

Sonargaon University (SU)
147/I, Green Road, Tejgaon, Dhaka-1215, Bangladesh.

Internship Report

on

Audit and Assurance Procedure of Mahfel Huq and Co.

Submitted by:

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ID: BBA2002020042
Program: BBA (Major: Accounting)
Department of Bachelor of Business Administration
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Submitted to:

Department of Business Administration
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of
Business Administration

Date of Submission: January 05, 2023



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Submitted to:
Mst. Marium Akter
Lecturer
Department of Business Administration
Sonargaon University (SU)

Submitted in partial completion of the
Business Administration degree.

Date of Submission: January 05, 2023

Letter of Transmittal

January 05, 2023

Mst. Marium Akter
Lecturer
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Internship Report on "Audit and Assurance Procedure of Mahfel Huq and Co.".

Dear Madam,
I am honored to submit the report titled **"Audit and Assurance Procedure of Mahfel Huq and Co."** as a comprehensive exploration of my internship experience at your esteemed organization. This report is a culmination of my efforts to understand and document the intricate audit and assurance processes in place at Mahfel Huq and Co.

Throughout my internship, I had the privilege of working alongside dedicated professionals who graciously shared their expertise and insights. The report covers various facets of the audit and assurance procedures, including methodologies, internal controls, and compliance protocols, with the aim of providing a thorough overview.

I am sincerely grateful for the guidance and support extended to me during my internship at Mahfel Huq and Co., and I trust that this report accurately reflects the commitment to excellence that characterizes your firm.

I hope you find the report insightful and reflective of the high standards maintained by Mahfel Huq and Co. I am open to any discussions or clarifications that may arise from the contents of this report.
.

Yours Sincerely

_____

Faisal Ahmed Mim
ID: BBA2002020042
Program: BBA (Major: Accounting)
Department of Business Administration
Sonargaon University (SU)

Declaration of Student

I, Faisal Ahmed Mim, a student enrolled in the Bachelor of Business Administration program under ID BBA2002020042 at Sonargaon University, affirm the authentic creation of the report titled **"Audit and Assurance Procedure of Mahfel Huq and Co."** Throughout the report's preparation, I rigorously adhered to international copyright regulations. It is important to clarify that this report has not been previously submitted for degree purposes elsewhere.

Yours Sincerely

Faisal Ahmed Mim
ID: BBA2002020042
Program: BBA
Major: Accounting
Department of Business Administration
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Letter of Authorization

I hereby verify that the project report, **"Audit and Assurance Procedure of Mahfel Huq and Co."** represents the authentic work of Faisal Ahmed Mim. Faisal Ahmed Mim exhibited outstanding commitment, professionalism, and a profound comprehension of audit methodologies. Their contributions proved invaluable to our team, showcasing a dedication to maintaining elevated standards in auditing. I take pleasure in recognizing Faisal Ahmed Mim's triumphant completion of the internship and extend my best wishes for their ongoing achievements in academic and professional endeavors. I provided guidance during the research process. To the best of my knowledge, I affirm that the content presented in this report has not been incorporated into any other project report or dissertation, whether in a similar or different context, resulting in the award of a degree to any candidate prior to this submission.

_____

Mst. Marium Akter
Lecturer
Department of Business Administration
Sonargaon University (SU)

Acknowledgment

I begin by expressing my heartfelt gratitude to the Almighty for providing me with the strength, courage, and capability to successfully complete my internship program and compile this internship report within the designated timeframe, despite facing various challenges.

I would like to extend my sincere thanks to numerous individuals whose unwavering support and encouragement, whether direct or indirect, significantly contributed to the creation of this report during my internship journey.

First and foremost, I am deeply appreciative of my academic supervisor, **Mst. Marium Akter,** Lecturer, Department of Business Administration, Sonargaon University (SU). Her continuous support, invaluable guidance, constructive supervision, instructions, and advice played a pivotal role in shaping this report. Her encouragement served as a constant source of motivation throughout this endeavor.

I also extend my heartfelt appreciation to all the dedicated employees of Mahfel Huq and Co who generously assisted me during my tenure with the organization. Their collaboration and guidance greatly enhanced my internship experience, making it truly memorable and enriching.

Lastly, it is crucial to acknowledge that this report is the result of extensive dedication and hard work. I extend my sincere gratitude to all those individuals who made significant contributions to the successful and timely completion of this report. Without their support, this report might not have been possible.

Once again, I am genuinely thankful for the opportunities, guidance, and support I received throughout this internship, which played an integral role in my personal and professional growth.

Executive Summary

I am pleased to present an executive summary outlining an exciting internship opportunity in the domain of Audit and Assurance with Mahfel Huq & Co Chartered Accounting Firm. Mahfel Huq & Co is a highly regarded and established firm known for its commitment to excellence in financial services. “Mahfel Huq and Co” one of the oldest and the largest accounting firms in Bangladesh. It have been in the profession since 1974 which only a handful of accountancy firm can claim. During this last four decade it have grown from strength to strength to offer wide spectrum professional services and have been able to establish a high level of goodwill among with their peers, top business community and above all, their clients. This has been possible due to our unmatched client services driven by a talented group of professionals who work relentlessly and ethically to ensure that our clients get the very best service possible while maintaining integrity, accountability and urgency.

During the internship at Mahfel Huq & Co, participants will gain valuable exposure to the intricacies of Audit and Assurance. Working closely with seasoned professionals, interns will engage in various audit projects, honing their skills in audit planning, execution, and reporting. This hands-on experience extends to financial statement analysis, ensuring compliance with accounting standards, and evaluating regulatory compliance. Interns will also delve into the critical realm of internal controls, contributing to clients' efforts to fortify their control environments.

One of the key strengths of this internship is the mentorship provided by experienced professionals. Interns will receive guidance and support that fosters their personal and professional development. Additionally, they will have the privilege of working on genuine audit engagements, applying their academic knowledge to real-world scenarios. This experience is invaluable in building a solid foundation for future career endeavors.

Networking opportunities abound during this internship, allowing interns to connect with industry experts and potential future employers. Equally important, this program focuses on honing communication skills, as interns will be expected to interact with clients, present their findings, and provide valuable recommendations. Overall, the Audit and Assurance internship at Mahfel Huq & Co offers a comprehensive and immersive experience that equips interns with the skills, knowledge, and industry exposure necessary to excel in the dynamic world of auditing and accounting. It's an opportunity to embark on a fulfilling career path within a firm known for its commitment to professionalism and ethics.

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Acronyms

- IAS- International Accounting Standards
- ACA- Associates of Institute of Chartered Accountants.
- ACCA- Association of Chartered Certified Accountants.
- CDP- Committee for Development Policy
- ISA- International Standards on Auditing
- IAS- International Accounting standard
- APM- Audit Practice Manual
- ICAB- Institute of Chartered Accountants of Bangladesh
- IFRS- International financial reporting standards
- PWAVG- Period Weighted Average

Chapter-1
Introduction

1.1 Introduction

In the contemporary landscape, it has become increasingly evident that a student's academic education alone is insufficient for them to confidently compete and achieve their aspirations (Almasria, et al., 2021). As students of Sonargaon University, enrolled in the Department of BBA at SU, we are mandated to partake in a three-month internship program within an organization as a vital step to acquire practical knowledge and real-world experience.

This three-month internship program, integrated into my BBA education, offered me a unique opportunity to immerse myself in the practical realm of auditing procedures. The primary objective of this internship was twofold: first, to understand the mechanics of auditing within a chartered accounting firm, and second, to garner insights and hands-on experience in the execution of audit work within various sectors, encompassing corporations, businesses, and nonprofit organizations.

The transition from theoretical knowledge to practical application is indispensable for expanding our comprehension and preparing us to navigate the intricate and demanding business world. Upon the successful completion of our BBA program, each of us was assigned to different organizations to gain firsthand practical experience. My assignment led me to Mahfel Huq and Co, a renowned chartered accounting firm in Bangladesh, aligning with my ambition to become a chartered accountant. This internship served as an invaluable opportunity to observe and apply real-world audit techniques as employed by a reputable chartered accounting firm.

Throughout the duration of my internship, I had the privilege of translating my theoretical understanding of auditing into practical, real-world scenarios.

1.2 Origin of the Report

The internship program is a requirement for students of Department of BBA in Sonargaon University part of graduation program.

During the internship program, I worked for more than four months at Mahfel Huq and Co. Now I understand how an audit is conducted. I also learned about the auditing practices of the MHC firm and how engagements are handled in the event of an annual audit. Consequently, I've chosen to write a report about MHC's auditing methods based on what I've observed.

1.3 Objectives of the Study

The main objective of the study is to have an overall idea about audit and assurance procedures of Mahfel Huq and Co. The other objectives are as follows-

- Gain hands-on experience and practical insights into the audit procedures employed by Mahfel Huq and Co (MHC), as well as the methods utilized in audits within various corporate, business, and nonprofit sectors.
- Learn the techniques for collecting and analyzing evidence necessary for the preparation of comprehensive audit reports.
- Develop a profound understanding of audit practices specific to the regulatory environment in Bangladesh.
- Evaluate the efficacy of MHC's audit methodologies and procedures.

- Examine Audit Methodologies: Investigate and analyze the specific methodologies employed by Mahfel Huq & Co. during audits. This involves understanding their approach to risk assessment, testing procedures, and documentation standards.
- Assess Compliance Measures: Evaluate how Mahfel Huq & Co. ensures compliance with local and international auditing standards (e.g., International Standards on Auditing - ISAs) in their audit processes.
- Explore Quality Control Practices: Investigate the quality control measures in place at Mahfel Huq & Co. to maintain the accuracy, consistency, and reliability of audit engagements.
- Study Reporting Protocols: Understand the reporting mechanisms followed by the firm, including the format, content, and timing of audit reports provided to clients and regulatory bodies.
- Analyze Client Relationship Management: Explore how the firm manages relationships with clients during audits, including communication practices, addressing client concerns, and maintaining confidentiality.
- Examine Technology Integration: Investigate the incorporation of technological tools and software in the audit process at Mahfel Huq & Co., assessing how these tools enhance efficiency and accuracy.
- Assess Continuing Professional Development: Evaluate the firm's commitment to ongoing training and development of their audit professionals, ensuring they stay updated with industry trends and regulatory changes.
- Compare Industry Best Practices: Compare the audit and assurance procedures of Mahfel Huq & Co. with industry benchmarks and best practices to identify areas of strength and potential improvement.

1.4 Scope of the Report

I was assigned to MHC, which presented me with a valuable opportunity to gain insights into the organization's auditing procedures. The key areas of focus during my assignment included:

I. Exploring the organization's historical background and its current status.
II. Immersing myself in the detailed audit procedures that the organization follows during its auditing activities.
III. Examining the specific audit methodologies applied by the firm in their audit engagements.
IV. Investigating the audit management practices implemented by the company throughout the audit processes.
V. Gaining an understanding of how transfer pricing analysis is integrated into the organization's audit framework.

1.5 Methodology of Collecting Data

To gain a comprehensive understanding of MHC's audit procedures, I will collect information from two distinct sources:

1.5.1 Primary Source

Engagement Manager and Team Consultations: Engaging in discussions with the engagement manager, members of the engagement team, and other audit teams to acquire firsthand knowledge.

Active Involvement in Multiple Audit Teams: Actively participating in various audit teams to observe and comprehend the audit process in practical terms.

1.5.2 Secondary Sources:

Review of Client Correspondence Files: Examining correspondence files of different clients to access pertinent information related to audits.

Analysis of Annual Reports and Management Audit Reports: Scrutinizing annual reports and management audit reports of clients to gain insights into how MHC's audit procedures are applied.

Study of Mahfel Huq and Co Standard Operating Procedures: Investigating the firm's standard operating procedures to understand the standardized approach to auditing.

Examination of Accounting System and Audit Working Papers: Analyzing the accounting system and audit working papers to gain technical insights into MHC's audit methodology.

1.6 Limitations of the Study

The primary goal of this research has been to acquire knowledge pertaining to external audit procedures. However, there are several causes and limitations to this study, which include:

Limited Internship Duration: The internship period was relatively short, which constrained theability to gather all necessary information comprehensively.
Insufficiency of Case Study Data: The available case study data from an independent audit company was insufficient for conducting a thorough analysis.
Variations in Audit Protocols: Due to time constraints and other limitations, it was not always possible to adhere strictly to the exact audit protocols.
Inexperience: Since this internship represented my initial practical experience, it was challenging to acquire in-depth knowledge about every aspect of audit procedures.
Exclusion of Cash Incentive: Due to time constraints, the study was unable to cover the topic of cash incentives.

CHAPTER-2
Literature Review

(Kleijn & Leeuwen, 2018) Defines "Auditing is the procedure by which a competent, independent individual gathers and evaluates evidence regarding quantifiable information related to a specific economic entity to evaluate and report on the degree of connection between the quantifiable information and predetermined requirements."

Numerous studies have been conducted on the effectiveness of audits, but very few studies have been conducted on the effectiveness of audit policy. (Baatwah & S.R., 2019) It was decided that the audit policy's success would be measured by criteria other from those specified in the audit practice handbook. In his opinion, the criteria should take into account the audit company's leadership and organizational structure, the auditor's independence, the significance of the audit to the firm, the expertise of the firm's partners and workers, and the significance of the audit itself. The depth and breadth of the auditing team's expertise.

(Amalia & F.A., 2021) It was decided that auditing policies should be drafted such that there is a direct correlation between the risks being evaluated and the audit's timeliness, scope, and other relevant details. When developing supplementary audit procedures, the auditor should think about the level of risk involved, the likelihood of a material misstatement, the type of transaction, account balance, or disclosure at play, and the existence of the entity's specific controls, such as whether they are manual or done by machines.

Some very important concepts are included in this definition. The following concepts are introduced to help with the definition:

2.1 Competent, Independent Person

The arrive at a sound judgment through the assessment of evidence, the auditor must possess the requisite qualifications to fully grasp the established criteria and possess knowledge regarding the various forms and volumes of evidence to be gathered. Furthermore, it is imperative that the auditor maintains an independent state of mind. In situations where impartial knowledge and objective reasoning are imperative for rendering judgments and forming conclusions, the collection of evidence by an individual who harbors biases offers minimal utility. While complete independence may be unattainable, it is a pursuit that can be achieved to a certain extent.

2.2 Accumulating and Evaluating Evidence

For the auditor, evidence encompasses all elements that facilitate the assessment of whether the data under scrutiny aligns with specific criteria. The auditor's reliance on evidence spans a diverse spectrum, including the auditee's own statements, correspondences like letters and emails from external sources, as well as firsthand observations. The attainment of audit objectives hinges upon the acquisition of evidence that possesses both sufficient quality and quantity. It is the auditor's duty to delineate the suitable degree of verification and verify that the accessible information adheres to the predefined criteria.

2.3 Quantifiable Information and Established Criteria

For In order to conduct an audit, two essential elements must be present: information that can be independently verified and criteria that can be employed to assess the accuracy of this information. Quantitative data can manifest in various forms, ranging from the scrutiny of an individual's tax return to the examination of a company's financial records, the assessment of task completion times, the evaluation of the overall costs associated with a government construction project, or even an audit of one's personal finances.

The standards applied to gauge the accuracy of quantitative data can vary significantly. For instance, when auditing an invoice from a supplier for the acquisition of raw materials, the audit may seek to determine whether the company received the correct quantity and quality of materials, whether the procurement aligns with the organization's operational requirements, and whether the pricing is fair. The criteria employed in the audit process are contingent upon the specific objectives of the audit.

2.4 Economic Entity

It is crucial to establish clear parameters for the auditor's scope of work before commencing an audit. The initial step in any economic analysis involves defining the economic influence and the timeframe under consideration. Typically, an economic entity is associated with a distinct legal identity, such as a corporation, government agency, partnership, or even a sole proprietorship. Nevertheless, in specific situations, the entity in question may be a subdivision, a department, or even an individual.

Audits can be conducted on various schedules, including monthly, quarterly, annually, or spanning the entire lifecycle of the entity. These timeframes are determined by the specific objectives and requirements of the audit.

2.5 Reporting

The audit report stands as the ultimate outcome of an audit, serving as the means to convey the findings to the intended audience. Various report types are designed for distinct purposes, yet they all share the common objective of informing the reader about the degree of conformity between the provided data and established standards.

CHAPTER-3

Organizational Overview

3.1 Background of MHC

Mahfel Huq& Co. was established in 1974 by Mr. Howlader Mahfel Huq as a sole practitioner accounting firm and became the first accounting firm registered in the independent Bangladesh.

In 2002, the firm was converted into partnership by a merger with Abu Mohammad Kaiser & Co but retained its first name.

For the last four decades the firm has evolved to provide unmatched client services and has grown considerably to be able to provide top class client services which is unparallel in the industry

This establishes MHC as the foremost accounting firm in Bangladesh. This reputation is basedon a half-worth century's of serving clients with sound technical expertise, as well as unshakable honesty, impartiality, and independence. Currently, the MHC is actively operated by five partners, namely

1. **Howlader Mahfel Huq FCA**
2. **Md. Abu Kaiser FCA**
3. **Md. Mahmudul Ambia FCA**
4. **Wasequl H Reagan FCA**
5. **Md. Abdus Satter Sarkar, FCMA, FCA**

Dhaka Paltan is the primary operational base in Dhaka.

MHC provides a variety of services, including audits, tax planning, consulting, and other business solutions. MHC has built a reputation in Bangladesh among national and international businesses, public sector corporations, and development groups.

The vision and mission of Mahfel Huq & Co. Chartered Accountants typically align with industry standards and core principles.

Vision: Mahfel Huq & Co. likely aspires to be a trusted and leading provider of accounting and financial services. Their vision could encompass being recognized for excellence, innovation, and client-centric solutions.

Mission: Their mission is probably geared towards delivering exceptional professional services, offering tailored financial solutions, and maintaining the highest standards of integrity and ethics. They likely aim to forge enduring relationships with clients, contributing to their success through expert guidance and

support.

I. Quality Assurance: To consistently deliver high-quality audit and assurance services that meet or exceed professional standards and regulatory requirements. This includes ensuring accuracy, reliability, and transparency in financial reporting.
II. Client-Centric Approach: To prioritize client needs by providing tailored, reliable, and timely audit and assurance services. This involves maintaining strong relationships, understanding client goals, and addressing their specific concerns.
III. Ethical Conduct: To uphold the highest ethical standards and professional integrity in all aspects of business operations. This includes maintaining independence, objectivity, and confidentiality in their audit engagements.
IV. Professional Development: To invest in the continuous development and training of audit professionals. This ensures that the firm's staff remains well-equipped with the latest knowledge, skills, and industry best practices.
V. Innovation and Adaptability: To embrace technological advancements and innovative practices that enhance audit efficiency, accuracy, and effectiveness. This includes integrating new tools and methodologies into their audit processes.
VI. Contributing to Stakeholder Confidence: To contribute to stakeholders' confidence in financial markets by providing reliable and transparent audit and assurance services. This helps in fostering trust among investors, regulators, and the public.
VII. Community Engagement and Responsibility: To actively engage in corporate social responsibility initiatives and contribute positively to the community and environment in which they operate.
VIII. Continuous Improvement: To continually assess and improve their audit methodologies, procedures, and services based on feedback, emerging trends, and changes in regulatory environments.

IX. By adhering to these principles, audit firms like Mahfel Huq & Co. aim to fulfill their mission of providing exceptional audit and assurance services while upholding ethical standards, client satisfaction, and contributing to the integrity of financial reporting systems.

3.2 Services Provided by MHC

MHC's services have been separated into numerous departments over the years. They aredescribed as follows-

3.2.1 Audit and Advisory Services

Mahfel Huq and Co's Audit and Advisory Services practice offers comprehensive accounting and financial reporting guidance and support to a diverse clientele, including both audit and non-audit clients. Their services encompass a wide spectrum of transactions and events, including but not limited to the implementation of new or revised accounting standards, streamlining financial reporting processes, and preparation for Initial Public Offerings (IPOs). MHC extends its expertise to numerous multinational corporations and financial investors, boasting a team equipped with diverse skills ranging from technological proficiency and knowledge of pertinent regulations and industry standards to a deep understanding of complex financial transactions and events. Their capabilities also encompass process optimization and effective project management.

The following provides a more detailed breakdown of the services offered by this department:

i. Risk Assessment: The assessment of risk factors considers how vulnerabilities can potentially disrupt operations and the interdependencies among them. MHC's auditors now have access to an enhanced wealth of information for assessing risks, ultimately elevating the quality of their audits. This comprehensive risk assessment also enables MHC to provide clients with up-to-date information that can inform informed decision-making regarding the mitigation and monitoring of these risks within their organizations.

i. Tax Services

ii. Financial Statement Audit: Financial Statement Audits serve a crucial role in the public interest by ensuring the accuracy of financial data utilized by investors and the broader financial sector. The professionals within MHC's Audit practice approach this responsibility with the utmost diligence. They employ rigorous data analysis routines to strengthen audit evidence and gain nuanced insights. These audit services are conducted either on a statutory or Group audit basis.

MHC's tax team actively engages in discussions and deliberations related to tax responsibility and transparency. They advise clients on designing tax strategies that align with the tax system's regulations and comply with all relevant tax procedures. The objective is to ensure that these strategies can withstand scrutiny from tax authorities and the broader public, particularly in the context of tax practices employed by both multinational corporations and local firms. Our focus lies in two key areas:

Adaptation to New Reporting Standards: We explore how multinational corporations can effectively adapt to emerging reporting standards. This includes assessing whether their existing infrastructure is equipped to handle the expanded tax obligations brought about by these standards.

Multijurisdictional Reporting Obligations: Multinational corporations also need to evaluate their infrastructure's capacity to meet the demands of new multijurisdictional reporting requirements. This involves ensuring that their reporting systems can efficiently handle complex cross-border tax compliance.

Furthermore, MHC is committed to maintaining a comprehensive and robust Global Code of Conduct, which is made accessible to the public. This demonstrates our dedication to transparency and ethical conduct in the realm of taxation.

In addition to these measures, our tax professionals adhere to the Concepts for a Responsible Tax Practice, which outlines a set of fundamental ethical principles and practices that guide our approach to tax advisory services.

3.2.2 Transfer Pricing

This section aids businesses in handling transfer pricing efficiently by providing services in the areas of planning, compliance and documentation, implementation, and dispute resolution. Accountants, tax practitioners, specialists, benchmarking professionals, and finance professionals are just some of the areas. These individuals offer invaluable local insight within a global environment. GTPS enables businesses to more efficiently plan transactions, capital structures, and investment arrangements, as well as prepare annual transfer pricing returns and documentation, and address tax authority difficulties. Transfer price services are further classified into the following categories:

i. **TP Planning**: Transfer Pricing Planning assists in the development of financially sound transfer pricing plans of foreign transactions, capital restructuring, and investment. It focuses on identification and giving advice on potential transfer pricing issues by reviewing draft agreements between connected firms and financial institution.

ii. **Assist with transfer pricing analysis and documentation/study:** Here professionals assist through assisting and analyzing reports of foreign transactions between linked firms to ensure thatthe arm's-length principle is followed for transfer pricing purposes.

iii. **Preparing Transfer Pricing Return:** Provide support in recognizing international deals and drafting a transfer price return.

iv. **Resolution of Dispute:** The Transfer Pricing Professionals assist in the resolution of transfer pricing disputes at various levels of the competent authorities by providing various services.

3.2.3 My Responsibilities as an Audit Assistant

During my tenure at Mahfel Huq and Co in the Audit and Advisory Services department, I was assigned to a significant role. From July to September, I served as an audit assistant for Badsha Group and Bangla-German Shompriti specializing in Statutory audit. The annual audit assignment was distributed among team members based on different sections of the financial statements. I was entrusted with auditing several sections, including Cash and Cash Equivalents, Property Plant Equipment, Provision for Expenses, Other Manufacturing Expenses, Advance Deposits and Prepayments, as well as Other Selling and Distribution Expenses. This experience provided me with a comprehensive understanding of the entire audit process.

One of the primary responsibilities of auditors is to determine the significance of various aspects of a company's performance. Auditors must exercise professional judgment to provide information that holds relevance for stakeholders making investment decisions based on financial statements. This significance is quantified by applying a percentage to a benchmark, such as ProfitBefore Tax (PBT) or net assets. After calculating the materiality percentage for the firm, I had to use it to randomly select transactions from the general ledger under the allocated subheadings. Subsequently, I verified these transactions for accuracy, completeness, proper recording,

safeguarding of company assets, and overall compliance. This process required a close examination of the transaction approval procedures, the internal control system, and the execution of company policies to identify any potential weaknesses.

One noteworthy observation I made during the audit was that the company did not maintain proper tagging of assets. This finding was included in the audit reporting deliverables.

CHAPTER-4
Internship Responsibilities

4.1 Internship Responsibilities

- **Data Analysis and Documentation:** Assisting in data analysis using audit software tools to identify anomalies or discrepancies in financial information.

  Documenting audit findings and preparing work papers for review by senior auditors or supervisors.
- **Compliance and Regulatory Checks:** Understanding local regulatory requirements and ensuring that audit procedures align with legal and regulatory frameworks in Bangladesh.

  Participating in compliance checks to verify adherence to local accounting standards and regulations.
- **Client Communication and Interaction:** Collaborating with the audit team to communicate with clients, understand their operations, and gather necessary information for the audit process.

  Assisting in preparing reports and presentations summarizing audit findings for client review.
- **Audit Testing and Procedures:** Participating in substantive testing and analytical procedures to assess the accuracy and reliability of financial data.

  Learning and applying audit methodologies to evaluate internal controls and risk management processes.
- **Professional Development:** Participating in training sessions and workshops to enhance knowledge of auditing standards, accounting principles, and relevant regulations in Bangladesh.

  Seeking guidance from experienced auditors to improve auditing skills and understanding of best practices.
- **Ethical Considerations and Independence:** Adhering to ethical standards and maintaining independence and objectivity throughout the auditing process.

  Learning the importance of professional skepticism and critical thinking in auditing tasks.
- **Team Collaboration and Support:** Working collaboratively with the audit team, contributing ideas, and providing support in various audit-related activities.

  Being proactive in seeking learning opportunities and taking on responsibilities to assist the team.

  Remember, specific responsibilities during an internship may vary based on the firm's

focus, the complexity of audits, and the level of exposure the firm provides to interns. It's essential to be proactive, ask questions, and seek opportunities to learn and grow in the field of external auditing during your internship in Bangladesh.

4.2 Job Responsibilities

At Mahfel Huq & Co. from the beginning of my job I did External Audit.
External audit refers to the examination and evaluation of an organization's financial statements and accompanying records by an independent, external auditor. The primary purpose of an external audit is to provide an objective assessment of the accuracy, reliability, and fairness of the financial information presented by an entity. This process is crucial for ensuring transparency, accountability, and trust in financial reporting.

- **Financial Statement Examination:** Reviewing and examining the financial statements, including the balance sheet, income statement, and cash flow statement, to verify their accuracy and adherence to accounting standards.

- **Audit Planning:** Planning the audit process, including understanding the client's business, assessing risks, and developing an audit strategy tailored to the organization's operations.

- **Risk Assessment:** Identifying and evaluating risks of material misstatement in financial statements, considering both internal and external factors that could impact the accuracy of financial reporting.

- **Internal Control Evaluation:** Assessing and testing the effectiveness of the organization's internal controls designed to prevent errors or fraud in financial reporting.
- **Audit Procedures:** Performing substantive testing, analytical procedures, and other audit techniques to gather sufficient and appropriate audit evidence supporting the amounts and disclosures in the financial statements.
- **Independence and Objectivity:** Maintaining independence and objectivity throughout the audit process to ensure unbiased opinions and conclusions.

- **Communication and Reporting:** Communicating with management to gather

information, discuss findings, and report on audit progress.

Drafting audit reports that detail the findings, observations, and conclusions reached during the audit process.

- **Compliance and Regulatory Adherence:** Ensuring compliance with applicable accounting standards, laws, and regulations governing financial reporting in the relevant jurisdiction.

- **Client Relationship Management:** Building and maintaining professional relationships with clients, addressing queries, and providing guidance on improving internal controls and financial reporting processes.

- **Continuous Improvement and Recommendations:** Offering recommendations for enhancing internal controls, streamlining processes, and improving financial reporting based on audit observations and best practices.

- **Professional Development:** Continuing education and staying updated on changes in auditing standards, regulations, and industry practices to maintain proficiency and effectiveness.

  The role of an external auditor is critical in providing assurance to stakeholders about the reliability and integrity of financial information. Their responsibilities extend beyond mere number-crunching to include a comprehensive assessment of an organization's financial health and adherence to standards and regulations.

4.3 Nature of the job

Key aspects of external audits include:

i. **Financial Statements:** External auditors review the financial statements, including the balance sheet, income statement, and cash flow statement, to ensure they are prepared in accordance with applicable accounting standards.

ii. **Independence:** External auditors must maintain independence from the organization they are auditing. This independence ensures that the audit opinion is unbiased and objective.

iii. **Compliance with Accounting Standards:** Auditors assess whether the financial statements comply with generally accepted accounting principles (GAAP) or International Financial Reporting Standards (IFRS), depending on the reporting framework.

iv. **Audit Procedures:** Auditors conduct various audit procedures, such as substantive testing and analytical procedures, to obtain sufficient and appropriate audit evidence supporting the amounts and disclosures in the financial statements.

v. **Risk Assessment:** Auditors identify and assess the risks of material misstatement in the financial statements. This includes understanding the business environment, industry risks, and the organization's internal controls.

vi. **Internal Controls:** Auditors evaluate the effectiveness of the organization's internal controls. Internal controls are processes and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the safeguarding of assets.

vii. **Audit Opinion:** At the conclusion of the audit, the external auditor issues an audit opinion. The opinion indicates whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows in conformity with the applicable financial reporting framework.

viii. **Communication with Stakeholders:** External auditors communicate their findings and observations to the organization's management and, in some cases, to the board of directors or shareholders. This communication enhances transparency and accountability.

ix. **Continuous Improvement:** External auditors may provide recommendations for improving internal controls and financial reporting processes based on their observations during the audit.

External audits play a crucial role in maintaining the integrity of financial reporting and providing assurance to stakeholders, including investors, creditors, and regulatory bodies. The audit process helps instill confidence in the accuracy of financial information, facilitating informed decision-making by stakeholders. Regulatory requirements often mandate external audits for certain types of organizations to ensure compliance with financial reporting standards and regulations.

4.4 Clients Types

There are many kind of clients of an audit farm.

=>Public Limited Companies

=>Private Limited Companies

=>Government Companies

=>NGO

I have audited three NGOs and one Private Limited Company. The name four clients I audited below-

- ⇨ **Mahideb Jobo Somaj Kallayan Somity (MJSKS):** I had kurigram for an external audit of a NGO for project audit.

- ⇨ **Bangla-German Sampreeti (BGS):** I did Head office and Consolidated external audit of this NGO.

- ⇨ **Badsha Group of Industries:** I did three concerns external audit for the year ended 30 June 2023. The concerns are-
  - * Badsha Textiles Ltd.
  - * Kamal Yarn Ltd.
  - * Pioneer Denim Ltd.

- ⇨ **Grameen Fund:** This is the last Company I audit before successfully completed my 06 months time period with Mahfel Huq & Co.

CHAPTER 5

Audit Procedure

5.1 Accounting vs Auditing

The confusion between auditing and accounting often arises because auditors extensively examine accounting data and often possess deep knowledge of financial matters. While these two fields are closely related, they remain distinct disciplines.

Accounting professionals are responsible for gathering financial data, synthesizing it, reporting it, and providing valuable insights. In the realm of finance, accounting entails the systematic recording, classification, and summarization of pertinent events to support decision-making. The overarching goal of accounting, whether in a business or community setting, is to furnish decision-makers with precise numerical information.

Accountants must possess a comprehensive understanding of the principles and standards governing the preparation of accounting information to deliver valuable data. Additionally, accountants must devise efficient methods to ensure the complete, timely, and cost-effective documentation of an entity's financial transactions.

In contrast, auditing applies a similar framework of facts as the legal system to assess the overall reasonableness (fairness) of financial accounts. The objective of auditing financial statements is to determine whether the data presented therein accurately and fairly represents the economic activities that occurred during the reviewed accounting period. For auditors working with accounting data, a thorough grasp of accounting standards is essential, as these standards serve as the benchmark for assessing the accuracy of accounting information

5.2 Organizational Structure of MHC

Most audit firms, including MHC, commonly employ a hierarchical organizational structure. MHC strictly adheres to a well-defined linear hierarchy where the highest authority resides with the most influential partners at the pinnacle. Significant and crucial decisions typically require consensus among all partners, as MHC operates as a partnership entity. However, the senior partner holds substantial sway in influencing these decisions.

Following the senior partner, the organizational hierarchy at MHC includes the Quality Assurance Director in the second position, followed by a senior manager, manager, assistant manager,

qualified (serving article), tax specialist, IRM (information and risk management) specialist, senior auditor, semi-senior auditor, and junior auditor in descending order.



Figure 1: Organizational Hierarchy.

Source: (Zhu, 2019)

5.3 Audit Procedure in Bangladesh

Auditing is a globally recognized and systematic procedure rooted in scientific principles. While the auditing methods themselves remain fairly consistent worldwide, the real divergences lie in the laws and regulations that each country must adhere to. An auditor's audit policy delineates the necessary steps for accumulating evidence to ascertain the accuracy of financial books and records. Subsequently, the auditor evaluates the reliability and reasonableness of this information During an audit, various aspects of a company's operations are scrutinized, including its procurement of raw materials, management of accounts payable and receivable, and the effectiveness of its internal control system, among other factors. In Bangladesh, the oversight of chartered accountants falls under the jurisdiction of the Institute of Chartered Accountants, serving as the governing body for the auditing industry. The Audit Practice Manual (APM) establishes a structured four-stage process that auditors are obligated to follow.

5.3.1 Planning

One of the most pivotal aspects of the auditing process is meticulous planning. Adequate planning is essential for the effective execution of an audit, ensuring that no important details are overlooked. It equips auditors with a clear understanding of the audit's framework and delineates the specific checks that teams need to conduct to successfully complete the audit. Furthermore, a well-structured audit plan is instrumental in preventing unnecessary delays, as audits that lack proper planning can become time-consuming.

The organization of audits in accordance with the ISA 300 standard is a mandatory practice for auditing firms in Bangladesh, as it has been embraced by the International Standards on Auditing (ISA). This approach allows for the allocation of tasks to team members based on their respective areas of expertise, leading to a more efficient utilization of resources and a more comprehensive and accurate audit.

5.3.2 Gathering Evidence

The Audit Practice Manual does not prescribe a specific number of components to be audited. Instead, it calls for the exercise of professional judgment by the auditor, taking into account the client's specific context in relation to the item being assessed. Rather than simply "filling out forms," it is more advantageous to tailor assessments to the client's unique circumstances. Therefore, the APM should serve as a framework for making adjustments or developing new

procedures and protocols.

It is crucial that the population from which the sample is drawn is representative, and that the sample size is sufficient to draw reliable conclusions. Determining an adequate sample size requires thoughtful consideration, taking into account intrinsic risk factors, population characteristics, and materiality. While these factors provide a strong theoretical foundation, the ultimate decision must be guided by professional judgment.

5.3.3 Control and Record

This phase involves comprehensive documentation of all planning activities. It constitutes the primary fieldwork stage, where all aspects of the audited corporate areas, including assessments, are thoroughly examined. These assessments serve as the basis for analyzing the collected evidence, which is then documented. Risk assessments and materiality calculations are conducted at this juncture.

There are two distinct types of risk assessments, both adhering to established auditing standards. First, a comprehensive risk assessment delves into the company's commercial and regulatory environment, providing an in-depth analysis. This assessment examines the correlation between managerial integrity and business uncertainty, shedding light on the overall risk profile of the enterprise.

Secondly, a specific risk assessment is carried out to gauge the risk associated with the particular engagement. The overarching objectives of a risk assessment are twofold. Firstly, it helps determine whether it is feasible to streamline the entire audit program based on the specific context of the audit at hand. Secondly, it aids in evaluating the potential impact of various risks on specific sections of the financial statements. This approach allows auditors to focus on the most critical issues within the audit while maintaining an awareness of the broader picture.

5.3.4 Review and Opinion

The concluding phase of the audit process centers around the Auditor's review and opinion. During this stage, the management of the audited company thoroughly examines the entire audit report and provides feedback on the issues highlighted. This discussion often yields valuable insights. Subsequently, the identified issues are deliberated with the responsible audit manager. Management shares its perspective, and any unresolved concerns are escalated to a partner at a Chartered Accountants firm for further consideration. The partner then conducts a

comprehensive review of the entire audit and formulates an opinion.

The Audit Practice Manual offers a variety of auditing checklists, some of which include:

Completion by partner

Successful audit completion

Questionnaire for assessing adherence to auditing standards

Questionnaire for evaluating the internal control system

Accounts Critical Review Questionnaire

Audit report justification, and more.

Using these checklists, the auditor conducts a thorough review of the information at hand. If the auditor is content with the responses and findings, they may render an unqualified opinion regarding the client. However, in all other scenarios, where concerns persist, they may provide a qualified, disclaimer, or unqualified opinion based on their assessment.

5.4 Audit Procedure of MHC

The audit procedure followed by Mahfel Huq and Cois divided into four steps. The steps are discussed as follows-

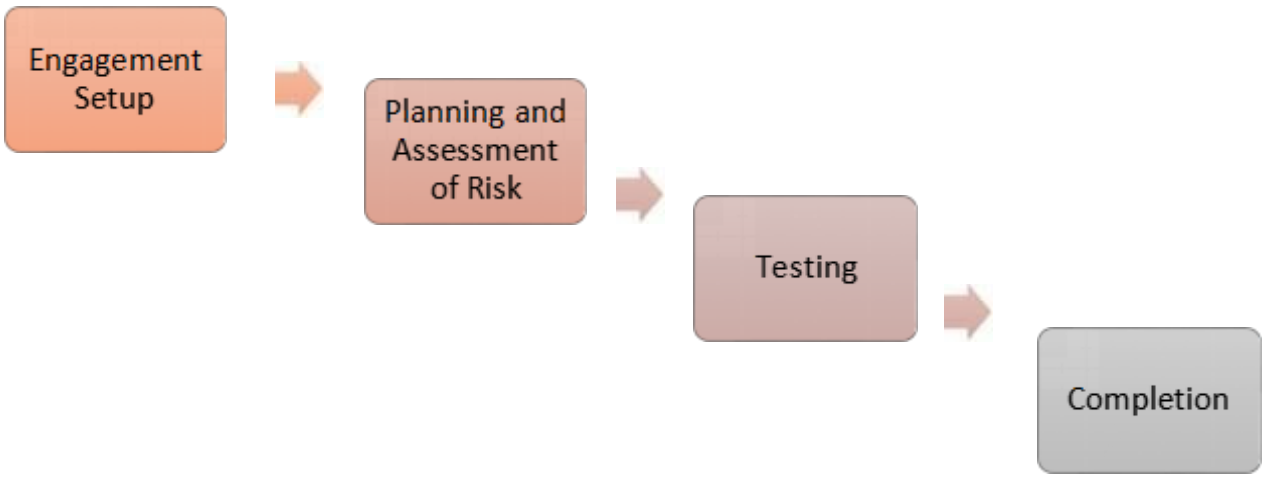


Figure 2: Audit Procedure of MHC.

5.4.1 Engagement Setup

In every engagement, three distinct parties are involved, known as the "responsible party,"the "intended user," and the "assurance practitioner." In the role of the assurance practitioner, MHC meticulously assesses a range of factors before delivering its engagement services:

i. **The Subject Matter should be Appropriate:** Accepting a professional assignment frequently entails assessing the suitability of the subject matter. It is crucial that the subject matter is readily identifiable and can be consistently measured or assessed in accordance with established standards.

ii. **Engagement Addresses the User Needs:** When assessing an engagement, it's essential to consider how effectively it aligns with the requirements and expectations of the users involved.

iii. **The Rational Purpose to this Engagement:**

An assurance engagement necessitates a well-defined and realistic objective. Various considerations come into play when establishing a valid purpose. These considerations include assessing whether the client has all the necessary components of the subject material and sufficient expertise, verifying the absence of work-related constraints, and confirming the identifiability of the parties involved in the audit engagement.

iv. **The Criteria's Developed by Management are Suitable:** The assurance process can only commence when the criteria in use are functional and comprehensible. It is imperative to verify the adequacy and appropriateness of the criteria developed by the responsible party, ensuring they are comprehensive, dependable, impartial, and user-friendly.

v. **Sufficient Information can be collected:** The extent of assurance sought dictates the amount of evidence MHC necessitates. MHC aims to minimize the likelihood of significant inaccuracies to the greatest extent possible. In situations where the potential for significant errors is substantial, a substantial volume of evidence may be required to mitigate this risk. Consequently, if MHC concludes that a scope constraint would compel the issuance of disclaimers in the opinion, we are prohibited by ISAE 3000 from accepting the engagement.

5.4.2 Planning and Risk Assessment

MHC's assurance strategy hinges on several critical decisions made in response to engagement risks identified through risk analysis and planning assessments. Factors such as the scope of activities, the most pressing issues to be addressed, the significance of the objectives, and the nature of the engagement all play pivotal roles in the planning process. When MHC intends to gather evidence through control testing and the involvement of subject matter experts, external specialists, internal audit, and other member firms, the planning team formulates the overall testing schedule and evidence-gathering approach.

There are three specific types of engagement risks that necessitate preventive measures: inherent risk, which relates to the subject matter's susceptibility to errors or misstatements; control risk, concerning the potential failure of internal controls to detect errors or misrepresentations in the subject matter; and detection risk, encompassing the risk that tests may fail to identify significant misrepresentations. MHC also factors in additional elements during its risk analysis and planning processes:

i. **Assurance Engagement on the Clients Report:** Whether we're dealing with a quantifiable metric, such as a key performance indicator, or a more conceptual notion, like the quality of governance, it is evident that these aspects hold significance.

ii. **Significant Areas for Risk Assessment:** Reviewing the client's engagement report facilitates the pinpointing of crucial areas.

Fraud in the Assurance Engagement: In the context of an assurance engagement, fraud is defined as the deliberate manipulation of the subject matter. At MHC, the planning and risk assessment process encompasses an examination of the underlying nature of fraud risks and the selection of appropriate tests to mitigate these risks. This includes evaluating specific fraud threats related to the subject matter.

When addressing these threats, MHC conducts a materiality assessment to determine the extent to which an error could impact the ultimate decision made by the intended audience. Materiality criteria are sometimes required for topics like data. MHC takes into account various factors when establishing materiality thresholds:

I. The needs and expectations of the target audience, which signify the point at which a false statement, including an omission, is likely to impact the requirements of the target audience,

whether individually or collectively.

II. Adherence to established standards, which may specify what is deemed as material within the context of the engagement.

Materiality criteria play a pivotal role in assessing the risks associated with significant misstatements, influencing the type, frequency, and depth of testing conducted. Additionally, these criteria are instrumental in gauging the impact of identified discrepancies on the subject matter. When discrepancies are detected, they are documented and aggregated for further analysis to determine if an adjustment is warranted based on the materiality thresholds established within the specific data context.

5.4.3 Testing

In this phase, we subject the organization's controls to rigorous testing. This evaluation of controls is a response to the substantial misstatement risks identified during the risk assessment conducted by MHC. Controls testing is undertaken to assess their effectiveness in either preventing significant misstatements or detecting them before they can cause significant harm.

Before designing tests of controls that yield meaningful audit evidence, it's crucial to establish the criteria that reflect a control's performance, as well as the deviation criteria that signal poor performance. MHC's assessment also includes an examination of whether these safeguards are in place and being correctly utilized.

Following the evaluation of operational effectiveness controls, MHC proceeds with substantive testing. This ensures that all aspects of a transaction are authentic and that all requisite documentation has been accurately recorded.

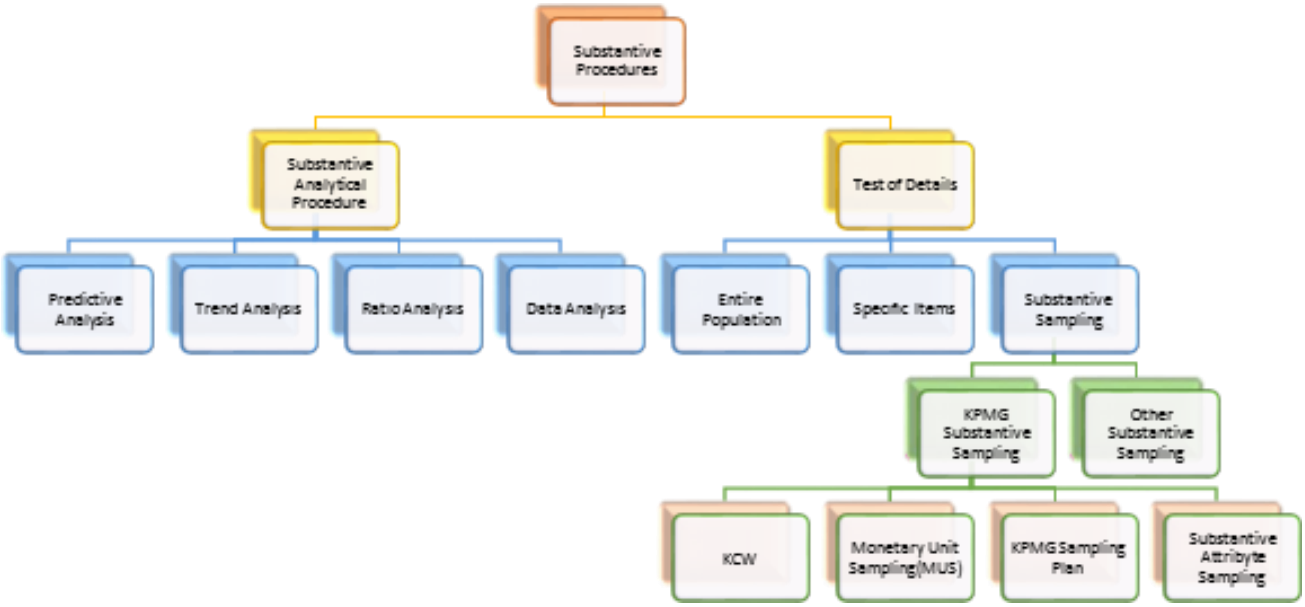


Figure 3: Substantive Procedure followed by MHC

This is the procedure followed for information collection, comprising substantive analytical procedures and tests of details. MHC is subject to the following requirements when establishing and executing significant analytical procedures:

I. Analyze the risks and assess the need for tests of details related to specific assertions to determine whether substantive analytical procedures are applicable to those assertions.
II. Formulate assumptions based on known data, such as ratios or numerical values.
III. Evaluate whether the expectation, when combined with audit evidence from other audit procedures (if applicable), is sufficiently accurate to detect a misstatement that could result in significant misstatements in the financial statements, either independently or in conjunction with other misstatements.
IV. Determine the maximum allowable fluctuation between actual and predicted values that would warrant further investigation.
V. Assess the reliability of the data from which expectations of recorded quantities or ratios are derived, considering factors such as the source, comparability, nature, relevance, and compliance with applicable regulations.

In contrast, inquiries are employed during comprehensive testing. Although inquiries may yield substantial audit evidence or indicate a misstatement, they alone do not constitute sufficient audit evidence to conclusively confirm the absence of a significant error at the assertion level. Various auditing techniques can be employed for tests of details, with the following being particularly

useful when conducted in combination:

Inspection
Observation
External confirmation
Recalculation
Re-performance.

The suitability of specific testing procedures is determined by specific scenarios.

i. When computer-assisted auditing techniques can only be applied to a limited sample or the entire population, the selection for testing must encompass either all items or the complete population.

ii. The identification of items meeting specific criteria, such as exceeding performance materiality in quantity, remaining idle in inventory for over six months, or having overdue payments to vendors for more than three months, followed by the selection of items possessing these specific characteristics for testing.

iii. When dealing with a large population of items, it is often more practical to conduct auditing procedures on a subset of that population. In such cases, we may employ methods such as currency unit sampling, the KPMG sampling approach, or substantive attribute sampling.

5.4.4 Completion

In the concluding stages of the audit, MHC establishes and executes final analytical procedures to assess the alignment of the financial statements with our knowledge of the company. As the audit nears its conclusion, MHC conducts a comprehensive review of the financial statements and disclosures. Any remaining analytical procedures, particularly those related to revenue up to the reporting period's closure, are implemented. This aids MHC in:

a) Ensuring that the financials are consistent with our understanding of the company.

b) Evaluating MHC's findings pertaining to critical accounting and disclosure information.

c) Confirming the absence of material misstatements within the financial statements as a whole.

Ultimately, the auditor's opinion is rendered under the following circumstances:

- A qualified opinion is issued if there is a significant misstatement in the financial statements with material but not widespread implications.
- A adverse opinion is issued if there are substantial misstatements in the financial statements, and these misstatements have wide-ranging and material consequences.
- In cases where obtaining all relevant data would be excessively time-consuming and

unlikely to be successful, a qualified opinion may be provided.

- If there is a significant and widespread absence of information, a qualified opinion will be issued.

5.5 Measuring Effectiveness of MHC's Audit Procedure

To measure the effectiveness of the audit procedure of MHC, following Questionnaire has been designed-

Questions	Presence	Absence	Partially Present
1. Is there any Prospective engagement evaluation processes?	✓	-	-
2. Did the audit team have the necessary knowledge and skills to meet the company's audit requirements?	✓	-	-
3. Was there a proper plan in place about how the audit is going to be conducted?	✓	-	-
4. Proper way to establish materiality in assurance engagements?	✓	-	-
5. Scope of the audit – does it cover all relevant areas?	✓	-	-
6. Timing of the audit – is the timetable appropriate?	-	-	✓
7. Is there a proper policy in place to collect audit evidence?	✓	-	-
8. Proper action plan for misstatements identified during testing?	✓	-	-
9. Effective testing to ensure internal controls intended result?	✓	-	-
10. Are sampling tools appropriate to decide items to be tested?	✓	-	-
11. Was there communication between the auditor and the audit committee, including discussions regarding the company's management and the quality of the accounting policies and information?	-	✓	-
12. Is the firm completely independent of the client?	✓	-	-
13. Do the firm follow audit practice manual to form opinion?	✓	-	-

Table 1: Questionnaire to evaluate the Effectiveness of Audit Procedure of RRH.

CHAPTER-6

Arm's Length Price Analysis in Transfer Pricing

6.1 Comparable search methodology

The objective of this search is to identify a set of autonomous entities engaged in activities similar to those of ABC International Limited, possessing functional and risk profiles akin to those of ABC Bangladesh. The quest for comparable companies involved a sequence ofsteps, as elucidated in the subsequent sections.

6.2 Search from CompStat Global Database

Our decision was to conduct an arm's length analysis by seeking functionally comparable companies within the Asia and South Pacific region. This search was executed by leveraging data accessible through the MHC Transfer Pricing Engine - Comparable Insights, which sources information from the Compustat Global database. MHC conducted benchmarking to identify comparable companies using the following approach:

6.2.1 Criteria Selection, Data Sufficiency, and Quantitative Screening

MHC utilized its Compustat Global database, specifically the KTPE October 2021 Data version, to pinpoint potential comparable companies sharing functional, asset, and risk profiles akin to those of ABC Bangladesh. The search criteria employed resulted in the identification of a total of 67,666 potentially comparable companies. The specific search criteria and the process employed are outlined in detail below:

Search Step		Reasons for the Step	Search Result
Criteria Selection			
Standardized Industry Classification	US Standardized Industry Classification (SIC) codes were used to identify companies engaged in the manufacturing of woven & printed labels and all types of textile accessories which is presented in Appendix C.	The Purpose of this step is to only include those companies that operate in a similar industry that of ABC Bangladesh and performs similar function.	676 companiesare selected from 67,666companies.
Status Marker	All companies that are active for the last 3 years.	This step eliminates inactive companies.	Leaving the number of companies to 489.
Search Step		Reasons for the Step	Search Result
Region of Incorporation	We searched for companies which were incorporated in any one of the following Asia and SouthPacific countries. [1]	As different region has different economic circumstances we have searched for comparable companies which are from the close economic nexus of ABC Bangladesh.	Leaving the number of companies to 327.
Data Sufficiency and Quantitative Screens			
Financial DataAvailability	We searched for those companies which have revenue for at least 2 years.	The Purpose of this step is to improve the reliability of the data by eliminating companies with only three years of financial data thereby ensuring sufficient data to calculate the ratios.	Leaving the number of companies to 291.

6.2.2 Qualitative Screening

MHC conducted an assessment of the remaining 291 potentially comparable companies to gauge their qualitative comparability. The primary factors leading to exclusion, along with a summary of the outcomes from the qualitative screening process, and additional pertinent details, can be found in **Appendix A.**

6.3 Final Comparable Set

From the analysis conducted in Compustat Global, 8 comparable companies were chosen for expenses of a similar nature, and 3 comparable companies were selected from Capitaline Plus. This benchmarking process resulted in a total of 11 comparable companies available for comparing the arm's length price or consideration of the company or tested party. The three-year Period Weighted Average (PWAVG) of Operating Margin, calculated as OP/Net sales for expenses of a similar nature, is presented below: [Include the PWAVG Operating Margin values].

Note: The Asia and South Pacific countries considered in this analysis encompass Australia, Bangladesh, Brunei Darussalam, China, Hong Kong, India, Indonesia, Japan, Kazakhstan, Korea (the Republic of), Malaysia, Marshall Islands, Myanmar, New Zealand, Papua New Guinea, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam.

S.N.	S[2]	Comparable Company Name	Operating Margin			
			FY 2019-20	FY 2020-21	FY 2021-22	PWAVG
1	C	Arex Industries Ltd	13.78%	9.48%	5.23%	9.49%
2	K	Fuji Seal International Inc	8.01%	7.85%	7.60%	7.82%
3	K	Fujian SBS Zipper Science	1.32%	3.54%	8.24%	3.95%
4	K	Huhtamaki India Ltd	5.74%	7.98%	5.73%	6.52%
5	K	KDS Accessories Ltd	9.82%	9.41%	11.87%	10.29%
6	K	Koan Hao Enterprise Co Ltd	1.39%	2.52%	10.62%	4.80%
7	K	Olympic Accessories Ltd	14.49%	11.86%	-6.34%	10.55%
8	C	Premco Global Ltd	4.67%	4.70%	17.75%	9.97%
9	C	Uniroyal Industries Ltd	5.74%	3.98%	1.38%	3.81%
10	K	Zhejiang Jiemei Electronic And Technology Co Ltd	22.67%	12.30%	24.85%	20.85%
11	K	Zhejiang Weixing Indl Dev	16.03%	12.51%	13.42%	13.99%
Summary Ranges - Percentile Method						
Number of Observations						11
Average						9.28%
70th Percentile						**10.29%**
Median						9.49%
30th Percentile						**6.52%**

Based on our analysis, we have determined that the arm's length range (30th to 70th percentile) for the operating margin of the comparable companies falls between 6.52% to 10.29%, with a median value of 9.49%. In the fiscal year under consideration, ABC Bangladesh achieved an operating margin of 34.32% (please refer to Appendix-B for specific details) at the entity level. This operating margin is well within the arm's length range, as it significantly exceeds the 30th percentile margin of the comparable companies.

S=Database Source, K=KTPE, C=CapitaLine Plus

CHAPTER-7

Findings

7.1 Findings

All member firms within ICAB must adhere to specific compliance guidelines, and MHC diligently upholds these compliance standards. The objective of the assessment is to evaluate the effectiveness of MHC in carrying out its auditing responsibilities, with a keen focus on compliance issues. Based on the questionnaire results, it can be determined that MHC maintains approximately 85% compliance with these guidelines. In practice, it is observed that the firm is not entirely distinct from its clients, introducing potential conflicts of interest in the audit process, especially when the firm also provides tax and transfer pricing services to clients. Additionally, the time constraints imposed on audit engagements appear to be quite tight and warrant reconsideration. There is also room for improvement in terms of establishing comprehensive policies for evidence collection, as occasionally, gathering data from clients proves to be challenging. While the firm is progressively enhancing its procedures and policies, there remains an opportunity for further improvement.

Audit procedure is designed to detect material misstatements in the financial statement and focus on the financial aspects of transactions and events. In this report on behalf of my I would like to share some of the complication. The findings are discussed below:

i. An auditor at time misjudges a situation which may cause the auditor to overlook a misstatement in the financial statement and provide their opinion based on that.

ii. By their very nature, frauds are intended to be concealed/ hidden by the guilty party and therefore, pose a very risk of remaining undetected by the auditors

iii. Auditor apply sampling techniques to limit the number of transaction and balances selected for audit testing in order to perform the audit efficiently and cost effectively. The result may not however be representative of the entire population and may fail to detect a material misstatement in the financial statement due to the inability of auditors.

iv. Although auditors collect audit evidence from a range of sources, they focus more on external evidence. Too often they have to rely on the representation of management in order to assess the reasonableness of the matters concerning financial statements. This usually difficult to corroborate management representation of appropriateness.

CHAPTER-8

Recommendations and Conclusion

8.1 Recommendations

- The audit timeframe should be adjusted when evidence collection poses significant challenges, instead of adhering to a uniform strategy for all clients.
- MHC should enhance the frequency and timeliness of training sessions to ensure that knowledge of audit procedures is effectively disseminated.
- The working environment should be further improved to provide greater support articled students.

8.2 Conclusion

Mahfel Huq and Co. is widely recognized as one of the premier firms operating in the country. It has established a strong reputation for conducting audits with strict adherence tocompliance and regular policy adherence. The firm fosters a friendly and conducive environment for learning, offering ample opportunities for hands-on experience with audit procedures. Over the course of a three-month internship, a wealth of knowledge about auditing has been acquired, thanks to the firm's commitment to providing extensive learning opportunities.

However, it's important to acknowledge the possibility of occasional discrepancies that could result in noncompliance. MHC maintains a high level of confidentiality regarding its clients, with "ABC Ltd" being a fictitious name used for client analysis purposes. In the recommendations section, various areas for potential improvements are highlighted.

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iii. Official of : http://icab.org.bd/com/

Appendix-A

Qualitative screening steps

To assess the comparability of the remaining independent companies, MHC conducted a comprehensive review of the business descriptions of potentially comparable firms. Information sources utilized for this evaluation included Dow Jones Companies & Executives, company websites, and the companies' annual reports. Our specific aim was to identify companies engaged in similar activities as the tested party and eliminate companies that exhibit substantial differences in functions, asset ownership, and risk profiles compared to the tested party from the comparable set.

Independent companies identified from various databases for qualitative assessment were analyzed based on the following criteria:

1. Rejected of companies performing different functions.
2. Rejected of companies producing different products.
3. Rejected of companies that are not operating as independent entities or are subsidiaries.
4. Rejected of companies operating at a loss for three consecutive years.
5. Rejected of companies with insufficient information available.

The table below provides a summary of the primary reasons for exclusion along with the corresponding numbers. Please refer to Appendix F for detailed results of the quantitative screening processes.

Transaction Categories: Purchase of raw materials, Purchase of spare parts, and Sale of finished goods.

Qualitative Screening

Screening process	Compustat Global Database		Capitaline Plus Database	
	Eliminated	Remaining	Eliminated	Remaining
Different Functions	16	275	12	201
Different Products	266	9	197	4
Independence	0	9	0	4
Loss-making	1	8	0	4
Insufficient Information	0	8	1	3

Appendix-B

Profitability of the tested party, ABC International Limited, is assessed based on the financial data provided by the company for the fiscal year ending on December 31, 2020. The financial information is outlined below:

Particulars	**Amounts in BDT (From 1 Jan 2020 to 31 Dec 2020)**
A. Revenue	**1,059,197,993**
B. Cost of sales	(609,451,998)
C. Gross profit	**449,745,995**
D. Other income	60,003
E. General and administration	(84,000,743)
F. Selling and distribution	(2,334,612)
G. Operating profit	**363,470,643**
Operating Margin (OM)= G/A	**34.32%**
Net Cost Plus (NCP)=G/(B+E+F)	**52.24%**

Appendix-C

Primary SIC Codes and NIC Codes Applied:

In the Compustat Global database, we utilized the SIC codes, and in the Capitaline Plus database, we employed the NIC codes to conduct a search for comparables closely resembling A-TEX International Limited SIC Codes applied:

No	Primary SIC Codes	Description
1	224	Narrow Fabrics & Oth Smallwares Mills: Cotton, Wool, Silk, Man Made Fiber
2	2269	Finishers of Textiles, Nec
3	2292	Lace Goods (Inactive)
4	2297	Nonwoven Fabrics
5	2299	Textile Goods, Nec
6	2389	Apparel & Accessories, Nec
7	2393	Textile Bags
8	26	Paper and Allied Products
9	396	Costume Jewelry & Novelties, Buttons & Misc Notions, Ex Precious Metal
10	4783	Packing and Crating

NIC Codes applied:

No	Primary NIC Codes	Description
15	14301	Manufacture of knitted or crocheted wearing apparel and other made-up articles directly into shape (pullovers, cardigans, jerseys, waistcoats and similar articles)
16	15115	Finishing of upper leather, lining leather and garment leather etc.
17	15122	Manufacture of purse, ladies' handbags, artistic leather presented articles and novelties
18	17099	Manufacture of other paper products n.e.c
19	18113	Printing of postage stamps, taxation stamps, cheques and other security papers
20	18119	Other printing activities like screen printing other than textile n.e.c
21	18129	Other service activities related to printing n.e.c
22	32909	Manufacture of other articles not elsewhere coated
12	13999	Manufacture of other textiles/textile products not elsewhere coated
13	14101	Manufacture of all types of textile garments and clothing accessories
14	14109	Manufacture of wearing apparel not elsewhere coated