



**Snehasish
Mahmud & Co.**

2021

**An Internship Report Auditing on fraud
detection and prevention in
Bangladesh. Snehasish Mahmud & Co.**

An Internship Report Auditing on fraud detection and prevention in Bangladesh: Snehasish Mahmud & Co.

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Letter of Transmittal

15th January, 2022

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Lecturer

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Subject: Submission of Internship Report.

Dear Sir,

I would like to thank you for your support and guidance that you provided for this report completion. Without your help, it would have been impossible to complete. Moreover, I would like to acknowledge the help provided by Syed Moinuddin Hasan Assistant Manager, Snehasish Mahmud & Co. for providing immense support during my internship period in the organization.

This has given me the opportunity to explore work activities of audit firms of Bangladesh. The report contains the working procedure of Chartered Accountants. I have tried to collect relevant information to make my report as analytical and reliable as possible. I have gathered huge practical knowledge and experience during my report preparation, which will definitely help me in my professional life.

I, therefore, would really be grateful if you enlighten me with your thoughts and views regarding the report. Thank you again for your support and patience.

Sincerely Yours,

Jahidul Islam

BBA2003021004

Sonargaon University

Letter of Endorsements by the Supervisor



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Dated: 01st December, 2021.

TO WHOM IT MAY CONCERN

This is to certify that **Mr. Md. Jahidul Islam**, (ID- 2003021004) studying BBA in Sonargaon University of Bangladesh has successfully completed "**Internship**" program at SNEHASISH MAHMUD & Co., Chartered Accountants commencing from 01st July 2021 to 30th September 2021.

During his period of training, he went across aspects of our Accounting & Audit Consultancy Services. He has performed his tasks sincerely and in the given time.

We wish him successful career and bright future.

Sincerely,

Syed Moinuddin Hasan
Assistant Manager
Human Resources
Email : sm.hasan@smac-bd.com

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Student Declaration

I am Jahidul Islam, a student of Bachelors of Business Administration, ID: BBA2003021004 from Sonargaon University would like to solemnly declare here that this report on “**Auditing fraud detection and prevention in Bangladesh: Snehasish Mahmud & Co**” has been authentically prepared by me. While preparing this report, I didn’t breach any copyright act internationally. I am further declaring that, I did not submit this report anywhere for awarding any degree, diploma or certificate.

Sincerely Yours

Jahidul Islam
ID: BBA2003021004
Program: BBA
Major: Accounting
Semester: Fall

Letter of Authorization

Certified that this project report titled “**Auditing on fraud detection and prevention in Bangladesh: Snehasish Mahmud & Co**” is the bonafede work of Jahidul Islam, audit trainee who carried out the research under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

.....

Hasan Ibn Jahan

Assistant Manager

Audit Department

Snehasish Mahmud & Co

Acknowledgement

I wish to extend my gratitude to all the people who helped me accomplish my report title, “**Auditing on fraud detection and prevention in Bangladesh: Snehasish Mahmud & Co.** At the very beginning, I want to thank my faculty advisor and internship supervisor in Sonargaon University, Farjana Yeasmin Chowdhury who has given me precious guidance from her busy schedule. I am very grateful for all her advice in order to make my report more effective.

Secondly, I am grateful to Mr. Hasan Ibn Jahan, Assistant Manager of Snehasish Mahmud & Co in Audit department for being my internship supervisor. He has shown me how to get things done easily and helped me a lot. I am thankful to Mr. Sukanta Bhattacharjee, Partner of Snehasish Mahmud & Co for granting my internship in his department. I want to express my sincere gratitude to Mr. K.M Piyal Alam, Audit trainee of Audit department for his cordial cooperation and encouragement.

Executive summary

This report titled ‘**Auditing on fraud detection and prevention in Bangladesh: Snehasish Mahmud & Co.**’ - is written to represent the 12 weeks of internship program done in Snehasish Mahmud & Co. This report is a blend of the knowledge of undergraduate program and the experience of the practical field.

On the very first part, there is the description about the audit process in Bangladesh. Here there are two parts, one describes audit and the other one is all about the audit practice in Bangladesh according to the Audit Practice Manual (APM). All the stages followed for audit in Bangladesh are discussed. The second part of the report is about the firm where I worked as an internal auditor. Snehasish Mahmud & Co is an independent member of an international body, so the processes are a bit different and properly presented. However, the total idea of audit is same in both cases.

The third part I have tried to discuss about fraud prevention and detection by the accountants. In this part, I have tried to bring the steps related to Audit Practice Manual (APM) and discussed few issues I was permitted to disclose only. This part also has the lessons I learned and the responsibilities I had to fulfill during the audit. In the last, I have tried to draw an overall conclusion.

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Chapter One

Introduction

1 Introduction

1.1 Introduction

University is known to be the highest platform for gaining knowledge. It helps to explore the field; a student wants to study in and gives an opportunity to take the experience of that practical field. Practical field knowledge is also known as ‘internship program’ of university. Internship is a very good way for a student to test the way he or she has chosen for future career. Anyone can definitely change their field in post-graduation stage if this experience does not match with their desired goals.

I have always wanted to pursue Chartered Accountancy after completion of my undergrad. Therefore, working in Snehasish Mahmud & Co has helped me to explore the field before get into it. This internship report gave me an opportunity to observe and perform the audit procedures.

I joined as an intern of Snehasish Mahmud & Co and was assigned as an internal auditor.

1.2 Background of the Study

12 weeks of internship program is mandatory to complete the undergrad degree from Sonargaon University. This report is an outcome of the three-month long internship program conducted in Snehasish Mahmud & Co, one of the reputed CA firms of the country while working in the Snehasish Mahmud & Co I was assigned as an internal auditor. There I have observed and understood many procedures and process of four different concerns of my client. However, I had to maintain the confidentiality of the client. Therefore, I decided to do my report on the basic mechanism of auditing practiced in Bangladesh what I get to know through Snehasish Mahmud & Co.

1.3 Scope of the study

Chartered Accountancy has always been a valued profession for the business students. Very few students are interested and come to explore this field. The economy of Bangladesh is growing tremendously which has led the country to be listed as the developing country by United Nation's Committee for Development Policy (CDP) (Huda, 2018). This has increased the need for Chartered accountants more. Moreover, this profession gives the opportunity to know business from the core and so my interest was always there.

As an intern, I got the opportunity to know how the audit mechanism works in Bangladesh and experienced the work of a very reputed manufacturing organization closely. I could relate the processes with the classroom knowledge; also, I was introduced with different practices, which were yet to know. On the other hand, Internship program of the university is an integral part of the BBA program. To minimize the gap between theoretical knowledge & practical field a student is required to work on a specific topic acquired during the period of the internship program.

It is obligatory to undertake such task by the students who want to complete their BBA degree successfully. The importance of this issue in these days and the requirement of my course completion led me to conduct this.

1.4 Objectives

There are mainly two objectives behind the preparation of this report such as primary objectives and secondary objectives. They are discussed below:

The Primary Objective:

The primary objective of preparing this report is to fulfill the partial requirements of the undergrad program.

Secondary Objective:

The secondary objectives are given below:

- ✓ To blend the knowledge gained in the classroom with the practical field.
- ✓ To know the basic process of auditing in Bangladesh, through Snehasish Mahmud & Co
- ✓ To evaluate the set of audit work done in management audit.
- ✓ To identify about how to accumulate and process evidences to make an audit report.
- ✓ To examine the need for an effective audit system in Bangladesh.
- ✓ To assess the level of fraudulent activities in Bangladeshi companies.
- ✓ To examine the roles played by internal audit in fraud management in Bangladesh and,
- ✓ To recommend ways of improving the internal audit system in Bangladeshi companies.

1.5 Methodology

This report mainly endeavors to show qualitative data that are relevant to serve the objectives of the report. Data have been gathered from primary source, basically, from Snehasish Mahmud & Co. The data collection and inclusion had been conducted by careful review of relevant documents that are available in Snehasish Mahmud & Co and permissible for usage. Articles, journals, various study materials, newspaper reports, internet, interview of managers and Client's staff, discussion with teammates have assisted in preparing this report. Other than this, the Bangladesh Standards on Audit (BSA), International Standards on Audit (ISA), Snehasish Mahmud & Co website were used as resources

1.6 Limitations of the Project

I have tried to enrich and complete this report although there are some limitations faced:

- Not being involved with the activities of Snehasish Mahmud & Co.
- Lack of knowledge about the development sector of Bangladesh.
- To understand all the clauses of engagement, a good knowledge on legal affairs, income tax and VAT were necessary.
- Time was also a limitation. Gathering a huge amount of information during working for only three months was really a difficult job.
- Firm's Code of Conduct In order to maintain the firm's secrecy and confidentiality the firm restricts its information, which did not allow me to provide in-depth information of the firm's audit procedure.

Chapter Two

Profile of Snehasish Mahmud & Co

2 Snehasish Mahmud & Co.

2.1 Historical Background

Snehasish Mahmud & Co. (SMAC), Chartered Accountants is a professional firm established on 13 March 2013, providing Audit, Tax and Consulting services. As professional advisors we help clients solve complex business problems. The company's aim to enhance their ability to build value, manage risk and improve performance and goal is to add value by helping to improve transparency, trust, consistency and capacity of your business.

2.2 Corporate Profile at a glance

They strive to be the leading company in professional services by providing quality service to a select group of clients who embrace the same high standards of ethics and integrity as ourselves. They believe in growing responsibly so that we can build an institution of international standards. The company is providing services to several multinational companies like Unilever, Marico, BATBC, PMI International, Coats Bangladesh etc

2.3 Vision

Evolve as a leading institution of international standards to be used as a benchmark by our clients and peers for providing professional services.

2.4 Mission

Snehasish Mahmud & Co's mission is- Provide service to our clients ethically through leadership and collaboration.

2.5 Values

A In order to succeed, we must grow and develop, both as individuals and as a business. Our core values of service, collaboration and leadership help us achieve this growth.

- To lead by example
- To deliver quality services with integrity
- To communicate openly, to act ethically
- And to foster a community built around civic responsibilities and teamwork.

We are passionate about helping our clients, while at the same time developing our people's potential.”

2.6 Objectives

Snehasish Mahmud & Co., Chartered Accountants is a professional firm providing Audit, Tax, Advisory and Training services. As professional advisors we help our clients solve complex business problems. We aim to enhance their ability to build value, manage risk and improve performance. Our goal is to add value by helping to improve transparency, trust, consistency and capacity of your business.

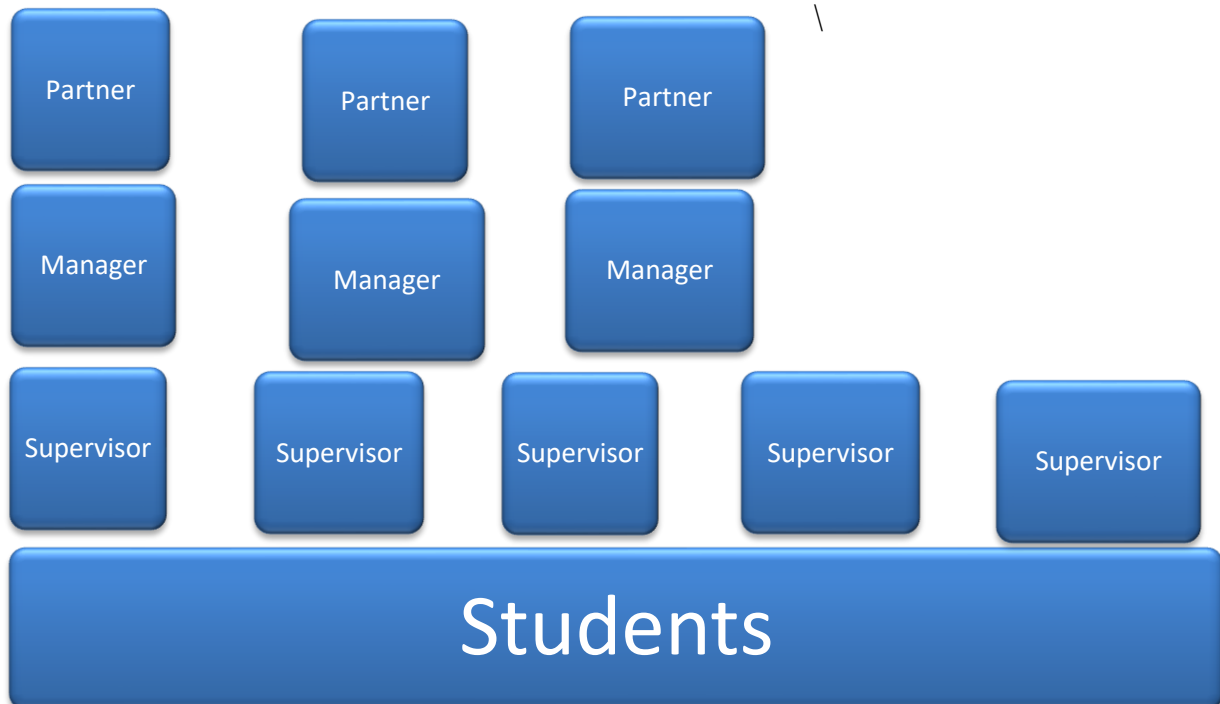
2.7 Services

Snehasish Mahmud & Co. provides quality services to a diverse and wide range of clients in the private and public sectors in Bangladesh. It also provides services to international development agencies and expatriate consultants working in different projects. The services are:

- Audit & Assurance,
- Tax and legal advice,
- Advisory,
- Consultancy and
- Outsourcing.

2.8 Organogram:

The Organogram of Snehasish Mahmud & Company is shown below:



Chapter Three

Theoretical Background

3 Theoretical Background

3.1 General Definition of Audit

The International Auditing Practices Committee (IAPC) of International Federation of Accountants (IFAC) defines audit as:

“The independent examination of the financial information of any entity, whether profit oriented or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon. The term financial information encompasses financial statements”.

3.2 Regular audit practice in Bangladesh

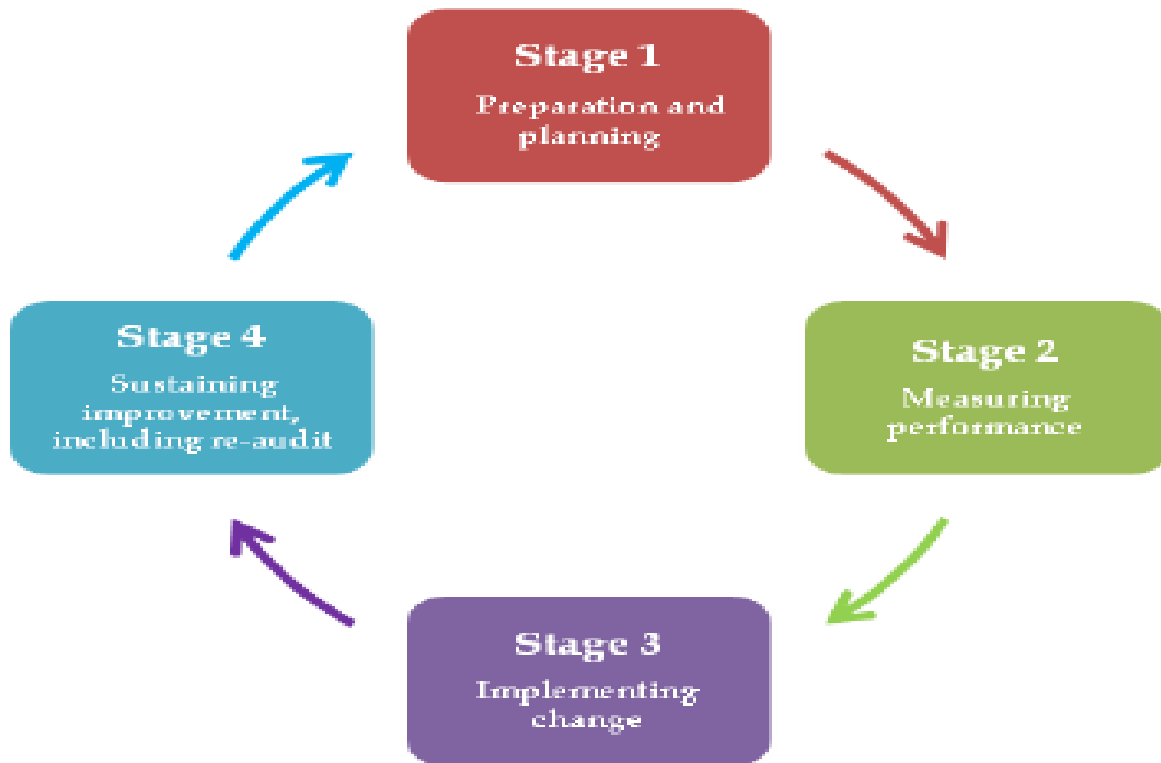
Audit is a systematic process, which is more or less same in every country. The basic differences are in the rules and regulation that every country has to follow not in the steps taken to conduct audit. There are various types of auditors, for example: internal, external, government and forensic auditor and according to the engagement the works differ.

Auditor has to gather auditing evidence to evaluate the reliability of the accounting records. He has to judge whether the information presented is logical and reasonable. Examples of auditing procedure can be, checking the raw material buying process of the company, how the company maintains the payables and receivables accounts, internal control system of the concerns etc.

3.3 Audit Process by ICAB

Institute of Chartered Accountants of Bangladesh (ICAB) is the regulated body for the audits in Bangladesh. Audit Practice Manual (APM) is known to be the bible for auditors. Everything is written in the manual and auditors have to follow that. Audit procedure is summarized in a part of APM. It describes four steps. They are discussed below:

Figure 1: Audit Steps



Planning

Planning is the key factor for audit. In most of the time, auditors forget to do some checking what they have not planned. Moreover, an audit might take too long to complete if it is not properly planned. According to the International Standard of Auditing 300, audit has to be planned. In Bangladesh, Bangladesh Standards of Audit (BSA) is followed which has compliance with ISA. According to the Audit Practice Manual of Bangladesh, planning helps the auditor to:

- Allocate proper time and budget needed for audit.
- Accurately organize and accomplish the audit engagement by dividing the work among the engagement team members according to their skills and competence.
- Identify audit risks.

Factors of planning:

Assessment of risk and materiality

Risk and Materiality is the 1st step of planning. They are the two-principal procedure of planning.

Risk: The two important risks in Bangladesh Standards on Auditing (BSA) are:

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

These BSAs are more demanding than the previous standards to understand the depth of client's systems and operation.

The nature of risk:

Audit risk may arise from the business environment in which the entity operates. It may arise from the operation of the entity's control system or from the failure of audit procedures including the sampling risk. The third component cannot be eliminated. Sampling risk will always be there. However, the purpose of the manual is to minimize that. There are few types of risks found, which are: Business risk, Audit risk, Inherent risk, Control risk, Detection risk.

Materiality:

According to the IASB 'Framework for the Preparation and Presentation of Financial Statements' materiality is, '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. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful'.

Analytical review:

Bangladesh Standards of Audit (BSA) 520.2 states that the auditor should apply analytical review procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit.

Analytical review may be relevant to three distinct but interrelated stages of the audit:

- The planning stage;
- Extensive analytical review as a substantive test and
- The final stage – as part of the critical review of account

According to the Audit Practice Manual, these separate stages should not be considered to be mutually exclusive, but part of a continuous process of review.

Test of control:

Bangladesh Standards on Auditing (BSA) has made it mandatory to do the test of control. It is required to check the internal control system of the client. For doing a plan, the test controls are also considered. According to Audit Practice Manual the reason for test controls is:

- As part of understanding the entity and its environment, it is a requirement to evaluate the design and implementation of all controls relevant to the audit.
- Evaluating the design and implementation of controls requires more than just enquiry; further work such as inspecting documents or tracing transactions through the system is required.
- Testing of the operational effectiveness of internal controls (compliance testing) is mandatory where: the risk assessment includes an expectation that controls are operating effectively, or substantive tests alone do not provide sufficient evidence of their operation.

Fraud:

This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how ISA 3151 and ISA 3302 are to be applied in relation to risks of material misstatement due to fraud.

Fraudulent activities can encompass a wide range of cases, including money laundering, cybersecurity threats, tax evasion, fraudulent insurance claims, forged bank checks, identity theft, and terrorist financing, and is prevalent throughout the financial institutions, government, healthcare, public sector, and insurance sectors.

To combat this growing list of opportunities for fraudulent transactions, organizations are implementing modern fraud detection and prevention technologies and risk management strategies, which combine big data sources with real-time monitoring, and apply adaptive and predictive analytics techniques, such as Machine Learning, to create a risk of fraud score.

Detecting fraud with data analytics, fraud detection software and tools, and a fraud detection and prevention program enables organizations to predict conventional fraud tactics, cross-reference data through automation, manually and continually monitor transactions and crimes in real time, and decipher new and sophisticated schemes.

Fraud detection and prevention software is available in both proprietary and open-source versions. Common features in fraud analytics software include: a dashboard, data import and export, data visualization, customer relationship management integration, calendar management, budgeting, scheduling, multi-user capabilities, password and access management, Application Programming Interfaces (API), two-factor authentication, billing, and customer database management.

The prevention and detection of fraud within a company is primarily the responsibility of the management under the oversight of those charged with governance. Auditors, along with other members of the corporate governance and reporting ecosystem, also have an important role.

Currently, auditors are responsible for providing reasonable assurance to shareholders that the financial statements are free from material misstatement, whether caused by fraud or error. Public opinion in many places, however, indicates that auditors are expected to play a role that extends beyond providing this reasonable assurance.

Professional Skepticism:

In accordance with ISA 2005, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A7–A8)

Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A9)

Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

In accordance with ISA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.⁹

Prevention of the Risks of Material Misstatement Due to Fraud:

1. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Ref: Para. A28–A30)
2. The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks. (Ref: Para. A31–A32)

While there have been some major corporate failures as a result of fraud over the past few decades, the figures are very small relative to the overall number of listed companies. These failures nevertheless reinforce the need to do more to discourage and prevent fraud and, where it cannot be prevented, to detect

it as soon as possible. As part of ongoing improvement efforts, Organization recognizes that it needs to evolve how audits are performed to better address fraud and is committed to leading the profession more widely to address stakeholder questions about the auditor's role in fraud detection.

Fraud data analytics methodologies can be categorized as either statistical data analysis techniques or artificial intelligence (AI).

Statistical data analysis techniques include:

- Statistical parameter calculation, such as averages, quantiles, and performance metrics
- Regression analysis - estimates relationships between independent variables and a dependent variable
- Probability distributions and models
- Data matching - used to compare two sets of collected data, remove duplicate records, and identify links between sets
- Time-series analysis

AI techniques include:

- Data mining - data mining for fraud detection and prevention classifies and segments data groups in which millions of transactions can be performed to find patterns and detect fraud
- Neural networks - suspicious patterns are learned and used to detect further repeats
- Machine Learning - fraud analytics Machine Learning automatically identifies characteristics found in fraud
- Pattern recognition - detects patterns or clusters of suspicious behavior

International Standard on Auditing (ISA) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" should be read in conjunction with ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

BSA on Fraud:

- While planning or performing the audit, the audit engagement team shall assess the risk of fraud within the scope of audit objectives. The team shall gather and assess evidence to identify the risks of fraud that could affect the findings and conclusions including material misstatements due to fraud.
- The auditor should have sufficient knowledge to identify the indicators of fraud but is generally not expected to have the expertise of a person whose primary responsibility is to detect and investigate fraud.

- Fraud involves obtaining an illegal and unjust advantage by willful misrepresentation or use of deception. Identifying risks of fraud shall include identifying circumstances or information or absence of information in the audited entity which might encourage or point towards such willful misrepresentation or deception. The audit engagement team shall expand the audit scope and procedures, should such circumstances or information or absence of information come to their notice.
- Whether an act is fraud or not is determined through the judicial or other investigative oversight processes. An auditor is primarily concerned with the impact of such acts on the audit findings and conclusions. The auditor shall, on suspicion that circumstances or information or absence of information point to fraudulent acts, may require those charged with the governance of the audited entities to consider further remedial action including reporting them to investigative agencies. The auditors may also refer the matter directly to the investigative agencies if the matter appears significant and involvement of higher management cannot be ruled out.
- Audit engagement teams shall exercise professional judgement and professional skepticism throughout the engagement in determination of suspected fraud.
- Audit engagement teams shall not assert indications of fraud or suspected fraud without obtaining sufficient and appropriate evidence.
- Despite best efforts by the audit engagement team, due to inherent limitations of audit, there shall always remain an unavoidable risk that misstatements, deficiencies and deviations due to or concealed by fraudulent methods may not be detected at all. This is mainly due to the fact that fraud may involve sophisticated modus operandi and conspiracy involving many at different levels.
- The final decision to refer the any matter of suspected fraud to either those charged with management and governance of the audited entities or to an appropriate investigative agency shall rest with the concerned Director General. He shall not delegate this power to anyone subordinate to him. In case of sensitive cases or cases where facts are not clear or open to differing interpretations, he shall refer the matter to his superiors including CAG with his recommendations and seek their approval.
- Under no circumstances, the audit engagement teams shall offer advice, formally or informally about remedial measures to be taken in case of suspected frauds.

Chapter Four

Analysis and Findings

4 Analysis and Findings

4.1 Collection of Audit Evidence

4.1.1 Audit Sampling

According to the Audit Practice Manual, the question of how many items to test has always been a debatable subject. It is far better to design tests directly relevant to the client rather than to merely 'fill in the forms'. Tailoring or drafting of programs using the APM as an aide-memoire is therefore encouraged. Clearly, any sample must be representative of the whole population and it must be sufficiently large to enable credible conclusions to be formed.

The exercise of judgment must ultimately determine the sufficiency of sample sizes. The use of inherent risk factors, materiality and population characteristics may give a useful theoretical starting point but ultimately judgment must prevail. The standard risk model does at least provide a benchmark against which to assess the reasonableness of your judgment.

4.1.2 Evaluation of errors

According to the Audit Practice Manual (APM), Errors found in the performance of audit tests must be evaluated to determine their impact on the population being tested and on the accounts as a whole.

Evidence suggests that, at times, auditors have difficulty in making this evaluation.

4.1.3 Controlling and Recording

This part of audit is nothing but the application of the planning stage. This is the core fieldwork stage where all the assessments and the other aspects are considered. The evidence collected are evaluated based on these assessments and then recorded. The risk assessments and other factors are given below:

4.1.3.1 Assessment of risk and Materiality

Risk Assessments:

There are two types of risk assessments found in Audit Practice Manual. They are:

- **General risk assessment:** General risk mainly comes from the commercial and regulatory environment of the entity. It is affected by the integrity of the management and the business risk too. This assessment should assist in determining the riskiness of the engagement as a

whole.

- **Specific risk assessment:** According to the Audit Practice Manual two objectives of the specific risk assessment are:
 - It may be used in the context of the very small company to assess the extent to which the full audit program approach can be foregone in the particular circumstances of the audit in question. This approach must always be documented and justified, not simply applied without reason; and
 - It may be used to pull together the various risks and consider their overall impact on a particular area of the financial statements. This helps to concentrate the audit work on areas of audit significance, ensuring that the bigger picture is not lost through concentration on individual risks.

Materiality: Determining materiality:

A guide for determining the level of materiality is set out below. It is guideline only. The level of materiality is a matter for professional judgment.

TK.	Profit before taxation parameters	Turnover and total assets parameters
0-5 Cores	10%	3.0%
5 Cores 1 to 10 Cores	10%	2.5%
10 Cores 1 to 20 Cores	10%	2.0%
20 Cores 1 to 56 Cores	10%	1.5%
Over 56 Cores	10%	1.0%

Other facts:

4.1.3.2 Vouching the total population

According to the Audit Practice Manual, it may be that a total population is tested in the audit of very small companies. For example, it may be that a very small company has 12 invoices a year and that it has been decided to examine all12.

The inherent risk assessment will not be applied, and would make no difference, in these circumstances. The general risk assessment must still be considered because the vouching of all 12 invoices cannot, on its own, provide all the audit evidence that we require forming a reasonable conclusion that all income has been completely and accurately recorded in the company's accounting records.

4.1.3.3 Accountancy work and Audit Testing

According to the Audit Practice Manual, assuming that the ethical issues have been properly addressed, it may be possible to use audit evidence derived from work carried out in the preparation of the accounts. Such accountancy works must have been properly planned with specific audit objectives in mind, been properly controlled and recorded and subjected to adequate review.

In such circumstances it may be that sufficient audit evidence can, in respect of certain assertions, be obtained to obviate the need for further detailed testing.

Remember, however, that such audit evidence will not provide evidence of, for example, completeness, continued existence or title, thus still requiring top up audit work to be done.

Findings:

Hereby some audit findings are discussed of an organization's management audit conducted by our firm:

Progressive Life Insurance Company Ltd.

Findings on management audit of Progressive Life Insurance Company Ltd.

a) No fixed assets register maintained

Observation:

The Company does not maintain fixed assets register with adequate information. In ideal situation, fixed asset register should contain information like assets' identification number, cost, acquisition date, accumulated depreciation location, number of items in a particular class, status of the assets and related data to reconcile it with general ledger of fixed assets. In absence of these information, it was not possible to confirm item wise written down value with satisfactory level of accuracy at the time of disposal of an asset. Furthermore, the Company did not carry out any physical verification of fixed assets.

Consequences:

- Due to absence of asset identification number, the company has inadequate control over its fixed assets and physical verification of such assets would not be possible;
- As there is no scope for tracing an individual asset by existing control system of the company it would not be possible to detect any of misappropriation of assets; and
- Valuation of PPE might be inaccurate if there remains any discarded item in fixed asset schedule.

b) No limit fixed for cash payments

Observation:

It has been noted that the Company has made payments to the concerned parties frequently in cash as there is no limit fixed for cash payment. We also observed that the same party has taken payment partially in

cheque and rest in cash which was not justified. Most of the cases no money receipts have been obtained from the recipient. Some instances of cash payments are given below:

Date	Voucher No.	Description	Amount (Taka)
20.08.2020	1083 to 1085	Office renovation	313,287
31.12.2020	2880	Bus rent from Eagle Paribahan	230,000
11.07.2020	1528	Repair & maintenance of car	224,000
13.08.2020	1828	Purchase of Printing items of M/S. Falguni Traders	102,250
11.10.2020	2319	Purchase of gift items from M/S. Pacific Metallic	65,200

Consequences:

Cash payment against large amount bills causes risk of misuse of funds; and Payment made partially in cash and partially in cheques is a bad practice.

c) Physical verification and impairment test of fixed assets not conducted

Observation:

The Company did not carry out any physical verification and impairment test of fixed assets was not conducted since its inception. The status and realizable value of fixed assets and their existence cannot be ensured without carrying out such periodic physical verification and impairment test.

Consequences:

- Physical existence of fixed assets cannot be ensured without conducting regular physical verification;
- There is a high possibility of misappropriation of assets; and
- Obsolete items cannot be identified.

d) Salary paid to former employee

Observation:

We reviewed employee in-out report of Sep-Dec'11 made by HRD, corresponding salary statements and found that salary payment was not stopped by Head office Accounts Department despite employee already leaving the Company. Details are given below:

Salary Statement	Paid Amount	Name of the payee	ID	Designation	Location	Remarks
September'20	4,400	Md. Mostofa Kamal	1693	Driver	Hajiganj	Date of resignation 01.09.2011
October'20	4,400	Md. Mostofa Kamal	1693	Driver		

Consequences:

Financial loss has been incurred due to inappropriate payment.

e) **Mismatch between FSs information and break-up of cash at bank**

Observation:

The Company maintains mainly two types of bank accounts i.e. operative and non-operative accounts, and has a good no of bank accounts across the country but we were not provided with all bank accounts information those reported in Audited financial statements. The department dealt with bank transactions informed that no information available regarding differential bank accounts. Due to the fact, we were not able to verify the information related to those bank accounts like bank name, branch name, account no., account type, balance (if any) etc. Summary is as follows:

Year	As per FSs		As per break-up		Difference	
	No. of Accounts	Amount (Taka)	No. of Accounts	Amount (Taka)	No. of Accounts	Amount (Taka)
2020	1106	362,514,299	853	357,869,498	253	4,644,801
2019	1074	359,223,638	842	361,340,595	232	(2,116,957)
2018	1069	256,736,085	811	258,401,061	258	(1,664,976)
2017	1069	259,424,817	783	256,645,704	286	2,779,113

Consequences:

- Bank accounts may be used by outsiders by the name of the Company; and
- Bank balances and related information were not reported correctly in the financial statements.

Overview of findings on Cash & cash equivalents (TOR # 7)

Key issues:

(i) Cash management of the Company was not satisfactory

It is considered that the items of cash and cash equivalents are most liquid assets to a company and optimum utilization of such assets can ensure profitability as well as maximization of wealth. Having excess liquidity is not profitable if investment opportunities are available and permitted by the regulations, on the other hand lack of liquidity is also undesirable due to timely payment of liabilities may not be possible. Furthermore, lack of adequate control and poor management of the liquid assets, the Company did not able to maximize profitability for its different segments of stakeholders. A few examples are:

- ✓ The management of the Company did not report true picture of cash in hand in the financial statements in previous years;
- ✓ Cash receipts through MR at Head office from different servicing cell's accountants was deposited timely to bank rater deposited after a long delay which not monitored properly; and
- ✓ Frequently cash payments were made to suppliers or vendors for various purposes and no limit was fixed making such payments. No cash holding limit also fixed thus significant cash being held at head office petty cash although no insurance policy undertaken for safeguard of cash in hand and cash in transit;

(ii) Several irregularities in recording bank transactions and reporting bank balance

- ✓ Bank book figures were overstated significantly and fabricated bank balance reported in the financial statement for which no reconciliation or explanation were found;
- ✓ As per agreement with different banks regarding BM account operations was not followed by the bank and the Company also unable to mitigate the problem in fruitful way; and
- ✓ Preparing bank reconciliation statement on monthly basis indicates good control over bank transactions which was not practiced by the Company. In some cases stale cheques were found in reconciliation statement;

Chapter Five

Conclusion and Recommendations

5 Recommendation & Conclusions

5.1 Recommendation:

Management audit on Progressive Life Insurance Company Ltd.

1. Depreciation should be charged on each class of assets at prescribe rates as per the Company's policy.
2. Management should take necessary steps to prepare fixed asset register - which should include the following at least: Asset ID, Asset class (Land/Building/Moto Vehicles/Computer/Furniture/Others), Date of acquisition, Quantity, Description, Location, Cost, Depreciation, Accumulated depreciation and Condition of asset.
3. The Company should fix a limit for cash payment; over the limit, the Company should use account payee cheques; and
4. Making payment through bank transfer or account payee cheque should be encouraged and cash payment may be allowed where no other alternative is available.
5. Physical verification of all fixed assets should be initiated on a periodic basis; and
6. Impairment test on fixed assets should be done.
7. Human Resources (HR) Department should ensure that those employees who are working in the Company are being paid.
8. The Company should take necessary steps to ensure a complete list of bank accounts with balances (if any) therein; and actual information should be reported in the financial statements.

5.2 Conclusion

In the report, I have tried my level best to deliver the shadow of audit procedure that Snehasish Mahmud & Co follows in offering service to its client's. Chartered Accountancy is one of the most respectable professions in Bangladesh. It is mainly a step-by-step process. From engagement to report submission the step is followed with reasonable and professional care and maintaining all rules and regulations and standards set by the ICAB. Snehasish Mahmud & Co is doing a great job with their seamless internal control, disciplinary policies and strong chain of command. Their inflexible ethical moral has earned them a brand status in the market.

Although there are many gaping holes in the policies set by ICAB that undermine the prospects of this glorious profession. In some cases, the auditors of Snehasish Mahmud & Co violate some audit standards and not carry out their audit tasks properly. As a result, the quality of audit work cannot be ensured all the time. But if these loopholes are removed, Snehasish Mahmud & Co can maintain its current status and will remain No. 1 Chartered Accountants Firm according to the rating of Bangladesh Bank. The auditing profession has contributed and will be contributing a greater extent, ensuring transparency and efficiency of internal control system of various sectors of Bangladesh. The achievement of the auditors will be after having the maximum people of the country be aware of their rights and then proper transparency will be set conquering all obstacles.

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THE END
