# Internship Report on

## *"Audit Procedure of a Chartered Accountant Firm- A Study on Rahman Rahman Huq, the member of KPMG in Bangladesh"*

**Presented to**

Department of BBA in AIS
United International University

**Prepared by**

Morsheda Akther Ria
ID- 114 181 004
Program: BBA
Department of BBA in AIS
United International University

**Supervised by**

Ms Ishrat Jahan
Assistant Professor-Accounting
School of Business & Economics UIU

**26th September, 2022**

# Letter of Transmittal

Date: 26th September 2022

Ms Ishrat Jahan

Assistant Professor-Accounting

School of Business & Economics UIU

**Subject**: Submission of BBA Internship Report

Maam,

I am Morsheda Akther Ria, a student in the BBA in AIS program at United International University, and I would like to inform you that I have completed the 3-month internship requirement for the Bachelor of Business Administration degree. During my attachment with Rahman Rahman Huq, KPMG in Bangladesh. I have attempted to enrich myself through the actual use of accounting. My internship report is titled "Audit Procedure of a Chartered Accountant Firm: A Study on Rahman Rahman Huq, a member of KPMG in Bangladesh," and it has been approved by my supervisor.

I thus request and hope that you will be gracious enough to accept my internship report and provide me with the opportunity to defend my work in front of the board.

**Sincerely yours**,
Morsheda Akther Ria
ID: 114 181 004
Department of BBA in AIS
United International University

# Letter of Endorsement

The internship report titled "Audit Procedure of a Chartered Accountant Firm- A Study on Rahman Rahman Huq, the member of KPMG in Bangladesh" has been submitted with the department by Morsheda Akther Ria, Student ID: 114 181 004. I have gone through the report and have tried to come out with the best within the capacity of the student. The report has been accepted and may be presented for review and evaluation before the viva board.

Any ideas or suggestions expressed in this paper are those of the author alone. The department neither approves nor disapproves of any of these comments or recommendations.

Ms Ishrat Jahan

Assistant Professor-Accounting

School of Business & Economics UIU

Date: 26th September 2022

# Declaration

This is Morsheda Akther Ria, hereby declare that the internship report titled “Audit Procedure of a Chartered Accountant Firm-"A Study on Rahman Rahman Huq, a Member of KPMG in Bangladesh" is my original work completed under the supervision of my respected supervisor, Ms. Ishrat Jahan. The facts and information are, to the best of my knowledge, authentic. Any literature data and work performed by others that is cited in this thesis paper has been utilized and is acknowledged in the reference section. This paper is written solely for the BBA in AIS department of United International University.

……………………………………………………………………

Morsheda Akther Ria

ID: 114 181 004

Department BBA in AIS

United International University

# Acknowledgement

I would like to begin this report by expressing my gratitude to Allah Almighty.

As part of my BBA program, I would like to convey my sincere appreciation to my supervisor, Ms. Ishrat Jahan, Assistant Professor-Accounting, School of Business & Economics, UIU, for her consistent help in the creation and design of the internship report. I appreciate my supervisor's guidance during the entire process of writing this paper.

Finally, I would want to thank my parents for their unconditional love, support, and sacrifices, without which I would not have been able to achieve so much.

# Abstract

Auditing is a methodical process that is comparable across the majority of nations. The key differences lie in the laws and regulations that each country must comply to, not in the techniques required to conduct an audit, but in the rules they must follow. Auditing in Bangladesh is overseen and directed by the Institute of Chartered Accountants of Bangladesh and its audit practice guidelines. The study analyzes conventional auditing approaches in Bangladesh with those applied by Rahman Rahman Huq (KPMG Bangladesh). It covers Rahman Rahman Huq's complete organization, as well as the services they provide and their interaction with audited firms. It describes each phase of RRH's audit process, from evaluating the client engagement through forming an opinion on the audit report. In addition, this paper examines the audit policy of Bangladesh and the policies that would be applied by the country's auditors. Its purpose is to describe the fundamental auditing processes that should be followed so that the effectiveness of auditing procedures can be measured based on the presence of these guidelines. Several fundamental audit policies have been defined, and the effectiveness of RRH's audit policies has been examined relative to these fundamental policies. The paper also discusses the absence of policies identified at Rahman and Rahman Huq (KPMG Bangladesh) and how they might design, execute, and provide enhanced quality assurance services. In a nutshell, the implementation of these methods is anticipated to increase audit companies' service efficiency, which will contribute to the evolution of the industry's overall structure. As KPMG maintains a high level of client confidentiality, ABC Ltd is a fictitious client name.

# Table of Contents

Letter of Transmittal ............................................................................................................ 1
Letter of Endorsement............................................................................................................ 2
Declaration............................................................................................................................. 3
Acknowledgement .................................................................................................................. 4
Abstract .................................................................................................................................. 5
CHAPTER 1 .......................................................................................................................... 8
Background of the Study ........................................................................................................ 8
1.1 Introduction....................................................................................................................... 9
1.2 Origin of the Report........................................................................................................... 9
1.3 Objectives of the Study...................................................................................................... 9
1.4 Scope of the Audit ........................................................................................................... 10
1.5 Methodology of Collecting Data ...................................................................................... 10
1.6 Limitations of the Study................................................................................................... 11
CHAPTER 2 ......................................................................................................................... 12
Organizational Overview of RRH ......................................................................................... 12
2.1 About RRH ...................................................................................................................... 13
2.2 Services Provided by RRH ............................................................................................... 13
2.3 My Responsibility as an Audit Assistant .......................................................................... 15
CHAPTER 3 ......................................................................................................................... 17
Literature Review.................................................................................................................. 17
CHAPTER 4 ......................................................................................................................... 21
Audit Procedure .................................................................................................................... 21
4.1 Accounting vs Auditing .................................................................................................... 22

By contrast, auditing uses the same theory of facts as the legal system to verify the financial accounts' overall reasonableness (fairness). The purpose of an audit of financial statements is to determine whether or not the data presented therein fairly and properly represents the economic activity that took place during the accountancy period under review. If an auditor is going to be working with accounting data, they need to have a thorough grasp of accounting standards, since

these rules provide the criterion for deciding if accounting information is accurately documented. These are the GAAP that auditors use to evaluate financial accounts (GAAP).. 23

4.2 Organizational Structure of RRH ........ 23

4.3 Audit Procedure in Bangladesh ........ 24

4.4 Audit Procedure of RRH ........ 26

4.5 Recent Changes in Audit Practices ........ 31

4.6 Measuring Effectiveness of RRH's Audit Procedure ........ 32

4.7 Findings ........ 32

CHAPTER 5 ........ 34

Arm's Length Price Analysis in Transfer Pricing ........ 34

5.1 Comparable search methodology ........ 35

5.2 Search from Compustat Global Database (KTPE) ........ 35

5.2.1 Criteria Selection, Data Sufficiency, and Quantitative Screening ........ 35

5.2.2 Qualitative Screening ........ 36

5.3 Final Comparable Set ........ 36

CHAPTER 6 ........ 38

Conclusion and Recommendations ........ 38

Bibliography ........ 40

Appendix-A ........ 41

Appendix-B ........ 42

Appendix-C ........ 43

# CHAPTER 1

## Background of the Study

## 1.1 Introduction

In today's environment, a student's academic education is insufficient to compete confidently and achieve their goals without prior experience with the outside world (Almasria, et al., 2021). We, the students of United International University, Department of BBA in AIS, must participate in a three-month internship program at any organization in order to obtain knowledge and experience. The three-month internship program, which was part of my BBA education, allowed me the opportunity to gain practical experience with auditing procedures. The goal of the project was to learn how a chartered accounting company conducts an audit, as well as to gain knowledge and practical experience on how audit work is conducted in corporations, businesses, and nonprofit organizations.

Practical knowledge is required to expand our theoretical background in order to handle a lot more complex and tough business world in challenging business fields. After completing the BBA program, we were assigned to various organizations to gain this practical knowledge. I was referred to Rahman Rahman Huq, a well-known chartered accounting business in Bangladesh, because I want to become a chartered accountant. This research provided me with the opportunity to observe and apply real-world understanding of the audit technique used by a chartered accounting firm. During my internship, I was able to apply my theoretical auditing knowledge to practical experience.

## 1.2 Origin of the Report

The internship program is a requirement for students of Department of BBA in AIS, United International University as part of completion of BBA.

During the internship program, I worked for three months at Rahman Rahman Huq. I now understand how an audit is conducted. I also learned about the auditing practices of the RRH firm and how engagements are handled in the event of an annual audit. Consequently, I've chosen to write a report about RRH'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 procedures of Rahman Rahman Huq (RRH).

The other objectives are as follows-

- To receive practical understanding and experience of how Rahman Rahman Huq (RRH) conducts an audit and how audit work is conducted in corporations, businesses, and nonprofit organizations.
- Determine how to gather and process evidence in order to prepare an audit report.
- To have in depth knowledge of audit procedures in Bangladesh.
- To judge the effectiveness of the audit procedures followed by RRH (KPMG in Bangladesh).

## 1.4 Scope of the Audit

I was allocated to RRH, which provided me with a great opportunity to learn about the organization's auditing procedures. The following are some of the most important aspects of the scope:

- The host organization's history as well as their current standing.
- The audit procedure that the organization follows when completing any audit.
- The firm's audit technique, which the business follows when executing any audit.
- The firm's audit administration, which the company follows when completing any audit.
- Transfer pricing analysis.

## 1.5 Methodology of Collecting Data

To attain the knowledge and understanding of the audit procedure of RRH, the data will be collected from two sources. They are as follows-

1. Primary Source
2. Secondary Source.

Primary Source: The primary source of data for the purpose of the study are as follows-

a. Discussion with engagement manager, engagement team members, and other audit teams.
b. Working with different audit team.

Secondary Sources: The secondary source of collecting data are as follows-

a. Correspondence files of different clients.

b. Annual report, management audit report, KPMG audit manual 2019, accounting system and audit working papers.

## 1.6 Limitations of the Study

Gathering knowledge regarding external procedure has been the main objective of this paper. Due to several reasons such as limited time schedule, the study has some limitations. They are mentioned as follows-

- Narrow time span of internship period to gather all the required information.
- The case study information is insufficient for this study as an independent audit company.
- Due to limited time as well as other constraints, the exact audit protocol is not always followed.
- Because the internship was my first practical experience, gathering knowledge regarding every audit procedure has not been possible for me.
- Cash incentive has not been covered due to time limitations.

# CHAPTER 2

## Organizational Overview of RRH

## 2.1 About RRH

In Bangladesh, Rahman Rahman Huq is a well-known firm of chartered accountants. At the time, Price Waterhouse Peat & Co. was a chartered accounting firm operating in Pakistan. After Price Waterhouse Peat & Co. left Pakistan in 1962, one of the business's former partners, Mr. Rezaur Rahman, established the firm Rahman Rahman Huq with two other chartered accountants, Mr. M. Saifur Rahman and Mr. Tasfin I. Huq (Hossain, 2019).

Rahman Rahman Huq is a KPMG International Member Firm. RRH or the Firm is Bangladesh's first member firm of one of the Big Four international accounting companies. On January 1, 2006, Rahman Rahman Huq joined the KPMG International Cooperative ("KPMG International"). RRH has represented KPMG in Bangladesh for more than a decade, and Member Firm status is the highest level of affiliation provided to such global firms. This establishes RRH as the foremost accounting firm in Bangladesh. This reputation is based on a half-worth century's of serving clients with sound technical expertise, as well as unshakable honesty, impartiality, and independence. Currently, the RRH is actively operated by three partners, namely Mehedi Hasan, Adeeb H. Khan, and Ali Ashfaq.

Mohakhali is Rahman Rahman Huq's primary operational base in Dhaka. In Agrabad, Chittagong, there is a regional office that administers regional activities.

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

## 2.2 Services Provided by RRH

RRH's services have been separated into numerous departments over the years. They are described as follows-

### *a. Audit and Advisory Services*

Accounting and financial reporting advice and support is provided by KPMG Bangladesh's Audit and Advisory Services practice to both audit and non-audit clients on a broad range of transactions and events, such as the implementation of new or revised accounting standards, the efficient management of financial reporting processes, and IPO preparation. RRH provides recurring and event-driven services to many of the world's largest multinational companies and financial investors. These groups are equipped with skills ranging from technological know-how to knowledge of relevant laws and industry standards to an understanding of intricate deals and events to process optimization and project management (Hossain, 2019). The following are more detailed descriptions of the services provided by this department:

i. **Financial Statement Audit**- the Financial Statement Audits are obligated to deliver services in the public interest. It's in the public interest since it ensures the accuracy of data used by investors and the financial sector. Professionals in KPMG's Audit practice take this duty very seriously, using rigorous D&A routines to strengthen audit evidence and gain more nuanced insights, and investigating the role auditors can and should play by consulting with stakeholders to better understand their points of view through KPMG's Value of Audit. This audit service is given on either a statutory or Group audit basis.
ii. **Assessment of Risk**-It factors in how often vulnerabilities can disrupt operations and how dependent they are on one another. Our auditors now have more information with which to assess risks, which improves the quality of their audits. In addition, they will be able to supply clients with current information that can be utilized to make more informed decisions regarding how to combat and monitor these dangers within their own businesses.

### ***b. Tax Services***

RRH's tax staff participates in discussions and debates regarding tax responsibility and transparency. Clients are advised to design tax strategies that are consistent with the tax system and adhere to all relevant tax procedures so that they can stand up to scrutiny from tax authorities and the general public when it comes to the tax practices of multinational and local firms. Here we focus on how multinational corporations may adapt to the new reporting standards and how they can assess whether or not their current infrastructure can handle their expanded tax obligations. Further, they will have to assess their infrastructure to see whether it can handle the new multijurisdictional reporting obligations. To ensure that all members of the KPMG network adhere to the highest standards of ethical behavior at all times, KPMG International (an RRH member company) has a comprehensive and robust Global Code of Conduct that is available to the public.

Additionally, tax professionals must adhere to the Concepts for a Responsible Tax Practice, which outlines a set of fundamental ethical principles and practices (Chowdhury and Hossain, 2019).

### c. *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 in which KPMG excels in Bangladesh. 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 (Hendriarto, 2021).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 advising on potential transfer pricing issues by reviewing draft agreements between connected firms.

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 that the 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.

## 2.3 My Responsibility as an Audit Assistant

In Rahman Rahman Huq, I was assigned to the Audit and Advisory Services department (KPMG in Bangladesh). Since then, I've spent the months of June through August working as an audit assistant for Coats Bangladesh Limited (CBL) as a financial auditor. The job of the annual audit was divided among the team members according to the headings in the financial statements. I was assigned to the audit of Cash and Cash Equivalents, Property Plant Equipment, Provision for expenses, Other Manufacturing Expenses, Advance Deposits and Prepayments, and Other Selling and Distribution Expense. Working in these areas taught me how the entire audit process works. It is the auditor's first responsibility to establish whether or not a certain aspect of the company's performance is significant. Auditors must use professional judgment when providing information that is relevant to users' investment choices based on financial statements. It's computed by multiplying a percentage by a benchmark like PBT or net assets. Therefore, after calculating the materiality percentage for the firm, I had to utilize it to randomly choose transactions from the general ledger under the allotted sub headings. After that, I had to verify them for correctness, transaction completion, proper registration, protection of firm assets, and ultimate responsibility. Because of this, I had to look at the transactions' approval process, the internal control system, and the policy's execution to find any holes. One of my first observations was that they did not maintain tagging of assets properly. It was included in the deliverables O, for the audit reporting.

# CHAPTER 3

## 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:

### *a. Competent, Independent Person:*

To reach the correct judgment after evaluating the evidence, the auditor must be qualified to completely comprehend the criteria and informed about the types and quantities of evidence to collect. In addition, the auditor must have an autonomous mental disposition. When unbiased knowledge and objective reasoning are essential for making judgements and conclusions, having a competent individual who is also biased collect evidence serves little value. Independence cannot be absolute, yet it must be pursued and is possible to some degree.

### *b. Accumulating and Evaluating Evidence:*

To the auditor, evidence is anything that helps them evaluate whether the data they are examining meets certain standards. The auditor may rely on a wide variety of evidence, such as the auditee's (the client's) own words, letters and emails from third parties, and direct observation. The audit goals can't be achieved without collecting evidence of adequate quality and quantity. The auditor is responsible for defining the appropriate level of proof and checking that the available data meets the predetermined standards.

### *c. Quantifiable Information and Established Criteria:*

For an audit to be carried out, there has to be both information that can be independently confirmed and criteria that can be used to assess the information's accuracy. There are many different types of quantitative data. You may have your tax return audited, as well as the financial records of a firm, the time it takes for an individual to execute a job, the entire expense of a government building contract, and your own personal finances. The standards by which quantitative data are evaluated may likewise differ widely. An audit of a supplier's invoice for the purchase of raw materials, for example, can reveal whether or not the company received the correct quantity and quality of materials, whether or not the raw material was obtained in accordance with the organization's operational needs, and whether or not the price was fair. The audit's goals will determine the criteria used.

### *d. Economic Entity:*

The auditor's remit should be made entirely clear before beginning an audit. The first step in any economic approach is establishing the economic force and time frame. In most cases, an economic entity also includes a distinct legal entity, for example a company, government agency, partnership, or even a single proprietorship. However, the entity may also be a division, a department, or even a specific individual in certain contexts. There are monthly audits, quarterly audits, annual audits, and lifetime audits.

### *e. Reporting:*

The audit report is the final deliverable of an audit and is used to relay the results to the target audience. Different types of reports serve different purposes, but they all should tell the reader how well the data they provided aligns with some standard.

# CHAPTER 4

## Audit Procedure

## 4.1 Accounting vs Auditing

Many investors and other readers of financial reports get auditing and accounting mixed up. This misunderstanding stems from the fact that auditors spend much of their time examining accounting data and that many of them have deep knowledge of financial topics. Accounting and auditing are related fields, although they are still separate disciplines.

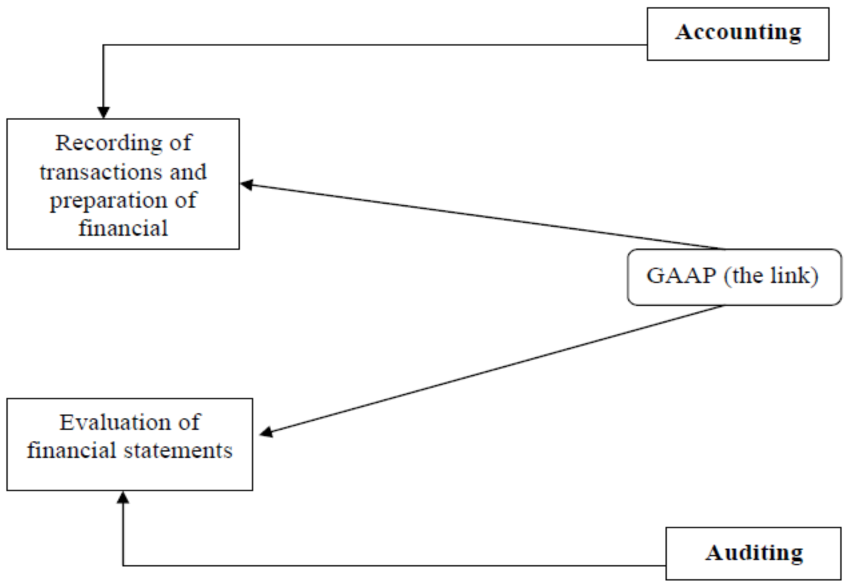


*Figure 1: Accounting vs Auditing.*

*Source: (Baatwah, Salleh and Stewart, 2019)*

Those who work in accounting are responsible for amassing financial data, synthesizing it, reporting it, and providing meaningful insight into that data. When it comes to money, accounting is the systematic recording, categorization, and summarization of relevant occurrences for use in decision making. The goal of accounting in every business or community is to provide decision-makers with accurate numerical data.

Accountants need an in-depth knowledge of accounting information preparation concepts and standards to deliver useful data. In addition, accountants need to devise a method to guarantee complete, timely, and cost-effective documentation of the entity's economic events.

By contrast, auditing uses the same theory of facts as the legal system to verify the financial accounts' overall reasonableness (fairness). The purpose of an audit of financial statements is to determine whether or not the data presented therein fairly and properly represents the economic activity that took place during the accountancy period under review. If an auditor is going to be working with accounting data, they need to have a thorough grasp of accounting standards, since these rules provide the criterion for deciding if accounting information is accurately documented. These are the GAAP that auditors use to evaluate financial accounts (GAAP).

## 4.2 Organizational Structure of RRH

The line organization system is used by most audit firms. One of them is RRH, KPMG in Bangladesh, which adheres to a rigid straight-line system. The ultimate powers are held by the most powerful partners at the top. Important and critical choices are made with the consent of all partners because this is a partnership organization. However, the senior partner ca sway decisions. The second position is held by a senior manager, who is followed by a manager, an assistant manager, a qualified (serving article), a tax specialist, an IRM (information and risk management) specialist, a senior auditor, a semi-senior auditor, and a junior auditor.


***Figure 2: Organizational Hierarchy.***

***Source: (Zhu, 2019)***

## 4.3 Audit Procedure in Bangladesh

Auditing is a scientific, systematic procedure used all around the world. Not the methods of auditing themselves, but the laws and rules that each countries must follow are where the real disparities lie. The auditor's audit policy describes the procedures that need to be followed in order to gather the evidence needed to determine whether or not the books and records are accurate. Then he has to figure out if the information is sound and reasonable. In an audit, we look at how the company buys its raw materials, how it handles its accounts payable and receivable, and how it operates its internal control system, among other things. Chartered accountants in Bangladesh are governed by the Institute of Chartered Accountants. They are the auditing industry's governing body in Bangladesh. The Audit Practice Manual (APM) outlines a 4-stage process that auditors must adhere to.

***Step 1: Planning***

Among the most crucial aspects of auditing is the planning stage. The audit's execution requires sufficient planning. An audit plan ensures that no stone is left unturned and that the auditor is knowledgeable of the audit's design and all the checks that the teams must do to finish the audit. Additionally, unless an audit is not adequately planned, this might take too much time to perform. Audits must be organized in line with the ISA 300 standard, and auditing companies in Bangladesh must adhere to this standard as it has been accepted by the ISA. The International Standards on Auditing (ISA) adopted this approach so that work might be assigned to team members according to their areas of expertise, resulting in more efficient use of resources and a more thorough and accurate audit.

***Step 2: gathering Evidence***

The number of components that should be audited is not specified in the Audit Practice Manual. In light of the client's context relative to the assessed item, the auditor must exercise professional judgment. Instead of merely "filling in the forms," it is far superior to develop assessments that are specifically relevant to the customer. Therefore, the APM should be used as a standard for making changes or building new software. Thus, it is essential that the population from which the sample is drawn be well represented, and that the sample size be sufficient for reliable inferences to be drawn. Overall, sufficient sample size must be established with discretion. In addition, intrinsic risk factors, population characteristics, and materiality must be considered. All of them provide a solid theoretical foundation, but in the end, judgment must be used.

### ***Step 3: Control and Record***

This phase documents everything planning that has occurred. This is the primary fieldwork process, during which all assessments and other audited corporate areas are evaluated. These evaluations are used to analyze the acquired evidence, which is then documented. Risk evaluations and materiality calculations are done at this level. There are two distinct risk assessments that may be performed, both of which adhere to the standards set out by auditing practices. At first, the company's commercial and regulatory surroundings are evaluated in detail as part of a broad risk assessment. There is a correlation between managerial honesty and business uncertainty. You may use the results of this analysis to get a better sense of how dangerous the whole venture is. Second, there is specific risk assessment, which is used to determine how risky the involvement really is.

A risk assessment has two basic goals. This tool is used to determine whether or not the full audit program method may be skipped in light of the specifics of the audit at hand. It may be used to evaluate the impact of all potential risks on a certain section of the financial statements. This allows you to zero down on the most pressing issues throughout the audit without losing sight of the overall picture.

### ***Step 4: Review and Opinion***

The final step of the audit process is the Auditor's review and opinion. The audited company's management reviews the entire report and provides feedback on the issues mentioned. As a result of this discussion, certain insights may become apparent. Then, the issues are discussed with the responsible audit manager. The management then gives their view, and any concerns that cannot be handled are sent to a partner at a firm of Chartered Accountants. Then, he reviews the full audit and forms an opinion. Listed below are examples of auditing checklists from the Audit Practice Manual:

- Completion by partner
- Successful completion of the audit
- Questionnaire for reviewing auditing standards
- Questionnaire for the internal control system

- Accounts Critical Review Questionnaire
- Audit report justification, etc.

Using the following checklist, the auditor forms an opinion after reviewing the information. If the auditor is satisfied with the responses, he or she might form an unqualified opinion regarding the customer. In all other cases, they offer a qualified, disclaimer, or unqualified view.

## 4.4 Audit Procedure of RRH

The audit procedure followed by Rahman Rahman Huq is divided into four steps. The steps are discussed as follows-

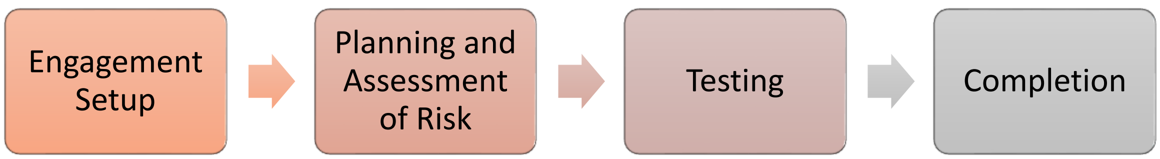


***Figure 3: Audit Procedure of RRH.***

***Source: (Hossain, 2019).***

***Step 1: Engagement Setup***

There are three parties engaged in each and every engagement. They go by the titles of "responsible party," "intended user," and "assurance practitioner." RRH, as the assurance practitioner, considers the following factors before providing engagement services:

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

A realistic objective is required for an assurance engagement. Several factors are taken into account while determining a logical purpose. For instance, if the delivery of the assurance report is stated, whether the client possesses all of the components of the subject material with enough experience, whether there are no constraints on work, as well as whether parties involved of the audit engagement could be recognized.

**b. The Subject Matter should be Appropriate:** Accepting a job often involves vetting the work's subject matter for appropriateness. The subject matter needs to be easily recognizable and capable of being measured or evaluated in a consistent manner in compliance with standards.

**c. Engagement Addresses the User Needs:** While evaluating an engagement, it's important to think about how well it meets the needs of the users.

**d**. **The Criteria's Developed by Management are Suitable:** The assurance process can only begin until the criteria are usable and understandable. Check to see if the criteria developed by the party responsible are adequate & if they are suitable in terms of being appropriate, complete, reliable, unbiased, and easy to understand.

**e. Sufficient Information can be collected:** The assurance level you receive determines how much proof RRH requires. The possibility of a serious inaccuracy is something RRH hopes to minimize as much as possible. Large amounts of evidence may be needed to rule out the possibility of significant errors in this case. For this reason, if RRH determines that a scope constraint will necessitate the disclaimers of an opinion, we are not permitted by ISAE 3000 to accept the engagement.

### ***Step 2: Planning and Risk Assessment***

A number of crucial choices about RRH's response to engagement risks discovered via risk analysis and planning assessment are at the heart of their assurance strategy. The scope of the activities, the most pressing issues that must be resolved, the importance of the goal, and the type of the involvement all play a role in the planning process. If RRH intends to get evidence through testing the functioning of controls and the usage of SMEs, external experts, internal audit, as well as other member businesses, the planning team will establish the overall schedule of testing and the overall method to evidence gathering. There are three kind of engagement dangers that necessitate this measure's prevention. The inherent risk that the subject matter is prone to mistake or misstatement, the risk that internal controls will fail to identify an error or misrepresentation in the subject matter, and the risk that tests will fail to detect a major misrepresentation are all elements of engagement risks (detection risk). During its risk analysis and planning processes, RRH additionally takes into account the following elements:

**a) Significant Areas for Risk Assessment:** Whether it's a metric like a key performance measurement or a more abstract concept like the quality of governance, it's safe to say that these things matter.

**b) Assurance Engagement on the Clients Report:** Assessing the client's engagement report enables the identification of significant areas.

**c) Fraud in the Assurance Engagement:** For the purposes of an assurance engagement, fraudulent is defined as the intentional manipulating of the subject matter. Planning and risk assessment at RRH incorporates an examination of the nature underlying fraud risks and the selection of relevant tests to mitigate such risks. The topic-specific fraud threat that must be evaluated.

When it comes to the aforementioned threats, a materiality assessment is done to ascertain how much of an error is likely to affect the final choice made by the target audience. Topics like data sometimes need the use of materiality criteria. RRH considers the following factors when settling on materiality thresholds:

a) The requirements of the target audience, defined as the point at which a false statement (including an omission) is likely to have an effect on the requirements of the target audience, either singly or collectively; and

b) The standards (for example, some criteria may set out what would be considered material)

Risks of substantial misstatements, as well as the kind, frequency, and depth of testing, are all determined by materiality criteria. Furthermore, materiality standards are used to determine the extent to which discovered discrepancies have an effect on the topic at hand. When discrepancies are uncovered, they are recorded and amassed for examination to ascertain if an adjustment is necessary based upon what was deemed material inside the context of the given data, i.e. materialism thresholds.

### ***Step 3: Testing***

Here, we put the organization's controls through their paces in the testing department. Controls are evaluated for their operational efficacy as part of RRH's reaction to the substantial misstatement risks revealed by the risk assessment. Controls testing is done to see how well they work to either prevent substantial misstatements from being made, or to find them before they can do too much damage. The criteria of reflect a control's performance as well as the deviation criteria that indicate poor performance must be identified before tests of controls that provide meaningful audit evidence can be designed. RRH assesses whether or not these safeguards are in place and being used properly. RRH performs substantive testing after operational effectiveness controls have been evaluated to ensure that all aspects of a transaction are genuine and all required documentation has been recorded.

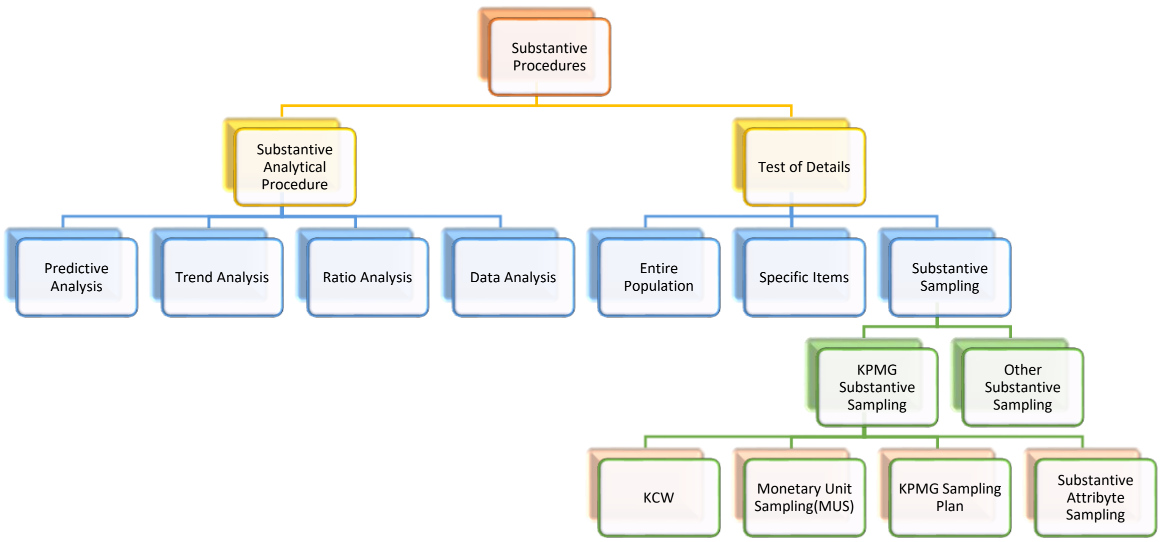


*Figure 3: Substantive Procedure followed by RRH (KPMG in Bangladesh).*

*Source: (Saadullah and Elsayed, 2020).*

This is the procedure followed for information collection. They consist of the substantive analytical procedure and the test of particulars. The following requirements are placed on RRH while establishing and implementing significant analytical procedures:

a) Analyze the risks & tests for details connected with certain statements to establish whether or not substantive analytical approaches may be used to those claims.

b) Make an assumption based on known data such as ratios or numbers.

c) Determine whether the expectation is accurate enough, when combined of audit evidence from the other audit procedures (if applicable), to detect a deception that, either by itself or in conjunction with the other misleading statements, could result its financial statements to also be significantly misstated.

d) Determine the maximum allowable deviation between actual and predicted values that would warrant further investigation.

e) Evaluate the dependability of the data from which our expectations of recorded quantities or ratios are derived, taking into account the information's source, comparability, type, and relevancy, as well as the rules governing its preparation.

In contrast, inquiry is used during the course of carrying out exhaustive testing. Despite the fact that an inquiry may produce substantial audit evidence of or proof of a misstatement, it is not enough audit evidence to prove the avoidance of a serious mistake at the assertion level. It is possible to conduct a test of details using any number of auditing methods, but the following are particularly useful when performed in tandem:

- Inspection
- Observation
- External Confirmation
- Recalculation
- Re-performance.

The following scenarios dictate the appropriateness of certain testing procedures:

i. If computer-assisted auditing processes can only be applied to a small sample size or the entire population, then either all items or just the entire population must be selected for testing.

***ii.*** locating things that fit certain criteria, such as exceeding performance materiality in quantity, sitting idle for more over six months in inventory, or being overdue in payments to vendors by more than three months, and picking things with certain characteristics to be tested.

***iii.*** If the population contains a large number of items, it is more practical to perform auditing procedures on a subset of that population. In this scenario, we will employ currency unit sample, the KPMG sampling strategy, and substantive attribute sampling.

***Step 4: Completion***

In the last stages of the audit, RRH will build and implement final analytical procedures to help determine whether or not the financial statements is consistent with our knowledge of the company. As the audit draws to a close, RRH does a final examination of the financial statements & disclosures and develops and implements any remaining analytical processes, such as any remaining analytical procedures tied to revenue till the closing of the reporting period. Which aids them in-

**a)** In order to see if the financials line up with what we know about the company.

**b)** When evaluating RRH's findings regarding key accounting and disclosure information.

**c)** To ascertain if there are no material misstatements inside the financial statements taken as a whole.

Finally, the auditor's opinion is given under the following scenarios:

- A qualified opinion is issued if there is a major misstatement in the financial statements and the repercussions are material but not widespread.

- A negative opinion is issued if there are serious misstatements in the financial statements and such misstatements have widespread and material effects.

- In cases when obtaining all relevant data would be extremely time-consuming and unlikely to succeed, a qualified opinion would be offered.

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

## 4.5 Recent Changes in Audit Practices

The fundamental process has been the same but there have been some changes brought upon to enhance the credibility, transparency, and effectiveness of the audit procedure. The audit performed by the RRH will be no-onwards monitored by the KPMG central. Moreover, the KPMG Clara Workflow (KCW) software is used as audit tool instead of e-audit which was previously followed. By the end of 2021, KPMG has fully adapted the KCW platform and abandoned the e-audit platform. The KCW takes less time, and it is less complex. Moreover, the steps in the KCW are clearer, and detailed.

## 4.6 Measuring Effectiveness of RRH's Audit Procedure

To measure the effectiveness of the audit procedure of RRH, 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.*

## 4.7 Findings

There are some compliance guidelines that all the member firms of KPMG must comply with. As a member firm of the KPMG international, RRH strictly follows the compliance issues. The purpose of the survey is to gauge how well the RRH carries out its auditing duties. To provide effective audit service, KPMG strictly follows the compliance issues. From the questionnaire it can be assessed 85% of the compliances are maintained by RRH. The firm isn't really completely separate from its customers, as has been observed in practice. There is conflict of interest exists in audit procedure as they sometimes provide tax and transfer pricing services to the clients. The time limit for the audit engagement is also very short which needs to be modified. Instead of having proper policy of collecting evidence, in very few cases, sometimes it is difficult to gather data from client. Though the firm is developing its procedures and policies day by day, there is still scope for improvement.

# CHAPTER 5

## Arm’s Length Price Analysis in Transfer Pricing

## 5.1 Comparable search methodology

The purpose of the search is to discover a group of independent entities that participate in similar activities to ABC International Limited and have functional and risk profiles that are comparable to those of ABC Bangladesh. This search for comparable companies was conducted through a series of processes, which are described in the subsections that follow.

## 5.2 Search from Compustat Global Database (KTPE)

We decided to perform our arm's length analysis, by searching for functionally comparable companies in the Asia and South Pacific region. The search was undertaken using information available in KPMG Transfer Pricing Engine- Comparables Insights (KTPE) from the Compustat Global database. Specifically, KPMG Bangladesh perform the benchmarking to identify comparable companies in the following manner: -

### 5.2.1 Criteria Selection, Data Sufficiency, and Quantitative Screening

KPMG Bangladesh used its Compustat Global database, KTPE October 2021 Data version to identify potentially comparable companies that have function, asset and risk profile as consistent with that of ABC Bangladesh. Based on the search criteria, KTPE identified 67,666 potentially comparable companies. The detailed search criteria and the search process are presented 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 accessorie 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** companies are selected from 67,666 companies. |
| **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 South Pacific 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 Data Availability** | 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**. |

### 5.2.2 Qualitative Screening

KPMG Bangladesh evaluated the remaining 291 potentially comparable companies for qualitative comparability. The primary reasons for exclusion, the results of the qualitative screening process summary and other details are presented in **Appendix A**.

## 5.3 Final Comparable Set

Final Comparable for the expense's nature transactions from the analysis in Compustat Global 8 comparable companies were selected and from Capitaline Plus 3 comparable companies were selected. This benchmarking process leaves total 11 comparable companies to compare the arm's

[1] *Asia and South Pacific countries include 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, Vietnam.*

length price/consideration of the company/tested party. The three year Period Weighted Average (PWAVG) of Operating Margin = OP/Net sales for the expenses nature transactions are presented below:-

| S.N. | S[2] | Comparable Company Name | Operating Margin | | | |
|---|---|---|---|---|---|---|
| | | | FY 2018-19 | FY 2019-20 | FY 2020-21 | 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%** |

As per the analysis we concluded that the arm's length range (30 to 70 percentile) for operating margin of the comparable companies is 6.52% to 10.29% with a median of 9.49%. During the year ABC Bangladesh has acquired operating margin of 34.32% (**Appendix-B** for details) at entity level which shall be considered as to be within arm's length range as operating margin earned by ABC Bangladesh is much higher than 30 percentile margin of comparable companies.

[2] *S=Database Source, K=KTPE, C=CapitaLine Plus*

# CHAPTER 6

## Conclusion and Recommendations

## Conclusion

Rahman Rahman Huq, KPMG in Bangladesh is the best firm operating in the country. It has the reputation of performing audit maintaining the compliances and following the policies regularly. There is a very friendly environment and broad scope to learn audit procedure practically. During three months of internship, gathering of vast knowledge about auditing has been possible as they provide the wide scope for learning. Nevertheless, it is probable that discrepancy may occur that may lead to noncompliance. As KPMG maintain a significant confidentiality about client, ABC Ltd is an imaginary name of a client at the time of analysis. There are many areas where improvements could be brought upon which are mentioned in the recommendation section.

## Recommendations

1. The timespan of audit should be changed in cases where, collecting evidence are very difficult instead of following same strategy for the clients.
2. RRH should conduct trainings more often in a timely manner so that having knowledge of audit procedure can be effective.
3. The working environment should be more supportive to the articled students.

# Bibliography


Almasria, Airout:R.M., N., Samara, A. & aadat, M. a. J., 2021. The role of accounting information systems in enhancing the quality of external audit procedures. *T.S*, pp. 24(7), pp.1-23.

Amalia & F.A., S. S. a. B., 2021. Audit Quality: Does Time Pressure Influence Independence and Audit Procedure Compliance of Auditor. *Journal of Accounting and Investment,* pp. 20(1), pp.130-144.

Baatwah & S.R., S. Z. a. S. J., 2019. Audit committee chair accounting expertise and audit report timeliness. *International Journal of Qualitative Methods.*

Kleijn, D. & Leeuwen, R. a. V., 2018. Reflections and review on the audit procedure: Guidelines for more transparency. *International Journal of Qualitative Methods*, pp. 17(1), p.1609406918763214.

Hossain, M., 2019. The Procedure of Cash Incentive and Its Role in the RMG Sector in Bangladesh: Evidence from Bangladesh. *The Procedure of Cash Incentive and Its Role in the RMG Sector in Bangladesh: Evidence from Bangladesh (February 14, 2019)*.

Hossain, S., 2019. Effectiveness of Rahman Rahman Huq (KPMG Bangladesh) audit policy.

Zhu, P.Y., 2019, June. Research on the Integration of Financial Reports Audit and Internal Control Audit. In *6th International Conference on Management Science and Management Innovation (MSMI 2019)* (pp. 141-145). Atlantis Press.

Saadullah, S.M. and Elsayed, N., 2020. An audit simulation of the substantive procedures in the revenue process–*A teaching case incorporating Bloom's taxonomy. Journal of Accounting Education*, *52*, p.100678.

Hendriarto, P., 2021. Relevance between transfer pricing and taxpayer compliance and marketing accounting management efficiency. *Linguistics and Culture Review*, *5*(S4), pp.2066-2077.

Chowdhury, M.M. and Hossain, S.Z., 2019. An Overview of Tax Reforms in Bangladesh: Corporate Perspective. *Global Journal of Management And Business Research*.

# Appendix-A

**Qualitative screening steps**

To assess the comparability of the remaining independent companies, KPMG Bangladesh reviewed the potentially comparable firms' business descriptions using sources such as Dow Jones Companies & Executives, company websites or the companies' annual reports. Specifically, we attempted to identify companies engaging in similar activities as the tested party and eliminated companies that perform functions, own assets, and bear risks significantly different from those of the tested party from the comparable set.

Independent companies which are found from different database for qualitative review, are analyzed as per the following criteria-

1 Reject companies which performs different functions.

2 Reject companies which produces different products.

3 Reject companies which are not operating as independent companies or is subsidiary.

4 Reject companies which are operating at loss for consecutive 3 years, and

5 Reject companies which have insufficient information.

The primary reasons for exclusion along with numbers are listed in the following table. The Appendix F describes the results of the quantitative screening processes.

Transactions – 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 tested party (ABC International Limited).The financial information of ABC International Limited for the year ended 31 December 2020, as provided by the Company, is as follows:

| **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:**

For Compustat Global database, we have applied the SIC codes and for Capitaline plus database we have applied the NIC codes to search for comparable as near to 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 |
|---|---|---|
| 1 | 13121 | Weaving, manufacture of cotton and cotton mixture fabrics |
| 2 | 13124 | Weaving, manufacturing of man-made fiber and man-made mixture fabrics |
| 3 | 13131 | Finishing of cotton and blended cotton textiles |
| 4 | 13132 | Finishing of silk and blended silk textiles |
| 5 | 13134 | Finishing of man-made and blended man-made textiles |
| 6 | 13136 | Activity related to screen printing |
| 7 | 13139 | Other activities relating to finishing of textile not elsewhere coated |
| 8 | 13911 | Manufacture of knitted and crocheted cotton fabrics |
| 9 | 13919 | Manufacture of other knitted and crocheted woolen fabrics |
| 10 | 13929 | Manufacture of other made-up textile articles, except apparel not elsewhere coated |
| 11 | 13991 | Embroidery work and making of laces and fringes |
| 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 |

| 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 |