AN INTERNSHIP REPORT

ON

Audit Procedures of Howladar Yunus & Co. for Manufacturing Companies: Audit of Runner Automobiles Company Limited

Date of Submission: 27th September 2023

Audit Procedures of Howladar Yunus & Co. for Manufacturing Companies: Audit of Runner Automobiles Company Limited

Submitted to

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Submission date
30th June 2025

Transmittal Letter

Md. Arif Hassan
Assistant professor,
Department of Business Administration,
Faculty of Business Entrepreneurship,
Daffodil International University.

Subject: Transmittal Letter

Dear Sir,

I am gratified to submit my Internship Report, which is a segment of my MBA (Executive) program, prepared under your in-person superintendence " Audit Procedure of Howladar Yunus & Co. for Manufacturing Companies: "Audit of Runner Automobiles Company Limited".

The report details valuable experiences, insights, and knowledge I gained during my time at Howladar Yunus & Co. During the internship, I was fortunate to work alongside a team of dedicated professionals who provided me with continuous guidance and encouragement. I am hopeful that the contents of this report will provide valuable perceptions into my contributions and the overall impression of my work during the internship.

My respectful thanks to you in advance owing to your compassionate consortium and support for the successful completion of my report.

Thanks, and regards,

Mosrak Farzana
ID: 212-12-734
MBA Executive (Major in Accounting) Program
Department of Business Administration,
Faculty of Business Entrepreneurship,
Daffodil International University.

Endorsement Letter

The internship report entitled Audit Procedure of Howladar Yunus & Co for Manufacturing Companies: Audit of Runner Automobiles Company Limited is submitted to the office of Daffodil International University, after accomplishment of every essential relevant to Master of Business Administration (Executive) degree, Major in Accounting, Department of Business administration, by **Mosrak Farzana, Student ID : 212-12-734.** The report may be accepted and may be presented for evaluation.

Md. Arif Hassan
Assistant Professor
Department of Business Administration
Faculty of Business Entrepreneurship
Daffodil International University

Announcement of Student

I proclaim herewith that every single information comprehended in this report has come into possession and presented abiding by all academic rules and ethical conduct.

Mosrak Farzana
ID – 212-12-734

Acknowledgement

In the first place, I manifest my indebtedness to almighty Allah for emboldening me the fortitude and granting me the prospect to successfully finalize the report confined to the stipulated time frame. Following that, I wholeheartedly impart my acknowledgement to my internship administrator, Md. Arif Hassan for guiding and aiding me in all stages throughout my internship.

Furthermore, I earnestly articulate my sincere thanks and gratitude towards Touhidur Rahman, FCA, Partner, business Assurance Services in HYC and Farhana Sultana, FCA, Partner, business Assurance Services in HYC audit of Runner Automobiles Company Limited their kind cooperation. In this connection, my sincere gratitude goes to Neaz Mohammad FCA, Senior Partner, Howladar Yunus & Co for selecting as an intern in the firm. In all way they offered me comprehensive strategic guidance, substantial support, and conferring extensive assistance to plan for work, analyse data and determine report frameworks. They meticulously reviewed the draft report and provided insightful comments and suggestions which were instrumental for realigning and concluding this report. I faithfully acknowledge their invaluable contributions and extend my heartfelt gratitude to all of them.

I also thank all the staff members of Howladar Yunus & Co. specially Mr. Mohosin Alam, (Manager, Audit and Assurance Services) for collaborating their knowledge and skill which is crucial endowment for accomplishment of the audit and my report. As in absent of their engaged backing this report would not have reached in its present form. Lastly, I yearn for highlight that, it was an wonderful experience to work within the helpful environment of Howladar Yunus & Co. throughout my term of internship.

Executive Summery

This report explores the Audit Procedure of Howladar Yunus & Co. for manufacturing companies. Howladar Yunus & Co. is a reputed chartered accounts firm in Bangladesh, which is established in 1970. The report has been developed in compliance with various manuals of audit and other reference books in accordance with the practical working experience with the audit team. This report indicates the process of audit Howladar Yunus & Co. follows for performing audit of manufacturing company. The reader of this report will be able to get a clear knowledge of how to conduct an audit of a manufacturing company, particularly in Runner Automobiles Company Limited.

This report is divided into five sections. Chaprer one contains the introduction. Chapter two provides information about Howladar Yunus & Co. Chapter three describes theoretical framework about auditing and overall audit procedures of Howladar Yunus & Co. Chapter four contains detailed analysis of the audit of the client organization, Runner Automobiles Company Limited. Section five contains the findings that have been identified through carrying out audit procedure in Runner Automobiles Company Limited and some recommendations to minimize such observations and an overall conclusion.

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Chapter 01

Introduction

1.1 Report Origin:

MBA is an internationally recognized and a program oriented towards practical application. An internship is an integral component of MBA program. Recognising this the university has included a 3-month internship in the curriculum upon course completion. To comply with the requirement of the MBA program, I have joined **Howladar Yunus & Co.**. Here as an intern, I gained practical knowledge of auditing procedures, learning how chartered accounting firms conduct audits. The assignment provided insight into the audit process in companies, allowing me to uphold as well as engage in practical audit practices followed by these firms. During my internship, I was able to apply theoretical auditing knowledge to practical experience. Based on the insights and hands-on experience gained, I chose the topic for reporting **"Audit Procedure of Howladar Yunus & Co. for Manufacturing Companies: A Case Study on Runner Automobiles Company Limited."**

1.2 Study Objectives:

Primary Objective:

This report aims to appraise audit procedures of Howladar Yunus & Co. with a focus on manufacturing companies, using Runner Automobiles Company Limited as a case study.

Secondary Objective:

The report's secondary objectives are as follows:

- To understand the processes involved in conducting audits within corporations and companies.
- To acquire knowledge and experience about the audit procedure for manufacturing companies that chartered accountants' practice in Bangladesh.
- To identify key observations and formulate recommendations for improvement.

Through discussions with the firm's employees and clients, this report offers insights into the audit procedures employed by Howladar Yunus & Co. Chartered Accountants.

1.3 Scope:

I was delegated to Howladar Yunus & Co., providing me with valuable exposure in audit procedures for manufacturing companies. This included understanding the firm's audit approach, methodology, and administration specific to manufacturing company audits.

1.4 Methodology Used:

This report draws on personal experience and guidance from my respected teacher Md. Arif Hassan, with information gathered from books, reports, and websites. The work plan is outlined below.

Method of collecting data:
This report's data was collected through direct investigation of operational processes, records, and documents, as well as interviews conducted both formally and informally, utilizing non-structured questionnaires.

Sources of Data:
The data and information used in this report have been sourced from two main categories.

- **Primary sources:** Primary information was gathered through discussions with the audit team, including the partner, manager, staff, and articled students at Howladar Yunus & Co.
- **Secondary sources:** Secondary data, such as audit reports, management reports, accounting systems, and working papers for manufacturing clients, was sourced from the firm's client files to support the preparation of this report.

Processing Data:
Data obtained from secondary sources were processed manually, employing a qualitative approach throughout the study.

Analyzing and interpreting Data:
The report adopts a qualitative approach for analysis and interpretation, relying on processed data as the basis for rational evaluation with interpretive thinking.

1.5 Limitations

This review aims to examine the external audit procedures for manufacturing companies. However, certain challenges were encountered, outlined as study limitations below:

- Gathering information from diverse sources was challenging, and some assumptions were necessary due to data limitations, which may have led to minor errors.
- The limited time frame restricted the opportunity to acquire extensive knowledge from various sources.
- The information obtained for the study is not sufficient to some extent. Further investigation was required to gather complete information.
- Time constraints and limited practical experience as an intern made it challenging to fully grasp and follow the exact audit procedures.

Chapter 02

Firm's Profile

WHY Grant Thornton (GT) Believe They Are the Ideal Fit

Grant Thornton blends the global expertise of large firms with the personalized service and value focus of smaller firms, making them a leader in their market segments and the preferred advisers for Bangladeshi businesses pursuing global expansion, capital, or acquisitions.

"In addition to the commitment of your global team, I have no hesitation in adding my own personal assurance that you will receive the best quality of service across the globe."

Edward Nusbaum
Global CEO

Key drivers

1. Proactive issue resolution
2. Innovation
3. Growth
4. Global coordination and single point of contact locally

GT complements

1. Increased partner time and attention, and with a commitment to resolve all matters across the table, within an agreed timeframe.
2. Prior experience of transitioning large, public assurance relationships from international firms in a timely and painless process
3. GT compliance, they help their clients navigate complexity. They have a reputation for innovation; they have a reputation for agility.

3 Things GT have tailored into their client service to make it distinctive:

- Quick issue resolution Mechanism with the focus being solutions
- Unparalleled responsiveness
- By adding value to your company & its financial

Measuring GT's key clients' satisfaction with the engagement team is not a once a year process. They have a defined plan for managing their key accounts, and ensuring they have all the opportunities required to provide feedback to GT. GT don't just invite it, they expect and need it!

GT's escalation procedure:
Either client service or technical issue. Either way there is a single level escalation, GT will commit to closing every issue without delay.

Origin & Present Structure of Howladar Yunus & Co. (HYC)

2.1 Background information

In the early 1960s, two founding partners were both Senior Fellows of the ICAB, began their independent practice as public accountants. They later merged in 1970, forming the firm under the name Messrs. Howladar Yunus & Co. Chartered Accountants.

Howladar Yunus & Co. is represented in over 137 countries through its membership with Grant Thornton International which is a global leader in independent assurance, tax, and advisory firms. who facilitate vigorous organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Proactive teams, led by the partners in these firms, known for their accessibility, apply their insights, experience, and instincts to tackle complex challenges faced by privately owned businesses, publicly listed and public-sector clients. *www.grantthornton.global.*

2.2 Current Structure & Strength

At present HYC consists of seven partners (All are Fellow members of the ICAB) with an experience of over 47 (forty seven) years possessing diverse expertise in auditing, accounting, taxation, secretarial service, corporate finance, stocks and security management, management consultancy, information technology, consultancy in public offering along with fund raising, feasibility and market study, review of financial management system and performance audit of various national and multinational organizations. HYC with its main business office at Gulshan also operates a branch office at Dilkusha. HYC excels in statutory audits of banks, non-banking financial institutions, and insurance companies, with experience in auditing government and private sector organizations. The firm also provides key taxation and secretarial services to major clients.

Total 54 years the firm has been in public practice in Bangladesh.

2.3 Vision & Mission

Vision

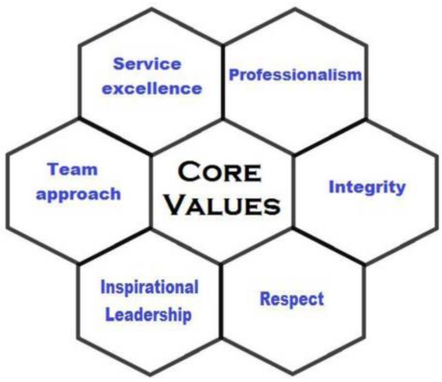
Being the preferred and immediate choice for clients and professionals.

Mission

- Provide cost-effective, high-quality services.
- Attract, evolve, and retain skilled professionals to meet client needs.
- Uphold the highest standards of ethics and values.
- Foster continuous research, development, and training for human resource growth

Core Values

HYC's values outline their principles and approach, promoting teamwork and efficiency while representing the essence of their purpose and existence.



Service Excellence

HYC strives to exceed client expectations by delivering top-quality service in every aspect.

Professionalism

The firm consistently upholds professionalism, taking pride in their work and making a meaningful difference.

Integrity

HYC adheres to the highest ethical standards to maintain integrity as Chartered Accountants.

Respect

HYC values both clients and employees, treating them with the highest level of respect and care.

Inspirational Leadership

HYC aims to lead, by example, upholding ethical standards that inspire others in the business community.

Teamwork

Success at HYC is built on strong collaboration, with clients actively involved in the process.

Structure:

HYC's organizational structure ensures personalized service for all clients, with partners overseeing every project. The firm upholds strict confidentiality and independence standards, with each client assigned a partner to supervise the work of the professional staff.

2.4 Brief Profile of Full-Time Partners & Directors (07 Nos)

i. Muhammad Farooq, FCA – Managing Partner

Mr. Farooq began his career at Howladar Yunus & Co. as an article student in the early 1980s and earned his chartered accountant qualification in 1986. He gained four years of post-qualification experience with HYC before becoming a partner in 1990. Over the past 30 years, Mr. Farooq has developed expertise in auditing both national and international financial institutions, including the Central Bank of Bangladesh. He has vast expertise in conducting performance audits, reviews, monitoring, and internal and operational audits for numerous international agencies, Development Financial Institutions, and Embassies.

ii. Neaz Mohammed, FCA – Partner

Mr. Neaz, a chartered accountant since 1999, joined as a partner in 2001. He has extensive experience in internal audits, investigations, and consultancy, particularly for Embassies and international organizations.

iii. Jahidur Rahman, FCA – Partner

Mr. Rahman, a partner since 2011, focuses on advisory, valuation, outsourcing, consultancy and audit quality. He has broad experience in internal and operational audits and performance audits across various sectors, including government, banks, and educational institutions.

iv. Al Maruf Khan, FCA – Partner

Mr. Khan joined the firm as a partner on November 1, 2016. Prior to joining HYC he was heavily involved in the financial industry. He worked as director and consultant for and in many financial institutions, banks, trust administration and management, stock exchanges, non-government organizations and companies (private sectors/MNCs). However, he did not limit himself to the financial sector and worked as a financial expert on many projects financed by ADB, World Bank, NORAD, DFID and UNICEF. He is very knowledgeable in both local and international accounting principles because of his membership of Institute of Chartered Professional Accountants (ICPA) at Ontario, Canada. He holds wide range of experience in consultancy of all types of financial problems and solutions to the problems and is a pioneer in the Bangladesh financial services sector.

v. Mohammad Touhidur Rahman, FCA - Director, Legal Matters & Tax

Mr. Touhidur Rahman became a qualified Chartered Accountant in 2011. He joined HYC as a director on 1st October 2015. His major focus is on consultancy, legal and taxation services. He is an FCA and is knowledgeable and experienced in legal and tax matters. He has also conducted monitoring, review, and performance audits for various Embassies, DFIs, banks, international organizations, government entities and educational institutions.

vi. Farhana Sultana, ACA, - Partner, Business Assurance Services

Ms. Sultana qualified as a Chartered Accountant in 2013. She started her journey in HYC in April 2017. Prior to joining HYC, she was a Deputy Director of the ICAB where she was responsible to support the Professional Conduct department to provide leadership for the Institute as the member staff in the technical areas and to lead the Institute's work in regulating the behavior of members and firms, ensuring the highest principles of integrity, transparency, and professional conduct.

vii. Ali Akther Rezvi, FCA - Director, Legal Matters & Tax

Mr. Rezvi qualified as a Chartered Accountant in 2010. He joined the firm on March 2017 as a director. He has extensive experience in advising on indirect and direct tax compliance matters including tax computations, representing clients to tax office to explain queries raised by tax officials and handling all matters leading to passing of assessment orders by the tax officials. He has handled tax matters of leading multinational power and energy companies, banks, and manufacturing companies.

2.5 Relationship with Foreign Embassies & International Agencies

- World Bank, Bangladesh Dhaka Office
- Asian Development Bank (ABD), Bangladesh Country Office
- DFIDB, Department for International Development Bangladesh
- NORAD
- KFW (Kmdittanstalt Fur Mederautbau)
- DANIDA
- SDC (Swiss Agency for Development and Cooperation, Embassy of Switzerland)
- UNICEF, Bangladesh Country Office
- SIDA (Swedish International Development Agency)
- European Union
- ICCO Cooperation
- Save the Children International - Bangladesh Office

- USAID
- Embassy of Sweden
- Royal Danish Embassy
- Concern World Wide Bangladesh
- United Nations Development Programme (UNDP)
- The Swallows India Bangladesh

2.6 Areas of Expertise of the Firm

Assuranc

- Statutory Audit
- Internal Audit
- Management Audit
- Performance Audit
- IT Audit
- Due Diligence

Tax

- Dealing with issues arising from tax audits/investigations
- Preparation, filing and pleading appeals
- Assisting with exemption/reduced rate certifications and filings.
- Managing provident, gratuity, and pension fund approvals.

Advisory

- Financial Consulting Services
- Management Consulting Services
- Business Advisory Services
- Corporate Secretarial

Human Resources and Other

- Organizational design and strategy
- Job analysis and job profile
- Recruitment, selection & retention
- Performance review and development
- Executive search & recruitment
- Develop policy, procedure and contracts
- Head hunting
- Training & development

2.7 OUTSOURCE SERVICES

Accounting

- Accounting system setup and ad-hoc accounting services
- Book-keeping accounting transactions, vendor payment processing etc.
- Month and year end closing and reporting
- Budgeting and customised MIS reporting
- Accounting compliance services

Payroll

- Generation of monthly payroll report, pay slips, payroll journal, YTD reports
- Payroll bank file as per wage protection system (WPS) where applicable
- Payroll support services including employee benefits such as gratuity, annual leave, GOSI

HR Services

- HR Advisory and best practice knowledge sharing, support with HRMS setup
- Preparation of offer /employment letter's as per company templates
- Maintaining and archival of employees personal records, letters, training records etc.
- Tracking employee annual leave, air ticket, passport and visa expiry

Taxation & Revenue Certification

- Corporate tax, customs duty, withholding taxes, social security and value added tax
- Tax residence certificates, advise on tax treaties and tax due diligence
- Revenue certification
- Other taxes - payroll tax, capital duty, stamp duty, real property tax, transfer tax.
- Tax compliance services.

2.8 OTHER INFORMATION

i. Office Addresses:

Corporate Office, Dhaka
House -14 (4th Floor), Road-16A
Gulshan-1, Dhaka, Bangladesh
Telephone: 880-2-9883541 & 880-2-9886461

HYC Branch Office:
67 Dilkusha Commercial Area (2nd Floor)
Dhaka 1000, Bangladesh
E-mail: info@bd.gt.com

ii. HYC Establishment, Age & Registration of Firm:

i) Date of Establishment of the Firm	: May 30, 1970
ii) Age of the Firm	: 53 years
ii) Registration of the Firm	: 14610 EP dated August 11, 1970

iii. Enlistment with important Authorities in Bangladesh:

i) Bangladesh Bank (Central Bank) – Ranked as Number 4
ii) Enlisted with Bangladesh Security Exchange Commission (BSEC)

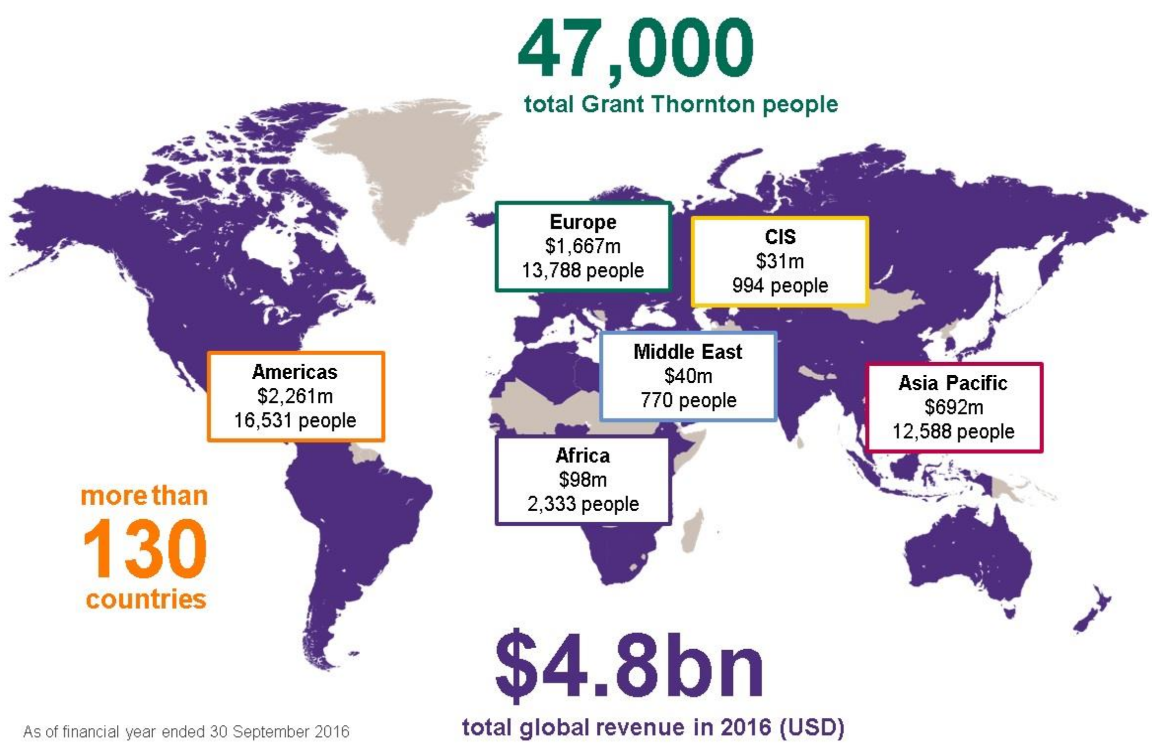
iii) Enlisted with NGO Affairs Bureau renewed on 22 December 2015 - Serial No. 43.
iv) Enlisted with Micro-Credit Regularity Authority - Serial No. 44

iv. Logistics of the Firm

Office spaces	: Office area – 2,900 sft. in Dilkusha & 10,200 sft. in Gulshan
Computer	: In total 50 (Fifty) computers with LAN facilities
Printer	: 16 (Sixteen) printers
Conference room	: Three (3) conference rooms.
Telephone	: 88(02)-9554119, 9551872, 9578767, 9886461, 9883863
Fax	: One Fax line – 88(02)9552989

v. Business Licenses
1) Trade License of the Firm (No-02025650)
2) VAT Registration Certificate of the Firm (No - 90011018598)
3) TIN Certificate of the Firm (No-813653950696-172)
4) Registration Certificate of the Firm (14610 EP dated August 11, 1970)

vi. Global Status of Grant Thornton International:



vii. The Grant Thornton's Market Recognition:

viii. HYC's clientele:

2.9 Support Services of the Firm

A - Support services of the firm are set out as below:

I. Auditing – Financial statutory auditing services;
II. Auditing – Assurance auditing services;
III. Accounting – Any sort of accounting work services;
IV. Accounting Operational Manual Preparation Services;
V. Taxation – Any sort of taxation related work Services;
VI. Training on Accounting, Taxation, Auditing & Others Services;
VII. Budgeting Services;
VIII. Secretarial Practices;
IX. Management Services;
X. Financial Consultancy Services;
XI. Asset Valuation Services;
XII. Project Pro-File Services;
XIII. Market Research & Survey;
XIV. Inventory Management Services;
XV. Working Capital Management & Planning Services;
XVI. Capital Budgeting & Planning Services;
XVII. Consultancy on Merchant Banking Services;
XVIII. Consultancy on Implementation of ERP Services;
XIX. Investigation on Special Works on Financial Management Services;
XX. BOI Related Special Works Services;
XXI. SEC Related Special Works Services;
XXII. Port-Folio Management Services

Chapter 03

Theoretical Framework

3.1 What is audit?

Audit is a vital assurance service offered by Chartered Accountancy firms, focusing on the evaluation of historical financial statements. In this process, auditors provide an opinion on whether the statements comply with GAAP, IFRS, IAS, and ISA standards. Financial statements often include predictions, which external users depend on for decision-making. The auditor's report serves as a trusted validation of these statements, valued for its independence and expertise in financial reporting.

3.2 Audit in Bangladesh:

The Companies Act of 1994 mandates that all companies have their accounts audited by qualified professionals to protect the interests of shareholders who entrust management to directors. Only Chartered Accountants, certified by the ICAB after obtaining sufficient experience, are authorized to conduct audits. The practice of company auditing in Bangladesh and India dates back to the mid-19th century, beginning with the Indian Joint Stock Companies Act of 1850, which required audits but did not specify auditor independence. Over the years, key legal cases like Nichol's Case (1859) and Re. Kingston Cotton Mill (1896) emphasized the auditor's role in detecting fraud and exercising due diligence. The 1913 Companies Act in India formalized the requirement for qualified auditors, which evolved further with the introduction of the Auditors' Certificate Rules in 1932. In Bangladesh, the formation of ICAB in 1973, following independence, was crucial in establishing a national body for regulating the profession

3.3 Auditing Standards:

Audit professionals are expected to follow prescribed principles and practices, with failure to do so potentially resulting in disciplinary actions by relevant accountancy bodies. Leading accounting organizations, including those in the UK and Eire, formed the Consultative Committee of Accountancy Bodies, which, through its Auditing Practices Committee (APC), issues auditing standards and guidelines. These initial standards covered the auditor's operational standards, audit reports, and qualifications in reports. While not mandatory, these guidelines reflect best practices, and auditors should adhere to them unless they have valid reasons not to. In legal cases, auditing standards are often considered a benchmark for evaluating an auditor's work.

Auditing statements:

Along with auditing standards and guidelines, certain accounting bodies also publish auditing statements that outline the fundamental principles of auditing.

- International Federation of Accountants (IFAC):

Founded on October 7, 1977, the IFAC aims to promote a unified global accountancy profession with standardized practices. To support this mission, IFAC's Council formed the International Auditing Practices Committee (IAPC) to create and publish guidelines on universally accepted auditing practices, as well as the structure and content of audit reports.

- The Institute of Chartered Accountants of Bangladesh (ICAB):

The ICAB is the country's primary institution for Chartered Accountancy education, offering a prestigious qualification and recognized for its professional training. ICAB's goals include:

i. Regulating the accountancy profession within Bangladesh.
ii. Ensuring adherence to professional ethics and conduct among its members.
iii. Providing expertise and training in fields such as accounting, auditing, taxation, corporate law, management consultancy, and IT.
iv. Delivering compulsory continuing professional education (CPE) for members.
v. Promoting the adoption of IFRS and ISA standards locally, as BFRS and BSA respectively.
vi. Staying current with advances in accounting practices, auditing methods, technology, and consultancy.
vii. Engaging with international and regional organizations to support the development of capital markets and global trade in services

3.4 General Principles of an Audit:

Auditors must follow the Code of Ethics for Professional Accountants set by the ICAB, which includes essential ethical principles such as:

a. Independence;
b. Integrity;
c. Objectivity;
d. Professional competence and due care;
e. Confidentiality;
f. Professional behavior; and
g. Technical Standards

Audits should be conducted in line with the BSA or ISA, which establish fundamental principles and procedures, accompanied by relevant guidance.

Auditors are required to approach audits with professional skepticism, recognizing the potential for material misstatements in financial statements. This involves critically evaluating audit evidence, being mindful of inconsistencies, and avoiding assumptions that could compromise audit quality. Management's statements should not replace the need for sufficient and appropriate evidence to form the basis for audit opinions.

3.5 Reasonable Assurance:

An audit performed following BSAs is intended to give reasonable assurance that the financial statements are free from material misstatements. This means that auditor gathers sufficient evidence to confidently conclude that no significant errors exist in the financial statements. However, absolute assurance is not possible due to several limitations, including:

- The reliance on sampling and testing
- Limitations inherent in accounting systems and internal controls (such as the potential for management override or fraud)
- The nature of audit evidence, which is generally persuasive rather than definitive

The audit process also involves professional judgment, such as:

- Determining scope and timing for audit procedures
- Examine the reasonableness of management's estimates in the financial statements

Some factors, such as related-party transactions, may reduce the reliability of the evidence gathered. In these cases, specific audit procedures may be used to obtain sufficient evidence unless there are unusual risks or signs of misstatements. Therefore, audit does not guarantee that financial statements are entirely free from material misstatements.

3.6 Scope of an Audit:

The "scope of an audit" outlines the procedures needed to meet audit objectives, based on BSAs, applicable laws, and engagement terms.

Subject Matter and Established Criteria:

The **subject matter** of an audit refers to the information whose accuracy and fairness are assessed during the audit process. For the audit of a manufacturing company, the subject matter primarily includes the details contained in the financial statements.

Established criteria refer to the rules, regulations, standards, operational policies, and procedures that must be adhered to when recording, preparing, and presenting information of the subject matter. Established criteria for auditing Manufacturing companies are as follows:

- Respected company's Standard Operating Procedures (SOP)
- The Securities and Exchange Rules 1987
- The Companies Act 1994
- Company related Bangladesh Bank Circulars
- Conditions given by the buyer organization and country
- IAS and IFRS adopted by ICAB (BAS and BFRS)

Accumulation of Evidence and Evaluation:

Audit evidence refers to any information the auditor uses to assess whether the subject matter aligns with established criteria. This evidence can include oral statements from the client, written correspondence with internal or external parties, observations, and supporting documents. To fulfill the audit's purpose, the auditor must systematically gather sufficient, reliable evidence and evaluate its adequacy and competence to form an opinion on the accuracy and fairness of the presented information.

Independent Competent Person:

The auditor must possess the qualification and expertise to understand the criteria, determine the appropriate evidence to gather, and draw accurate conclusions after its evaluation. Additionally, the auditor must maintain an independent mindset to form an unbiased opinion on the accuracy and fairness of the subject matter.

Reporting:

The audit process concludes with the preparation of the audit report, where the auditor expresses an opinion on whether the subject matter complies with the established criteria and is fairly presented. For manufacturing companies, the auditor ensures that the financial statements, including the Balance Sheet and Profit and Loss Account, accurately reflect the company's financial position and results for the year. The auditor also confirms that the statements adhere to relevant laws, regulations, and the IASs and IFRSs applicable in Bangladesh.

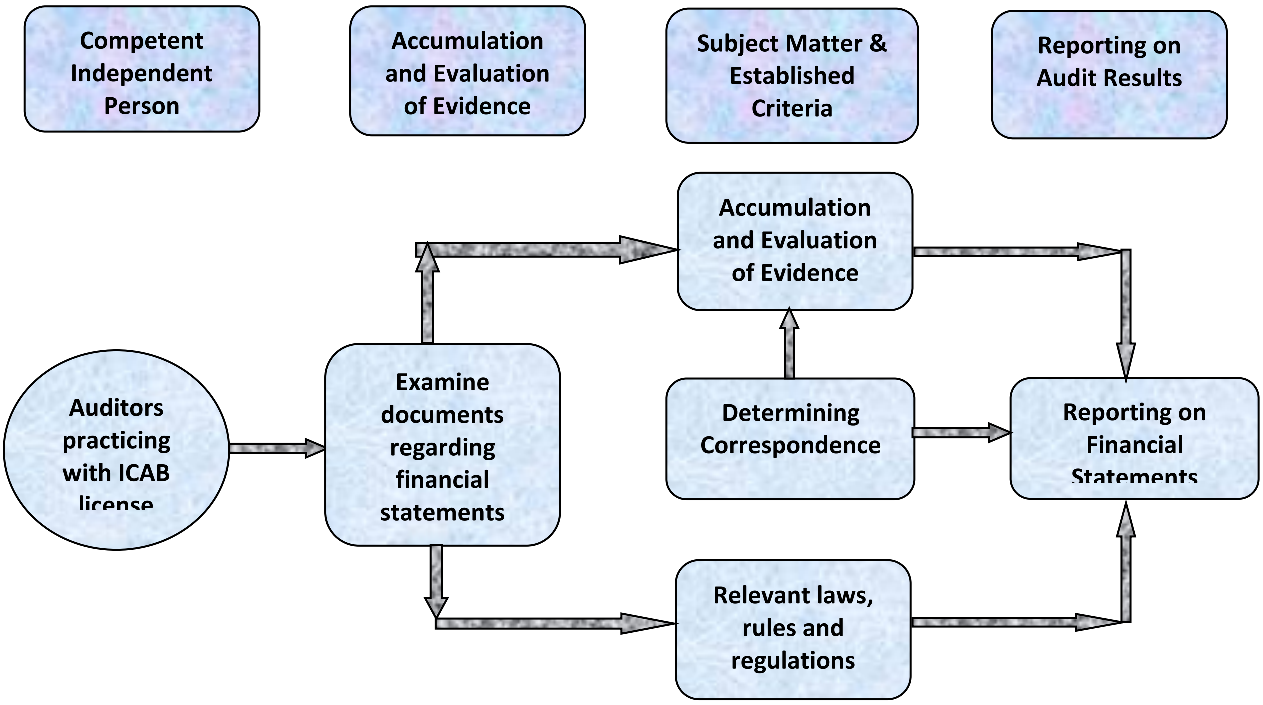


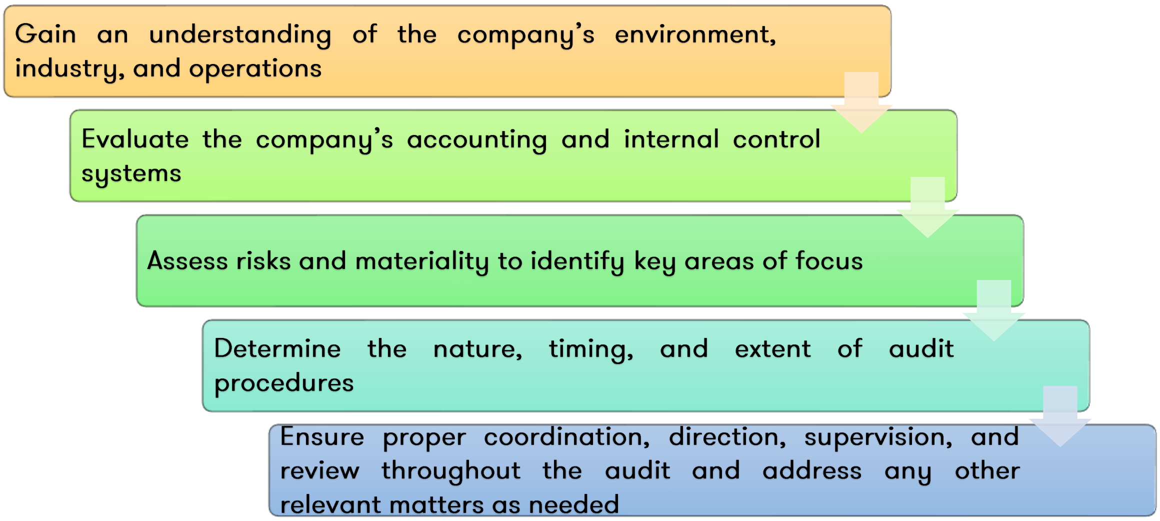
Figure: Process of Audit

3.7 Nature and Objective of Audit:

According to BSA 200, the purpose of a financial statement audit is to allow the auditor to provide an opinion on whether the financial statements are prepared is in line with a defined financial reporting framework in all significant respects. For manufacturing companies, the audit aims to provide reasonable assurance that the financial statements are free from material misstatements caused by fraud or error. It also ensures compliance with the company's standard operating procedures, the Companies Act 1994, and other applicable rules, regulations, and government-issued guidelines. Additionally, the auditor reports on any identified policy non-compliance or internal control deficiencies.

3.8 Planning the Audit of manufacturing companies.

The audit planning for manufacturing companies involves several key steps:



3.9 Risk Assessment:

The likelihood that the auditor will provide an incorrect opinion due to material misstatements in the financial statements (BSA 400).

Risk of Material Misstatement (F/S): This risk pertains to errors or omissions in the financial statements before the audit process begins. It consists of:

- **Inherent Risk (IR):** The probability that a financial statement item is at risk for misstatement based on its nature, without considering any internal controls.
- **Control Risk (CR):** The chance that a material misstatement will go undetected due to weaknesses in the company's internal controls.

Detection Risk (DR): The risk that the auditor's procedures will fail to identify material misstatements in the financial statements.

When inherent and control risks are high, detection risk must be low to control overall audit risk, which is set during audit planning.

3.10 Internal control

The Internal Control System (ICS) is designed by management and governance to provide reasonable assurance that an entity's objectives are met, particularly concerning the reliability of financial reporting, operational effectiveness, and regulatory compliance (BSA 315, Para 42). It includes several key components:

- Control Environment
- Risk Assessment
- Information Systems & Business Processes
- Control Activities
- Control Monitoring

Process for Finalizing Design and Starting Implementation

A. Methods of Ascertaining the System

- Review prior audit experiences with the client
- Conduct interviews with client staff
- Analyze the client's policies and system manuals
- Inspect documents and records maintained by the client
- Observe client activities and operations

B. Recording the System

- **Narrative Descriptions:** Outline document flow, processing, and controls.
- **Flowcharts:** Visual representations of processes and controls.
- **Internal Control Questionnaires (ICQs):** Questions to identify control weaknesses.

These steps help auditors assess the design and function of internal controls.

3.11 Management Assertion

Assertions by the management are representations by made by them about transactions and account balances in financial statements, aligned with GAAP. These assertions guide how accounting information is recorded and disclosed.

Management Assertions are classified into five broad categories which are

i. **Existence/Occurrence:** Assets exist, and transactions occurred as reported.
ii. **Completeness:** All necessary items are included.

iii. **Valuation:** Amounts are accurate and appropriate.
iv. **Rights/Obligations:** Assets and liabilities belong to the entity.
v. **Presentation/Disclosure:** Items are properly classified and disclosed

Generally, Three Categories of assertions made by management are:

a. Assertions about Transactions and Events:
- **Occurrence:** Transactions occurred and pertain to the entity.
- **Completeness:** All necessary transactions are recorded.
- **Accuracy:** Data is recorded correctly.
- **Cutoff:** Transactions are in the correct period.
- **Classification:** Transactions are in proper accounts.

b. Assertion about account balances at the end of the period:
- **Existence:** Assets, liabilities, and equity exist.
- **Rights & Obligations:** Assets are owned, and liabilities are obligations.
- **Completeness:** All required balances are recorded.
- **Valuation & Allocation:** Balances are recorded accurately.

c. Assertions about Presentation and Disclosure:
- **Occurrence & Rights/Obligations:** Disclosed items occurred and pertain to the entity.
- **Completeness:** All necessary disclosures are included.
- **Classification & Understandability:** Information is properly presented and clear.
- **Accuracy & Valuation:** Disclosures are fair and accurate.

3.12 Audit Evidence and General Audit Procedure

Evidence of audit is the insights auditors use to form their opinion. The audit testing process involves obtaining evidence, evaluating its sufficiency and credibility and chronicling it in working papers.

1. Gather audit evidence by performing audit procedures:

i. Tests of Control (Compliance Tests Prior to 1988)
- Assess the effectiveness of the design of accounting and internal controls.
- Evaluate the operation of internal controls throughout the period.

ii. Substantive tests:

It is a detailed audit procedure to verify monetary correctness and disclosure adequacy in financial statements.

Substantive tests are the following –

a. Analytical procedures:

Using comparisons and relationships to assess account balances.
Computing ratios for comparison with prior years and related data.

b. Tests of details of transactions:

Vouching – Inspect supporting documents to verify recorded transactions (mainly revenue and expenses).

Tracing – Ensure transactions were correctly recorded from source documents.

b. Test of details of balances:

Verifying asset and liability balances for accuracy, focusing on existence, completeness, valuation, and rights & obligations.

2. Evaluate the evidence obtained for sufficiency and competence:

To form an opinion on financial statements, the auditor assesses the sufficiency and competence of evidence throughout the audit process.

3. Documentation of audit evidence

Audit evidence must be properly documented in working papers as the basis for the audit opinion on financial statements.

3.13 Methods of Obtaining Audit Evidence

The auditor obtains audit evidence by one or more of the following methods:

- **Inspection:** Examining documents, records, or physically inspecting tangible assets.
- **Observation:** Watching processes or procedures performed by others, e.g., inventory counts.
- **Inquiry:** Seeking information from knowledgeable persons within or outside the entity.
- **Confirmation:** Obtaining information or verifying conditions directly from third parties.
- **Recalculation:** Verifying arithmetic accuracy of source documents and records.
- **Re-performance:** Independently executing procedures or controls originally performed by the entity.
- **Analytical Procedures:** Evaluating financial data through analysis of relationships among financial and non-financial information.

3.14 Substantive Procedure

Audit Program

The audit program outlines the nature and extent of audit testing, staff responsibilities, and evidence of work review. It aids in work allocation, ensures accountability, supports team continuity, and facilitates senior review.
It is a key part of the auditor's working papers and documents essential audit evidence to support the audit opinion.

3.14.1 Non-current assets

a) Tangible non-current assets

Examples:
Land, buildings, plants, vehicles, fittings and equipment.

Major audit risks:
- Ownership not established (rights and obligations).
- Assets not existing or sold (existence).
- Omission of owned assets (completeness).
- Overvaluation (inflated cost/valuation or undercharged depreciation) (valuation).
- Undervaluation (missed revaluation or overcharged depreciation) (valuation).
- Incorrect presentation in financial statements (presentation and disclosure).

Audit Evidence Sources:
- Non-current assets register.
- Purchase and sales invoices.
- Title deeds or registration documents.
- Valuations by employees or third parties.
- Lease or purchase agreements.
- Physical asset inspections.
- Depreciation records or calculations.

b) Intangible non-current assets

Examples:
Licenses, development costs and purchased brands.

Key Audit Risks:
- Inappropriate capitalization of expenses (existence assertion).
- Overstated cost or valuation (valuation assertion).
- Incorrect amortization or failure to amortize (valuation assertion).

Audit Evidence Sources:
- Relevant accounting standards and auditor's expertise.
- Purchase invoices or supporting documentation.
- Client-prepared calculations and schedules.
- Specialist valuations.
- Auditor's assessment of potential impairment indicators.

3.14.2 Inventory

The major risks of misstatement of the inventory balance in the financial statements are due to:

- Inventory reported in the financial statements that does not physically exist (**existence**).
- Some inventory items that are actually on hand are missing from the financial statements (**completeness**).
- Obsolete or damaged inventory is recorded at full value instead of being written down (**valuation**).
- Inventory is recorded at an incorrect amount due to costing errors or failure to adjust when net realizable value is below cost (**valuation**).
- Inventory owned by others is mistakenly reported as the company's own in the financial statements (**rights and obligations**).
- Inventory already sold is still shown as part of inventory in the financial statements (**cut-off**).

The goal of inventory audit tests is to verify the accuracy of related assertions. The following sources may provide evidence:

- The company's internal controls over inventory counts
- Auditor's observation during the physical inventory count
- Confirmations from third parties storing or holding inventory
- Purchase documents and work-in-progress records
- Subsequent to year-end sales invoices, orders, and price lists as evidence of inventory valuation and existence

Inventory count

Assurance providers rely on effective inventory controls or counts to confirm inventory accuracy. For perpetual systems, they check that records are updated, counts are done regularly, and discrepancies are investigated. They ensure annual physical counts, maintain updated records, follow proper counting procedures, and resolve major discrepancies.

Therefore, management should compare inventory cost to NRV, individually or by category. NRV may fall below cost due to price drops, higher costs, damage, obsolescence, or production errors.

3.14.3 Receivables

Key risks in receivables include-

- uncollectible debts (valuation) and
- customer disputes (existence, rights, and obligations).

Audit tests aim to confirm these assertions using sources like-

- the receivables ledger,
- customer confirmations, and
- post year-end cash receipts.

If sales are consistent with a stable customer base, analytical procedures can be effective.

Confirmation from customer

When responses are likely, auditors should normally obtain direct confirmation of trade receivables to verify customer existence and valid claims. This is best done right after year-end, covering year-end balances. If done earlier, further evidence must support the remaining period.

Alternative procedures to verify existence/rights and obligations

If customer confirmations are not obtainable, auditors may perform alternative procedures are followed.

- Check post-year-end cash receipts.
- Match balances with orders, dispatch notes, and invoices.
- Investigate older unpaid invoices.
- Review growing balances and collectability.
- Test controls over credit notes and bad debts.

3.14.4 Cash and Bank

Major risks of misstatement are due to –

- Undisclosed client-owned bank accounts (existence/rights)
- Misstated bank-to-cash book reconciliations (valuation)
- Omitted or incorrect cash floats (completeness/existence)

Testing objective- To prove the assertions about the assets made are correct.

Sources of information -

- Cash book
- Statement of Bank
- Bank confirmation
- Bank reconciliation performed by management

3.14.5 Payables

Major risks of misstatements are due to -

- Liabilities not fully recorded in the financials (**completeness**).
- Incorrect timing of goods received vs. liability recognition (**cut-off**).
- Fictitious liabilities reported (**existence, rights, and obligations**)

Testing objective – To verify that the related assertions about liabilities are accurate.

The sources of information:

- Payables ledgers
- Supplier's direct confirmations

Analytical procedures may indicate understatement if the balance has unexpectedly dropped compared to prior years.

3.14.6 Long-term liabilities

The major risks of misstatement -

- Some long-term liabilities may be missing from the records (completeness)
- Interest expenses may be miscalculated or recorded in the wrong period (accuracy and cut-off)
- Required disclosures may be inaccurate or incomplete (presentation and disclosure)

Challenge for the assurance provider - loan and debenture agreements often include covenants the company must meet, such as limits on total borrowings and compliance with certain financial ratios.

Sources of information -

- Loan schedules, agreements, and prior audit records
- Statutory records, including debenture registers and company constitution
- Bank and lender confirmations
- Cash book and related financial records
- Board meeting minutes
- Client-prepared calculations and supporting schedules
- Stated accounting policies in the financial statements

3.14.7 Income statements items

Revenue:

- Tested using analytical procedures (e.g., relationship with receivables).
- Vouching individual transactions as an alternative.

Purchases:

- Control testing is common.
- Analytical procedures focus on relationships with inventory and payables.

Payroll Costs:

- Analytical procedures based on staff numbers, pay rates, and taxes.
- Detailed tests include:
    - Verifying time worked (clock cards).
    - Confirming employee existence (personnel records).

  - Checking pay rates (contracts/personnel records).
  - Re-performing payroll calculations.
- Payments verified through bank statements and postings to the nominal ledger.

Interest Paid/Received:
- Verified through bank statements or lender confirmations.

Expenses:
- Tested using analytical procedures.
- Vouched against purchase invoices.

Details are discussed later parts of the report.

3.14.8 Revenue System

Substantive procedure regarding revenue system contains the following
- Ordering
- Dispatch and invoicing
- Recording
- Cash collection
- Weaknesses

<u>Ordering</u>

Risks
- Orders from customers who cannot pay or delay payment
- Orders not recorded properly and not fulfilled

Control objectives:
- Supply goods/services only to customers with good credit ratings
- Encourage customers with prompt payment
- Ensure orders are recorded correctly and fulfilled accurately and on time

Controls

Controls are designed to mitigate risks identified in sales processes.

- Segregate duties and responsibilities among staff
- Approval required before assigning credit terms to customers and also before changing customer information
- Only process orders from customers with satisfactory credit history
- Use of consecutively numbered order forms and verify for any gaps
- Ensure accurate pricing is provided to customers
- Reconcile customer orders with production and delivery records; investigate discrepancies
- Respond promptly and effectively to customer inquiries

Dispatch and invoicing

Risks

- Products might be shipped without being recorded, leading to potential loss
- Items could be delivered without generating an invoice
- Incorrect invoices may be issued, causing customer complaints
- Incorrect cancellation of invoices through credit notes, leading to revenue loss

Control objectives

- All dispatches of goods are recorded
- Generate invoices accurately for all the products sold and services provided.
- Each invoice issued corresponds to goods and services delivered by the company
- Credit notes are issued only for legitimate and justifiable reasons

Controls

- Authorize prior to dispatch of goods
- Verify outgoing goods for quantity, quality, and condition
- Documentation of all dispatched goods through dispatch notes
- Reconcile dispatch notes with customer orders and corresponding invoices
- Use of pre-numbered dispatch notes with routine sequence audits
- Inspection of returned goods for condition upon receipt
- Documentation of returned goods using standardized return notes
- Customer acknowledgment of receipt through signed dispatch notes
- Timely preparation of sales invoices and credit notes
- Prompt updates to inventory records to reflect dispatches and returns
- Cross-referencing of sales invoices with dispatch notes and customer orders
- Periodic review of unmatched dispatch notes to ensure invoicing completion

Recording

Risks

- Invoiced sales may be inaccurately recorded or omitted from the accounting records
- Credit notes may not be accurately or promptly recorded
- Sales transactions may be posted to incorrect customer accounts
- Irrecoverable debts may remain improperly listed in the accounts receivable ledger

Control objectives:

- All invoiced sales are accurately recorded in both the general ledger and accounts receivable ledger
- All issued credit notes are properly reflected in the general ledger and accounts receivable ledger
- Entries in the accounts receivable ledger are posted to the appropriate customer accounts

- Revenue and receivables are recorded in the correct accounting period through proper cut-off procedures
- Potential uncollectible debts are identified and assessed for appropriate action

Control Objectives:

- All receipts are recorded accurately
- All funds received are banked promptly
- Postal and cash receipts are properly documented
- Cash and bank accounts are safeguarded
- Financial records remain complete and reliable

Controls

- Segregation of duties maintained
- Sales invoices sequentially recorded; spoiled invoices controlled
- Cash receipts matched to invoices
- Customer remittance advices retained
- Sales returns and adjustments recorded separately
- Cut-off procedures applied for accurate period reporting
- Trade receivable statements prepared regularly
- Statements safeguarded from alteration
- Overdue accounts reviewed and followed up
- Bad debt write-offs authorized
- Receivables ledger control account reconciled
- Analytical reviews of receivables and margins conducted

<u>Cash collection</u>

Risks:

- Receipts may not be fully recorded
- Received funds may not be deposited into the bank

Controls:

- Logging of postal receipts upon arrival
- Accurate recording of cash sales and collections
- Implementation of general controls over receipt recording
- Measures in place to safeguard cash and bank balances

3.14.9 Purchase System

Substantive procedure Overview

Risks:

- Unauthorized purchases for personal use
- Unfavorable purchasing terms

Control Objectives:

- Orders are properly authorized
- Purchases made only from approved suppliers
- Goods/services obtained at competitive prices

Controls:

- Segregation of duties
- Centralized supplier selection policy
- Justification required before purchase
- Orders issued only with pre-numbered requisitions
- Authorization required for all orders
- Use of pre-numbered order forms
- Regular review of outstanding orders
- Supplier terms monitored for best conditions

Goods Inward & Invoice Recording

Risks:

- Theft or misappropriation of goods
- Acceptance of unordered items
- Invoices unrecorded or unpaid
- Missed credit terms or unclaimed credit notes

Control Objectives:

- Goods used only for business purposes
- Only ordered and authorized goods accepted
- Accurate recording of received goods/invoices
- Proper recognition of liabilities and credits
- Credit notes accurately recorded
- Correct posting to supplier accounts
- Proper cut-off at period-end

Controls:

- Inspection of incoming goods
- Recording goods received
- Match goods received to orders
- Reference and verify supplier invoices
- Document goods returned
- Procedures for obtaining and recording credit notes
- Segregation of duties

- Timely recording in books
- Regular payables ledger maintenance
- Reconcile supplier statements with ledger
- Review expenditure classifications
- Reconcile control accounts with sub-ledgers
- Year-end accruals for goods received not invoiced

Payment

Risks:

- Fraudulent or duplicate payments
- Early payment or missed credits
- Incorrect period recording

Control Objectives:

- Payments only for received goods
- All payments are authorized
- Accurate recording of payments in ledgers
- No duplicate payments

Controls:

- Controls over cheque and cash payments
- Authorization of bank transfers
- Supporting documentation required for all payments

3.15 Management Representation

BSA 580 requires auditors to obtain written representations from management, confirming their responsibility for the financial statements and internal controls, and stating that uncorrected misstatements are immaterial. These representations can be used as audit evidence when other evidence is unavailable, especially for matters of judgment or intent. Auditors should corroborate these statements with additional evidence and investigate discrepancies, conducting further inquiries or alternative procedures as needed to verify accuracy.

3.16 Documentation

All assurance work must be documented, with working papers serving as tangible evidence supporting the conclusion. These documents should provide a sufficient record of the basis for the report and demonstrate that the engagement complied with relevant standards and regulations.

Audit documentation helps in -

- planning and performing audits,
- supervising work,
- ensuring accountability,
- retaining significant information for future audits, and
- enabling quality control and external inspections.

The form and content of working papers depend on factors such as the audit procedures, identified risks, judgment required, significance of evidence, and methodology used.

3.17 Filing working papers

For recurring audits, working papers are typically divided into permanent and current files, although this distinction is becoming less common with the automation of audit files.

Permanent Audit Files

These contain information of ongoing relevance to the audit, such as:

- Engagement letters
- New client questionnaires
- Memorandum and articles of association
- Legal documents (e.g., prospectuses, leases, sales agreements)
- Client's business history
- Board minutes of continued relevance
- Previous years' signed accounts, analytical procedures, and management letters
- Accounting systems notes and control questionnaires from previous years

Current Audit Files

These include information relevant to the current year's audit, which should be compiled promptly after the audit's completion:

- Financial statements
- Accounts checklists
- Management accounts details
- Reconciliations of management accounts and financial statements
- Summary of unadjusted errors
- Report to partner (detailing significant events and errors)
- Review notes
- Audit planning memorandum
- Time budgets and summaries
- Letter of representation

- Management letter and board minutes
- Communication with third parties (e.g., experts, other auditors)

Additionally, current files contain working papers for each audit area, which should include:

- Lead schedule with details of figures for inclusion in accounts
- Problems encountered and conclusions drawn
- Audit plans and risk assessments
- Sampling plans and analytical procedures
- Tests of detail and tests of control

Retention of Documentation

Under the Companies Act 1994, Section 181(5), books of accounts must be preserved for at least twelve years, along with relevant vouchers for any entries made in those books.

3.18 Evidence and sampling

Evidence collection is a very important part of auditing. Evidence can be collected in various ways. They are:

- Evidence collection is a very important part of auditing. Evidence can be collected in various ways. Some of the ways to obtain evidence are:
- Inspection of tangible assets
- Inspection of documentation
- Observation
- Inquiry
- Confirmation
- Recalculation
- Re-performance
- Analytical procedures

3.19 Audit Reporting

Policy:

The primary objective of an audit is to provide a report to the company's members or owners. Along with the main report, auditors also issue a management letter, which highlights constructive suggestions regarding the client's internal control system. The three types of audit reports include:

- Unqualified audit report
- Qualified audit report
- Management letter (also known as a letter of weakness or comment)

Procedures:

Auditors must evaluate the audit evidence to form an opinion on the financial statements. This process includes ensuring that the financial statements align with an acceptable financial reporting framework, such as Bangladesh Standards on Auditing (BAS), and meet legal requirements, including the SEC and Companies Act. The auditor's report should provide a clear opinion on the financial statements.

3.20 Basic Elements of the Auditor's Report

- Title: Should include "Independent Auditor" to distinguish from other reports.
- Addressee: Typically addressed to the shareholders or the board of directors.
- Introductory Paragraph:
  - Identify the financial statements audited.
  - States the responsibilities of both management and the auditor.
- Scope Paragraph:
  - References Bangladesh Standards on Auditing (BSA).
  - Describes the auditor's work and procedures performed.
- Opinion Paragraph:
  - References to the financial reporting framework used.
  - Auditor's opinion on the financial statements.
- Date of Report: Must reflect the completion date of the audit.
- Auditor's Address: Specifies the location of the auditor's office.
- Auditor's Signature: Signed by the auditor or audit firm, assuming responsibility.

3.21 The Auditor's Report

An unqualified opinion is given when the auditor concludes that the financial statements present a true and fair view in accordance with the applicable financial reporting framework, and any changes in accounting principles and their effects have been properly accounted for and disclosed.

Modified Reports are issued in the following situations:

- Matters that Do Not Affect the Auditor's Opinion:

Emphasis of Matter: This highlights significant issues, such as a going concern problem or uncertainty, without changing the auditor's opinion. It is added after the opinion paragraph and refers to a note in the financial statements.

- Matters that Do Affect the Auditor's Opinion:

Qualified Opinion: Given when there is a problem, but it is not so serious that the whole report is wrong, A qualified opinion is given for two reasons:

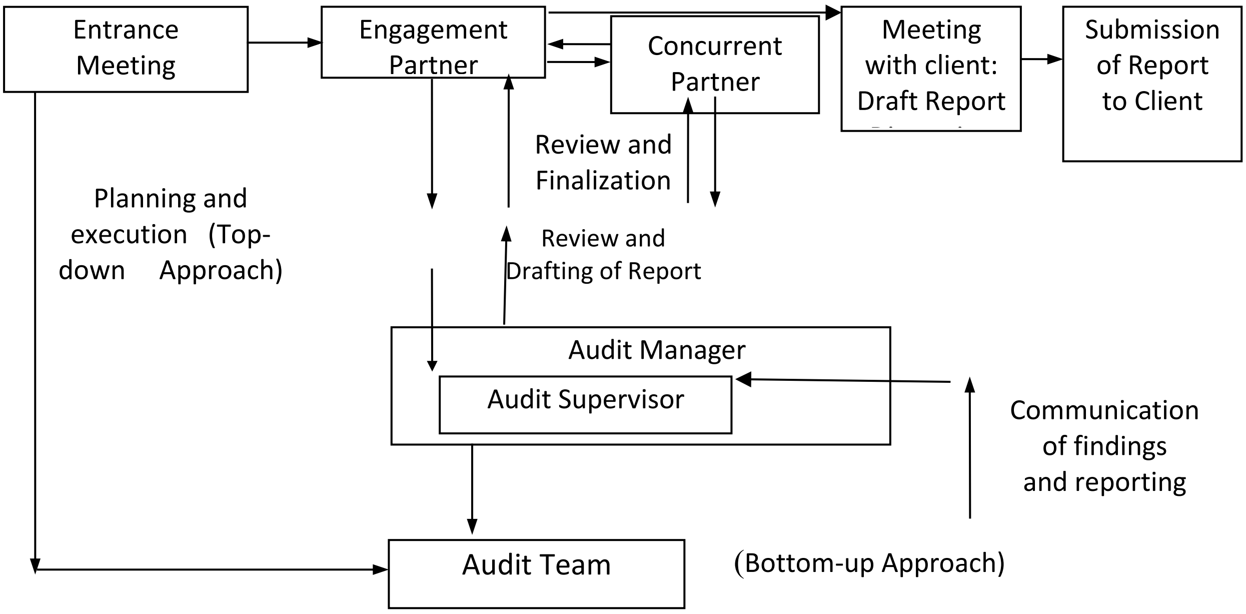
- **Uncertainty:** When the auditor cannot get enough information to make a proper judgment.
- **Disagreement:** When the auditor disagrees with how something is shown in the financial statements.

The forms of qualification which should be used in different circumstances are shown below: -

Circumstances	If material	If so material and fundamental
Uncertainty Disagreement	'Except for' opinion	Disclaimer of opinion / Adverse opinion

- **Disclaimer of Opinion:** Given when the auditor cannot form an opinion due to lack of information,
- **Adverse Opinion:** Given when the financial statements are seriously wrong or misleading.

Reporting flowchart for audit in Runner Automobiles Company Limited is presented as follows:



Chapter 04

Analysis

Howladar Yunus & Co., Chartered Accountants, was appointed to review financial statements of Runner Automobiles Company Limited the period between July 01, 2021, to June 30, 2022. The review was done by following the rules of International Standard on Review Engagements (ISRE) 2400 (Revised). The aim was to check if anything seems wrong or unusual in the financial statements and to see if they are prepared properly according to IFRS (International Financial Reporting Standards)

The review included methods to gather enough relevant evidence in a review and described those procedures as being primarily inquiry and analytical procedures.

4.1 Planning the Audit

The appropriate approach has been followed for planning Runner Automobiles Company Limited' s audit as described in section 3.8 in this report.

Understanding the company's environment

- A detailed review was done of the client's business, main strategies, past financial performance, and reporting requirements, including any changes since the last audit.
- The general level of competence of management also taken into consideration.

Comprehending accounting and internal control mechanism

Walk through test has been performed and client's policy and procedures have been studied by audit team and past audit reports or reports of review performed by any regulatory bodies have been gone through for any major discrepancies.

Risk and materiality

Planning materiality at the entire financial statement level has been worked out using the measures stated below.

i. 1/2 % to 1% of total assets
i. ½% to 1% of total revenue

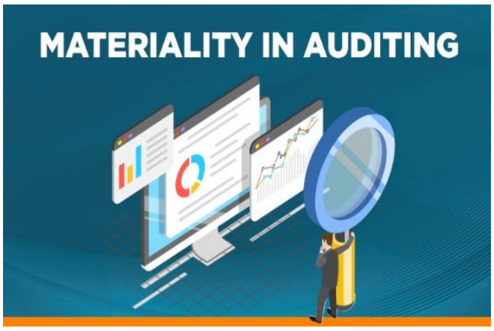
It is the firm's practice to use greater of (i) and (ii) for establishing the planning materiality at the whole financial statement range. The planning materiality is then assigned to separate account head.

Qualitative considerations of materiality have also been considered for the following cases.

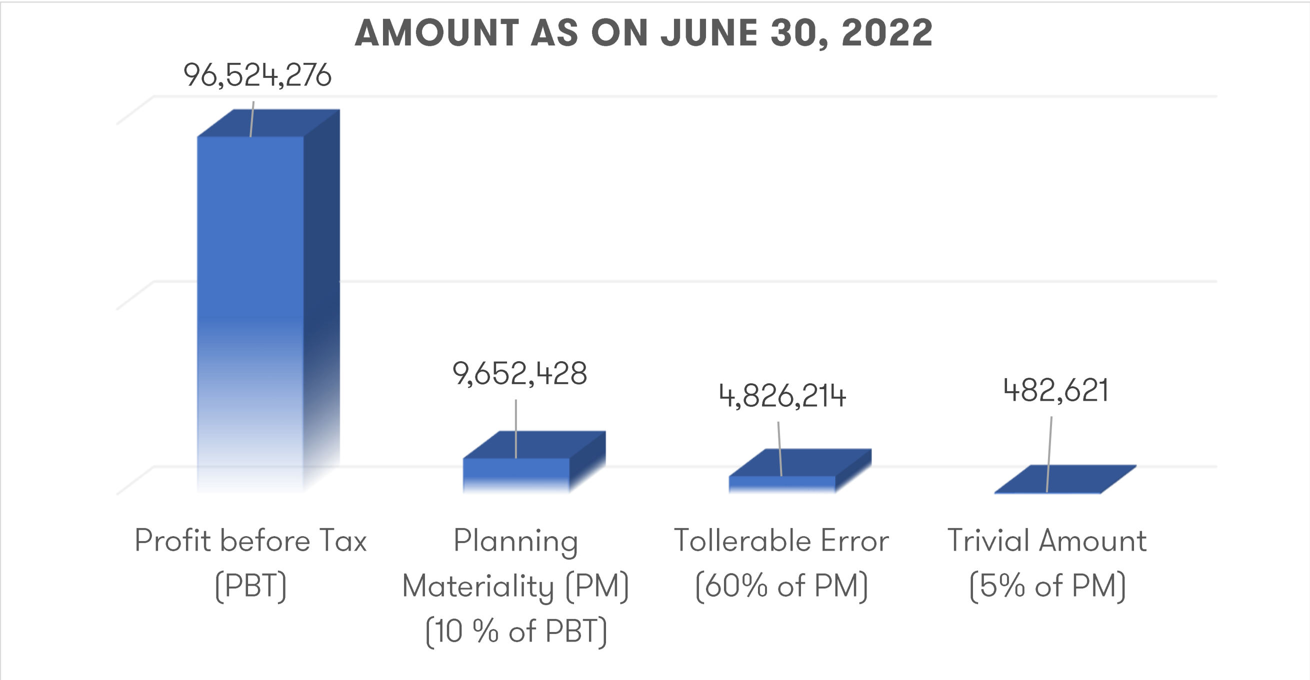
- Inquiry about any illegal payment of a relatively even a small amount. No such illegal payment has been observed in this audit.

- Inquiry about any misstatement of the financial statements that would affect Runner's conformity along with a contractual agreement. No such misstatement has been observed in this audit.

Audit Materiality



- Also considered quantitative and qualitative aspects for fixing materiality and in structuring audit technique.
- Set an audit materiality of BDT 0.96 Cr for planning purposes which is 10 % of Profit Before Tax (PBT) as on June 30th, 2022



In addition to the standard review procedures, Howladar Yunus & Co. placed special emphasis on the following areas to ensure the accuracy and reliability of the financial information:

- 100% Bank Reconciliation: We performed full reconciliation of all bank accounts, including deposit and loan accounts, to ensure completeness and accuracy of bank balances.
- 100% Inter-Company Reconciliation: All inter-company transactions and balances, including loan and current accounts, were reconciled in full to eliminate discrepancies and confirm inter-company agreements.
- 100% Voucher Checking: Every accounting voucher was reviewed to validate the authenticity and appropriateness of transactions recorded.
- Substantive Procedures on Key Financial Statement Areas:
- We ensured that financial assertions in accordance with BSA 500 (Audit Evidence) were properly supported for the following components:
  - Inventory
  - Trade Receivables
  - Employee and Supplier Advances
  - Property, Plant, and Equipment
- Compliance with Financial Reporting Framework: We verified that the financial statements include comprehensive disclosures in line with the requirements of International Financial Reporting Standards (IFRS), the Companies Act, and other relevant local laws and regulations.

Consequent nature, timing, and extent of procedures

Consequent to the identified areas of heightened audit risk and materiality considerations, Howladar Yunus & Co. adjusted the nature, timing, and extent of audit procedures accordingly. We intensified our substantive procedures by performing 100% testing in high-risk areas, including bank reconciliations, inter-company account balances, and voucher verification. The timing of our audit work was planned to provide adequate coverage of both interim and year-end financial activities. The extent of testing was expanded to ensure comprehensive assurance over the accuracy of reported balances and the completeness of financial disclosures.

Coordination, direction, supervision, and review

Throughout the engagement, HYC ensured effective coordination, direction, supervision, and review at all levels of the audit process. Senior team members provided ongoing guidance to the field team, key areas were reviewed in real time, and critical matters were escalated promptly to the engagement manager and partner for resolution. This structured approach ensured the quality and integrity of audit execution and compliance with applicable auditing standards.

Other matters:

- **Assessment of Going Concern:** Howladar Yunus & Co. evaluated the entity's ability to continue as a going concern. We performed relevant procedures to assess whether there were any material uncertainties that may cast significant doubt on the entity's ability to continue operating for the foreseeable future. Based on the information available and management representations, we considered the going concern assumption to be appropriate at the time of our review.
- **Engagement Terms:** The terms of the engagement were clearly defined, agreed upon with management, and formally documented in the engagement letter. This included the scope, objective, responsibilities of both parties, and the applicable financial reporting and auditing frameworks.
- **Statutory Responsibilities:** HYC fulfilled its statutory responsibilities in accordance with the Companies Act, International Standards on Auditing (ISAs), and other applicable regulations. Our procedures were designed to obtain sufficient appropriate audit evidence to form our professional opinion on the financial statements.
- **Communication and Reporting:** The nature and timing of communication with the entity were clearly established at the outset of the engagement. Regular updates were provided to management on key audit findings, and formal reports were issued in line.

4.2 Risk Assessment

Assessment of Risk Components at the Assertion Level performed by Howladar Yunus & Co.

As part of our audit procedures, we have assessed the following two key risk components at the assertion level for relevant account balances and classes of transactions:

Inherent Risk

For the assessment of inherent risk, Howladar Yunus & Co. has applied the following methodology:

- Account balances and classes of transactions were analyzed to determine whether they are individually material based on professional judgment and materiality thresholds established during audit planning.
- For balances or transactions deemed non-material individually, an assessment was made of the potential for aggregated misstatements across other balances and classes in the absence of related internal controls, thereby determining whether they may still present a significant risk.

Control Risk

The evaluation of control risk was conducted through a systematic approach to obtain an understanding of the internal control system and assess its effectiveness. The following methods were employed:

- **Update and Evaluate Auditor's Previous Experience with the Entity:** As this is the second year of our engagement with the client, audit documentation and system records from the prior year were reviewed to identify any changes in controls, consistency in application, and implications on current-year risk assessments.
- **Inquiries of Client Personnel:** Structured inquiries were made with client personnel at various organizational levels—management, supervisory, and operational staff—to gain insight into the design, implementation, and operational effectiveness of internal controls relevant to financial reporting.
- **Review of Client's Policies and Systems Manuals:** The audit team has thoroughly read the client's accounting manuals and related policy documents. Further discussions were held with designated personnel to ensure accurate interpretation and understanding of the control environment and system procedures.
- **Examination of Client Documents and Records:** Key financial documents such as vouchers, purchase requisitions, supplier invoices, and accounting ledgers were examined. These reviews focused on how transactions are recorded, authorized, and classified, contributing to the assessment of both the design and implementation of internal controls.
- **Observation of Client Activities and Operations:** In addition to examining supporting documentation, our audit team has observed client personnel performing regular accounting and control-related activities. This included observing how transactions are initiated, processed, reviewed, and finalized within the control framework.

Conclusion on Internal Controls

Based on the procedures performed and evidence obtained during our review of the internal control system of **Runner Automobiles Company Limited, Howladar Yunus & Co.** has concluded that the internal control system **requires improvement** in the areas assessed during the review period. While certain internal controls were found to be documented and operational, weaknesses were noted in both design and implementation across specific processes, indicating a moderate level of control risk. Our conclusion has been drawn using the following classification framework, applied consistently with firm methodology:

1. **Effective:** Internal controls are adequately designed and effectively implemented. The controls are operating consistently to prevent or detect material misstatements in a timely manner. No significant deficiencies were observed.

2. **Requires Improvement:** Internal controls exist but show weaknesses in either design or operational effectiveness. There is a moderate risk that misstatements may not be prevented or detected timely. Strengthening of control processes is recommended.

3. **Ineffective:** Controls are either absent or poorly designed/implemented. There is a high risk of material misstatement due to significant control deficiencies. Immediate remediation is required.

This conclusion reflects HYC's professional judgment, based on audit evidence obtained through inquiries, document examination, observation of operations, and walkthroughs of key processes. Specific control deficiencies identified during our review, along with related recommendations for improvement, have been communicated to management for appropriate corrective action.

Recording System

These are done through narrative notes, flowcharts, Internal control questionnaires (ICQs).

4.3 Audit Evidence and General Audit Procedure

As part of the audit engagement, **Howladar Yunus & Co.** has carried out audit procedures designed to obtain sufficient and appropriate audit evidence in support of our audit opinion. The audit procedures followed were in accordance with applicable auditing standards and involved the following steps:

i. Obtaining evidential matter through performance of audit tests;
ii. Evaluating the sufficiency and appropriateness of the evidence obtained; and
iii. Documenting all audit evidence and procedures performed in the audit working papers for reference and review.

4.3.1 Obtain evidential matter through audit tests:

To gather the necessary audit evidence, the following categories of audit tests were performed:

i. **Tests of Control:** Tests of controls were conducted to assess the design, implementation, and operating effectiveness of internal controls relevant to the audit. These were carried out through:

- **Inspection of Documents:** Examination of source documents such as vouchers, invoices, requisitions, and approvals to verify proper authorization and accuracy.
- **Inquiries and Observations:** Inquiries with client personnel and direct observation of control activities to understand control processes and verify whether controls were functioning as intended.
- **Re-performance of Controls:** Selected controls were independently re-performed by the audit team to validate their operational effectiveness.

ii. **Substantive tests:** Substantive procedures were carried out to detect material misstatements at the assertion level and included:

a. **Analytical procedures:** The audit team applied analytical procedures involving comparisons and evaluation of relationships to assess the reasonableness of account balances and other financial data. This included:

- Calculation and analysis of financial ratios;
- Year-on-year comparison of key financial metrics; and
- Identification of unusual variances and focus points requiring further investigation.

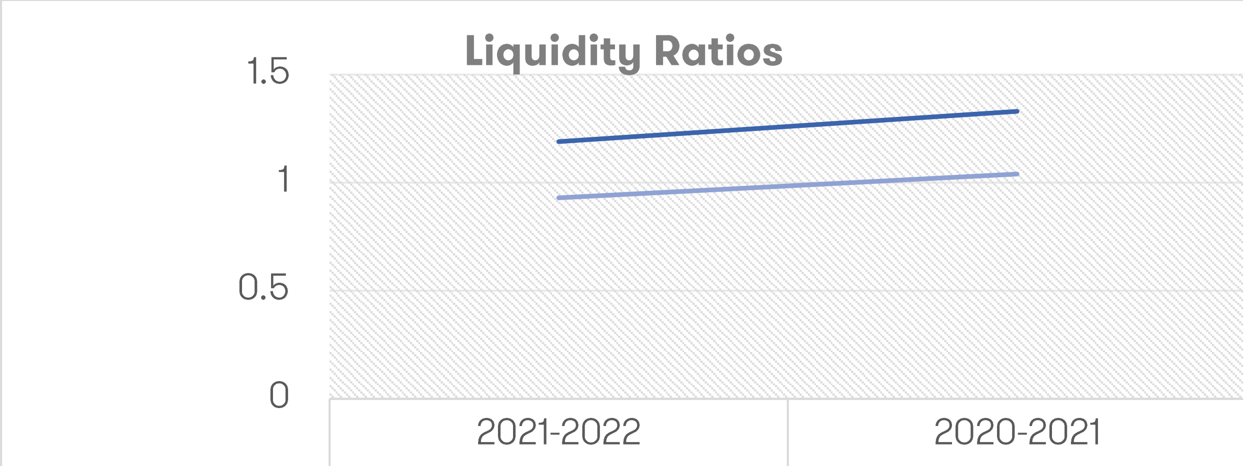
Financial and ratio analyses were utilized to highlight trends, anomalies, and significant movements in the financial statements, which assisted in planning and determining areas requiring greater audit attention.

All audit evidence collected through these procedures has been documented systematically in the working papers, supporting our audit conclusions and overall risk assessment.

Some financial analysis as well as ratio analysis has been made to find out focus points and changes.

Analysis Ratios of Runner Automobiles Company Limited

Financial Performance-FY 2021-2022: Liquidity Ratios



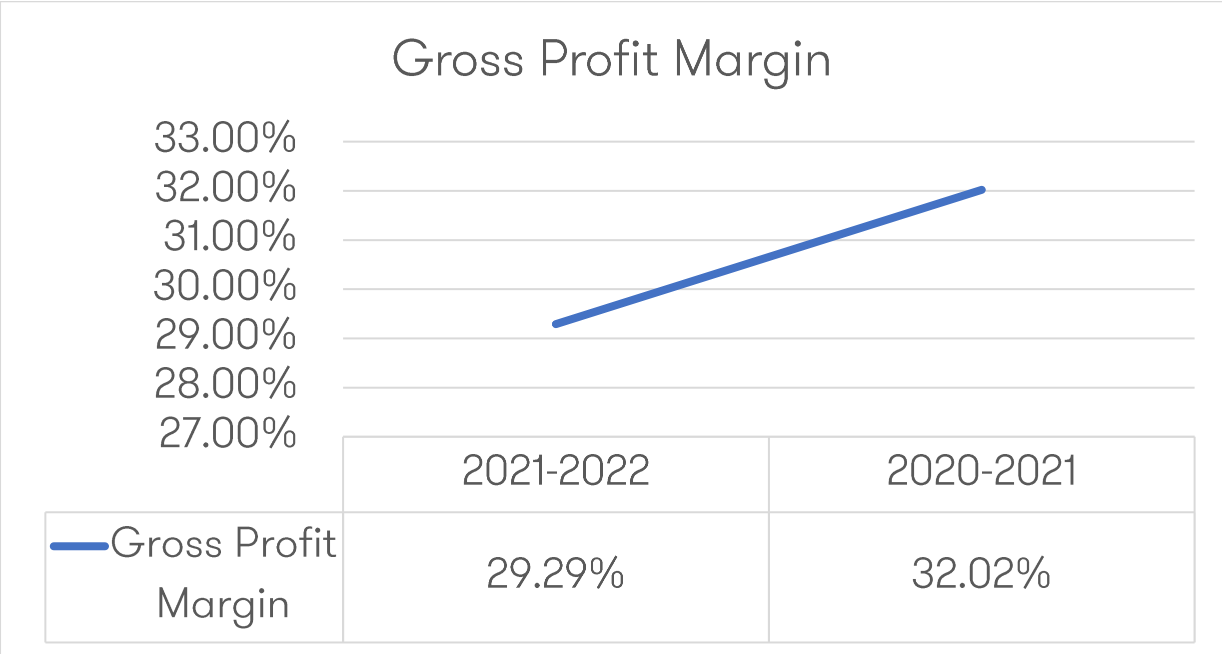
	2021-2022	2020-2021
Current Ratio	1.19	1.33
Quick Ratio	0.93	1.04

Remarks:

As part of our audit procedures, Howladar Yunus & Co. has analyzed the liquidity position of Runner Automobiles Company Limited by evaluating the Current Ratio and Quick Ratio for the financial years 2020–2021 and 2021–2022. The current ratio declined from 1.33 in 2020–2021 to 1.19 in 2021–2022, indicating a marginal reduction in the company's ability to meet its short-term obligations through current assets. Although the ratio remains above 1.0, implying that current assets still exceed current liabilities, the downward trend reflects emerging pressure on working capital or an increase in short-term liabilities. Similarly, the quick ratio, which excludes inventory and other less liquid current assets, decreased from 1.04 to 0.93, falling below the critical threshold of 1.0. This indicates that the company does not possess sufficient liquid assets to cover its immediate obligations without relying on the sale of inventory, which raises potential liquidity concerns. The overall decline in both ratios suggests a weakening of the company's short-term liquidity position in 2021–2022. Accordingly,

Recommendation: Howladar Yunus & Co. recommends that management conduct a detailed review of the factors contributing to the reduced liquidity and implement measures to improve working capital efficiency and enhance cash flow management.

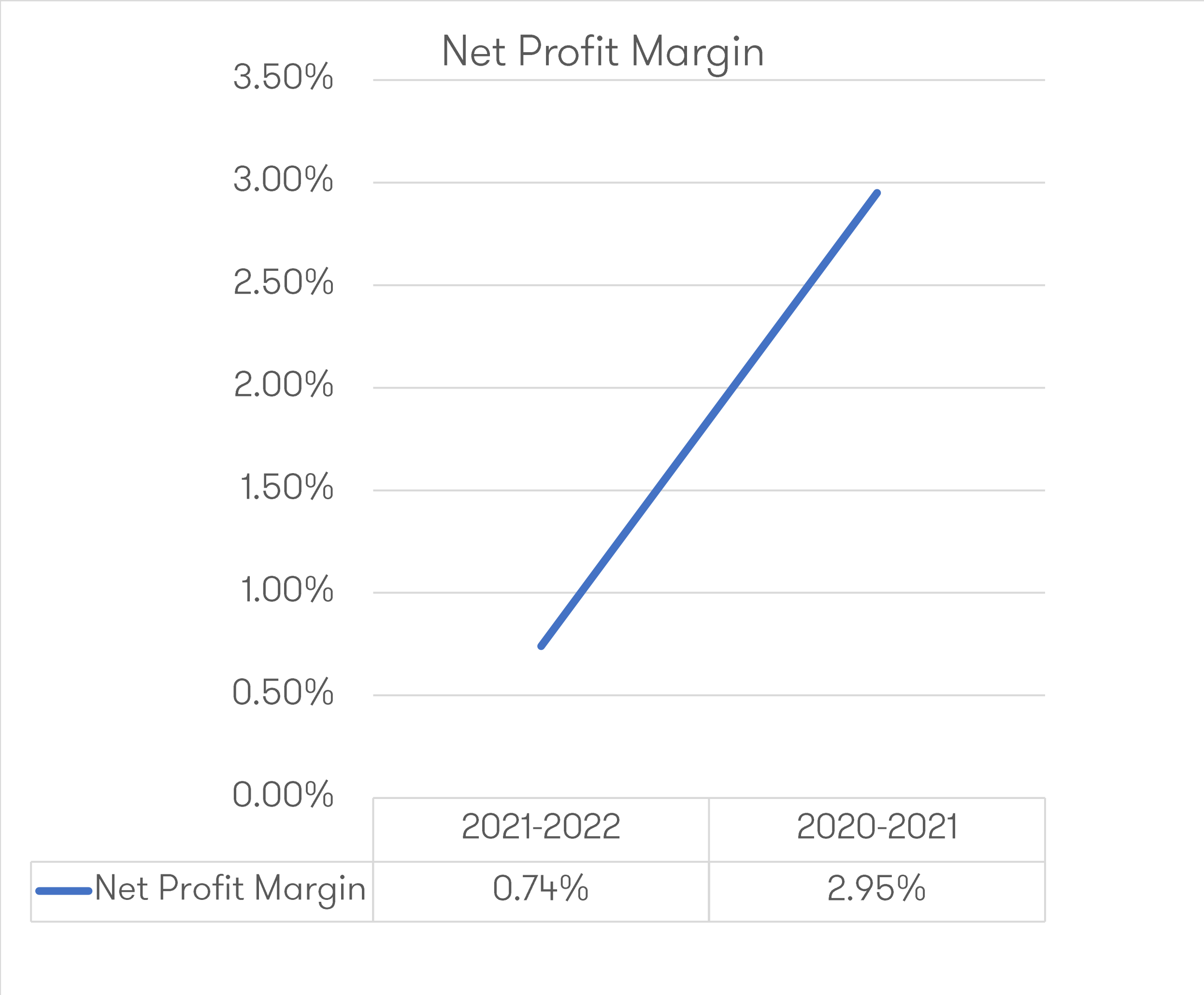
Financial Performance-FY 2021-2022: Performance Ratios



Remarks:

As part of our audit analysis, Howladar Yunus & Co. has definitively assessed the gross profit margin of Runner Automobiles Company Limited for the financial years 2020–2021 and 2021–2022. The gross profit margin has declined from 32.02% in 2020–2021 to 29.29% in 2021–2022, representing a clear reduction of 2.73 percentage points. This decline is a direct indication of the increased cost of goods sold and/or reduced selling prices, leading to diminished profitability from the company's core operations. The downward trend in gross margin points to pressures on production efficiency or pricing strategy and may also reflect rising raw material or input costs. Howladar Yunus & Co. concludes that this deterioration in gross profitability is a matter of concern.

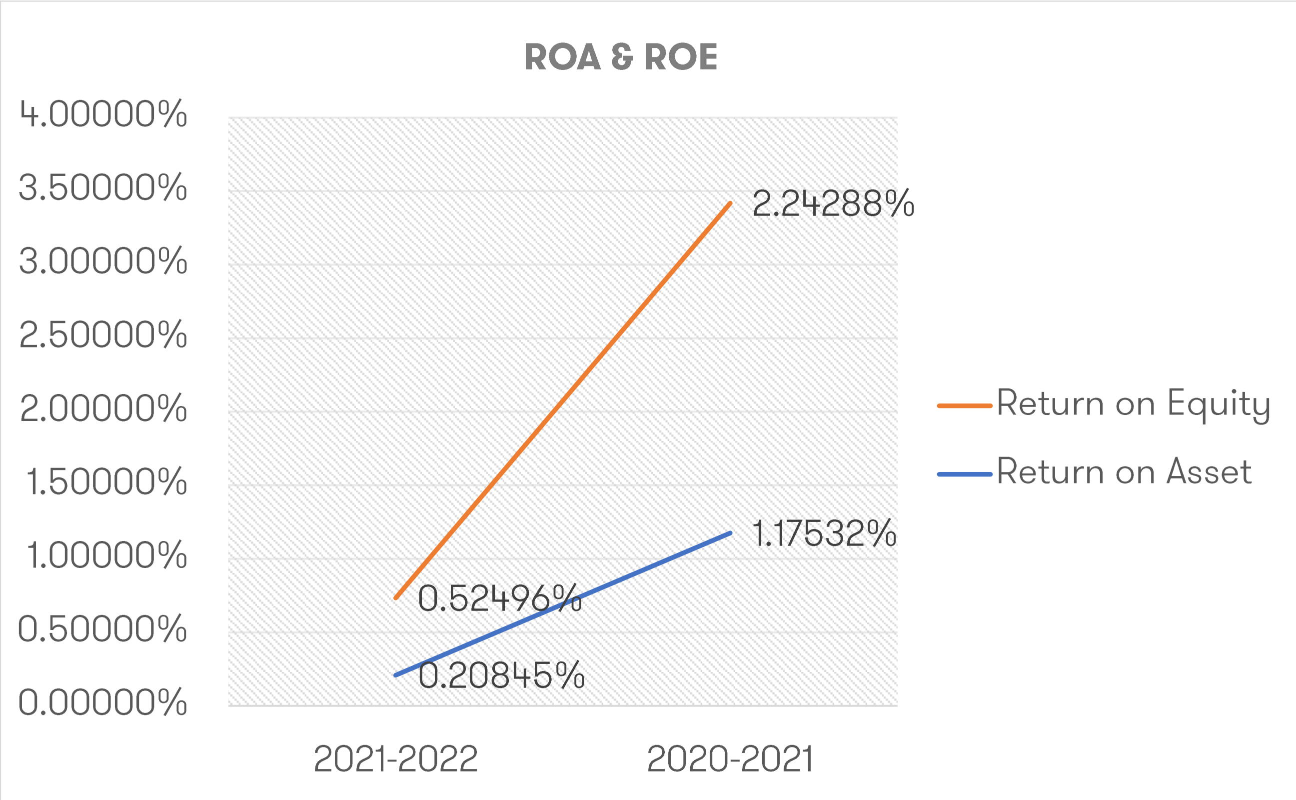
Recommendation: that management urgently investigate the root causes and implement corrective actions to improve cost control and enhance operational efficiency..



Remarks:

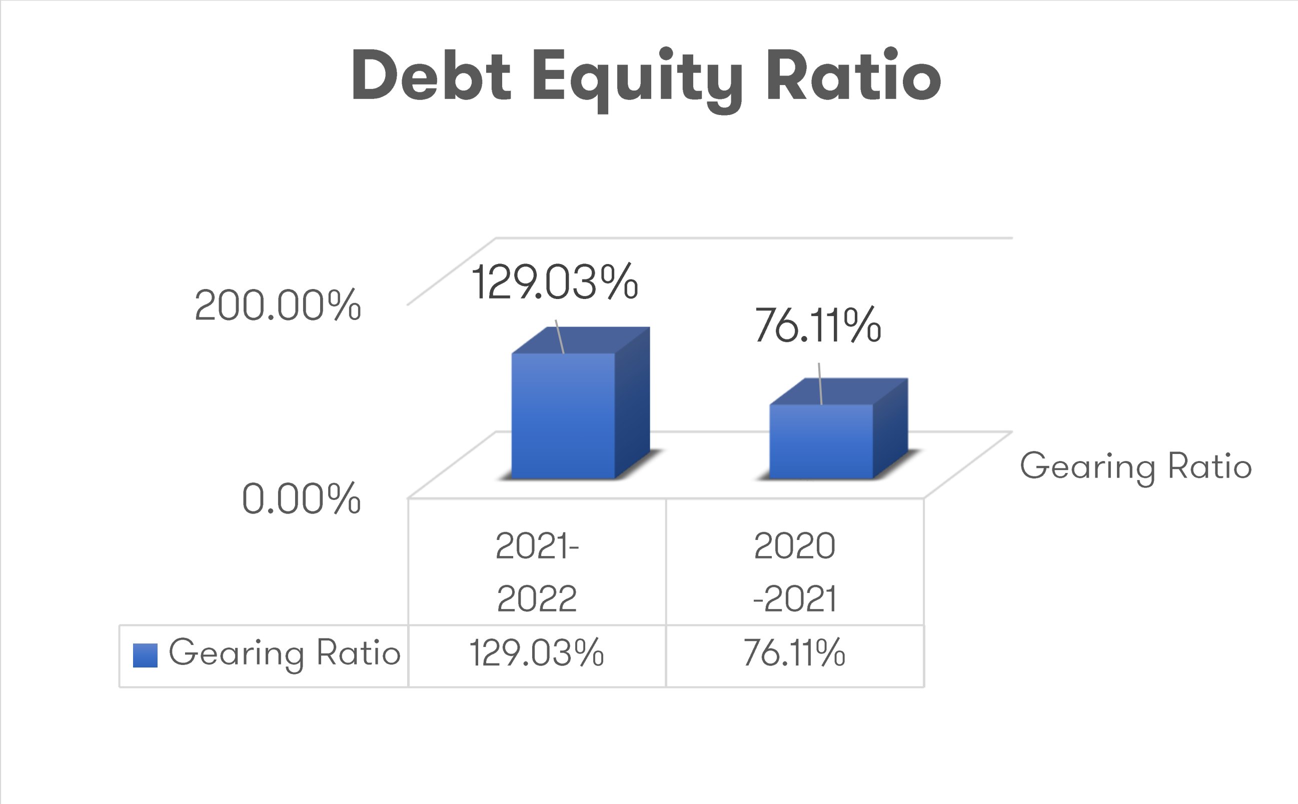
As part of our audit procedures, Howladar Yunus & Co. has evaluated the net profit margin of Runner Automobiles Company Limited for the financial years 2020–2021 and 2021–2022. The net profit margin has declined, falling sharply from 2.95% in 2020–2021 to 0.74% in 2021–2022. This deterioration of 2.21 percentage points confirms a significant weakening in the company's overall profitability. Such a drop clearly indicates that the company is now retaining a substantially smaller portion of its revenue as net income. This adverse movement is the result of increased operating costs, higher finance expenses, or inefficiencies in cost management, despite continued revenue generation.

Howladar Yunus & Co. definitively concludes that the company's profitability position has deteriorated and recommends immediate management attention to reverse this trend through stronger cost control, improved margin strategies, and better financial discipline.



Remarks:

Return on Equity (ROE) and Return on Assets (ROA) of Runner Automobiles Company Limited significantly declined in FY 2021–2022, with ROE falling to 0.53% from 2.24% in the previous year, and ROA decreasing to 0.21% from 1.18%. This downward trend is primarily due to a sharp decline in net profit during the reporting period. Although the company maintained a relatively stable asset and equity base, its profitability was negatively impacted by increased input costs, subdued sales growth, and overall market volatility driven by post-pandemic recovery challenges and rising inflation. The weakened bottom line reduced the company's ability to generate sufficient returns from both its asset base and shareholders' equity, thereby reflecting lower operational efficiency and value creation in comparison to FY 2020–2021.



Remarks:

The debt-to-equity (gearing) ratio of Runner Automobiles Company Limited increased substantially to 129.03% in FY 2021–2022, from 76.11% in FY 2020–2021. This indicates a significant rise in the company's financial leverage during the year under review. The increase in gearing is primarily attributable to higher borrowings, which were likely undertaken to support working capital requirements and operational continuity amid declining profitability. While total equity remained relatively stable, the elevated debt level suggests a growing dependence on external financing, thereby increasing the company's financial risk profile.

From an audit perspective, this shift warrants close monitoring, as higher gearing reduces financial flexibility and may impact the company's ability to withstand economic or market fluctuations.

b. **Tests of details of transactions:** As part of our substantive procedures, the audit team of Howladar Yunus & Co. (HYC) conducted a detailed examination of the evidential support underlying individual debits and credits recorded in the books of accounts. This was carried out through vouching source documents such as invoices, payment vouchers, receipts, and journal entries to verify the authenticity and occurrence of transactions. Additionally, tracing was performed to ensure that recorded transactions were properly supported and appropriately classified, thereby addressing the assertions of occurrence, completeness, accuracy, and classification.

c. **Test of details of balances:** To validate the balances of assets and liabilities as of the reporting date, the audit team performed verification procedures focusing on the assertions of existence, completeness, rights and obligations, and valuation. This involved direct confirmation where applicable, physical inspection, and reconciliation with supporting documentation. The team adopted a selective testing approach, utilizing audit sampling techniques to obtain sufficient and appropriate audit evidence. This methodology ensured efficient coverage of material items while maintaining a high level of audit assurance on the reported balances.

4.3.2 Evaluate the evidence obtained for sufficiency and appropriateness:

Throughout the audit of Runner Automobiles Company Limited, the audit team of Howladar Yunus & Co. (HYC) continuously evaluated the audit evidence obtained to ensure it met the required standards of sufficiency and appropriateness. The assessment focused on the quantity of evidence gathered to support audit conclusions (sufficiency), as well as the relevance and reliability of that evidence (appropriateness). This evaluation was integral to forming audit opinions, especially in high-risk and material areas, and was guided by professional judgment and the application of ISA-compliant audit procedures.

4.3.3 Document the audit evidence in working paper:

All audit evidence collected during the course of the engagement was systematically recorded and maintained in detailed audit working papers, in accordance with professional standards and HYC's internal documentation policies. These working papers clearly demonstrate the nature, timing, and extent of audit procedures performed, the results obtained, and the audit team's conclusions. Proper indexing and cross-referencing were maintained to ensure traceability, accountability, and to support the audit opinion issued on the financial statements of Runner Automobiles Company Limited.

4.4 Methods of Obtaining Audit Evidence used

In conducting the audit of Runner Automobiles Company Limited, Howladar Yunus & Co. (HYC) employed a combination of audit procedures in accordance with International Standards on Auditing (ISAs) to obtain sufficient and appropriate audit evidence. The following methods were applied:

Inspection: Examination of source documents, records, contracts, and physical assets was conducted to verify the existence, accuracy, and authorization of transactions and balances. This included inspection of invoices, payment vouchers, fixed asset registers, and legal documents.

Observation: The audit team directly observed procedures and controls performed by client personnel, such as inventory counting, to assess the effectiveness of internal control and ensure compliance with established processes.

Inquiry: Formal and informal inquiries were made with management and relevant staff to understand the business processes, assess internal controls, and clarify discrepancies or unusual transactions noted during the audit.

Confirmation: External confirmations were obtained for selected balances, including trade receivables, bank balances, and loan accounts, to validate their existence, accuracy, and rights and obligations.

Recalculation: The audit team independently recalculated key financial figures, such as depreciation, interest expense, and provisions, to ensure mathematical accuracy and adherence to applicable accounting policies.

Re-performance: Certain control procedures were re-performed by the auditors to evaluate their effectiveness and ensure consistency in the application of the entity's control activities.

Analytical Procedures: Trend analysis, ratio analysis, and variance analysis were conducted to identify unusual fluctuations, assess reasonableness of figures, and support the overall audit opinion.

4.5 Substantive Procedure performed

For the audit of Runner Automobiles Company Limited, the engagement team of Howladar Yunus & Co. (HYC) followed the firm's standard audit program specifically designed for manufacturing company audits. This structured audit program served as a foundational tool to ensure consistency, quality, and compliance with auditing standards throughout the engagement.

The program effectively:

- Provided a basis for allocation of work and staff, ensuring that tasks were appropriately distributed based on complexity and experience level.
- Pinpointed audit responsibility by clearly assigning specific audit areas to individual team members, thereby enhancing accountability and traceability.
- Ensured continuity among staff, particularly useful in cases of staff rotation or replacement, by maintaining a consistent approach and documentation trail.
- Facilitated audit review by the engagement manager and partner, allowing them to systematically assess the progress, quality, and completeness of the audit work performed.
- The use of this standardized program contributed significantly to the efficiency, effectiveness, and reliability of the audit process and supported the formation of an objective audit opinion.

Non-current assets

Tangible Non-Current Assets – Substantive Audit Procedures Performed by HYC

HYC has assessed the risk of material misstatement in the tangible non-current asset balances by addressing key audit assertions, including rights and obligations, existence, completeness, valuation, and presentation. The following audit procedures were carried out:

- Verified ownership through review of title deeds, registration documents, and lease agreements to confirm rights and obligations.
- Conducted physical inspection of selected assets to confirm existence.
- Reconciled the non-current asset register with the general ledger to ensure completeness.
- Reviewed purchase and sales invoices to validate acquisition and disposal of assets during the year.
- Assessed valuation through verification of cost, depreciation calculations, and revaluation records, including third-party or internal valuation reports.
- Examined depreciation schedules and ensured appropriate accounting policies were consistently applied.
- Evaluated the presentation and disclosure of non-current assets in the financial statements for compliance with applicable financial reporting frameworks.

These procedures were designed to obtain sufficient appropriate audit evidence to support the accuracy and completeness of the tangible non-current assets reported.

Intangible Non-Current Assets – Substantive Audit Procedures Performed by HYC

HYC evaluated the risk of material misstatement in intangible non-current asset balances by addressing assertions related to existence and valuation.

The following audit procedures were performed:

- Reviewed supporting documentation, such as purchase invoices and agreements, to confirm the existence and proper recognition of intangible assets.
- Assessed whether any expenditure was inappropriately capitalized, ensuring compliance with relevant accounting standards.
- Evaluated client-prepared amortization schedules and calculations for accuracy and consistency with applicable accounting policies.
- Reviewed any specialist valuation reports and assessed the reasonableness of assumptions used.
- Considered indicators of impairment based on auditor's understanding of the business environment and operations.
- Ensured proper classification and disclosure of intangible assets in accordance with financial reporting standards.

These procedures provided assurance that intangible assets were accurately recognized, valued, and appropriately disclosed in the financial statements.

Inventory – Audit Procedures Performed by HYC

HYC assessed the risk of material misstatement in inventory balances by addressing key assertions, including existence, completeness, valuation, rights and obligations, and cut-off. The following audit procedures were carried out:

- Evaluated the company's inventory count procedures and attended the year-end physical inventory count to observe and perform test counts.
- Verified inventory ownership through review of third-party confirmations for inventory held externally.
- Examined purchase invoices and work-in-progress records to confirm completeness and accuracy of recorded inventory.
- Reviewed post year-end sales invoices and price lists to assess valuation and determine if inventory was recorded at the lower of cost and net realizable value.
- Ensured proper cut-off by testing transactions around the year-end date.
- Considered whether any obsolete or damaged items were appropriately identified and written down.

These procedures provided reasonable assurance over the existence, valuation, and proper presentation of inventory in the financial statements.

Inventory Count – Audit Procedures Performed by HYC

To verify the existence of inventory, HYC conducted physical observation of the inventory count carried out by the client from 2 July 2022 to 3 July 2022. Audit procedures included attendance at the count, performance of sample test counts, and evaluation of the client's counting procedures to ensure reliability and accuracy of the inventory records.

Remarks: Inventory counting has been made at cut-off date and found satisfactory.

Receivables – Audit Procedures Performed by HYC

Product Name	Coverage % in the counting (item wise)	Quantity
Raw Materials / CKD	5%	304,442
Painting Shop	100%	399
Press Shop	100%	10,967
Finished Goods (Two-Wheeler)	100%	1,500
Finished Goods (Two-Wheeler)	100%	866
Welding Store	100%	

HYC assessed the accuracy and recoverability of receivables by performing the following procedures:

- Reviewed the receivables ledger to verify outstanding balances and reconcile with the general ledger.
- Obtained and evaluated direct confirmations from selected customers to validate the existence and accuracy of receivables.
- Examined post year-end cash receipts to assess the recoverability of outstanding balances and identify potential doubtful debts.

These procedures ensured that receivables were fairly stated and appropriately disclosed in the financial statements.

Cash and Bank Balances – Audit Procedures Performed by HYC

HYC evaluated the risk of misstatement in cash and bank balances by addressing assertions of existence, rights and obligations, valuation, and completeness. The following audit procedures were performed:

- Reviewed the cash book and traced balances to the general ledger.
- Obtained direct bank confirmations to verify existence and ownership of bank accounts.
- Examined bank statements and reconciled them with client-prepared bank reconciliations to identify and assess any discrepancies.
- Reviewed the existence and accuracy of any material cash floats to ensure proper disclosure.

These procedures provided assurance over the accuracy, completeness, and proper reporting of cash and bank balances in the financial statements.

Payables – Audit Procedures Performed by HYC

HYC assessed the risk of misstatement in payables by addressing assertions related to completeness, cut-off, existence, and rights and obligations. The following procedures were performed:

- Reviewed payables ledger records and reconciled them with the general ledger to ensure completeness of recorded liabilities.
- Obtained direct confirmations from selected suppliers to verify the existence and accuracy of outstanding balances.
- Performed cut-off testing around the year-end by reviewing goods received notes and supplier invoices to ensure liabilities were recorded in the correct period.

These procedures ensured that payables were accurately recorded, complete, and appropriately disclosed in the financial statements.

Long-Term Liabilities – Audit Procedures Performed by HYC

HYC assessed the risk of misstatement in long-term liabilities by addressing assertions of completeness, accuracy, cut-off, and proper disclosure. The following audit procedures were performed:

- Reviewed the schedule of loans and prior year audit file to identify all existing long-term liabilities.
- Examined statutory records, including the register of debentures and articles of association, for completeness and compliance.
- Inspected loan agreements and obtained direct confirmations from banks and other lenders to verify terms, balances, and interest rates.
- Reviewed the cash book and board minutes for evidence of loan transactions and approvals.
- Verified interest calculations and assessed whether they were recorded in the correct accounting period.

- Evaluated disclosures in the financial statements for compliance with applicable accounting standards and consistency with loan terms and accounting policies.

These procedures ensured the long-term liabilities were accurately recorded, complete, and properly disclosed.

Income Statement Items – Audit Procedures Performed by HYC

Revenue

HYC performed analytical procedures to assess the reasonableness of revenue figures, considering their relationship with receivables. In addition, revenue transactions were tested on a sample basis through vouching to supporting documentation.

Purchases

Control testing was conducted over the purchases process, supplemented by substantive procedures including vouching of selected purchase transactions to verify accuracy and occurrence.

Payroll Costs

Analytical procedures were applied to evaluate payroll costs in relation to staff numbers, pay rates, and tax implications. Tests of detail included verifying time records (e.g., clock cards), employee existence (personnel files), pay rates (employment contracts), and recalculation of payroll. Payments to employees and tax authorities were verified against bank statements, and payroll postings to the nominal ledger were reviewed for accuracy.

Interest Paid/Received

Interest payments and receipts were verified by inspecting bank statements and, where applicable, through direct confirmations from lenders.

Other Expenses

Other expenses were tested using analytical procedures and by vouching selected transactions to supporting purchase invoices.

These procedures ensured income statement items were materially accurate, complete, and properly recorded.

Revenue System – Audit Procedures Performed by HYC

HYC conducted substantive audit procedures over key revenue processes including ordering, dispatch and invoicing, recording, and cash collection.

Ordering:

- Verified that references were obtained for all new customers.
- Confirmed that all new accounts added to the receivables ledger were authorized by senior management.
- Ensured orders were accepted only from customers within approved credit terms and limits.
- Checked that customer orders were properly matched with corresponding production orders and dispatch notes.

These controls and procedures were tested to confirm the accuracy and validity of revenue recognition and related processes.

Dispatch and Invoicing – Audit Procedures Performed by HYC

HYC performed the following tests to evaluate controls over dispatch and invoicing:

- Verified that details on trade sales and goods dispatch notes correspond with sales invoices.
- Cross-checked trade sales details against inventory records for consistency.
- Reviewed non-routine sales transactions for appropriateness.
- Examined credit notes for validity and proper authorization.
- Tested the numerical sequence of dispatch notes, invoices, credit notes, and order forms, investigating any missing or cancelled documents.
- Confirmed that goods dispatched free of charge or on special terms were duly authorized by management.

These procedures ensured the completeness, accuracy, and proper authorization of dispatch and invoicing activities.

Recording – Audit Procedures Performed by HYC

HYC performed the following tests of control over the recording of sales and receivables:

Sales Daybook:

- Verified entries against corresponding invoices and credit notes.
- Checked accuracy of additions and cross totals.
- Confirmed postings to the receivable's ledger control account.
- Verified postings to individual receivables ledger accounts.

Receivables Ledger:

- Tested sample entries by tracing them back to the sales daybook.
- Reviewed accuracy of additions and balances carried forward.

- Investigated and enquired into any contra entries.
- Ensured regular reconciliation of control accounts to the total receivables ledger balance.
- Examined accounts for compliance with established credit limits.
- Verified that trade receivables statements were prepared and sent to customers regularly.
- Checked follow-up procedures on overdue accounts.
- Confirmed management authorization for all bad debts written off.

These controls testing procedures supported the accuracy and completeness of revenue recording and receivables management.

Cash Collection – Audit Procedures Performed by HYC

HYC performed the following procedures to assess cash collection controls:

- Verified the recording of receipts received by post, including observation of post-opening procedures to ensure compliance.
- Tested cash sales and collections by tracing transactions to paying-in slips stamped and initialed by the bank.
- Reviewed safeguarding measures over cash and bank accounts by examining entries in rough cash books, branch returns, and other relevant records.
- Scrutinized the cash book to identify and investigate any unusual or special transactions.

These procedures ensured proper recording, safeguarding, and accountability of cash collections.

Purchase System – Audit Procedures Performed by HYC

Ordering:

- Reviewed the supplier list and sampled purchase orders.
- Verified the sequence and completeness of pre-numbered order forms.
- Ensured all orders were supported by appropriate purchase requisitions.
- Assessed security controls over blank purchase orders to prevent unauthorized use.

Goods Inward and Recording of Invoices:

- Verified invoices against goods received documentation.
- Checked invoice calculations, entries, and postings to the payables ledger for accuracy.
- Reviewed credit notes for validity and ensured appropriate adjustments in inventory records.
- Confirmed that credit notes were received for returned goods.

- Tested numerical sequencing of invoices and credit notes, investigating any missing numbers.
- Followed up on long outstanding items for explanations.
- Verified draft invoices and credit notes recorded in the purchase daybook, including additions and ledger postings to nominal and control accounts.

Payments:
- Reviewed authorization controls over payments recorded in the cash book.
- Checked accuracy of payment recordings.
- Evaluated security measures over bank cheques.
- Tested bank reconciliations and petty cash payments to ensure proper controls and accuracy.

These procedures provided assurance over the completeness, accuracy, and authorization of purchase transactions and related payments.

Verification of Documents & Records:

Our examination in connection to review procedures including the verification, inquiry, observation, analytical procedures, analysis & review of the following documents, records, papers, information, registers, ledgers etc.

- Accounts preparation procedures,
- Financial reporting system,
- Documentation & recording to accounting records, ledgers, subsidiaries & registers,
- Liquid cash handling system,
- Financial authority system,
- Signing system of financial & accounting ledger & registers,
- Salary payment procedures & their recording,
- Recording procedures of Fixed Assets,
- Intercompany Loan
- Advances to suppliers and employees.
- Bank Reconciliation,
- Accounts Receivable
- Fund management system,
- Vouching of receipts and payments & their recording, documentation & filing,
- Journal vouchers for adjustments & rectification and their recording & filing,
- All relevant deeds, agreements and contracts.

Chapter 05

Findings, Recommendations & Conclusion

5.1 Findings:

Observations on Audit Process Deficiencies

During the audit engagement, the following gaps or areas for improvement were noted in the audit process performed by Howladar Yunus & Co. (HYC):

1) Inadequate Documentation of Judgment-Based Areas:

In certain high-risk or judgment-dependent areas—such as provision for doubtful debts or valuation of slow-moving inventory, the documentation supporting professional judgment was either minimal or lacked sufficient rationale, which could impair the review process by senior personnel or external reviewers.

2) Limited Cross-Referencing in Working Papers:

While most audit procedures were documented, some working papers lacked proper cross-referencing between source documents, lead schedules, and test results, making it challenging to trace findings and conclusions efficiently.

3) Insufficient Review Notes or Follow-Up Tracking:

Although reviews were carried out by seniors, there were instances where review notes were not clearly documented or properly addressed in a timely manner, potentially leading to unresolved audit issues.

4) Sample Selection Not Always Risk-Based:

The audit sampling applied in certain areas (e.g., expense testing, inventory valuation) appeared to follow uniform sampling rather than being tailored based on risk assessment or materiality. This could reduce the effectiveness of audit evidence in high-risk accounts.

5) Limited Use of Analytical Procedures in Planning Phase:

Although analytical procedures were applied at the substantive stage, there was limited application during the planning phase, where preliminary ratios or trend analyses could have helped in identifying significant risk areas more **proactively.**

6) Inconsistent Inquiry Documentation:

Verbal inquiries made to management and staff were sometimes not adequately documented, which could weaken the audit trail and fail to meet ISA requirements for obtaining and retaining audit evidence.

7) Physical Verification Observations Not Always Detailed:

During inventory count observation, some audit notes lacked detail regarding count procedures, exceptions noted, or reconciliation with the inventory ledger, which is essential for assessing existence and accuracy.

8) Over-Reliance on Client-Provided Schedules:
In several cases, the audit team relied heavily on client-prepared schedules without sufficient corroborative evidence (e.g., bank reconciliations, ageing schedules), potentially affecting the reliability of the audit evidence obtained.

These observations are intended to support continuous improvement in audit quality, staff training, and compliance with international auditing standards. Proper mentoring and structured review mechanisms can help address these gaps in future audits.

5.2 Recommendations for Improvement in Audit Process:

To enhance the overall quality, efficiency, and compliance of the audit process, the following recommendations are proposed based on observations made during the audit of Runner Automobiles Company Limited:

1) Strengthen Documentation in Judgment-Based Areas:
Ensure that all audit procedures involving significant estimates or judgments (e.g., provisions, impairment, inventory valuation) are supported with well-documented reasoning, referencing applicable accounting standards, and management inputs.

2) Improve Cross-Referencing Practices:
Adopt a consistent cross-referencing system within audit working papers to enhance traceability and facilitate easier review by seniors and partners. This should include links between lead schedules, test results, and source documentation.

3) Formalize Review Notes and Follow-Up Mechanism:
Encourage senior auditors and managers to document review comments in a structured format and track their timely resolution through a checklist or issue-tracking tool within the working papers.

4) Apply Risk-Based Sampling Approaches:
Integrate more risk-focused sampling techniques by prioritizing transactions based on materiality, complexity, and prior-year findings. Provide training to audit staff on audit sampling methodology under ISA 530.

5) Enhance Use of Analytical Procedures During Planning:
Incorporate ratio analysis, trend reviews, and budget comparisons at the planning stage to better identify potential risk areas and tailor audit procedures accordingly. This should be documented as part of the audit planning memo.

6) Ensure Proper Documentation of Inquiries:
All verbal or written inquiries with client personnel should be formally documented, including the person contacted, their designation, the inquiry made, and their response. This strengthens the audit trail and evidence base.

7) Detailed Recording of Physical Verification Procedures:
During inventory counts and other physical verifications, ensure that observations, exceptions, and reconciliation results are thoroughly documented, including location, methodology, and count sheet references.

8) Corroborate Client-Provided Schedules Independently:
Avoid over-reliance on client-prepared data by independently verifying key schedules such as bank reconciliations, ageing reports, and loan schedules with supporting third-party or system-generated documentation.

By implementing the above recommendations, Howladar Yunus & Co. can further enhance audit quality, uphold compliance with International Standards on Auditing (ISA), and promote continuous learning and improvement across its teams.

5.3 Conclusion

In this report, I have made every effort to comprehensively detail the audit procedures implemented by Howladar Yunus & Co., particularly in relation to their work with manufacturing entities. My focus has remained on the applicable provisions under the Companies Act and the guidelines set forth by the Institute of Chartered Accountants of Bangladesh (ICAB). Through this study, it is evident that Howladar Yunus & Co. consistently demonstrates a high level of competence and diligence in delivering audit services. The firm's dedicated professionals play a crucial role in upholding its reputation for audit excellence and merit recognition for their commitment to quality. With a strong foundation in technical precision and ethical standards, Howladar Yunus & Co. sets itself apart in the local market. As the firm begins to expand its footprint internationally, including engagements with foreign clients, the opportunity now lies in further aligning its practices with global benchmarks. Strengthening its international presence will not only reinforce its leadership in the domestic arena but also position it competitively on the global stage—keeping rival firms in the rear view where they stand today.

5.4 Bibliography

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