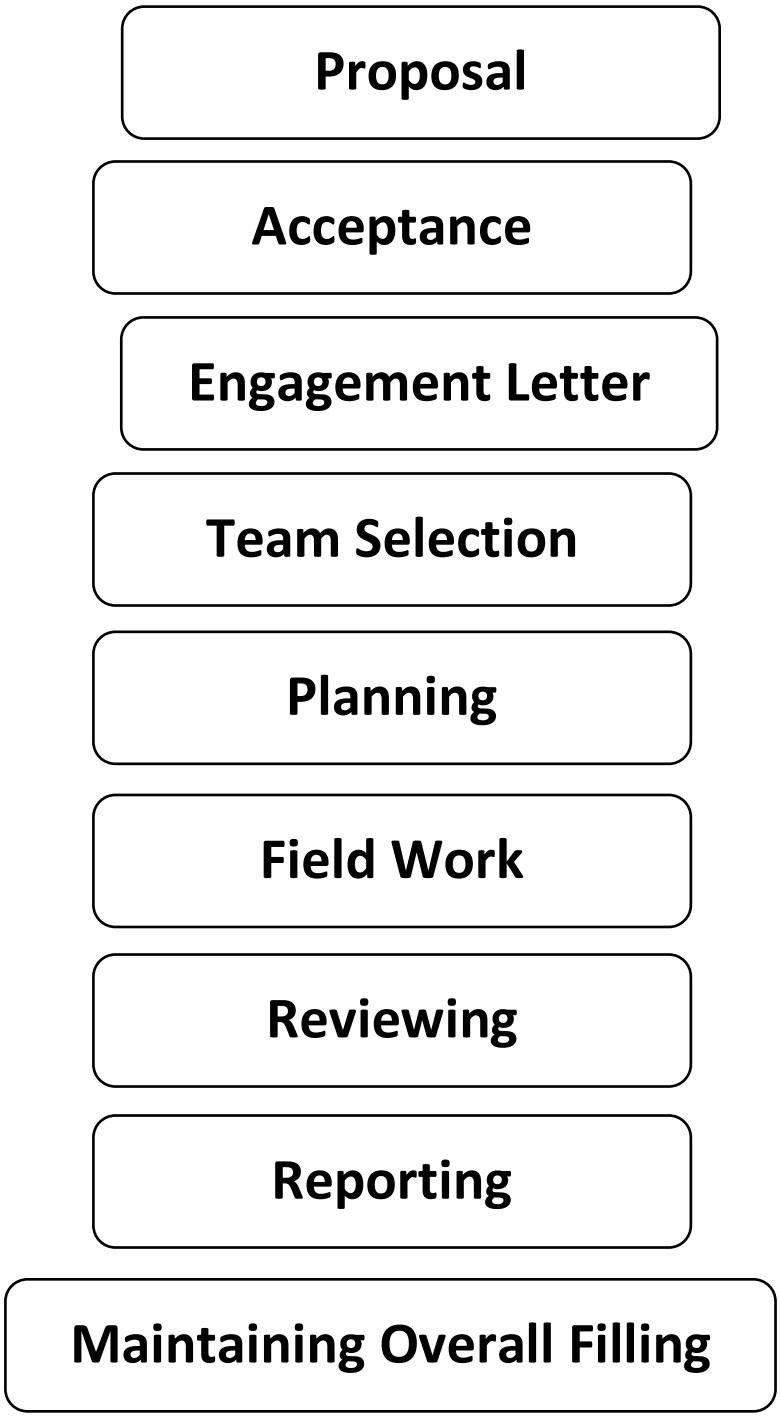



**Table 2: Procedure of External Audit**

## 4.2 EOI (Expression of Interest) of AHKC

A statement by which an Audit Firm of their intention to compete for an opportunity to do a service or become involved in a business. In this report their will be include:

i. Background of the Firm
ii. Terms of Reference of External Audit
iii. Eligibility
iv. Submission of Response form

## 4.3 Proposal of AHKC

After receiving the EOI form an Audit Firm by the client or business, they (client) request for a formal proposal adding more required information to justify where the firm is capable to conduct the audit. Then the firm prepare and submit the proposal by the due time to the client as per their requirement and wait for their response.

i. Transmittal Letter
ii. Firm Profile
iii. Specific Audit Approach
iv. Resumes
v. References
vi. Compensation (In separate envelope)

## 4.4 Acceptance Letter of AHKC

When the information of the proposal fulfils their needs, they made an agreement or issue an appointment letter including ToR (Terms of Reference) to auditor/ audit firm on the other hand audit firm accept the appointment formally by issuing an acceptance letter to its service holder regarding to the appointment letter. Acceptance letter usually issued by the audit firm to its client for their acknowledgment that the firm will complete the audit according to ToR.

Acceptance letter as sample

AHKC/Acceptance/ 2022-23/1487

25 June, 2023

**Executive Director**
Poverty Alleviation through Participatory Rural Initiatives
Narayanpur, Belabo, Narsingdi,
Bangladesh.

**Sub: Acceptance on appointment as External Auditor of Poverty Alleviation through Participatory Rural Initiatives for the year ended 30 June 2023.**

Dear Sir,

We acknowledge with thanks the receipt of your letter Ref No: PAPRI/152/06/2023 and dated 19.06.2023 and do hereby give our consent on appointment as Auditor for auditing the year ended 30 June 2023 under terms and conditions laid down in your said letter.

Please feel free to communicate us for further information should you so desire in this regard.

We assure you our best services always in time and in an efficient manner.

Thanking you in anticipation.

With best regards,

**Md. Aftab Uddin Ahmed FCA**
Senior Partner

## 4.5 Engagement Letter of AHKC

Auditing standards require that the auditor and the client should agree on the terms of the engagement. Engagement letter is a sent by an auditor to his client, after the receipt of communication regarding his appointment, but preferably before the commencement of engagement, spewing out the extent of his responsibilities in order to avoid any misunderstanding with respect to his engagement and documents and confirming the acceptance of appointment, the objectives and scope of audit, the extent of responsibilities and the form of reports to be made to the client.

The main objectives of an engagement letter are as follows:

1. It defines clearly the extent of auditor's responsibilities and to minimize the possibility of any misunderstanding between the client and the auditor.
2. It provides written confirmation of the auditor's acceptance of his appointment the scope of an audit and the form of his report.
3. The client becomes aware of the statutory responsibilities of the directors which in no way are diminished by the appointment of an auditor.
4. Management is informed that the audit tests would be based upon the results of an evaluation of internal control.
5. Contents of Engagement Letter
    I. responsibilities of the Auditor
    II. Management's responsibilities.
    III. Reporting
    IV. Reproduction of the Audit
    V. Fee
    VI. Termination
    VII. Cost of Responding to Government or Legal Processes
    VIII. Client's confirmation.

Engagement letter as sample 1st page

AHKC

**AZIZ HALIM KHAIR CHOUDHURY**

**Chartered Accountants**

**Exclusive Correspondent Firm of PKF International**

10 August 2021

**Managing Director**
Samorita Hospital Limited
89/1, Panthapath
Dhaka-1215

**Sub: Audit engagement letter for Samorita Hospital Limited for the year ended 30 June 2021.**

Dear Sir,

You have requested that we audit the financial statements of Samorita Hospital Limited, which comprise the statement of financial position as at 30 June 2021 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for year ending 30 June 2021, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

**Responsibilities of the auditor**

We will conduct our audit in accordance with International Standards on Auditing (ISAs) and will issue an audit report. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to error or fraud.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

Any specific restrictions on the use or intended users of the auditor's report, and statement(s) (if appropriate) about the specific restriction(s) will be set out in the auditor's report.

**Corporate Office** : House # 64 (1st & 2nd Floor), Road # 12/A, Dhanmondi, Dhaka-1209, Tel: +88-02-55001839, +88-02-55000808, E-mail: ahkc@ahkcbd.com
**www.ahkcbd.com**

Engagement letter as sample 2nd page



The form and content of our report may need to be modified in the light of our audit findings If, for any reason, we are unable to complete the audit or are unable to form, or have not formed, an opinion, we may decline to express an opinion as a result of this engagement.

**Management's Responsibilities**

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

a) For the preparation and fair presentation of the financial statements in accordance with IFRS;
b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
c) To provide us with:
   - Access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that we may request from you for the purpose of the audit; and
   - Unrestricted access to persons within the company from whom we determine it necessary to obtain audit evidence.

We look forward to full cooperation from your staff during our audit.

As part of our audit process, we will request from management and, where appropriate, those charged with governance written confirmation concerning representations made to us in connection with the audit.

We ask that our name be used only with our consent and that any information to which we have attached a communication be issued with that communication unless otherwise agreed to by us.

**Reporting**

We will give a draft report for annual audit for discussion with the management. After getting response from the management we will finalize the report. The form and content of audit report will be as per International Standards on Auditing (ISAs), Companies Act 1994, Securities and Exchanges Rules, 1987 and other applicable laws and regulations.

The form and content of our report may need to be amended in the light of our audit findings.

**Reproduction of Audit Report**

If reproduction or publication of our audit report (or reference to our report) is planned in an annual report or other document, including electronic filings or posting of the report on a website, a copy of the entire document should be submitted to us in sufficient time for our review before the publication or posting process begins.

Management is responsible for the accurate reproduction of the financial statements, the auditor's report and other related information contained in an annual report or other public document (electronic or paper-based). This includes any incorporation by reference to either the full or summarized financial statements that we have audited.



Engagement letter as sample 3rd page

AHKC
Aziz Halim Khair Choudhury
*Chartered Accountants*
Exclusive Correspondent Firm of **PKF** International

Note that we are not required to read the information contained in your website, or to consider the consistency of other information in the electronic site with the original document.

**Fees**

As per appointment letter our audit fees and billing arrangement will be:

Annual audit fee BDT 250,000 (Two Lac fifty thousand only) in equivalent Bangladesh Taka excluding VAT.

**Termination**

If we elect to terminate our services for nonpayment, or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended, and to reimburse us for all of our out-of-pocket costs, through to the date of termination.

**Costs of Responding to Government or Legal Processes**

In the event we are required to respond to a subpoena, court order, government agency or other legal process for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this engagement, you agree to compensate us at our normal hourly rates for the time we expend in connection with such response, and to reimburse us for all of our out of-pocket costs (including applicable taxes) incurred.

The above terms of our engagement will be effective from year to year until amended or terminated in writing.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

We appreciate the opportunity of continuing to be of service to your company.

**Aziz Halim Khair Choudhury**
**Chartered Accountants**

Signature:
Name : Golam Fazlul Kabir, FCA
Title : Partner

Golam Fazlul Kabir FCA
Partner
Aziz Halim Khair Choudhury
Chartered Accountants
House # 64, Road # 12/A
Dhanmondi, Dhaka-1209

**Acknowledged on behalf of**
**Samorita Hospital Limited**

Signature:
Name: Dr. A B M Haroon
Title: MD & CEO

Dr.A. B. M. Haroon
Managing Director & CEO
SAMORITA HOSPITAL LTD

**Disclaimer**

Aziz Halim Khair Choudhury Chartered Accountants is an Exclusive Correspondent Firm of PKF International Limited, a network of legally independent member firms. Neither the other member firms nor PKF International Limited is responsible or accept liability for the work or advice which Aziz Halim Khair Choudhury Chartered Accountants provides to its clients and in signing and returning to us the enclosed copy of this Limited do not owe you any duty in relation to the work advice which we will from time to time provide to you or are required to provide to you.

## 4.6 Team Selection of AHKC (Deputation)

Deputation as sample

AHKC

**AZIZ HALIM KHAIR CHOUDHURY**
**Chartered Accountants**
**Exclusive Correspondent Firm of PKF International**

AHKC/Depu. /Audit/TMSS/ 2021-2022/ 65
29 August 2021

**Executive Director**
TMSS
TMSS Bhabon
631/5, West Kazipara, Mirpur-10,
Dhaka.

**Sub: Audit of the financial statements of TMSS for year ended 30 June 2021.**

Dear Sir,

We are pleased to depute our following representatives to undertake the Audit of the financial statements of TMSS for year ended 30 June 2021. The Specimen signature of the representatives are given below:

| Name | Designation | Signature |
|---|---|---|
| Shusmita Kunda | Asst. Manager-Audit | Shusmita |
| Md. Sadek Hossain | Audit Representative | SADEK |
| Md.Jaber Islam | Audit Representative | Jaber |

You are requested to extend necessary co-operation to them, so that they can complete the assignment timely and expeditiously.

Thanking you.

Yours faithfully,

**Md. Kardar Rahman**
Director (Audit & Admin.)

Corporate Office: House # 24 (1st & 2nd Floor), Road # 12/A, Dhanmondi, Dhaka-1209, Tel: +88-02-55001839, +88-02-55000808, E-mail: ahkc@ahkcbd.com

## 4.7 Planning of AHKC

**Audit Planning Memorandum**

**Client Name** : ABC
**Project Name** : Micro Finance Program
**Period** : 01 July 2022 to 30 June 2023

1. **Background of the Organization:**
   The organization is registered under the Societies Registration Act, 1860 bearing Registration No. S-11755, dated 24.10.2013 Government of the People's Republic of Bangladesh. Micro Credit Regulatory Authority Act 2006 bearing Registration No. 00109-02243-00747 Dated 03.08.2014. Micro Finance program is one of the core programs of DFED.DFED started MFP with the name of Institution Building for Income Generation (IBI) since 1993 as a supportive component of an education program. Micro Finance Program is implementing credit plus approach for sustainable development by providing integrated support services like education, skill development training and entrepreneurship development etc. besides providing credit support.
2. **Nature of Assignment/ Objective of the audit:**
   a) To conduct audit of Financial statement of DAM Foundation for Economic Development (DFED) for the year ended 30/06/23.
3. **Team Composition (Draft)**

| Role | Name | Designation |
|---|---|---|
| Engagement Partner | Mr. Md. Aftab Uddin Ahmed FCA | Senior Partner |
| Review Partner | Mr. Golam Fazlul Kabir FCA | Partner |
| Supervisor | Mr. Jahidul Islam Shah | Additional Director (Audit & Assurance) |
| Team Member | Mr. Md. Mahfujur Rahman | Audit Representative |
| Team Member | Ms. Kanij Fatema | Audit Representative |
| Team Member | Ms. Monisha Mallik | Audit Representative |

**Target planning (Draft):**

| Audit Phase | % of Time Budget | Milestones | Timing/ Date |
|---|---|---|---|
| Start & Planning | 20% | Start of Audit planning | 13.07.23 |
| | | End of planning | 17.07.23 |
| Fieldwork | 60% | Scope & Objective(s) Memo issued | 18.07.23 |
| | | End of fieldwork | 05.08.22 |
| Reporting | 20% | Draft Report issued | 10.08.22 |

| | | | |
|---|---|---|---|
| | | Final report issued | 16.08.22 |

**4. Team meeting Minutes;**

The meeting was held on 05/07/2023 to discuss the potential areas of financial statements, materiality calculation and risk assessment. Materiality was calculated and risk assessment was done through analytical procedure. It has been decided in the meeting that the team will focus on highly risky areas as mentioned in the risk assessment document.

**5. Materiality calculation**

**Organization** : ABC
**Year ended** : 30 June 2023
**Completed by** : Ms. Monisha Mallik
**Reviewed by** : Mr. Jahidul Islam Shah

**Objective:**
To apply the concept of materiality appropriately in planning and performing the audit. Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point for determining materiality for the financial statements as a whole. A 5% percentage applied to profit before tax may be appropriate for a profit orientated entity while 1% of total revenue or total expenses may be appropriate for a not for profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances. For a small entity where an owner takes much of the profit before tax in the form of remuneration a benchmark such as profit before remuneration and tax may be more relevant. Performance materiality is the amount or amounts set by the auditor at less than materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

| Particulars | Current period | Prior Period |
|---|---|---|
| Total Assets | ----- | ----- |
| Total Income | ----- | ----- |
| Benchmark amount (select higher one) | ----- | ----- |
| Percentage(s) applied to base amount: | 1% | 1% |
| Benchmark selection / percentage applied to the chosen benchmark with reasoning: | ----- | ----- |

**Note:** Total aggregate amount of Service charge income, Loan Processing Fee, Bank Interest, Other Operating Income, Non-Operating Income is considered as Gross Revenue. Total assets or gross revenue which is lower is considered benchmark for materiality calculation.

| | | |
|---|---|---|
| Base amount of benchmark x percentage applied | | |
| **Overall materiality** <ISA 320.14(a)> | ----- | ----- |
| Percentage of performance materiality to the overall materiality | 75% | 75% |
| **Performance materiality** <ISA 320.14(c)> | ----- | ----- |
| Percentage of Tolerate amount | 5% | 5% |
| Amount of misstatement regarded as clearly trivial | ----- | ----- |

| | |
|---|---|
| Should any account specific materiality level(s) be set?<br>If **YES**, the specific materiality level(s) is/are:<br><br>In the case of a group of companies, the overall materiality, specific material level(s) and clearly trivial amount refer to the amounts in relation to the group financial statements.<br><br>For the performance materiality at the component level, refer to D2.5. | No |

**6. Risk Assessment:**

**A) Risk Analysis:**

**A.1** As a part of risk analysis, we have done analytical procedure and we have identified the following items which may bear potential of audit risk.

**Such as:**

| Particulars | Notes No. | As at 30.06.2023 | As at 30.06.2022 | Different | Percentage % | Working Paper Ref. |
|---|---|---|---|---|---|---|
| Property, Plant and Equipment | 06.00 | ----- | ----- | ----- | 11% | D |
| Loan to Members | 07.00 | ----- | ----- | ----- | 33% | |
| Investments | 08.00 | ----- | ----- | ----- | 59% | F |
| Accrued Interest on FDR. | 08.04 | ----- | ----- | ----- | 88% | **G** |
| Unsettlement Staff Advance/Suspense Account | 13.00 | ----- | ----- | ----- | -14% | H |
| Cash and Cash Equivalent | 14.00 | ----- | ----- | ----- | 96% | J |
| Service Charge Paid-PKSF | 26.00 | ----- | ----- | ----- | 29% | L |
| Service Charge Paid-Bank | 26.01 | ----- | ----- | ----- | 53% | K |
| Salaries and Allowances | | ----- | ----- | ----- | 29% | M |
| Motor Cycle Fuel and Maintenance | | ----- | ----- | ----- | 32% | N |

**B) Analytical Procedures:**

**ABC**
(An Institution of XYZ)
**MICRO FINANCE PROGRAM**
**Statement of Financial Position**
**As at June 30, 2023**

Figure in Taka

| Particulars | Notes | As at 30 June 2023 | As at 30 June 2022 | Difference | Percentage |
|---|---|---|---|---|---|
| **Properties & Assets** | | | | | |
| **Non-Current Assets** | | ----- | ----- | ----- | 11% |
| Property, Plant and Equipment | 06.00 | ----- | ----- | ----- | 11% |
| | | | | - | |
| **Current Assets** | | ----- | ----- | ----- | **36%** |
| Loan to Members | 07.00 | ----- | ----- | ----- | 33% |
| Investments | 08.00 | ----- | ----- | ----- | 59% |
| Accrued Interest on FDR. | 08.04 | ----- | ----- | ----- | 88% |
| Loan Account ENRICH | 09.00 | ----- | ----- | ----- | |
| Staff Loan (Motor Cycle/By-Cycle) | 10.00 | ----- | ----- | ----- | -10% |
| ENRICH Program (Grants In Receivable) | 11.00 | ----- | ----- | ----- | 16% |
| Advance, Deposits and Prepayments | 12.00 | ----- | ----- | ----- | 4% |
| Unsettlement Staff Advance/Suspense Account | 13.00 | ----- | ----- | ----- | -14% |
| Cash and Cash Equivalent | 14.00 | ----- | ----- | ----- | 96% |
| Advance Income Tax | 32.00 | ----- | ----- | ----- | 32% |
| | | | | - | |
| **Total** | | ----- | ----- | ----- | **36%** |
| **Capital Fund & Liabilities** | | | | - | |
| **Capital Fund and Equity** | | ----- | ----- | ----- | **68%** |
| Cumulative Surplus | 15.01 | ----- | ----- | ----- | 68% |
| Statutory Reserve Fund (Restricted fund) | 15.02 | ----- | ----- | ----- | 68% |
| | | | | - | |
| **Non-current liabilities** | | ----- | ----- | ----- | **43%** |

| | | | | | |
|---|---|---|---|---|---|
| Loan from PKSF-Long term | 16.00 | ----- | ----- | ----- | 43% |
| | | | | - | |
| **Current Liabilities** | | ----- | ----- | ----- | **32%** |
| Loan From PKSF | 16.00 | ----- | ----- | ----- | 7% |
| Loan From Bank | 17.00 | ----- | ----- | ----- | 49% |
| Members Savings Fund | 18.00 | ----- | ----- | ----- | 26% |
| Accounts Payable /Provision | 19.00 | ----- | ----- | ----- | -46% |
| Loan Loss Provision | 20.00 | ----- | ----- | ----- | 32% |
| Staff Security | 21.00 | ----- | ----- | ----- | 27% |
| Apodkalin fund | 22.00 | ----- | ----- | ----- | 36% |
| DPS Interest Provision | 23.00 | ----- | ----- | ----- | 44% |
| Grants in Advance from PKSF | 24.00 | ----- | ----- | ----- | 342% |
| **Total:** | | ----- | ----- | ----- | **36%** |

**ABC**

(An Institution of XYZ)

**MICRO FINANCE PROGRAM**

**Statement of Profit or Loss and Other Comprehensive Income**

**For the period ended 30 June 2023**

Figure in Taka

| Particulars | Notes | 01 July 2022 to 30 June 2023 | 01 July 2021 to 30 June 2022 | Difference | Percentage |
|---|---|---|---|---|---|
| **Income:** | | | | | |
| Service Charge Received | 25.00 | ----- | ----- | ----- | 51% |
| Interest on FDR | | ----- | ----- | ----- | 47% |
| Miscellaneous (Book sales, admission Fee etc.) | | ----- | ----- | ----- | 20% |
| Bank Interest. | | ----- | ----- | ----- | 92% |
| Grants-ENRICH | | ----- | ----- | ----- | 9% |
| DFED Contribution | | ----- | ----- | ----- | -100% |
| DFED Training Center (DTC Income) | | ----- | ----- | ----- | 419% |
| PF Unclaimed Fund | | - | | - | |
| **Total:** | | ----- | ----- | ----- | **51%** |
| | | | | | |
| **Expenditure:** | | | | | |
| Service Charge Paid-PKSF | 26.00 | ----- | ----- | ----- | 31% |
| Service Charge Paid-Bank | 26.01 | ----- | ----- | ----- | 53% |
| Salaries and Allowances | | ----- | ----- | ----- | 29% |
| Traveling and Conveyance | | ----- | ----- | ----- | 43% |

| | | | | |
|---|---|---|---|---|
| Printing and Stationery | ----- | ----- | ----- | 78% |
| Motor Cycle Fuel and Maintenance | ----- | ----- | ----- | 32% |
| Repair and Maintenance | ----- | ----- | ----- | 22% |
| Training | ----- | ----- | ----- | 278% |
| Meeting and Workshop Exp. | ----- | ----- | ----- | 259% |
| Office Rent | ----- | ----- | ----- | 39% |
| Telephone and Postage | ----- | ----- | ----- | 81% |
| Electricity & Gas | ----- | ----- | ----- | 40% |
| Entertainment | ----- | ----- | ----- | 50% |
| Advertisement | ----- | ----- | ----- | 64% |
| Bank Charges and Commission | ----- | ----- | ----- | 27% |
| Legal Exp. | ----- | ----- | ----- | 104% |
| MRA-Service Charge | ----- | ----- | ----- | 53% |
| Miscellaneous Exp. | ----- | ----- | ----- | 50% |
| Depreciation | ----- | ----- | ----- | 103% |
| Interest-Saving | ----- | ----- | ----- | 76% |
| Interest-DPS | ----- | ----- | ----- | -32% |
| Loan Loss Provision | ----- | ----- | ----- | 38% |
| Audit Fee | ----- | ----- | ----- | -15% |
| Rebate | ----- | ----- | ----- | 129% |
| ENRICH Exp. | ----- | ----- | ----- | 9% |
| DFED Contribution Exp. | ----- | ----- | ----- | -100% |
| Software Maintenance | ----- | ----- | ----- | 2% |
| Computer Maintenance | ----- | ----- | ----- | |
| Tax Payment | ----- | ----- | ----- | -11% |
| DTC Exp. | ----- | ----- | ----- | 296% |
| **Total** | ----- | ----- | ----- | **38%** |
| **Surplus/(Deficit)** | ----- | ----- | ----- | **93%** |
| **Total:** | ----- | ----- | ----- | **51%** |

## 4.8 Field Work of AHKC

The audit work will be started and completed within the timeframe given in the Terms of Reference (ToR) of the assignment. The fieldwork consists of, among others, the following:

Obtaining evidence regarding the design of controls

We shall apply Internal Control Evaluation Questionnaires (ICEQs) format which has been developed in compliance with relevant standards and incorporated in our IAM and we shall comply with the terms of the agreements with the donors/lenders as well as the contents of the ToR of the assignment to assess whether the design of the Internal Control System sufficiently mitigates the risks to achieve the project objectives and to prevent and detect material errors, irregularities or fraud with regard to the use of resources. For the collection and accumulation of audit evidence, we shall adopt certain methods and means:

- Posting checking
- Testing the existence and effectiveness of management controls that prevent financial statement misstatements
- Casting checking
- Physical examination and count
- Confirmation
- Inquiry
- Observation
- inspection
- Project period-end scrutiny, if applicable
- Re-computation
- Tracing in a subsequent period
- Reconciliation of funds disbursed to the Participating Organizations (POs)
- Bank reconciliation and so on.

**Tests of Controls**

We shall assess whether the designed Internal Control System of the entity, individually or in combination with other controls, is practically operating effectively applying the prescribed format of our International Auditing Manual (IAM) which is followed by PKF family firms around the world. We shall also comply with the terms of the agreements with the donors/lenders as well as the contents of the ToR of the assignment in this regard.

**Substantive Procedures**

We shall perform substantive procedures as per the detailed audit program depending on our assessment of the effectiveness of the internal control system to minimize the risks of material errors or misstatements in the expenditure and income stated in the Financial Report, whether caused by error or fraud. We shall also comply with the terms of the agreements with the donors/lenders as well as the contents of the ToR of the assignment in this regard.

**Analytical procedures**

We shall apply our firm's analytical procedures developed in compliance with ISAs and a detailed indicative list of analytical procedures and the terms of the agreements with the donors/lenders as well as the aspects mentioned in the ToR of the assignment for the evaluations of financial information through analysis of relationships among both financial and non-financial data.

**Sampling and other means of selecting items for testing.**

We shall select samples for performing tests of controls and substantive tests applying the prescribed format of our IAM. We shall also comply with the agreements with the donors/lenders as well as the contents of the ToR of the assignment in this regard. We shall ensure that every perspective of project activities has been addressed to select a broad and representative sample size of transactions.

**Documents of Reference**

The following documents are considered as basic references for the carry-out of the mandate:

- Project document and Terms of Reference
- Business Administration Manual of the Country Office
- National legislation, particularly concerning the field of finance and accounting, tax, human resources, and the internal control system.
- Project management procedures.
- Compliance with donor regulations
- Supporting and accounting documents subject to the audit.
- Financial and operational reports concerning the projects.
- Findings based on prior external Audit Reports and internal Audit Reports.
- Any other documents concerning the projects.
- Any other information requested by the donor.

**Management representation**

We shall obtain a management representation letter signed by the management of the partner organization, certifying:

a. The acknowledgment of the organization's responsibility for the keeping of accounts and financial documents that are correct, complete, fair, represent the true facts, in conformity with the objectives of the project, the documents of reference (description of the project, contracts, budgets, etc.) and national legislation;
b. That all accounting records, supporting and other documents, minutes, and any other pertinent information necessary for the audit be at the disposal of us;
c. The completeness of information concerning property and goods;
d. The completeness of information concerning financing received or due and own financing concerning the audited period, for the project being examined;
e. The availability of any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate;

f. In the case of contributions to local NGOs, the declaration has to certify the completeness of information concerning financing received or due and own financing concerning the audit period, for the project being audited, and for the examination of the consolidated financial statements of the organization. The consolidated financial information, including balance sheets and profit and loss statements of the project, are to be attached to the declaration and form an integral part thereof. This declaration shall be provided together with the financial audit report.

**Exit/closing Meeting.**

After completion of the fieldwork, an exit/closing meeting will be arranged with the Entity's authorities (persons responsible for the project/program) concerned (persons responsible for the project/program) to discuss the material issues/findings, etc. to obtain the confirmation and initial comments of the management on our findings and recommendations, and the outcomes of the meeting shall be documented.

## 4.9 Review of AHKC

### 1. Review of Internal Control System (ICS)

A review of the Internal Control System (ICS) will be carried out to assist us to form a conclusion on the review of financial statements. We will evaluate the internal controls, including the monitoring controls used by management to review the project, with the intention of placing appropriate reliance thereon for review purposes. Should material weaknesses in internal controls come to our attention, we will report them to management. This part of the audit process can be completed prior to the project period end to reduce pressure on the project end timetable.

Analytical review procedures will be extensively used for review purposes to assess the reasonableness of financial information, detect exceptions and identify possible material misstatements. Where appropriate, we will use computer-assisted techniques for purposes of data interrogation analysis and testing.

### 2. Planning the review and the key areas of review focus

Our planning is detailed, allowing us to appropriately tailor our approach to the review. We understand that a financial review can be seen by some as a time-consuming process; tailoring our approach avoids us asking unnecessary questions, and making the best use of our clients' time. Based on the knowledge of the organization we have attained so far and our review of the financial and non-financial information along with the Request for Proposal (RFP), we anticipate that the following areas would represent the key areas of focus in our review, and have outlined our anticipated approach to addressing each one.

| AREA | CONSIDERATION |
|---|---|
| Financial Information and reporting | • Considering the applicable International Standard on Auditing (ISA), International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) and local laws and regulations, and implementation of appropriate standards.<br>• Financial and operational reports concerning the project/program<br>• Prior internal and external audit or review reports; |
| Project Objectives | • Compliance with donor regulations<br>• Project Document / TOR<br>• Budgets, financing plans, programs of project activities; |

| AREA | CONSIDERATION |
|---|---|
| | • Project management procedures;<br>• Any other documents concerning the project/program |
| Project Expenditure | • Authenticity and accuracy of the expenditure<br>• Adherence to company policies and procedures<br>• Application of VAT and tax laws;<br>• Rationality and objective orientation of the expenditure<br>• Presentation in the financial statements |

## 4.10 Reporting of AHKC

### Independent Auditor's Report

We shall provide an audit report incorporating all standard contents of the audit report. The audit report will include:

- An opinion on true and fairness of the financial statements and whether they are in agreement with the accounting records.
- Statement of Financial Position
- Statement of Income and Expenditure
- Statement of Receipts and Payments
- Notes to the Financial Statements
- Annexure A-1 (Budget Variances)
- Schedule of VAT & Tax deducted from the project
- Certification of NGOAB requirements (NGOAB ToR)

### Management Letter

The management letter will be issued on Financial Statements, internal control, compliance, and other matters as specified in the terms of reference of the assignment, if necessary. The letter to the management will contain our comments on the significant findings for each component in respect of the following:

(i) Any observations on the accounts, accounting records, systems, and internal controls that were examined during the course of the audit;
(ii) Identification of specific deficiencies and areas of weakness in systems and internal controls and making recommendations for their improvement;
(iii) Reporting on the degree of compliance on internal and external matters affecting such compliance;
(iv) Communicating matters that have come to the attention during the audit which might have a significant impact on the implementation of the program; and
(v) Bring any other matters to the attention of the management of the entity that the auditor considers pertinent.

Each of the audit findings will be presented in the following parts in the auditor's letter to the management:

- Condition / Fact (What actually happened)
- Effect / Implication (What harm was caused for not complying with the criteria)
- Recommendation (That corrects the cause and condition)
- Management Response (Comments given by the management on audit observation).

# Chapter: 05
# Findings

## 5.1 Findings

The following information are so confidential that's why I will mention the name (as ABC) and the figure (as ---) of amount of such findings. Only 'Facts' of these findings are given below and the Recommendations & Management Response are given in Chapter 6.

**Finding # 1: Micro Enterprising (ME) loan portfolio more than 50% of total loan.**

**Fact:**
As per MRA rules-2010, 24(3), "Micro Enterprising (ME) loan will not be more than 50% of the total loan portfolio of the organization" But during the Couse of audit we observed that ABC has disbursed Micro Enterprising (ME) loan more than the limited prescribed in MRA rules 2010. Details are following:

| Loan Component | Total Loan Amount | MRA Prescribed Rate | Required Amount as per MRA | Actual Loan Portfolio | % of Disbursement | Excess amount Portfolio |
|---|---|---|---|---|---|---|
| Agrosor Loan | ---- | 50% | ---- | ---- | 68% | (----) |

**Finding # 2: There was shortage of investment in FDR against member's savings deposits.**

**Fact:**
During the Couse of the audit while reviewing investment management we observe that, investment in FDR against member's deposits were not satisfactory. Subsequently in the current accounting period (2022-23) necessary fund has been invested. Detail is given below:

| Name of Fund | Amount of Loan | MRA Prescribed Rate | Required Amount as per MRA | Actual Amount of Investment | Excess amount Portfolio |
|---|---|---|---|---|---|
| Member Savings | ---- | 10% | ---- | ---- | ---- |

**Finding # 3: Term Deposits (Savings) were collected more than limit Prescribed in MRA Rules, 2010.**

**Fact:**
As per MRA rules-2010,29 (e), "The total term deposit will not be more than 25% of the total capital of the organization". During the course of audit, we observed that ABC has collected member savings deposit more than the limit prescribed in MRA rules 2010. Details are as follows:

| Particulars | Total Capital Fund | MRA Prescribed Rate | Required Amount as per MRA | Amount Actually Collected | Rate of actual Deposit Collection | Excess amount of collection |
|---|---|---|---|---|---|---|
| Total Surplus | ---- | 25% | ---- | ---- | 27% | (----) |

**Finding # 4: Unsettled Staff Advance/Suspense amount was not written of since long.**

**Fact:**
We have observed that a sum of Tk. ---- was embezzled which is shown in Financial Statements as an Unsettled Staff Advance. The amount is not being written of from the Financial Statement of the organization through there is remote possibility to recover the money.

**Finding # 5: Significant unused inventory items were found.**

**Fact:**
During our physical verification, we found significant inventory items which remained unused for a long time but no decision by management has been taken to write-off or sale.

**Finding # 6: Advance was not adjusted within stipulated time.**

**Fact:**
As per Financial Management Policy of ABC, chaper-11, Section11.11, in order to adjust the advance that has been given to employee in a timely manner, the expenses report and adjustment should be completed by 15 days after return from travel or completion of works. But when we checked the advance register and voucher, we found that ABC staff did not adjust within stipulated time. Instance is given below:

| Name of Employee | Particulars | Advance received date | Adjustment date | Delay day | Amount |
|---|---|---|---|---|---|
| Md. Islam | Travelling | 23.09.xx | 28.10.xx | 35 days | ---- |

**Finding # 7: Revenue stamp was not affixed in the voucher.**

**Fact:**
Asper Section-3, schedule-1 of the Stamp act of 1899, a stamp of Taka 10 should be affixed on every receipt where payment made of Taka 400 or more. But we found that no stamp was affixed on most of bills. Instances are given below:

| SL# | Particulars | Vaucher Date | Voucher No. | Amount (Taka) |
|---|---|---|---|---|
| 01 | Vehicle Rent | 01.06.20xx | DV-1371 | ---- |
| 02 | Video documentary | 21.06.20xx | DV-1384 | ---- |

**Finding # 8: Mismatch has been observed between ledger book and Financial Statements.**

**Fact:**
While conduction audit, we found that some balances of financial statements did not match with ledger amounts. Details are given below:

| SL# | Name of Head | Amount as per ledger book | Amount as per accounts | Difference Amount (Taka) |
|---|---|---|---|---|
| 01 | MDP Loan | ---- | ---- | ---- |
| 02 | AF Loan | ---- | ---- | ---- |

**Finding # 9: Employees were not transferred after three years' service.**

**Fact:**
As per Service Rules 18.5 in the micro finance program Any worker who has in one area for more than 3 years and in the same zone for more than 6 years will be eligible for transfer. But during our audit period it was observed that two employees who has in one area for more than three years.

| Employee Name | Designation | Branch Name | Joining Date | Actual stay |
|---|---|---|---|---|
| Anjali | Field Officer | Chuknagar | 07.01.20xx | Till now |
| Robiul | Asst. Manager | | 12.08.20xx | |

**Finding # 10: Cheque was not issued in the name of first party (House owner).**

**Fact:**
As per deed of agreement (house rent), the second party shall pay the rent to the first party by the cheque and the first party was Md. Shahidul. But during our audit period it was observed that cheque was issued in the name of Naeem enterprise.

| Brach Name | Particulars | Amount | Voucher Date | Voucher No. | Cheque Issued to | First Party (house owner) |
|---|---|---|---|---|---|---|
| Chuknagar | Office rent | ---- | 23.06.20xx | -- | Naeem enterprise | Md. Shahidul |

**Finding # 11: In some cases shortcomings in voucher documentations have been observed.**

**Fact:**
During our audit we found different anomalies in voucher documents. Instances are given below:

| Name of Branch | Date | Vr. No | Particulars | Amount | Anomalies |
|---|---|---|---|---|---|
| Chuknagar | 27.06.20xx | -- | Bank Joma | ---- | 1. Deposit slip was not found for amounting Tk. -- -- |
| Chuknagar | 23.06.20xx | -- | Office Rent | ---- | 1. Recipient signature was not found. |

**Finding # 12: Irregularities found in Fixed Assets.**

**Fact:**
During the course of our audit, we found following irregularities in fixed asset.

Chanchara-01

- Asset identification number was not updated;

Chanchara-02

- Asset identification number was not updated;
-

**Finding # 13: Voucher number and date was not available in some voucher.**

**Fact:**
We have noted in few cases; voucher and date was not writtern on the vouchers. Instances are given below:

| Branch Name | Particulars | Amount |
|---|---|---|
| Chanchara-02 | Consultancy A/C | ---- |
| | Office Stationery | ---- |
| | Fuel cost | ---- |
| | Travelling & daily allowance | ---- |

**Finding # 14: Irregularities found in passbook management.**

**Fact:**
During the course of our audit, we observed that some passbooks were not filled up properly at Chuknagar branch. Details are given below:

i. Photo was not affixed by Loan Officer (CO). Instances are as follows:

| SL# | Branch Name | Name of members | Group Name | Member's Id No. |
|---|---|---|---|---|
| 01 | Chuknagar | Nasrin | Lucky-119 | -- |

ii. National ID was not filled up on the passbook. Some instances are as follows:

| SL# | Branch Name | Name of members | Group Name | Member's Id No. |
|---|---|---|---|---|
| 01 | Chuknagar | Nasrin | Lucky-119 | -- |

# Chapter: 06
# Recommendation & Conclusion

## 6.1 Recommendations

Recommendations & Management Response are given against the Facts of those findings which have been described in Chapter 5.

**Recommendation # 1:**
ABC management should take necessary step to comply with MRA rules 2010 section 24(3).

**Management Response:** We are trying to reduce ME loan portfolio and keep it within the prescribed limit. By this time, we have reviewed our loan disbursement policy. We hope that we will be able to remain ME loan portfolio within the prescribed limit of MRA rule.

**Recommendation # 2:**
Management should look into the matter seriously to invest the idle fund as per MRA rules, 2010.

**Management Response:** We always try to maintain investment in FDR against member savings as per MRA guideline. But in some unavoidable circumstances it happened. In the mean time we have made investment in FDR against member's savings.

**Recommendation # 3:**
ABC Management should take necessary step to comply with MRA rules 2010, Section 29 (e).

**Management Response:** Necessary initiatives have already been taken to reduce term savings and keep it within the prescribed limit according to MRA rule. We want to let you know that term savings have reduced significantly in last couple of years. In June 20xx percentage of term saving with capital fund were 26.51%.

**Recommendation # 4:**
Management should take proper step to realize the amount or it should be charged as expense if it is not possible to realize. Otherwise, they should keep required provision against the amount with the help of aging schedule. Management should preserve personal file following documents of employee.

**Management Response:** unsettled staff advance are collected regularly from respective persons, But last 2 years it was not satisfactory level due to Covid-19 pandemic. We hope that the situation will inprove day by day. For your kind information we have filed cases against some of our staffs who embezzled the fund at the field level. Now these are under the jurisdiction of the appropriate authority. After getting judgment from court, we will take decision for writing off.

**Recommendation # 5:**
Management of ABC should take action to write off or sell these inventories immediately.

**Management Response:** Necessary initiatives have already been taken to use these inventories immediately. After use, the rest of inventories will be sold or written off.

**Recommendation # 6:**
Management should control properly as per ABC Financial Management Policy.

**Management Response:** In some cases, it happened. We have already taken steps to adjust advance within 15 days as per policy.

**Recommendation # 7:**
Management should ensure that revenue stamps are affixed where they are applicable.

**Management Response:** Revenue stamp has been affixed on the respective vouchers during audit period.

**Recommendation # 8:**
Management should take necessary step to maintain books of account properly.

**Management Response:** This happened mistakenly. We have made correction. We will be more conscious regarding such kinds of transection in future.

**Recommendation # 9:**
Management should transfer who has in one area for more than 3 years.

**Management Response:** All level of staff transfer was withheld Covid-19 pandemic. By this time, we have started the process. Hopefully it will be in regular within short period.

**Recommendation # 10:**
Management should cheque issued in the name of first party.

**Management Response:** As per verbal request of Md. Shaidul, office rent cheque was issued in favor of Naeem Enterprise in lieu of Md. Shaidul. Intact Md. Shaidul is the owner of Naeem Enterprise. Considering the auditors recommendation we have started to issue cheque in favor of Md. Shaidul.

**Recommendation # 11:**
The management should ensure proper documentation to establish sound internal control system within the organization.

**Management Response:** One of our borrower deposited amount tk. ---/ directly to our Bank. For this deposit slip was not kept. But statement shows the amount on that date. Recipient signature of office rent is taken from the owner by this time. In future we will look into the matter.

**Recommendation # 12:**
Management should take necessary step about this matter.

**Management Response:** We have already updated the assets identification number by this time.

**Recommendation # 13:**
Management should concern about this regard.

**Management Response:** Considering the auditors observations we have made corrections of restive vouchers.

**Recommendation # 14:**
ABC management should ensure proper control system in the passbook management.

**Management Response:** Necessary initiatives have been taken to fill the pass books properly and given instruction to the respective staffs to be made conscious regarding the issue in future.

## 6.2 Conclusion

There are a lot of problems all over the world. Every country has their different types of problems. There is not a single country exist who has sovereignty in everything. So economically & geographically a country needs something from another country. When they want to transfer their requirements with one another they need to follow a similar rules and laws. IFRS, IAS, ISA, Company Act and other applicable laws and regulations according to the regulatory bodies is how they can made transaction between them of the required things such as raw materials, information, foods, services, manpower (labor) etc. The above-mentioned international rules and laws are applied when a transaction happened between two or many countries which reflect a meaningful result for the both country as well as it may applied to reveal and measure a national's economical and financial situation. For obvious reason an auditor had to apply such laws and rules to conduct audit of international client as well as national client. In Bangladesh we use those rules, laws and Act for their well-structured accounting system. Audit is a way govt. being acknowledged of VAT and Tax he may receive or received. There are a lot of NGO, organization, bank, company, corporation and foreign company etc. earning money in Bangladesh so, it is mandatory to pay tax to VAT to the Govt. for the establishment and continuance of business. But how the govt. of bd. will collect it? To solve this problem govt. has setup National Board of Revenue (NBR) and others regulatory bodies like Bangladesh Bank, ICAB, BSEC, MRA, NGOAB, IDRA, Petro Bangla etc. Under The Institute of Chartered Accountants of Bangladesh (ICAB) a lots of Chartered Accounting (CA) firm conduct audit of national and international clients then CA firm submit report to the client and it's *chalan* to the NBR. On the other hand, all the CA firm has to pay 15% VAT against its audit fee to the govt. through NBR. At this point it is clear that CA firm help government to collect is national budget and to maintain or show a crystal-clear economic situation of a country to its people.

# Reference:

**Books**


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b) Intermediate Accounting Kieso, Weygandt, Warfield 10th Edition

c) "International Financial Reporting Standard"; International Accounting Standard Board; as approved at 1 January, 2008.


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