

**How we perform special audit of various assignments of clients (Ready-made garments/apparel industry etc.)**

## **Executive Summary**

This report covers overall detail practice on special audit by Rahman Anis & Co., Chartered Accountants (RAC) in readymade garments and/or apparel industry in the context of Bangladesh.

RAC is one of the top ranked chartered accountancy firms in Bangladesh. This firm maintains a good relationship with good organization and also doing consultancy in many organizations. RAC has some well-known partners who are enhancing the firm with their caliber and experience.

In this report, introduction part consists of methodology, limitation and over view of RAC. In next part, scopes of special audit in RMG Company are discussed.

To conclude with, numerous checklists are included for more explanation.

## Table of Contents

<b>Chapter-1 .....</b>	<b>1</b>
<b>1.1 Objective of the paper .....</b>	<b>1</b>
<b>1.2 Scope of Study.....</b>	<b>1</b>
<b>1.3 Methodology for Collection of Information .....</b>	<b>1</b>
<b>Chapter 2 .....</b>	<b>2</b>
<b>2.1 Profile of the Firm .....</b>	<b>2</b>
<b>2.2 Services of RAC.....</b>	<b>2</b>
<b>Chapter 3 .....</b>	<b>3</b>
<b>3.1 Special Audit Methodology.....</b>	<b>3</b>
<b>3.2 Special Audit Procedure Followed By RAC.....</b>	<b>4</b>
3.2.1 Planning.....	4
3.2.2 Field Work.....	5
3.2.3 Reporting .....	5
3.2.4 Identify Overall Work Process .....	5
3.2.5 Gather Information and Evaluate .....	6
3.2.6 Internal Control Questionnaire .....	6
3.2.7 Create Flowchart to Determine Overall System .....	8
3.2.8 Writing Down the Observation.....	9

# Chapter-1

## 1.1 Objective of the paper

The study is divided into three major standards:

- ❖ Primary
- ❖ Secondary
- ❖ Tertiary

The report's primary requirement is to give an understanding to the students, managers and also partners of the RAC.

Secondly, secondary requirement of this study is observing a clear look into the audit process in an RMG company specially if there is a number of findings of loop holes, misappropriation of fund and mis-accounting.

Lastly, knowing the audit procedure in Bangladesh context, increase compliance in an organization and also know about the readymade garment companies work actions.

## 1.2 Scope of Study

Major parts of the context are shown below:

- a) The host organization's history and role as well.
- b) The audit procedure followed by the auditing organization.
- c) Nature and significance of it has depicted in this study.
- d) Auditing the company's administration, followed by the auditing organization.
- e) Auditing the firm's methodology, which is adopted by the auditing organization.

## 1.3 Methodology for Collection of Information

The necessary information from two forms of source as follows:

- Primary sources information.
- Secondary sources information.

Primary sources information:

- 1) Through collaborating with various audit teams.
- 2) Speak with engagement partner, audit manager, audit staff and articulated students.
- 3) Staying at client office.
- 4) Factory visit.
- 5) Interviewing the employee of the concern office.

Secondary sources information:

- 1) Financial report, management audit report, accounting system and audit working papers.
- 2) The company's different files.
- 3) Collect necessary information from RAC official website/client's websites.

## Chapter 2

### 2.1 Profile of the Firm

Rahman Anis & Co. (RAC) is a chartered Accountants partnership firm having 05 (Five) Partners established in 1994 and has a team of over 60 professional and support staffs and is one of the top reputed professional firms offering accounting, auditing, taxation, VAT, secretarial services, consulting and other specialist services in Bangladesh. The firm is led by Ramendra Nath Kar, ACA who is a managing partner and has a wide range of experiences in all the matters now dealt in.

The firm has concentrated on maintaining a high standard of professional competence and services and attracted many reputed and multinational companies as clients. In addition to audit, tax and VAT, consulting and specialist services, the firm offers for acting advisors in setting up companies to supervising all the related matters and share allocations.

The firm's clientele comprises several prominent local and foreign organizations and its broad; client base covers a variety of national and multinational organizations in the sector of industries, Banks, non-bank financial Institution, real estate, trading and services, Govt. organization/corporation, NGOs, buying house, Liaison and branch offices etc.

The firm has a continuous in-house training facilities having almost all the references, books, rules and regulations in the related fields. The partners have also a wide range of experiences, reputation and well connection. RAC helps solving the clients' issues by applying best practice solutions across all divisions.

### 2.2 Services of RAC

<b>Audit &amp; Assurance</b>	<b>Tax &amp; Legal advice</b>	<b>Advisory</b>	<b>Consultancy</b>
Statutory audit	Corporate & individual tax planning	Preparation and filing of annual return	Management accounting service
Internal audit	Personal income tax	Preparation of AGM minutes	Management consultancy
Special audit	Deferred tax computation and application	Maintenances of statutory records	Structured financing advisory
Cost audit	Indirect tax	Increase of share capital	SOP
Compliance audit	Capital gain tax	Change of company name	Fixed assets management
Forensic	Tax assessments	Change of Articles &	Project valuation

audit	and appeals	Memorandums	
Management audit	Preparation of income tax return	Management of litigations	Inventory management
Performance audit	International tax service	License issues	Payroll management
Interim audit	Tax investigations	Legal notice	Process investment services

## Chapter 3

### Special Audit Procedure

#### 3.1 Special Audit Methodology

RAC faces three types of communication phases such as:

- Commitment to new client.
- Commitment to existing clients.
- Appointed directly by client.

#### **For new client**

RAC and company follow the following stages:

#### **Client requires for technical and financial proposal from the RAC**

Client usually gives the newspaper circular or explicitly requires the audit firm's proposal for audit. They ask the audit company to request a quote for the value of performing the client's audit in the case of a direct bid. We also note the specific date for approving the audit firm's decision and the audit completion date. In the form of attachment, the company firm addresses the key areas of the audit. This means that if RAC audits the business of the applicant, it will provide the prescribed terms of reference for the execution of the audit.

#### **RAC sends the financial and technical plan to the client**

Upon evaluating the letter of the client or the circular of the report, RAC draws up a letter of proposal for the client. The letter of the proposal includes a technical and financial plan to carry out the audit. RAC estimates its staff costs after taking into account the mandates to be used and using the minimum hourly fee rates as prescribed by the Bangladesh Institute of Chartered Accountants (ICAB). The organization also states that the price may vary with variance in the number of mandates expected to be used for the job, as it an estimate.

#### **Client approval on the basis of RAC's offer – Letter of contract**

After receiving letters from different audit firms, the client then selects the one that favors them and appoints the audit firm for the proposal of the audit. Through RAC's technical and financial plan, the company understands the essence of the audit (such as autonomous, external) to determine the internal control process of the entity in the management of the audited matter.

### **A letter from RAC is sent to the client to confirm the work with the entity confirmation letter**

Upon receiving the acceptance letter from the client, RAC will provide confirmation letter explaining the readiness of the company to work with the customer.

#### **For existing client,**

RAC and client exchange three letters:

- i. Letter of willingness to reappointment: RAC wants to audit this year in this letter. It may request that audit fees be increased or other conditions be changed.
- ii. Client sends a letter of appointment.
- iii. It is accepted by RAC.

**For Appointed directly by client,** if the client is interested in working with RAC, then they directly send a letter of appointment to the organization that comprises all the terms and conditions. If the RAC accepts all the term and conditions, it approves the appointment and sends a letter to the company as an auditor.

## **3.2 Special Audit Procedure Followed By RAC**

The following procedure is formed and maintained by RAC for Special Audit purpose:

### **3.2.1 Planning**

- Contacting with organization's management to set a suitable time schedule for review.
- Holding an entry meeting with the management.
- Knowing the exact nature and magnitude of the operation of the company and also the job coverage of different operational departments by the management audit scope.
- Planning to complete the assignment in a timely and efficient manner.
- **Team formation:** a team with a sufficient number of employees will be appointed for the assignment, who will work on a need-based basis in the head office and factory.  
The above team would be closely supervised in their day-to-day activities by a manager and engagement partner.
- Preparing work programs for the assignment as per the engagement partner's direction; providing the team with orientation of the assignment at each point i.e. preparation, field work and reporting.

### 3.2.2 Field Work

- Review various documents such as SOP finance and accounting manuals and other data per work program, checklist, above-mentioned scope of description etc.
- Interview with the company's staff concerned and other applicable senior management.
- Any third party may be interviewed with the permission of the company's management concerned.
- To identify the weak areas, critical verification of policies, system books, accounts and other relevant registers and documents.
- Conduct other verification for the group according to the work program and on the training.
- Conduct verification by the third parties where appropriate, with the consent of the company's management concerned.
- Preparing work papers and other reports to endorse statement and recommendations.
- Hold management meeting to review findings and proposals and decide on the timeline for the recommendation to be implemented.

### 3.2.3 Reporting

The reporting process would be as under:

- a) A draft report with the following sections for each findings/observation-
  - ✓ Observation
  - ✓ Cause/Reason
  - ✓ Effect/Consequence
  - ✓ Recommendation
  - ✓ Management Response
- b) A final report at the conclusion of the field work in a detailed descriptive form.
- c) First prepare a draft report for reporting and be reviewed by the engagement partner and then finalize the report after discussion with or receiving feedback from management and partners' final review.

### 3.2.4 Identify Overall Work Process

Then it comes to the actual auditing process after finalizing the agreement with the respective company.

In the preparation of documents, RAC meets International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS). Following procedure are given below:

#### **i. Errors**

RAC may find errors that have occurred in records to provide reasonable assurance. This is the result of the audit-practice manual scheduling. In the case, accidental errors are called errors. The first and foremost factor in determining overall goals in the identification of product errors. The audit team of RAC needs to determine the nature of assets and liabilities. They need to find out recording date, match reliability. Errors may

occur for different reasons. It may be incorrect to obtain and analyze accounting information from the financial statements. Accounting figures may be inaccurate and mistakes that inevitably occur due to misuse of accounting principles.

## ii. Irregularities

Maintaining consistency is the most important thing is keeping accounts. Problems are related to the accounting manual's hazard and materiality. Any problems, which may be substantive, must be found in this audit phase.

## iii. Efficiency

Efficiency is the key element of audit. In a very short span of time, auditors must review a full- year financial statements. By this stage, this must be ensured. There may be different ways to find out how to do the audit efficiently.

### 3.2.5 Gather Information and Evaluate

Firstly, recognize the business. We will recognize the company's sector and the company's existence. By doing so, we will also be able to know the goals, tactics and associated risk. Then find out the external factors and the company's financial reporting framework.

Secondly, RAC will evaluate the history and operating system specifics of the business of the client in order to gain overall understanding of the organization and activities of the firm. We will then find out the external factors and the company's financial reporting framework. It will also concentrate on indicators, financial performance and accounting policies. Finally, it is necessary to check internal controls. If the internal control is good, the threat will be minimal.

### 3.2.6 Internal Control Questionnaire

It is very important to understand and evaluate the Special audit in order to understand the internal control system. We have to evaluate and test the internal audit work for this purpose. It must be checked whether or not the internal auditors are technically sound, the work is properly reviewed and supervised by an efficient person, the consistency of the reports etc. The sample questionnaire is given:

Planning				
No.	Description	Ref.	Y/N	N/A
1	Has the management established tactics to achieve stated goals?			
2	Do these plans describe clearly purposes to be achieved, the methods to be used, how resources are prepared and time line for accomplishment?			
3	Do these tactics include financial budgets?			
4	Does the planning process require feedback from professional personnel?			



5	Are these tactics communicated to personnel responsible for implementing them?			
6	Are the plans changed into specific tasks that are assigned to specific personnel?			

Control Environment				
Integrity & Ethical Values				
No.	Description	Ref.	Y/N	N/A
1	Does the governing body or top management have accepted formal guidance and standard operating procedures?			

2	Does the company have an ethical code of conduct made available to all staff?			
3	Have transaction been implemented in accordance with integrity and ethical values/codes?			
4	Are process registered, kept up-to-date and accessible for all workers to use?			

Commitment to Competence and Excellence				
No.	Description	Ref.	Y/N	N/A
1	Is accountability clearly defined in writing and communicated?			
2	Does the management recognize knowledge and skills required to complete tasks?			
3	Does the management get involved in training?			

Sales				
No.	Description	Ref.	Y/N	N/A
1	Who is responsible for giving consumers cash or special discount to customers?			
2	How to reconcile the record of external goods with the orders, challans and invoices?			
3	What action is being taken against consumers who default?			
4	How are the duties segregated among different persons for recording sales, maintaining accounts of customers, procuring orders from customers and dispatching goods?			

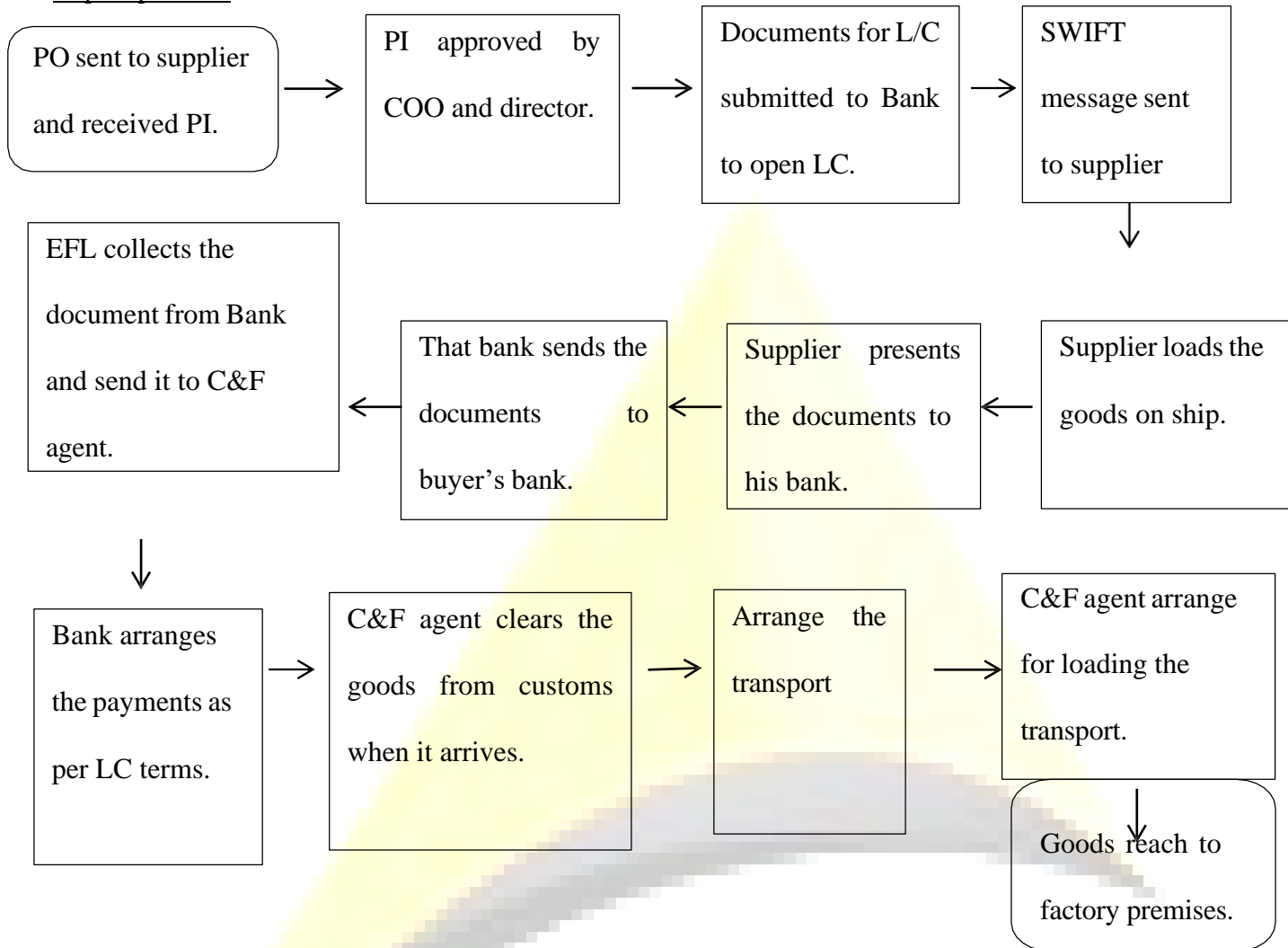
Payroll				
No.	Description	Ref.	Y/N	N/A

1	Are employees required to maintain attendance records?			
2	Do attendance records contain sufficient detail on work assignment for labor cost distribution purposes?			
3	Are attendance records approved by supervisors before submission to payroll department with direct knowledge of actual time worked?			
4	Are the employees paid for Vacation or Sick Time in advance?			
5	Are accumulated leave records reviewed at year-end?			

### 3.2.7 Create Flowchart to Determine Overall System

Firstly, the special audit team conducts a meeting with all departments' concern persons to understand the overall working system or procedure of the company. They create flowchart after completing previous part of this report to understand the organogram of the Company according to RAC's scope of work. The internal working process flowchart sample is given below:

### Import process:



### 3.2.8 Writing Down the Observation

After finishing previous steps auditors sit to write down the overall observation for each finding. This observation is written down in two parts:

- Head office level
- Factory level

Sample of this observation list is given below:

Serial	Observation <i>(Head Office Level)</i>	Area	Significance	Page Number
	<p>The following observations are related to standard Fixed Asset Policy:</p> <p>1.Do not have any written PPE (policy for property, plant and equipment) acquisition, capitalization, depreciation and derecognition.</p> <p>2.Assets are capitalized at the date of opening L/C due to lack of proper document.</p> <p>3.There is no fixed asset custodian.</p> <p>4.There is no threshold amount to recognize asset.</p> <p>5.There is no independent check of calculations of profit or losses on disposal of fixed asset.</p>	Fixed Asset		
	<p>The following observations are interrelated:</p> <p>6.No fixed Asset register is available.</p> <p>7.Depreciation was not charged on newly added asset in 2018.</p> <p>8.Physical verification is not done regularly to check the existence of FA.</p>	Fixed Asset		

	<p>The following observations are interrelated:</p> <p>9. All the assets are not tagged and listed properly.</p> <p>10. The assets owned by company (not leased or rented) are not being identified properly.</p>	Fixed Asset		
	No Asset movement register.	Fixed Asset		
	No report is prepared for assets believed to be missing or vandalized.	Fixed Asset		
	<p>These observations are inter-related and about Purchase and Accounts Payable:</p> <p>11. Purchases are not recognized at the time of getting control.</p> <p>12. Payables are not recorded on time.</p>	Purchase and Accounts Payable		
Serial	Observation (Factory Level)	Area	Significance	Page Number
	Fabric of a particular style was physically found in excess over its recorded quantity.	Inventory Store		
	Fabrics of different styles have been placed together without any proper segregation.	Inventory Store		
	Fabrics of a particular buyer has been placed in another buyer's rack.	Inventory Store		
	In a particular case, bin card was not discovered.	Accessories and Fabrics Store		
	Bin cards in the Fabrics Store are not maintained appropriately.	Inventory Store		
	All stock in hand and other related reports of the Inventory Store are maintained in Microsoft Excel instead of any inventory management software.	Inventory Store		

	A type of accessory (Care Size Label) was physically found in excess over its recorded quantity.	Accessories Store		
	The manual register used by the Cutting Section for recording received fabrics does not include fabrics style.	Cutting Section		
	Sewing Section does not maintain any report for items being issued to the Finishing Section.	Sewing Section		
	Machines were not found according to the list of Industrial Engineering (IE) in sample basis physical counting.	Fixed Asset		

The observation criteria are explained with a brief discussion. So that the organization can recognize the findings and can implement those for their better operations.

In addition, RAC assess the risk of overall management functions and provide necessary recommendation. Sample of detail write up is given below:

<b>Fabrics of different styles have been placed together without any proper segregation</b>
<b>Details</b>
As per the common practice of the fabrics of various styles are put in the same rack and using a piece of cloth in between, the various fabrics must be clearly distinguished from each other. We found several cases during our factory tour where fabrics belonging to different types were stored together without proper segregation.
<b>Risk Assessment</b>
<ul style="list-style-type: none"> <li>• Indicates failure in the inventory management and reporting process of the company.</li> <li>• Problems may occur when looking for the fabric that will waste valuable time.</li> <li>• It may go against buyer's requirements.</li> </ul>
<b>Recommendation</b>
The store management needs to ensure that different fabrics put together are properly separated as per their policy.

## General Instructions

- Before going to the client, the supervisor or the manager shall give all members of the audit team a brief idea about the business of the client.
- We must order and properly instruct to oversee the work of his juniors/in charge of an audit.
- The client's superior authority should order or advise the management to

- provide necessary documents to the auditors the required documents.
- Work programs shall be introduced properly to the juniors and must be followed in each audit engagement as much as possible.

## Conclusion

In order to keep up with the energetic competitive corporate world, businesses need to ensure that they operate with 100 percent honesty and a seamless business process. As a result, each company needs to confirm that it has a very clear and effective internal control process. If it is not managed, the risk of untrue activity, needless costs and other possible economic and ethical activities within the company could affect the firm's bottom line. Therefore, special audit plays a major role in ensuring that this system of core control remains as it should be and focusing on the future development of the company. Currently, the special audit process is a vital part of the business.