

Internship Report

On

“A General Overview on Annual Audit Procedures of CA Firm”

*A study on ACNABIN- Chartered
Accountants*



Date of Submission: August 20, 2014

Internship Report

On

“A General Overview on Annual Audit Procedures of CA Firm”

Supervised By

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BBA Program 26th Batch

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ABBREVIATIONS

- GAAP = Generally Accepted Accounting Principles
- AICPA= American Institute of Certified Public Accountants
- BSA = Bangladesh Standards on Auditing
- ISA = International Standards on Auditing
- IAS = International Accounting Standards
- FS = Financial Statement
- ICE = Internal Control Evaluation
- ICQ = Internal Control Questionnaire
- ICAB = Institute of Chartered Accountants of Bangladesh
- CPA = Certified Public Accountant
- GAAS = Generally Accepted Accounting Standards
- CA = Chartered Accountants
- GRA = General Risk Assessment
- SRA = Specific Risk Analysis
- IIA = Institute of Internal Auditors
- IRS = Internal Revenue Service
- IFAC = International Federation of Accountants
- IAASB = International Auditing and Assurance Standards Board

LETTER OF TRANSMITTAL

To

Shahana Kabir

Senior Lecturer

Department of Business Administration

Faculty of Business & Economics

Daffodil international University

Subject: Submission of Internship Report

Dear Madam,

With due respect and great pleasure I am submitting my internship report on “**A General Overview on Annual Audit Procedures of CA Firm: A study on ACNABIN Chartered Accountants**” During three month internship program it was a great experience to me as it provided me with wide exposure to the professional environment.

In the report, main focus is to find out the external audit procedure which is followed by **ACNABIN Chartered Accountants**. The report is prepared under your supervision and hence respectfully acknowledge your guidance and help. I will be delighted to clarify any queries regarding this report.

I, therefore, hope your kind consideration.

Yours Sincerely,

.....
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ACKNOWLEDGEMENT

First of all, I would like to express my deepest gratitude to almighty Allah for giving me the strength to finish the report. I am profoundly indebted to my supervisor Shahana Kabir, Senior Lecturer, Department of Business Administration, Faculty of Business & Economics, Daffodil International University and my another supervisor Md.Saiful Islam, Deputy Manager of ACNABIN Chartered Accountants for their kind cooperation. They guided me in the right direction that helped me enormously in preparing this report efficiently. They provided overall guidance, support and assistance to the development of work plan and report outline, data analysis and writing of this report. Both of them carefully reviewed the draft report and made valuable comments and suggestions that were very helpful for restructuring and finalizing the report. I acknowledge their contribution and thank both of them. The intelligence, expertise and labor of all the staff members of ACNABIN Chartered Accountants worked behind this study as an invaluable contribution. I take this privilege to thank them all. In this regard, I want to thank all those executives of different audit engagements; Md. Abul Kalam Azad, Md. Monowarul Alam, Md. Iqbal Mahmud and Rejoan Islam for their brilliant support and contributions. All of them extended support towards the successful writing of this report by affording me their valuable time. Finally, I would like to say that working within the cordial environment of ACNABIN Chartered Accountants was a wonderful experience and this report is an outcome of the joint and cordial efforts referred to above.

CERTIFICATE OF APPROVAL

This is to certify that Md. Shahadat Hossain, bearing ID: 102-11-1585, Program: BBA, Major in Accounting, is a regular student of Department of Business Administration, Faculty of Business and Economics, Daffodil International University.

He has prepared this internship report under my direct supervision. His assigned Internship report topic is **“A General Overview on Annual Audit Procedures of CA Firm: A study on ACNABIN Chartered Accountants”** This report is a worthy of fulfilling the partial requirements of BBA Degree.

This report is submitted in partial accomplishment of the requirements for the degree of Bachelor of Business Administration (BBA), Daffodil International University.

.....
Shahana Kabir
Senior Lecturer
Department of Business Administration
Faculty of Business & Economic
Daffodil International University

PREFACE

Over the last 3 month of 2014, I was granted the unique opportunity to be employed by ACNABIN Chartered Accountants as an Intern student. Under the supervision of External Audit Department, I was lucky enough to undertake three months internship Program that expanded my credibility and way of thinking. My major job in the aforesaid firm were within the auditing of clients as in having practical understanding under the supervision of concerned manager and partner. During the period, I got the opportunity to be engaged in auditing several clients e.g. Save the children Federation (SCF), Action Contre La Faim (ACF), Development For Information Development (DFID), Community Development Centre (CODEC) and along with these audit jobs which enriched my domain of practical Accounting knowledge.

ABSTRACT

This report contains knowledge and information through Internship program This report is divided into four major chapters. The first chapter contains the background of the study. This chapter provides information to the users about the core concept of the report such as what is the main objective of this study or where I have performed my work i.e. scope of the study and how the data of this report are collected and analyzed i.e. methodology of the study. Finally this chapter contains some limitations that I have faced during my work period. The second chapter shows information about the organization where I have done my work. This chapter contains information about the firms such as; profile of the firm, manpower Strength, Service provided by the firm. It also contains information about the firm clients and nature of the firm. Third chapter is the learning part and it is divided into two parts. First part is the theoretical background of auditing. It contains information about the audit such as definition of audit, what are the various types of audit and audit documentation, difference between accounting and auditing. It also contains information about the audit risks, audit responsibilities and another part is the overall annual audit procedures that is followed by ACNABIN Chartered Accountants. Here I also try to find out the fact that whether they are following the Bangladesh Standards on Auditing (BSA) & International Standards on Auditing (ISA) in case of audit engagement. Chapter four contains the findings, recommendation and conclusion of the study.

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Chapter-1

BACKGROUND OF THE STUDY

INTRODUCTION

1.1 Introduction

It's the Phase of time where competition has been raised tremendously. During the period of four years we achieve literatures regarding specified subjects. I got an appointment in a renowned firm named ACNABIN Chartered Accountants as an internship student for three months. This is an internship report which is prepared to get practical knowledge about how CA firm conduct their audit. In a simple word this report is prepared to know about the client business system and to get idea about the annual audit procedure of CA firm specially my congregation ACNABIN –Chartered Accountants.

This report is divided into four major chapters. The first chapter contains the background of the study. This chapter provides information to the users about the core concept of the report such as what is my main objective of this study Where I have performed my work i.e. scope of the study and how the data of this report are collected and analyzed i.e. methodology of the study. Finally this chapter contains some limitations that I have faced during my work period. The second chapter shows information about the organization where I have done my work. This chapter contains information about the firms such as; profile of the firm, manpower Strength, Service provided by the firm, it also contains information about the firm clients and nature of the firm. Third chapter is the learning part and it is divided into two parts. First part is the theoretical background of auditing. It contains information about the audit such as definition of audit, what are the various types of audit and audit documentation, difference between accounting and auditing. It also contains information about the audit risks, audit responsibilities and another part is the overall annual audit procedures that is followed by ACNABIN Chartered Accountants. Here I also try to find out the fact that whether they are following the Bangladesh Standards on Auditing (BSA) & International Standards on Auditing (ISA) in case of audit engagement. Chapter four contains the findings, recommendation and conclusion of the study.

1.2 Origin of the study

The internship program is mandatory requirement for the students who are graduating from the Faculty of Business & Economics under the program Bachelor of Business Administration of Daffodil International University. For internship I was engaged in a host firm named ACNABIN for three months period. During the period, I have learned regarding for an auditor and also realized the independence maintained and followed by ACNABIN Chartered Accountants. Consequently, I have decided to write a report about “A General Overview on Annual Audit Procedures of CA Firm: A study on ACNABIN Chartered Accountants” with the concern of my supervisor. Every single concept written in this report has been acquired through field level work along with an intensive survey.

1.3 Scope of the study

After completing 122 credits in Daffodil International University I got appointed in one of the largest and renowned Firm named ACNABIN Chartered Accounts, which explored a vast scope for the study. I have mentioned Scopes for the study represented as follows:

- Audit procedure and independent policy which is followed by the organization for performing any audit.
- Background and prospective of the host organization.
- Audit Client’ status which is being audited by ACNABIN Chartered Accountants.
- Audit administration of the firm, which is followed by the organization for performing any audit.

1.4 Objectives of the study

The main objective of the study is to be familiar with concerning the Annual Audit procedures of Chartered Accountants (CA) based on my internship experience gathered from ACNABIN Chartered Accountants. If a work or study is done without specific objectives I think the work would not draw a meaningful conclusion because I think work without specific objectives is like a ship without radar. That's why my study also contains some specific objectives.

Specific objectives of the study are :

- To evaluate audit procedures of ACNABIN Chartered Accountants whether it complies with Bangladesh Standards on Auditing and International Standards on Auditing which will ensure the quality of audit report for corporations, companies and non-profit making organizations.
- To evaluate whether an audit report gives assurance regarding true and fair view of presentation about financial statements.
- To identify the overall audit administration followed by ACNABIN Chartered Accountants in conducting audit of the financial statements for new and existing client.
- To Understand how ACNABIN Chartered Accountants establishes true and fair view of presentation through its audit report.

1.5 Methodology of the study

Methodology is the way to systematically solve the research problem. This study has been completed by following systematic and sequential steps. First of all the research problem was formulated, then an extensive survey had been taken place to gather relevant and required literature working hypothesis, after that a research design had been determined. In that case a sampling technique had been chosen which is called non probability

judgment sampling. At that time, both the primary and secondary data was collected. Afterward collected data were analyzed, arranged as per the study demands.

The study has been initiated only to find or explore the insight of the issues of the Audit Procedures of ACNABIN Chartered Accountants. So, the study is an exploratory research. To complete the study both primary and secondary data had been used.

Primary Data

The primary data has been collected from original sources by the investigator through field operations. The primary data are those which are collected for the first time and are original in character. So, the primary data are assembled from the first hand field investigation.

Primary Data Sources:

- i.** Collected primary data by working with different audit teams through field operations.
- ii.** Working experience with the different audit teams of ACNABIN Chartered Accountants during my internship period.
- iii.** Discussing with engagement partner, audit manager, audit staff and articled students of ACNABIN Chartered Accountants.
- iv.** Discussing with audit clients Executives.

Target Population

The target population of the report is the articled students, audit managers, managing partner and audit staffs of ACNABIN Chartered Accountants as well as the selected clients of the firm.

Sampling Technique

To gather primary information a sample size had been determined from a population by selecting a sampling technique named judgment sampling technique which is non probability sampling.

Sample size

The sample size of the study are as follows:

- Two Managing partners
- Two Audit manager
- 10 Senior Articled Students
- 5 ACCA student
- 2 Audit Staffs
- 6 Clients office

Secondary Data:

on the other hand the secondary data are those which have already been collected by someone else and which have been collected through the statistical process. Secondary source of data consist of all published and reported materials including books, Journals, articles etc.

Secondary Data source are:

- i. Collected Secondary Data from the annual audit report, management Letter, accounting system & audit working papers audited by the ACNABIN Chartered Accountants.
- ii. Secondary Data also have been collected from the different publications of the Institute of Chartered Accountants of Bangladesh (ICAB).
- iii. Other information was obtained from various corresponding files of the firm and various relevant books mainly Bangladesh Standard on Auditing (BSA).
- iv. Internet was one of the enormous sources of Secondary Data.

1.6 Limitation of the Study

The study is conducted with an objective to make a thorough study of external audit procedures that have been availed many facilities and faced some obstacles during my study. These obstacles may be termed as limitation of the study. These limitations are as follows:

- As an independent audit firm the information that I have collected is not adequate for this study.
- Annual Audit procedures are a confidential documents or objects to the firm, so it is very difficult to present the exact format of annual audit procedures of the firm.
- As an engagement time was not so long, that's why it was not possible for me to know all about the annual audit procedures of the firm.
- The depth analysis has been limited to the extent of information.
- At last, the study has conducted within a very limited time. Therefore, shortage of time is a major downside for the whole study.

Chapter-02

ORGINATION'S OVERVIEW

2.1 The Profile of ACNABIN Chartered Accountants

ACNABIN Chartered Accountants was formed in February 1985, with a mission to continually add value by helping clients to become succeed. The firm is in public practice for more than 26 years. It is a member firm of Baker Tilly International, the 8th largest firm in the globe. This gives us access to the newest process, tools and quality compliance guidance available in the profession.

The largest partnership firm was founded with a vision to build an institution which would foster an environment for leadership, continuous growth, learning, and collaborations. Over the past twenty-seven years, the firm has become one of the leading and most reputable chartered accountancy firms in Bangladesh with global affiliations. At present, ACNABIN Chartered Accountants has ten partners whose expertise in audit, accounting, review, business consulting, business process outsourcing, technology solutions, training and taxation has established the firm as a multidisciplinary organization. The name “ACNABIN” comes from the acronyms of the founder partners:

A stands for Aziz-uddin

C stands for Chowdhury

N stands for Nurun Nabi

A stands for Anwaruddin

B stands for Bari

I stands for Iftekhar

N stands for Nayeem

2.2 Manpower Strength

Sl. #	Personnel	Number
01.	Partners	10
02.	Professional Staff:	
	Senior Director-Taxation	1
	Director-Audit & Consultancy (Chartered Accountant)	1
	Manager-Audit & Consultancy (Chartered Accountant)	2
	Manager-Taxation & Corporate Affairs (Chartered Accountant)	2
	Deputy Manager-Taxation & Corporate Affairs	2
	Deputy Manager-Audit & Consultancy	8
	Senior Assistant Manager-Audit & Consultancy	4
	Senior Assistant Manager-Taxation & Corporate Affairs	1
	Assistant Manager-Audit & Consultancy	3
	Assistant Manager-Taxation & Corporate Affairs	3
	Executive and Junior Executive-Audit, Consultancy & Taxation	3
03.	Articled Students	172
04.	Interns	26
05.	Supporting Staff	30
	Total	268

2.3 Role of the Personnel

i . Partners:

The partners also make sure the existing clients are provided with the best possible service. Partners guide their employees to prepare a proposal which is to be submitted to the client depending on what kind of service the client requires.

ii. Audit manager:

An audit manager is a Chartered Accountant who assists the partners in various ways. He/ She review reports before signing by the engagement partner.

iii. Supervisor:

A supervisor may or may not be a Chartered Accountants. He has to complete the course and having some years experience in the field of accountancy therefore he designated as the Audit Supervisor of the firm. Audit manager briefs the audit supervisor on where and when an audit has to be performed and how the job is to be carried out.

iv. Senior student:

An audit senior has some years of experience in the accountancy field therefore he has been designated as the audit Senior of the firm. Audit senior is briefed by the audit manager and supervisor about where and when an audit has to be performed and how the job is to be carried out.

v. Semi-Senior Student:

A semi-senior student has to complete at least one year of article ship in the firm. Every time he is liable to his assigned seniors.

vi. Junior Student:

Junior Students are the fresher who have just joined as an article to the firm.

2.4 Non Professional Staff

The numbers of non professional staffs involved with the firm are as follows:

General Manager (GM)

Manager, Administration

Accountant

IT Specialist

Computer Operator

Photocopy Machine Operator

Receptionist

2.5 Services Provided By the Firm

ACNABIN Chartered Accountants provides a wide range of high quality services of diversified nature to its clients in the private and public sectors in Bangladesh. It also renders services to international development agencies and expatriate consultants those are associated with various projects in Bangladesh.

a. Services offered cover the following areas

- Statutory audit
- Internal audit
- Special audit
- Management audit
- Performance audit
- Financial review
- Accountancy
- Taxation – individuals, companies, banks, branch offices, liaison offices

- Accountancy and management training
- Company formation and secretarial work
- Investigation of frauds and irregularities
- Setting up branch office and setting up liaison office
- Company's registration with Board of Investment, Ministry of Industries etc.
- Work permits, visa, security clearance of expatriates
- Bank accounts opening for foreign clients
- Obtaining permission from the central bank regarding inward and outward remittance
- Obtaining trade license, factory license, Import Registration Certificate, Export Registration Certificate, Bonded warehouse facility, VAT registration, Membership of Trade Association/chambers etc.
- Providing services regarding setting up of office, drafting rent/lease agreement, recruitments of staff etc.
- Preparation of manual and policy guidelines in respect of finance, accounts, internal control, inventory, procurement, operation, administration, human resources etc.
- Services relating to fixed assets management, inventory management etc.
- Services with regard to share issue, right issue, initial public offering, prospectus
- Outsourcing of accounting services, payroll, internal audit etc.
- Helping clients in adopting international and local accounting standards
- Tax planning and tax management of expatriates
- Business plan developments
- System development
- Management consultation
- Due Diligence Review
- Data processing with computers
- Privatization consultancy (includes pre-privatization review, restructuring, valuation in particular and privatization assistance in general)
- Company acquisition, merger, spin off, amalgamation etc.
- Liquidation and winding up of companies
- Micro-finance consulting

- Human Resource Development Issues
- Organizational consulting services.
- Designing computerized systems for MIS and accounting and its implementation
- Share/business/asset valuation.
- Other services as per needs of the clients.

2.6 Association and Membership

Associations

a) Affiliation with International Auditing/Accounting Firm

ACNABIN Chartered Accountants is an independent member of Baker Tilly International, 8th largest network in the world with 145 independent member firms in 110 countries.

b) Relationship with International Accounting Firm

- i. Association with ASNAF-ASEAN Accounting Firms, Singapore, since 18 February 2003.
- ii. Services already provided to the clients include:
 - Due diligence review
 - Joint venture enquiries
 - Business valuation
 - Tax advice
 - Statutory regulations
 - Establishing business presence
 - Liquidator/official receiver
 - Secretarial service

c) USAID, EC and CIDA Enlisted

In 1993 ACNABIN Chartered Accountants has been enlisted by the United States Office of Regional Inspector General Audit, Singapore to perform financial audits of USAID fund recipients in Bangladesh. We have been also enlisted by the European Commission and Canadian International Development Agency to conduct financial audit of the recipients of their fund.

d) Collaboration with other consulting firms

ACNABIN Chartered Accountants has been able to establish close working relationship with many national and international consulting firms in Bangladesh through its efficient and dedicated services. ACNABIN Chartered Accountants has thus enriched its professional base for serving the clients' interest in the best possible manner.

Membership

- (a) Metropolitan Chamber of Commerce and Industries.
- (b) The Dhaka Chamber of Commerce & Industries.
- (c) American Chamber of Commerce in Bangladesh.

Firm's registration with relevant authorities

- i. Partners of ACNABIN Chartered Accountants is registered with The Institute of Chartered Accountants of Bangladesh (ICAB) for audit practice.
- ii. ACNABIN Chartered Accountants is enlisted with the Non-Government Organization Affairs Bureau Bangladesh (NGOAB), Enlistment # 21 with NGOAB.
- iii. ACNABIN is registered with the Registrar of Joint Stock of Companies and Firms # PF 27897/86 under Section 58 (1) of the Partnership Act, 1932 (IX of 1932) dated June 21, 1986.

2.7 Audit Administration Followed by ACNABIN Chartered Accountants

Audit Administration is the entire process of managing and conducting an audit from the point of kick off meeting to submission of the audit report. The overall audit administration followed by ACNABIN Chartered Accountants from the engagement in an audit work to the completion can be stepped out from two perspectives:

1. In case of new client
2. In case of existing client

In the following audit administrative steps are followed by ACNABIN Chartered Accountants for the new client.

Steps 1. To Send Expression of Interest: In this first step of audit administration, ACNABIN send an expression of interest to the potential client against their advertisement. In this regard ACNABIN prepares and sends an expression of interest, remarkable and mentionable works in different reputed public limited companies performed by ACNABIN.

Steps 2. To Received Request for Proposal: After analyzing and verifying all the expression of interest based on the firm's reputation and logistic support, if the client selects ACNABIN then they send request for proposal.

Steps 3. To Submit Proposal: In this step, ACNABIN submits formal proposal to the client for appointment of their firm as external auditors with a letter.

Steps 4. Acceptance of Proposal: After submitting the proposal, the client accepts it and appoints ACNABIN according to the company's rules, regulations and procedures.

Steps 5. To Receive Appointment Letter: After accepting the proposal, client issues an appointment letter and send to ACNABIN informing that in their AGM, ACNABIN has been appointed as their company's external auditor until holding the next AGM.

Steps 6. To Send Acceptance Letter: In response to the appointment letter, ACNABIN gives its acceptance through an acceptance letter to the client.

Steps 7. To Collect No Objection Certificates: Before conducting the audit work, ACNABIN collects a professional clearance named as No Objection Certificate (NOC) from the previous auditor of the client. In this letter ACNABIN requests to the previous auditor to let it know whether there is any professional reason for which ACNABIN should not accept the appointment of the said client.

Steps 8. To Understand Client's Business: Before preparing the audit plan, first of all ACNABIN has to understand the client's business. An extensive understanding of the client's business operations are essential for doing an adequate audit.

Steps 9. To Prepare and Submit Audit Plan: After understanding the client's business, the managing partner of ACNABIN selects audit team manager to perform the audit activities of the said client. In this step, the team manager selects the team members and prepares the audit plan which includes:

- The working areas of conducting audit,
- The responsibilities of team members,
- The allocation of team members according to the branch and
- The period of time required to complete the audit work.

Steps 10 . To Prepare Audit Program: After preparing and submitting the audit plan, audit program is made. The audit program contains the main tests that would normally need to be undertaken when carrying out an audit.

Steps 11. To Arrange Orientation With the Team Members: In this steps, the team manager gives orientation to the team members about details guideline of how to conduct the audit activities for the particular company.

Steps 12. To Depute Audit Team Members: After arranging the orientation program, the students are deputed to the client's office with the deputation letter. Deputation Letter is the identification of the auditors engaged by the ACNABIN to the appropriate representative of senior management of the client office.

Steps 13. To Issue Requisition Slip: In this steps, requisition slip is provided by the client office in which the responsible auditors write down all the required documents, financial statements, previous year's report and about the logistic support.

Steps14. To Start Audit Work: After the completion of all types of formalities for conducting an audit, finally ACNABIN starts the audit work as per audit plan.

Steps15. To prepare Draft Audit Report: In this step, a draft audit report is prepared by the auditors with the help of team manager. All the evidence and audit findings collected during the audit work are accumulated and based on the findings ACNABIN gives its opinion in the audit report.

Steps16: To Issue Draft Audit Report and Management Letter: After preparing the draft audit report, ACNABIN issues the draft report and a management letter to the client. In the management letter, ACNABIN gives the acknowledgement regarding their responsibilities during the audit work along with all sorts of observations about the internal controls weakness of the client.

Steps17: To Arrange Discussion Meeting on Draft Report: After receiving the draft audit report and management letter sent by ACNABIN, the client organizes a discussion meeting with the partner, manager and auditors.

Steps18: To Prepare and Submit Final Audit Report: Having finished all the formalities with the client, at last ACNABIN prepares the final audit report by giving the appropriate opinion and submits it to the client with forwarding letter. As this is the last step of audit administration, so ACNABIN has to make all the formalities with the client before terminating from the audit engagement.

Audit Administration Followed by ACNABIN Chartered Accountants for Existing Client:-

As we know, a Chartered Accountants firm can conduct the audit work of a particular client's financial statements for a period of three years consecutively with the same client. In case of conducting audit for the existing client, the audit administration steps are as follows:-

Steps	Related Activities
1	To Submit Re-Appointment Proposal
2	Acceptance of Proposal
3	To Received Re- Appointment Letter
4	To Send Acceptance Letter
5	To Prepare and Submit Audit Plan
6	To Prepare Audit Program
7	To Depute Audit Team Members
8	To Issue Requisition Slip
9	To Start Audit Work
10	To prepare Draft Audit Report
11	To Issue Draft Audit Report and Management Letter
12	To Arrange Discussion Meeting on Draft Report
13	To Prepare and Submit Final Audit Report

In case of existing client of ACNABIN Chartered Accountants followed the above steps for conducting the audit. The process starts from the Submit Re-Appointment Proposal. The other activities of the audit administration are as same as the previous year's activities for the existing client.

Chapter-03

THEORETICAL BACKGROUND OF AUDITING

3.1 Definition of Accounting and Auditing

Accounting is the recording, classifying and summarizing of economic event in a logical manner for the purpose of providing information for decision making. The function of accounting is to provide certain types of quantitative information that management and others can use to make decisions. To provide relevant information, accountants must have a thorough understanding of the principles and rules that provide the basis for preparing the accounting information. In addition, accountants must develop a system to make sure that the entity's economic events are properly recorded on a timely basis and at a reasonable cost.

Auditing is the process by which a competent, independent person accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. This definition includes several key words and phrases. To understand the definition, different terms are discussed below:

Competent, Independent Person: The auditor must be qualified to understand the criteria used and competent to know the types and amount of evidence to accumulate to reach the proper conclusion after the evidence has been examined. The auditor must also have an independent mental attitude. It does little good to have a competent person who is biased performing the evidence accumulation when unbiased information and objective thinking are needed for the judgments and decisions to be made. Independence cannot be absolute by any means but it must be a goal that is worked toward; and it can be achieved to a certain degree.

Evaluating Evidence: Evidence takes many different forms, including oral testimony of the audit (client), written communication with outsiders and observation by the auditor. It is important to obtain sufficient quality and volume of evidence to satisfy the audit objectives.

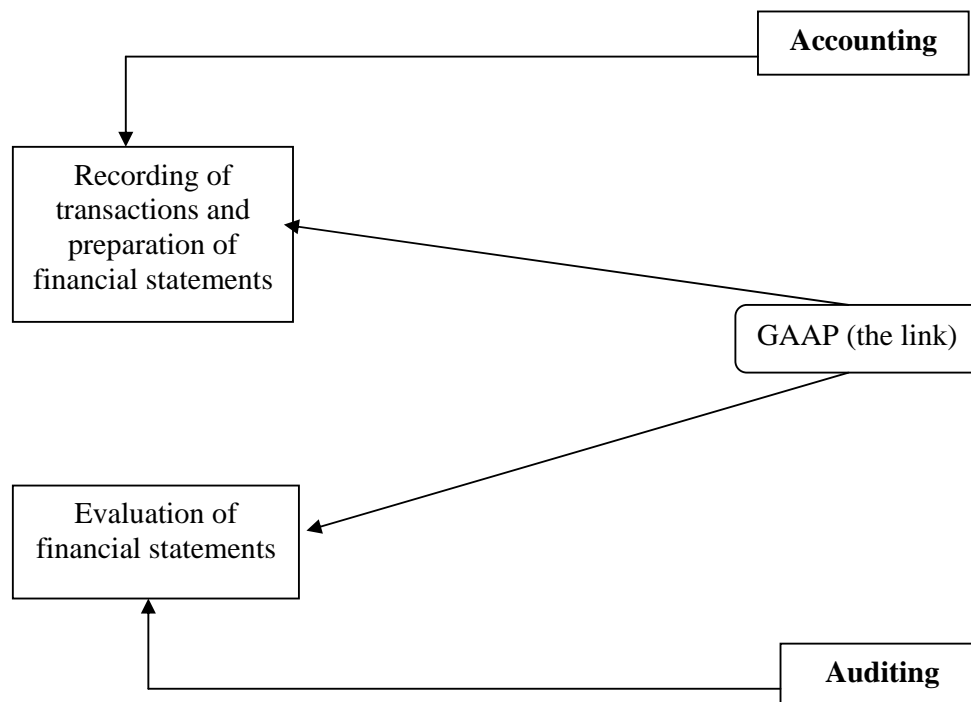
Quantifiable Information and Established Criteria: To do an audit, there must be information in a verifiable form and some standards (criteria) by which the auditor can evaluate the information. Quantifiable information can and does take many forms. It is possible to audit such things as a company's financial statements, the amount of time it takes an employee to complete an assigned task, the total cost of a government construction contract and an individual's tax return. The criteria for evaluating quantitative information can also vary considerably. For example, in auditing a vendor's invoice for the acquisition of raw materials, it is possible to determine whether materials of the quantity and stated description were actually received whether the proper raw material was acquired considering the production needs of the company or whether the price charged for the goods was reasonable.

Economic Entity: Whenever an audit is conducted, the scope of the auditor's responsibility must be made clear. The primary method involves defining the economic entity and the time period. In most instances the economic entity is also a legal entity such as a corporation, unit of government, partnership or proprietorship. In some cases, however, the entity is defined as a division, a department or even an individual.

Reporting: The final stage in the audit process is the audit report – the communication of the findings to users. Reports differ in nature but in all cases they must inform readers of the degree of correspondence between quantifiable information and established criteria. Audit can be applied to virtually every facet of an organization's operations. Such audits are both challenging and interesting because the auditor is charged with developing objective criteria by which an operation can be evaluated and the auditor by necessity becomes intimately familiar with many operational aspects of an organization.

3.2 Distinction Between Auditing & Accounting

Many financial statements users and members of the general public confuse auditing with accounting. The confusion results because most auditing is concerned with accounting information and many auditors have considerable expertise in accounting matters. Although auditing and accounting are related, they are distinct from each other.



Accounting and Auditing Contrast

Accounting involves collecting, summarizing, reporting and interpreting financial data. Accounting is the process of recording, classifying, and summarizing economic events in a logical manner for the purpose of providing financial information for decision making. The function of accounting to an entity and a society as a whole is to provide certain types of quantitative information that management and others can use to make decisions. To provide relevant information, accountants must have a thorough understanding of the principles and rules that provides the basis for preparing the accounting information. In addition, accountants must develop a system to make sure that the entity's economic events are properly recorded on a timely basis and at a reasonable cost. Auditing, by contrast, utilizes the theory of evidence in much the same way as does the legal

profession to verify the overall reasonableness (fairness) of the financial statements presented. In auditing for accounting data, the concern is with determining whether recorded information properly reflects the economic events that occurred during the accounting period. Since the accounting rules are the criteria for evaluating whether the accounting information is properly recorded, any auditor involved with these data must also thoroughly understand the rules. In the context of the audit of financial statements these are Generally accepted accounting principles (GAAP).

3.3 Requirement of an Effective Audit

In order for an audit to be completed properly, auditor must contain certain attributes Such as: Auditor must have a thorough understanding of the entity being audited and the industry of which it is a part. The auditor must also have a comprehensive knowledge of GAAP in order to audit effectively. A solid grasp of concepts of internal control, a careful review and evaluation of internal accounting controls are also necessary ingredients to an effective audit. In addition to understanding the company, the auditor must also be knowledgeable in the area of evidence gathering and evaluation. According to **Taylor and Glezen, 1979**, to become a chartered accountant, a person must fulfill the following three requirements:

- **An Educational Requirement**
- **An Experience Requirement**
- **A Testing Requirement**

3.4 Types of Audit

In the following mention different types of audit that were performed by ACNABIN Chartered Accountants.

- Operational Audit
- Compliance Audit
- Audit of Financial Statements
- Internal Audit
- Interim Audit
- Performance Audit
- Governmental Audit

Operational Audit: Operational Audit refers to the study of business operations for the purpose of making recommendations about the economic and efficient use of resources, effective achievement of business objectives and compliance with company policies. At the completion of an operational audit recommendations to management for improving operations are normally expected. The goal of operational audit is to help managers to discharge their management responsibilities and improve profitability. An operational audit can be applied to virtually every facet of an organization's operations. Such audits are both challenging and interesting because the auditor is charged with developing objective criteria by which an operation can be evaluated and the auditor by necessity becomes intimately familiar with many operational aspects of an organization. Because of many different areas in which operational effectiveness can be evaluated, it is impossible to characterize the conduct of a typical operational audit.

Compliance Audit: Compliance Audit is an operational-style audit that determines if a company is following the rules of an agreement or contract. Companies make agreements or enter contracts for a variety of business purposes. These agreements and contracts are carefully reviewed and audited to ensure no fraud or misstatements exist as the company meets the contractual obligations. Public accounting firms or individual Certified Public Accountants (CPA) may be responsible for conducting the external compliance audit on company's contracts and agreements.

Audit of Financial Statements: Financial statements audits are conducted to determine whether financial statements are presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). However, public sector financial audits also determine whether financial statements are presented in accordance with applicable laws and regulations. An audit of financial statements is conducted to determine whether the overall financial statements that is quantifiable information being verified are stated in accordance with specific criteria. The financial statements most commonly included are the statement of financial position, income statement and statement of cash flow including accompanying footnote. The assumption underlying an audit of financial statements is that they will be used by different groups for different purposes. Therefore, it is more efficient to have one auditor perform an audit and draw conclusion that can be relied upon by all users.

Internal Audit: Internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. Internal audit is practiced by auditors employed by an organization such as a bank, hospital, city government or industrial company. The Institute of Internal Auditors (IIA) is the international organization that governs the standards, continuing education, and general rules of the conduct for internal auditors as a profession.

Interim Audit: Interim audit refers to the procedures applied prior to the client's year end, primarily for the purpose of lowering the assessed risk level. The interim audit phase consists of testing the client's internal accounting controls and performing substantive tests of transactions. Interim audit procedures are performed several weeks or months before the balance sheet date. In recent years, certain changes in the information processing environment have begun to alter the traditional approach to the interim audit. Instead of testing the internal control procedures during a single interim time period auditors are applying these tests along with tests of selected transactions at frequent intervals throughout the year. This is sometimes referred to as Continuous Audit. This type of audit is especially applicable to those clients with sophisticated computer based accounting applications.

Performance Audit: Performance audit refers to an independent examination of a program, function, operation or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

Governmental Audit: Governmental audit may be defined as testing and reporting on conformity with laws and regulations relating to recipients of federal financial assistance. Governmental audit refers to the independent auditor's responsibility for determining compliance with laws and regulations when engaged in audits of state and local governmental units as well as other not-for-profit entities that are the recipients of federal financial assistance. Governmental auditors are employed by various state, local and federal agencies.

3.5 AICPA Generally Accepted Auditing Standards

Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statements. They include consideration of professional qualities such as competence and independence, reporting requirements and evidence. These standards were developed by the AICPA in 1947.

The three Generally Accepted Auditing Standards are as follows:

3.5. I General Standards:

The general standards stress the important personal qualities that the auditor should possess.

Technical Training and Proficiency: The audit is to be performed by individuals having adequate technical training and proficiency. Adequate technical training and proficiency as an auditor assures clients that CAPs are able to adequately perform the services for which they represent themselves. This standard is normally interpreted as requiring the auditor to have formal education in auditing and accounting, adequate practical experience for the work being performed and continuing professional education. Auditors must be technically qualified and experienced in those industries in which their audit clients are engaged.

Independence in Mental Attitude: The auditor must have an independent mental attitude. Auditor's independence means that the auditors must be independent of management if they are to adequately serve the interests of financial statements users.

Auditors are expected to be unbiased and impartial with respect to the financial statements and other information when they audit. They are expected to be fair both to the companies and executives who issue financial information and to the outside persons who use it. Auditor's independence has two aspects: independence in facts and independence in appearance. Auditors must not only be independent in their mental attitude toward audit- independence in facts but also must be perceived by users as independent of the client independence in appearance.

Due Professional Care: The forth general standard involves due professional care in the performance of all aspects of auditing. The exercise of due professional care requires observance of all the general standards and the field work standards. Auditors must be competent, be independent, plan and supervise the audit, understand the internal control

system and obtain sufficient competent evidence if they expect to be properly careful. The standard of due care requires that the “prudent auditor” apply judgment in a conscientious manner that is carefully check the relevant factors before reaching a decision. Due professional care also suggests that the auditor makes a reasonable effort to ensure that the financial statements are free from material misstatements. Due professional care includes consideration of the completeness of the working papers, the sufficiency of the audit evidence and the appropriateness of the audit report. As a professional, the auditor must avoid negligence and bad faith, but the auditor is not expected to make perfect judgments in every instance.

3.5.II Standards of Field Work

The field work standards concern evidence accumulation and other activities during the actual conduct of the audit in the field.

Adequate Planning and Supervision: This standard deals with ascertaining that the engagement is sufficiently well planned to ensure an adequate audit and proper supervision of assistants. Adequate planning and supervision are required if the audit is to proceed in a systematic fashion. Audit planning involves obtaining an understanding of the entity, assessing audit risk and developing the audit programs. To ensure an adequate quality of auditing assistants must be properly supervised. Supervision of assistants includes instructing assistants to be sure they know that what they are to do and why keeping informed about significant problems encountered, reviewing their work and work papers and resolving differences of opinion among the audit staff.

Understand the Internal Control Structure: A sufficient Understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed. Organizations implement accounting systems and control structures so that it can process large volumes of data in an efficient manner that should minimize the possibility of misstatements occurring. The controls identified by an organization to ensure that only properly authorized transactions are processed and that the transactions are fully, accurately and timely recorded are referred to as the organization’s internal control. One of the most widely accepted concepts in the theory and practice of auditing is the importance of the client’s internal control structure to generate reliable financial information. If the auditor is convinced that the client has an

excellent internal control structure that includes adequate internal controls for providing reliable data and for safeguarding assets and records, the amount of audit evidence to be accumulated.

Sufficient Competent evidence: Sufficient competent evidential matter is to be obtained through inspection, observations, inquiries and confirmations to afford a reasonable assurance basis for an opinion regarding the financial statements. Evidence is all the influences upon the minds of auditors that ultimately guide their decisions. Sufficient competent (reliable and relevant) evidence must be obtained to evaluate the assertions embodied in the financial statements including the related footnotes.

3.5.III Standards of Reporting

The four reporting standards relate to the attest function at the end of the audit result. The ultimate objective of independent auditors- the report on the audit- is guided by the four reporting standards.

Presentation in Accordance with GAAP: The auditor is required to state explicitly whether the financial statements are fairly presented in accordance with the agreed upon the criteria for the profession – GAAP.

Consistency: The consistency standard indicates that once management chooses from among alternative acceptable method of accounting, the same principles will be used from year to year are consistent to enhance the comparability and usefulness of the financial statements. This does not mean that these principles must be followed rigidly. When a company makes a change in principles, the change must be described in the footnotes to the financial statements are referred to in the audit report.

Disclosures: Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report. Readers of the financial statements are usually not in a position to know whether the disclosure and related footnotes are adequate. If nothing is mentioned in auditor's report, the readers can assume that the disclosures are adequate. The auditor is guided by FASB and other authoritative pronouncement to determine whether the required disclosures have been made.

Opinion: The report shall either contain an expression of opinion regarding the financial statements taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with the financial statements, the report should contain a clear-cut indication of the character of the auditor's work and the degree of responsibility the auditor's is taking. The type of opinion rendered depends on the results of the auditor's examination. The auditor's report should indicate the type of examination performed and the degree of responsibility taken for it.

3.6 Audit Risks

The auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. The auditor should use professional judgment to assess audit risk and to design audit procedures to ensure it is reduced to an acceptably low level.

“Audit risk” is defined as the risk that the auditor may unknowingly fail to appropriately modify his/her opinion on financial statements that are materially misstated”. So audit risk is the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Audit risk has three components that are describe below:

“Inherent risk” is the susceptibility of an account balance or class of transactions misstatement that could be material, individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.

“Control risk” is the risk that a misstatement could occur in an account balance or class of transactions that could be material individually or when aggregated with misstatements in other balances or classes will not be prevented, detected and corrected on a timely basis by the accounting and internal control systems.

“Detection risk” is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material individually or when aggregated with misstatements in other balances or classes.

Audit Documentation

Auditors are required to prepare and retain written documentation that provides a sufficient appropriate record of the basis for the audit report and evidence that the audit was planned and performed.

3.7 Types of Audit Documentation

Audit Documentation includes:-

- Overall audit strategy
- Audit Plan
- Risk analysis
- Audit Programmes
- Summary of significant matters
- Letter of Confirmation and representation
- Checklists
- Correspondence and
- Copies of client records

For large audits much of the knowledge of business information may be kept on a permanent file and the audit plan may contain a summary or simply cross refer to the permanent file. Typical information on a permanent file includes:-

- Names of management, those charged with governance, shareholders
- System information
- Background to the industry and the clients business
- Title deeds
- Directors service agreements
- Copies of contract and agreements

3.8 Contents of an Audit File

Typically, there are at least three sections, as follows:

1. Planning
2. Performance and
3. Completion

Planning

The main element of this section is likely to be the Audit Planning Memorandum.

This document is the written audit plan and will be read by all members of the audit team before work starts. Its contents are likely to include:

- Background information about the client, including recent performance
- Changes since last year's audit
- Key accounting policies
- Important laws and regulations affecting the company
- Client's trial balance
- Preliminary analytical review
- Key audit risks
- Overall audit strategy
- Materiality assessment
- Timetable of procedures
- Deadlines
- Staffing and budget
- Locations to be visited

Performance

Working papers are likely to consist of:

- Lead Schedule- showing total figures, which agree to the financial statements
- Back- up Schedule- breakdowns of totals into relevant sub –totals
- Audit work programmed detailing
 - The objectives being listed

- Work completed
- How sampled items selected
- Conclusions drawn
- Who did the work
- Date work completed
- Who received it

Completion

The completion stage of an audit has a number of standard components

- Going concern review
- Subsequent events review
- Final analytical review
- Accounting Standard checklist
- Letter of representation
- Summary of adjustments made since trial balance produced
- Summary of unadjusted errors
- Draft final
- Draft report to those charged with governance

3.9 Audit Responsibilities

3.9.I Responsibilities of Management: Management are responsible for ensuring that the entity complies with relevant laws and regulations, including:-

- Company Law
- Corporate governance Law
- Health and Safety Law
- Employment Law
- Stock Exchange rules and
- Financial reporting regular

This requires the monitoring of legal requirements, the development of systems of internal control to ensure compliance and an effective system of assessing the effectiveness of these control systems.

3.9.II Responsibilities of Auditors:

The auditors is responsible for expressing an opinion indicating that reasonable assurance has been obtained that the financial statements as a whole are free from material misstatement, whether due to fraud or error and that they are fairly presented in accordance with the relevant accounting standards (Generally Accepted Accounting Principles & International Accounting Standards). Non compliance with laws and regulations can impact the financial statements users because companies in breach of the law need to make provisions for future legal costs and fines. In the worst case scenario this could affect the ability of the company to continue as a going concern. Therefore the auditor has to consider compliance with laws and regulations when planning, performing and reviewing audit procedures.

Bangladesh Standards on Auditing (BSA)

Every Chartered Accountants Firms operating in Bangladesh is bound to maintain and follow the standards namely Bangladesh Standards on Auditing (BSA) and Bangladesh Auditing Practice Statements (BAPS) adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) to conduct the audit activities. All of their standard are maintained by ACNABIN Chartered Accountants.

There are about 40 Audit Standards which are as follows:

BSA NO	Present Title (BSA)
120	Framework of Bangladesh Standards on Auditing
200	Objective and General Principles Governing and Audit of Financial Statements
210	Terms of Audit Engagements
220	Quality Control for Audits of Historical Finance Information
230	Audit Documentation
240	The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements
250	Consideration of Laws and Regulations in an Audit of Financial Statements
260	Communications of Audit Matters with Those Charged with Governance
300	Planning an Audit of Financial Statements
310	Knowledge of the Business
315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
320	Audit materiality
330	The Auditor's Procedures in Response to Assessed Risks
400	Risk Assessment and Internal Control
401	Auditing in a computer Information systems Environment
402	Audit Considerations Relating to Entities Using Service Organization
500	Audit Evidence
501	Audit Evidence-Additional Considerations for Specific items
505	External Confirmations
510	Initial Engagements-Opening Balances

BSA NO	Present Title (BSA)
520	Analytical Procedures
530	Audit Sampling and Other Means of Testing
540	Audit of Accounting Estimates
545	Auditing Fair Value Measurements and Disclosures
550	Related Parties
560	Subsequent Events
570	Going Concern
580	Management Representations
600	Using the Work of Another Auditor
610	Considering the Work of Internal Auditing
620	Using the Work of an Expert
700	The Independent Auditor's Report on Complete Set of General Purpose Financial Statements
710	Comparatives
720	Other Information in Documents Containing Audited Financial Statements
800	The Auditor's Report on Special Purpose Audit Engagements
1000	Inter-Bank Confirmation Procedures
1004	The Relationship Between Bank Supervisions and Banks' External Auditors
1005	The Special Considerations in the Audit of Small Entities
1009	Computer-Assisted Audit Techniques
1014	Reporting by Auditors on Compliance with International Financial Reporting Standards

International Standards on Auditing (ISA)

International Standards on Auditing (ISA) are professional standards for the performance of financial audit of financial information. These standards are issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). All of their standard are maintained by ACNABIN Chartered Accountants.

There are about 36 Audit Standards which are as follows:

ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

ISA 210, Agreeing the Terms of Audit Engagements

ISA 220, Quality Control for an Audit of Financial Statements

ISA 230, Audit Documentation

ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements

ISA 260, Communication with Those Charged with Governance

ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

ISA 300, Planning an Audit of Financial Statements

ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

ISA 320, Materiality in Planning and Performing an Audit

ISA 330, The Auditor's Responses to Assessed Risks

ISA 402, Audit Considerations Relating to an Entity Using a Service Organization

ISA 450, Evaluation of Misstatements Identified during the Audit

ISA 500, Audit Evidence

ISA 501, Audit Evidence-Specific Considerations for Selected Items

ISA 505, External Confirmations

ISA 510, Initial Audit Engagements-Opening Balances

ISA 520, Analytical Procedures

ISA 530, Audit Sampling

ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

ISA 550, Related Parties

ISA 560, Subsequent Events

ISA 570, Going Concern

ISA 580, Written Representations

ISA 600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)

ISA 610, Using the Work of Internal Auditors

ISA 620, Using the Work of an Auditor's Expert

ISA 700, Forming an Opinion and Reporting on Financial Statements

ISA 705, Modifications to the Opinion in the Independent Auditor's Report

ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

ISA 710, Comparative Information-Corresponding Figures and Comparative Financial Statements

ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

ISA 800, Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

ISA 805, Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

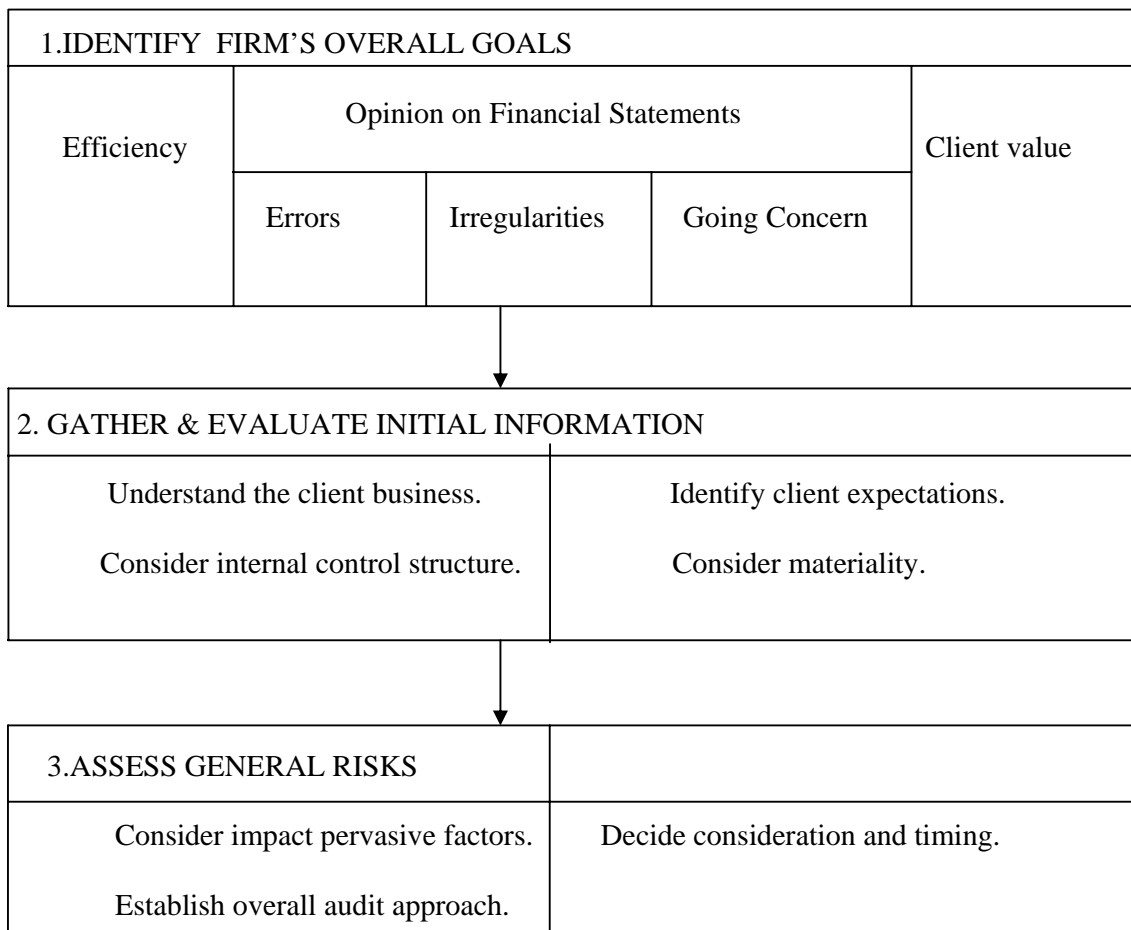
ISA 810, Engagements to Report on Summary Financial Statements

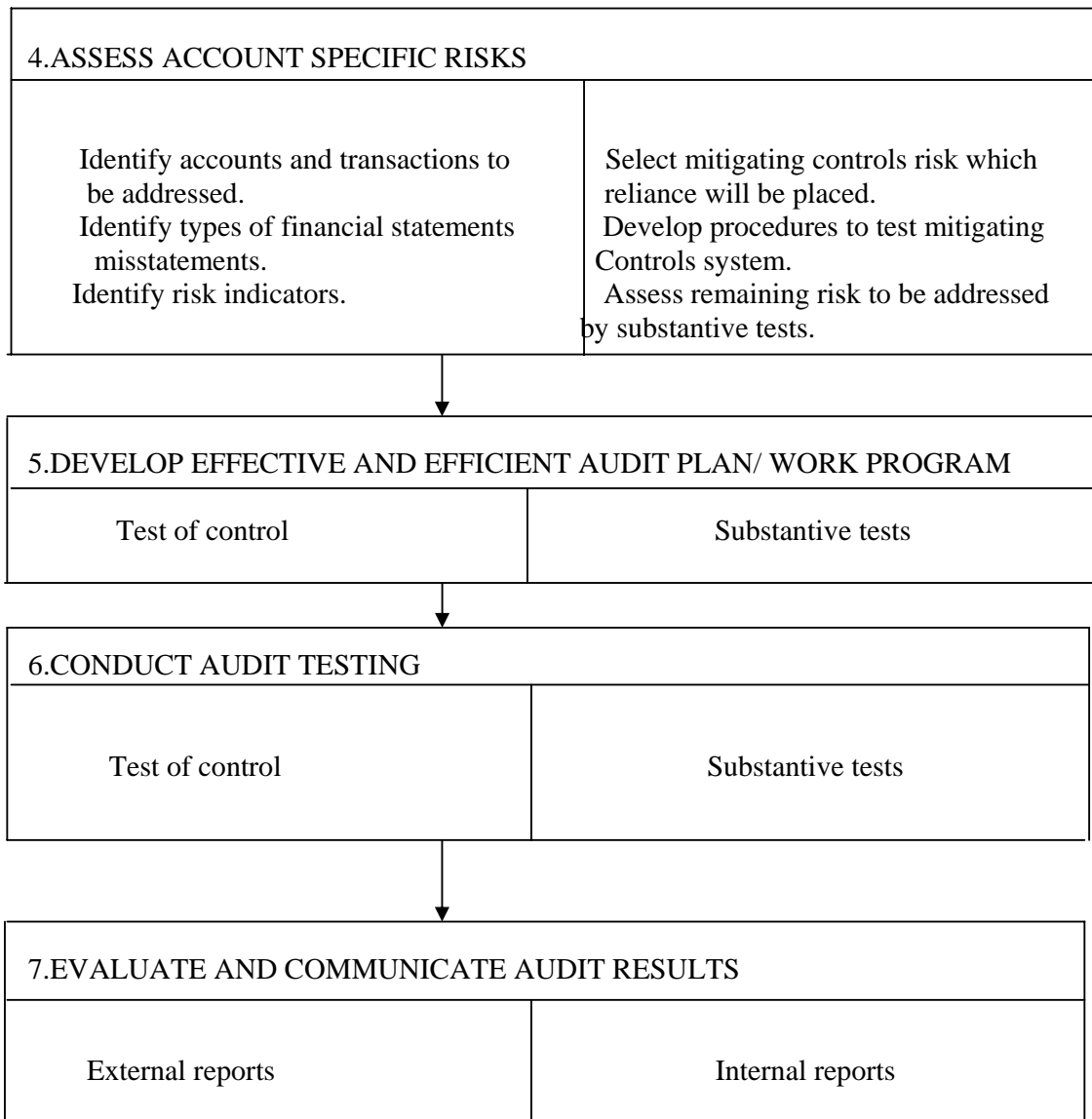
**A STUDY ON ACNABIN
CHARTERED ACCOUNTANTS
ANNUAL AUDIT PROCEDURES**

Annual audit procedures of ACNABIN Chartered Accountants

Audit responsibility is to provide the opinion on the financial statements whether in accordance with GAAP and audit is conducted in accordance with Bangladesh Standards on Auditing (BSAs) as well as International Standards on Auditing (ISAs). They also seek to provide auditing and management consultancy services that are innovative, efficient and most importantly responsive to the client's business needs. By following there seven steps they are conducting their audit in a proper way and they can say their opinion can give true and fair view of financial statements. There are seven steps involved in the procedures that come from one after another are as follows point out in the table:-

ACNABIN CHARTERED ACCOUNTANTS ANNUAL AUDIT PROCEDURES





1. Identify firm’s overall goals

ACNABIN Chartered Accountants considers accounting standards in formulating an opinion indicating that reasonable assurance has been obtained that the financial statements as a whole are free from material misstatements, whether due to fraud or errors and that are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP). In forming an opinion, the audit team also addresses responsibilities for:

- Error
- Irregularities
- Efficiency
- Client value

Errors

Errors are unintentional misstatements or omissions of accounts or disclosures in the financial statements may involve:

- a) Mistakes in gathering or processing accounting data from which financial statements are prepared.
- b) Incorrect accounting estimates arising from oversight or misinterpretation of facts.
- c) Mistakes in the application of accounting principles relating to amount, classification and manner of presentation or disclosure.

The audit team is required to design the audit to provide reasonable assurance through detection of material errors.

Irregularities

Irregularities are intentional misstatements or omission of amounts or disclosures in the financial statements, including fraudulent financial reporting and misappropriation of assets. So there is always a risk that material irregularities may occur and not to be detected. This risk is increased by the possibility of management's dominate of internal controls, collusion, forgery or unrecorded transactions.

Efficiency

The audit team should design audit procedures that accomplish the overall goals discussed above in the most efficient manner. Performing an efficient audit involves:

- a) Performing risk assessment and planning with adequate partner and manager involvement.

b) Designing the combination of audit procedures based on the risk assessment that will efficiently reduce the risk of undetected material misstatements.

c) Assigning work to adequately trained and supervised persons with appropriate experience and skill levels.

Client Value

It has long been a tradition of the firm to provide enhanced value to clients as an integral part of our audits. This strategy has allowed us to differentiate our approach are diverse from other firms. Delivering added value as an integral part of an audit and effectively communicating the added value information that is a key factor in building and maintaining a sound relationship with client top management and directors etc.

2. Gather & evaluate initial information

After involving with the client, the first task of ACNABIN Chartered Accountants is to collect and evaluate the relevant and necessary information related to the client's business for the purpose of:

- Understanding the client's business
- Considering the internal control structure
- Identifying client expectation
- Considering materiality

Understand the client's business

Before involving in an audit, the auditor should understand the client business properly. Proper planning and designing of an audit is dependent on proper understanding of client's business. So after appointing by a client, the members of an audit team use various sources to gain an understanding of the client business. The following source which provides understanding to the auditor's about the client business.

Annual Report

Financial and Administrative Manual

Previous years Audit Report (Internal & External)

Ledger Book

Internal Reports

Discussion with client.

Consider internal control structure

Every business has some kind of accounting system by which transactions are processed, record and maintained. The existence of a reliable system of internal control can be a great help to the auditor, because the objectives of the system should be:

- a) Ensuring that the records are complete, accurate and properly authorized,
- b) Detecting errors and fraud.

After involving with a client, Auditors try to understand the internal control structure of the client business as much as possible because understanding of the client's internal control structure helps auditor to determine the extent of our audit tasks.

Identify client expectations

As external auditor of ACNABIN Chartered Accountants should identify the client's anticipation to design and perform the audit to meet the client expectations.

Consider materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.

3. Assess general risks

During audit planning and risk assessment, ACNABIN Chartered Accountants obtain initial audit evidence in order to:

1. Effectively assess the inherent risk of potential financial statement misstatements,

2. Identify indicators of possible going concern problems and
3. Identify account specific risk and design an overall audit approach to provide reasonable assurance.

The assessment of risk is accomplished using a “top-down” approach. The audit team focuses initially on high level information. The nature and extent of documentation is vary significantly based on an entity’s size, complexity, ownership characteristics and level of risk.

4. Assess account-specific risks

Specific Risk Analysis (SRA) is built on information obtained during General Risk Assessment (GRA) after considering the evaluation of the internal control system. SRA is done to design the nature and extent of substantive tests on auditing stage.

At the Account Balance and Class of Transaction

For the account balance and class of transaction level risk assessment the following major account heads should be considered:

Cash, Bank, Inventory, Fixed Assets, Accounts Receivables, Accounts Payables, Revenue, Expense, Payroll, Net Assets, Retained Earnings , Fund balances, Other Assets, Other Liabilities, Investment and Loan.

The Auditors of ACNABIN generally assess the risks at account balance level in view of the following items:

- Financial statement accounts likely to the liable to misstatement.
- The complexity of underlying transactions and other events which might require using the work of an expert.
- The degree of judgment involved in determining account balances.
- Susceptibility of assets to loss or misappropriation.
- The completion of unusual and complex transactions, particularly at or near period end.
- Transactions are not subjected to ordinary processing.

Audit Risks

In determining the nature, timing and extent of substantive procedures required to reduce audit risk to an acceptably of the auditor should consider the assessed levels of inherent and control risks. In this regard ACNABIN consider:

- a) The nature of substantive procedures,
- b) The timing of substantive procedures and
- c) The extent of substantive procedure.

Consideration of Fraud and Error

ACNABIN has professional responsibility for materially misstated in the financial statements resulting from errors and irregularities. As auditors, they must provide reasonable assurance through detect of materials errors and irregularities.

The potential for financial statement fraud exists on every engagement. To address the risk of potential fraud we must:

1. Assess the risk of potential fraud
2. Design their audit procedures to respond identified risks.

They perform their audit with appropriate professional skepticisms and due processional care.

Inquiries of Management

When planning the audit, ACNABIN Chartered Accountants make inquiries of management:

- a) To obtain an understanding of:
 - Management evaluation of the risk that the financial statements may be materially misstated as a result of fraud and error.

- Management has put the accounting and internal control systems in place to address such risk.
- b) To obtain knowledge of management understands regarding the accounting and internal control system in place to prevent and detect error.
- c) To determine whether management is aware of any kind fraud that has affected the entity or suspected fraud that the entity is investigating and
- d) To determine whether management has discovered any material errors.

Assessment of Inherent Risk and Control Risk

When assessing inherent risk and control risk, they generally consider how the financial statements might be materially misstated as a result of fraud or error. In considering the risk of material misstatement resulting from fraud, the auditor should consider whether risk factors indicate the possibility of either fraudulent financial reporting or misappropriation of assets.

Assessment of Detection Risk

Based on the assessment of inherent and control risks, they design substantive procedures to reduce the detection risk to an acceptably low level. In designing the substantive procedures they address the fraud and risk factors that have been identified as being present.

Documentation

If during the performance of the audit, fraud risk factors are identified that cause the auditor to believe that additional audit procedures are necessary, the auditor should document the presence of such risk factors and the auditor's response to them.

Management Representations

The auditor should obtain written representations from management that:

It acknowledges its responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent fraud and error.

It has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Communication

When the auditor identifies a misstatement resulting from assumed fraud or error, then auditor's responsibility is to communicate to the management those charged with governance in some circumstances, to regulatory and enforcement authorities.

5. Development of effective and efficient audit plan/ work program

Work program is a list of procedures that are needed to be performed to conduct the audit. The program may also contain the audit objectives for each area and should have sufficient detail to serve as a set of instructions to the assistants involved in the audit and as a means to control the proper execution of the work.

They use work programs were developed for different types of business and for different types of account heads. Usually an audit work program contains-

- Client procedures and background information.
- Audit objectives.
- Audit procedures.
- Performance and results of work.
- Conclusions.

The work program must be completed and any revisions in the program, made during testing must be adequately explained and approved by the audit manager.

6. Conduct audit testing

After completing the work program, the ACNABIN Chartered Accountants audit team is also required to design the audit and to provide reasonable assurance concerning the company's financial statements through detection of material errors and frauds. The Job-In-charge of an audit team is responsible to ensure that the following two test are considered at the time of financial statements audit for providing reasonable assurance concerning the company's financial statements to the interested users of the company.

1. Test of Controls

2. Substantive Test

Test of controls

Test of control is an approach to further reducing the assessed level of control risk by testing a sample of transactions and estimating pertinent error rates. Test of control may assume the form of observation, reprocessing or document testing.

Test of control approach is likely to be effective when:

1. The organization is not too small
2. Number of transactions records are not very few and
3. The control system is non-existing or very weak.

The auditor performs tests of control to determine, how well the company's control actually functioned during the period under audit.

Substantive tests

Substantive tests are procedures performed to detect misstatements in financial statement balances. The Auditor perform the following two types of Substantive tests:

- Analytical procedures
- Details tests

Analytical Procedures are the testing of financial information by evaluating actual vs. expected relationships among financial and non-financial data. Analytical procedures may be used as a substantive test of balances and for a final review of yearend financial statements. The auditor should apply analytical procedures at the planning and overall review stages of the audit.

Analytical procedures include the consideration of comparisons of the entity's financial information with –

- Comparable information for prior periods.
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.

- Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

ACNABIN Chartered Accountants generally apply analytical procedures at near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's knowledge of the business.

Details tests

Detailed tests may include in the following matters

- a) Confirmation of third parties- Bank Account Payable & Account Receivable
- b) Observation of asset – Inventory count, Cash Count and Fixed Assets count
- c) Tests of reconciliation- Bank reconciliation
- d) Analysis of account
- e) Vouching
- f) Exception tests
- g) Cut off tests
- h) Inquire
- i) Valuation tests
- j) Evaluation of Financial Statements
- k) Reading of minute of meeting of stockholder, directors and committee.

Confirmations

The audit team should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence to support certain financial statement assertions. In some situations, audit evidence from external sources is more reliable than internal audit evidence. Accordingly, audit evidence in the form of written responses to confirmation requests received directly by the auditor from third parties who are not related to the entity being audited, may assist in reducing audit risk for the related assertions to an acceptably low level.

Examples of accounts receivables, accounts payables and bank balance confirmation form that are used by ACNABIN Chartered Accountants to confirm the client's balance of various accounts receivables and accounts payables.

7. Evaluate and communicate audit results

At the last stage of audit, the audit team communicates the result of the audit to the management and the stakeholders of the company. The audit team issues two types of reports:

- a) External Report which is commonly known as the "Auditor's report"
- b) Internal Report which is known as "Management Letter".

Reporting the result of the Audit

The audit report is the terminate step in the audit process. It summarizes the scope of the audit and presents the auditor's finding in the form of an audit opinion. The audit report concisely describes the auditor's responsibility, the nature of the examination and the auditor's findings.

Reporting is essential to the audit process because it explains what the auditor did and the conclusion achieve. Frequently, it is the only part of the audit users see. Therefore, from the users' point of view, the report is the auditor's product.

Audit reports are designed to promote clear communication between the auditor and the financial statement reader by clearly delineating the following:

What was audited and the division of responsibility for financial statements between the client's management and the auditor (introductory paragraph)

The nature of the audit process (scope paragraph)

The auditor's opinion on the fairness of the financial statements (opinion paragraph)

Each part of the audit report is significant in terms of the information conveyed to the user and the responsibility assumed by the auditor. Regardless of the auditor, the following parts of the audit report remain the same:

- **Report Title**
- **Audit Report Address**
- **Introductory Paragraph**
- **Scope Paragraph**
- **Opinion Paragraph**
- **Date of Audit Report**
- **Auditor's Address and**
- **Auditor's signature**

Report Title: The audit report must contain a title. Also, except when the auditor lacks independence, the title must include the word independent, to distinguish it from other kinds of reports rendered by CPAs.

Audit Report Address: The auditor's report should be mentioned appropriately addressed as required by the circumstances of the engagement and local regulations. The report is ordinarily addressed either to the shareholders or the broad of directors of the entity whose financial statements are being audited.

Introductory Paragraph: The introductory paragraph identifies the financial statements covered by the audit report and clearly differentiates management's responsibility for preparing the financial statements from the auditor's responsibility for expressing an opinion on them. Management responsibility is direct, where the auditor has an indirect responsibility for exercising due care in conducting the audit and expressing an opinion on the financial statements. In contrast, the auditor's responsibility is to audit these financial statements in order to express an opinion . An illustration of these matters in an introductory paragraph is:

“ We have audited the accompanying balance sheet of the ABC company as of june31,20XX and the related statements of income and cash flows for the year ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based on our audit”.

Scope Paragraph: The auditor's report should be describe the scope of the audit by starting that the audit was conducted in accordance with BSA & ISA. “Scope” refers to the auditor's ability to perform audit procedures deemed necessary in the circumstances. The reader needs this as an assurance that the audit has been carried out in accordance

with established standards are practices. The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The auditor's report should describe the audit as including:-

- I. Examining on a test basis evidence to support the financial statements amounts and disclosures.
- II. Assessing the accounting principles used in the preparation of financial statements.
- III. Assessing the significant estimates made by management in the preparation of financial statements.
- IV. Evaluating the overall financial statements presentation.

The report should include a statement by the auditor that the audit provides a reasonable assurance basis of the opinion. An illustration of these matters in a scope Paragraph is:

“ We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA) & ISA (International Standards on Auditing). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, collection of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable assurance basis for our opinion”

Opinion Paragraph: The opinion Paragraphs of the auditor's report should clearly indicate the financial reporting framework used to prepare the financial statements and state the auditor's opinion as to whether the financial statements gives a true and fair view in accordance with that financial reporting framework and where appropriate, whether the financial statements comply with statutory requirements. The terms used to express the auditor's opinion are “give a true and fair view” or present fairly, in all material respects” and are equivalent. In addition to an opinion on the true and fair view (or fair presentation, in all material respects), the auditor's report may need to include an opinion

as to whether the financial statements comply with other requirements specified by relevant statutes or law. An illustration of these matters in an opinion paragraph is:

“In our opinion, the financial statements give a true and fair view of (present fairly, in all material respects), the financial position of the company as of June 31,20XX and of the results of its operations and its cash flows for the year ended in accordance with Bangladesh Accounting Standards (BAS)”.

Date of Audit Report: The report should be signed by the auditor and usually is dated as of the close of audit field work. This inform the reader that the auditor has considered the effect on the financial statements and on the report of events and transactions of which the auditor become aware and that occurred up to that date.

Auditor’s Address: The report should name a specific location, which is generally the city where the auditor maintains the office that has responsibility for the auditor.

Auditor’s signature: The report should be signed in the name of the audit firm. The auditor’s report is generally signed in the name of the firm because the firm assumes responsibility for the auditor.

ACNABIN Auditor’s Report

Upon completion of the audit field work then ACNABIN Chartered Accountants must decide whether an opinion can be rendered. If an opinion cannot be rendered, the auditor must clearly disclaim an opinion and give the reasons for the disclaimer. If an opinion can be rendered, the auditor must decide whether to issue a Positive and Negative opinion through audit report, according to Bangladesh Standards on Auditing and International Standards on Auditing.

(i) Positive Opinion

(A)Unqualified Auditor’s Report

ACNABIN Chartered Accountants expressed an unqualified audit report when the auditor concludes that the financial statements are prepared in all material respect, in accordance with the applicable financial reporting framework. In addition, an unqualified opinion indicates that the financial records have been maintained in accordance with the standards

known as Generally Accepted Accounting Principles (GAAP). This is the best type of report a business can receive. Typically, an unqualified report consists of a title that includes the word “independent.” This is done to illustrate that it was prepared by an unbiased third party. The title is followed by the main body. Made up of three paragraphs, the main body highlights the responsibilities of the auditor, the purpose of the audit and the auditor’s findings. The auditor signs and dates the document, including his address.

(B) Modified Auditor’s Reports

In addition to modified audit report, ACNABIN Chartered Accountants sometimes provide modified audit report. An auditor’s report is considered to be modified in the following situations:

1. Matters that do not affect the auditor’s opinion
 - a) Emphasis of matter
2. Matters that do affect the auditor’s opinion
 - a) Qualified opinion
 - b) Disclaimer of opinion and
 - c) Adverse opinion

Matters that do not affect the auditor’s opinion

In certain circumstances, an auditors of ACNABIN Chartered Accountants may be modified by adding an emphasis of matter paragraph to highlight:

- i. A material matter regarding a going concern problem.
- ii. A significant uncertainty (other than a going concern problem).

The addition of such an emphasis of matter paragraph does not affect the auditor’s opinion. The paragraph would preferably be included after the opinion paragraph and would ordinarily refer to the fact that the auditor’s opinion is not qualified in this respect.

Matters that do affect the auditor's opinion (Qualifications in audit reports)

An auditors of ACNABIN Chartered Accountants may not be able to express an unqualified opinion when either of the following circumstances exists and in the auditor's judgment, the effect of the matter is or may be material in the financial statements:-

- There is a limitation on the scope of the auditor's work;
- There is a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of the financial statement disclosures.

(ii) Negative Opinion

(A) Qualified Opinion

In situations when a company's financial records have not been maintained in accordance with GAAP but no misrepresentations are identified, that time ACNABIN Chartered Accountants will issue a qualified opinion. The writing of a qualified opinion is extremely similar to that of an unqualified opinion. A qualified opinion includes in additional paragraph that highlights the reason why the audit report is not unqualified.

(B) Adverse Opinion

The worst type of financial report that can be issued to a business is an adverse opinion. This indicates that the firm's financial records do not conform to GAAP. In addition, the financial records provided by the business have been revoltingly misrepresented. Although this may occur by error, it is often an indication of fraud. When ACNABIN Chartered Accountants issued adverse opinion, after that a company must correct its financial statement and have it re-audited, as investors, lenders and other requesting parties will generally not accept it.

(C) Disclaimer of Opinion

In some instance, an auditor is unable to complete an accurate audit report. This may occur for a variety of reasons, such as an absence of appropriate financial records. When this happens, that time ACNABIN Chartered Accountants issues a disclaimer of opinion, stating that an opinion of the firm's financial status could not be determined.

Internal report/ Management letter

As a value added service to the client, ACNABIN Chartered Accountants gives a management letter to its audit clients. The main purpose of the letter of management is to draw the attention of management to areas of weakness requiring rectification. It is also possible for the auditor to suggest areas where economies or improved efficiency are possible. It will usually deal with matters not serious enough to justify an audit qualification.

Purposes of Management Letter

1. The principal purpose of management letter is to enable the auditor to give comments on the accounting records, systems and controls that has examined by auditor. Significant areas of weakness in systems and controls that might lead to material errors should be highlighted and brought to management's attention.

2. As a secondary purpose of management letter may also be used to provide management with other constructive advice.

3. A letter to management is also a useful means of communicating matters that have come to the auditor's attention during the audit that might have an impact on future audit.

Contents

Generally the following matters, arising out of the audit

1. Weaknesses in the structure of accounting systems and internal controls,
2. Deficiencies in the operation of accounting systems and internal controls,
3. Unsuitable accounting policies and practices,
4. Non-compliance with accounting standards.

Points made in previous years' management letter should be reviewed. Where they have not been dealt with effectively, the auditors should enquire why appropriate action has not been taken.

Management response: The auditor should request a reply to all the points raised, indicating what action management intends to take as a result of the comments made in the management letter. It should be made clear in the report that the auditor expects at least an acknowledgement of the letter or where they considers it appropriate, the directors discussion of the letter to be recorded in the board meeting.

Basic Elements of the Management Letter

The management letter includes the following basic elements ordinarily in the following present:

- a) Addressee
- b) Transmittal Letter
- c) Title
- d) Background Information
- e) Scope of Work, e.g.
 - i. Compliance
 - ii. Authorization
 - iii. Accuracy
 - iv. Monitoring
 - v. Safeguarding
- f) Findings: Each finding consists of four different sections as under:
 - i. Fact (What it is)
 - ii. Effect (What impairment was caused by not complying with the criteria)
 - iii. Recommendation (That corrects the cause and the condition as applicable)
 - iv. Management Response
- g) Date of the report
- h) Auditor's address and
- i) Auditor's signature.

Chapter-04

FINDINGS, RECOMMENDATION & CONCLUSION

Findings of the Study

During my internship period, every time I had to converse with the audit managers of ACNABIN Chartered Accountants and the articled students due to the report purpose. Based on discussion with them I have found out some matters regarding the audit procedures of ACNABIN Chartered Accountants, which are as follows:

- In some case auditors cannot thoroughly check the clients' books of account and relevant vouchers due to time limitations as the auditor work on the basis of sampling.
- In some case, ACNABIN Chartered Accountants don't properly maintain the audit permanent files.
- The logistic support of ACNABIN Chartered Accountants are not sufficient. As a consequence, sometimes the students cannot prepare the audit reports in the given time due to shortage of computers.
- In some case, the student of ACNABIN Chartered Accountants are not given proper orientation about the new client's business. As a result, perform the audit activities without having proper knowledge about the client's business.
- Sometimes, the client gives appointment to ACNABIN Chartered Accountants for a short time period to conduct the audit so the auditor have to perform the audit in a hurry and issue the audit report by checking few documents regarding the financial statements.

Recommendation of the Study

Based on the findings, I have tried to dictate some necessary recommendation in my report; which are as follows:

- The auditor should select at least three quarter of the documents regarding the financial statements to verify so that the chance of material misstatements in the untested documents can be reduced and the audit report will be more reliable.
- They should correctly and strictly maintain the audit permanent files so that adequate information about a clients can be obtained easily.
- ACNABIN Chartered Accountants should improve their logistic support so that the auditors can be able to prepare and submit the audit report on due time.
- To get an outline regarding the new client's business, ACNABIN Chartered Accountants arrange proper orientation for the students so that they can be able to verify the documents and issue the audit report properly.
- As it is not possible for the auditors to go all the branches to conduct audit, so they should collect all the papers and documents from the entire branches with the help of the head office.

CONCLUSION

In this report, I have tried my level best to cover the details audit procedures as followed by ACNABIN Chartered Accountants in accordance with Bangladesh Standards on Auditing (BSA) and International Standards on Auditing (ISA) in providing auditing service to its clients. At first I have tried to give the theoretical understanding about the audit and its related issues to the users so that they can get a clear view about the audit then I have also studied the rules and regulations that are required by the ICAB for auditing. ACNABIN Chartered Accountants performs an excellent job in providing audit services for the clients. The staffs who are directly associated with the excellence of audit service deserve to be acclaimed for their endeavor to this end. ACNABIN Chartered Accountants believes in creating the difference in the market place by offering impeccable quality.

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