

Office of the Comptroller and Auditor General of Bangladesh

Financial Audit Guidelines (For internal use of OCAG Bangladesh)

Foreword

The Constitution of Bangladesh has entrusted the CAG of Bangladesh with onerous audit responsibilities. Article 128(1) of the Constitution of Bangladesh mandates that the public accounts of the Republic and of all courts of law and all authorities and officers of the Government shall be audited and reported by the Auditor General. Section 5(1) of the CAG (Additional Functions) Act, 1974 further mandates audit by CAG of statutory public authorities, public enterprises and local authorities.

Government audit primarily consists of three types of audit, namely financial audit, performance audit and compliance audit. Of these, financial audit is most fundamental and is considered as the foundation of sound public financial management. Financial audits are attestation engagements. The subject matters of financial audits are the financial position, financial performance, cash flow or other elements, which are recognised and measured against the criteria of financial reporting framework by the responsible party who presents the financial statements. The subject matter information is the financial statements. OCAAG, as the auditor is expected to gather sufficient and appropriate evidence to provide a reasonable basis for expressing an opinion and conclusion on the subject matter information which will provide a reasonable assurance to the intended users of the financial statements.

With the promulgation of Government Auditing Standards of Bangladesh, which are based on the International standards of Supreme Audit Institutions (ISSAI), it is necessary to incorporate new materials relating to financial audit in consonance with the new Auditing Standards in our guidelines.

CAG of Bangladesh is entrusted with the financial audit of many types of financial statements. These financial statements differ in form and contents as much as in the financial reporting frameworks. Government accounts are on cash basis while the accounts of many statutory public authorities and public enterprises are maintained on accrual basis. The tasks of auditing different types of financial statements are challenging as they require different skill sets and knowledge.

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The guidelines have been prepared to enable the audit personnel of OCAG Bangladesh to undertake financial audit engagements of high quality. Drawing from the international best practices, which ISSAI and the Government Auditing Standards of Bangladesh reflect, these guidelines contextualise them in our country. They take into account the Constitutional and other mandate of the CAG and are designed to meet the challenges that the public sector audit in Bangladesh face.

OCAG has continually strived to improve its processes and practices. The promulgation of Government Auditing Standards, Code of Ethics and Quality Control System is significant step in this direction. A set of compliance audit guidelines consistent with the new Auditing Standards have also been prepared and published. The issuance of financial audit guidelines will further enhance our efficiency and effectiveness.

I put on record my deep appreciation of the officers and staff who have worked hard to prepare these guidelines. The guidelines are gender neutral. Words and expressions denoting masculine gender include feminine gender also.



Mohammad Muslim Chowdhury
Comptroller and Auditor General of Bangladesh
Dhaka Bangladesh.

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Preface

With the promulgation of new Government Auditing Standards of Bangladesh, Code of Ethics and Quality Control System, it is necessary to issue fresh guidelines for Financial Audit.

CAG of Bangladesh draws his mandate from the Constitution and CAG's Additional Functions Act, 1974. Detailed rules relating to public audit are issued by him in the form of Audit Code. The Government Auditing Standards of Bangladesh promulgated by him reflect the mandates of the Constitution and the Act as also the directions provided in the Audit Code. The Financial Audit Guidelines presented here are expected to assist the staff of OCAG to carry out quality audit of financial statements in accordance with the mandate, directions and standards.

It is expected that the guidelines will assist the officers and staff of the Office of the CAG of Bangladesh in carrying out better and improved audit of different types of entities, activities and transactions. While these guidelines are prescriptive in nature, they do not in any way replace initiative, application of professional judgement and knowledge of the officers and staff of OCAG.

These guidelines will be updated periodically or as and when necessary by Rules and Regulations Unit (RRU) of OCAG.

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Chapter 1: Type and Scope of Financial Audit

Nature of Financial Audit

1.1 Financial audits are attestation engagements. The subject matter of a financial audit is the accounting and related data of an entity, normally presented in the form of financial statements (the latter known as the subject matter information). OCAG as an auditor is required to obtain sufficient and appropriate audit evidence to provide reasonable assurance to the users, in the form of an audit opinion and report, as to whether the financial statements or other forms of presentation of financial information are fairly presented or gives a true and fair view of the entity.

1.2 The focus of financial audit thus is the set of financial statements prepared by the responsible entity other than the auditor, pertaining to a particular financial period. The auditor's responsibility is to examine these statements and obtain sufficient and appropriate evidence to enable him to provide an opinion whether the financial statements are prepared in accordance with the applicable financial reporting framework, whether the financial statements present a true and fair view of the state of the entity. The basis of such an opinion is the fact whether the financial statements are free from material misstatements due to fraud or error.

1.3 The auditing responsibilities of CAG of Bangladesh is more extensive than providing opinion on the financial statements. These responsibilities are carried out by OCAG by conducting compliance audits and performance audits. While these audits- notably compliance audits- may provide inputs for financial audits, the objectives of these audits are quite different from those of financial audits.

Comparison between Financial Audit and Compliance Audit

1.4 Financial audit should not be equated with Compliance audit even though both these audits may examine financial transactions. Broad differences are given below:

	Financial Audit	Compliance Audit
Subject Matter	Financial position, Financial performance, cash flow or other elements of an entity	Financial and other transactions of an entity not necessarily pertaining to one single financial period.
Subject matter information	Financial statements pertaining to a single financial period.	..
Period of Coverage	Pertains to one financial period.	May cover more than one financial period.
Entity Coverage	Focuses on financial statements.	Focuses on auditable entities.
Reporting	Results in an audit opinion.	Results in an audit report, not an opinion.
Materiality	Material misstatements are the basis of the opinion.	May find irregularities, which may be material in the context of the audited entity, but not in the context of financial statement.

1.5 Similarly, during Performance audit financial transactions including financial statements might be examined. However, such audits will also not be considered as Financial audit.

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Authority for Financial Audit

1.6 The powers and jurisdiction of CAG are derived from the Constitution of Bangladesh and CAG's(Additional Functions) Act 1974. Article 128(1) mandates CAG to audit public accounts of the Republic and of all courts of law and all authorities and officers of the Government and report thereon. Section 5(1) of the CAG (Additional Functions) Act 1974, empowers CAG to audit any statutory public authority, public enterprise with at least 50% share or interest by Government and local authority.

1.7 Neither the Constitution nor the Additional Functions Act specifically mentions types of audit to be conducted by CAG. Any of the three types of audit can be undertaken by CAG as per Article 128 (1) and 128 (4) of the Constitution. CAG and OCAg are competent to carry out audit of financial statements of Government, statutory public authorities , public enterprises with at least 50% share or interest by Government and local authorities.

Financial statements as focus of Financial audit

1.8 It is to be noted that all entities and units are not required to prepare separate financial statements. The financial transactions of these entities get reflected in the financial statements of parent entities. For example, the Finance Accounts of Government of Bangladesh reflect all receipts and expenditures incurred by all government entities and units. The financial audit would cover the Finance Accounts even though other agencies are subjected to audit by CAG for the purpose of compliance audit and performance audit.

1.9 The significance of financial statements being of the focus of financial audit should be clear from this point of view and marks the difference between financial audit and other types of audit. A set of financial statements need to be handed over to audit for attestation purpose. These financial statements are normally prepared from the accounting records of financial transactions in more than one entity in accordance with the accounting and financial reporting framework. All such entities are also under the audit jurisdiction of CAG but for the purpose of financial audit, the significance of each and every entity may not be material.

Categories of Entities audited by OCAg

1.10 The whole gamut of entities which are audited by OCAg are divided into four categories:

Category I: Budgetary Central Government

Budgetary Central Government refers to entities and units, whose revenue and expenditure are regulated by means of budget approved by Parliament. Appropriation Act and Finance Act are used respectively to deal with expenditure and revenue. These entities are covered by Government rules and regulations. The transactions are recognised mostly on cash basis subject to any book adjustment allowed under any rule or order.

Under this category, there will be the foreign aided projects. These may follow normal government rules and/or specific provisions in the conditions for such aid. These are audited either under Article 128(1) or as per the agreement for such aid. These are normally project based and can have their own rules and regulations governing financial transactions.

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Category II Statutory Public Authorities other than Corporations

Section 5(1) of the CAG (Additional Functions) Act, 1974 mandates the CAG to audit the accounts of any statutory public authority. Statutory public authorities are organisations which are established through specific law or an instrument having the force of law. Autonomous bodies established by the delegated administrative powers by the Ministries are to be covered within the ambit of statutory public authorities.

Category III: Local Authorities

Section 5(1) of the CAG (Additional Functions) Act 1974 also mandates the CAG to audit the accounts of any local authority. Local authorities are defined in Article 59 of the Constitution and General Clauses Act 1897.

Category IV: Public Enterprises and Corporations

For the purpose of CAG's audit, a public enterprise is defined as a company or a firm, whether incorporated or registered or not, in which the Government has at least fifty percent share or interest. Corporations established by statutes engaged predominantly in commercial activities are also covered by this category.

Only one auditor's report on financial audit

1.11 Plethora of Acts and Statutes provide a confusing picture relating to financial audit jurisdiction of CAG particularly in regard to Statutory Public Authorities, Local Authorities and Public Enterprises (including Corporations). It is therefore necessary to clarify. **The following principles will apply** on the financial audit of such bodies:

- (i) The audit of financial statements (financial audit) will be conducted
 - a. by Chartered Accountants where they are the auditors by virtue of Companies Act 1994, the Bank Companies Act 1991, the *Arthik Pratisthan Ain* 1993, or the statute relating to the entity, or
 - b. by any other authorities where they are the auditors by virtue of the statute relating to the entity.

However, CAG will not conduct audit of financial statements where the statutes provide audit responsibility to CAG along with the Chartered Accountants, though CAG will not be barred to conduct any audit under the provisions of Article 128 (1) of the Constitution and Section 5 (1) of CAG (additional functions) Act, 1974.

- (ii) In all cases where CAG is the sole auditor in the statute, he will conduct the audit of the financial statements and will provide an opinion on the statements. His opinion and other reports relating to the financial statements shall be printed along with the financial statements which will form part of the annual report of the entity. In addition, CAG may report these comments as per Article 132 of the Constitution.

- (iii) For Category I entities, the audit of financial statements will be conducted by CAG by virtue of Article 128 (1) of the Constitution.

Working on Draft financial statements

1.12 The formal process of attestation engagement can start only when financial statements, duly approved and signed by the competent authorities in the entities are received in OCAAG for attestation purpose. However preparation of financial statements is a long process and hence

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OCAG may initiate preparatory audit work on the draft statements provided to it or statements containing part of the information.

1.13 The draft should be exclusively used for checking and correction of figures and should always be compared with the final signed statements to ensure that the final statements are not at variance with the draft ones except corrections made at the instance of audit. In case of other variances, audit should be conducted to determine that no fresh material misstatements have crept in.

1.14 The Draft Financial statements can also come in the form of partial accounts. For example, pending preparation of the full appropriation accounts, part of it, say grant wise statements only with Budget Estimates and Re-appropriation order might be sent to OCAG for verification. There is no harm in initiating the auditing process on such statements to expedite the audit work.

1.15 In case of Statutory Public Authorities however, as far as possible, audit work should commence only after receipt of full draft.

Responsibilities in OCAG for Financial Audit

1.16 The Civil Audit Directorate will be responsible for financial audit of Finance Accounts. The finance accounts materials relating to defence, railway and postal departments will be audited by Defence, Transport and PTST audit directorates respectively and the findings will be provided to Civil Audit Directorate. All Appropriation Accounts will be audited by respective Audit Directorate. The respective Directorates of Defence Audit, Transport Audit and Post & Telecommunication Audit would be responsible for audit of Appropriation Accounts relating to Defence, Railways and Postal. Other audit directorate will send their findings on Appropriation Accounts to the Civil Audit Directorate for compilation. A separate instruction for such compilation, if warranted, will be issued by A&R wing of OCAG.

1.17 For audit of financial statements of statutory public authorities the concerned Directorate which is responsible for audit of the parent/administrative Ministry will be responsible.

1.18 Each Directorate will maintain a list of entities whose financial statements it is required to audit. It will also communicate with the entity to establish a timeline of annual programme of financial audit.

1.19 The Director General will be overall in charge of each financial audit engagement.

Timelines for Financial Audit

1.20 In case of Finance Accounts and Appropriation Accounts, the audit is year-long as the monthly accounts and other documents like re-appropriation orders comprise the basis on which the final accounts are prepared and audited. In view of the complexity and volume of such accounts, audit of Finance Accounts and Appropriation Accounts is not treated as a seasonal end of the year activity but a continuous one.

1.21 In case of other entities, the complexity of the financial statements may vary. In case of small entities, it can be treated as an annual activity but in case of complex entities, the audit may be year-long but not as intense as in case of Finance Accounts and Appropriation Accounts. The concerned directorate shall prepare the list of such complex entities separately.

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1.22 The publication of financial statements within a time limit is often mandated by relevant legislations and hence it is necessary to maintain a strict timeline for audit of financial statements. All auditee institutions should be informed about the time line well in advance.

Setting up Financial Audit: Audit Engagement Teams

1.23 Whether short duration or year-long, each audit of the financial statements shall be set up with specific steps indicated in the Auditing Standards and these guidelines. Such setting up of audit need not wait till the financial statements are received and can be done in anticipation of the receipt of financial statements for attestation engagements. The first step in setting up of the audit will be selecting the audit team.

1.24 The relevant requirements of the Government Auditing Standards of Bangladesh regarding an audit engagement team are as follows:

- (a) An audit engagement team will always work under a Team Leader;
- (b) The audit engagement team should collectively possess appropriate knowledge and skills to undertake the engagement;
- (c) No member of the team should have such relationship with the audited entity that can affect application of his professional judgement or his independence of mind or appearance;
- (d) All members of the team should have sufficient knowledge and skills which include an understanding of
 - (i) Auditing and Accounting standards;
 - (ii) Statutory provisions, regulations, criteria relating to the financial statements;
 - (iii) Techniques and guidance relating to the specific financial audit.

1.25 The composition of each audit engagement team will be approved by the Director General. An employee can be part of more than one audit engagement team.

1.26 In case of the Civil Audit Directorate, the formation of engagement team in the above manner may not be convenient. The Director General should form suitable teams in such a manner that each statement is audited by a designated team under a team leader who should fulfil the requirements mentioned at Paragraph 1.24.

1.27 In case of audit of Finance Accounts and Appropriation accounts, particular attention will be paid to ensure that no audit personnel is engaged to audit any financial statement, which he has been responsible in preparing. As a measure of abundant caution, no personnel should be posted in the Civil Audit Directorate from any of the pay and accounts offices without a cooling off period of at least one accounting cycle. Same principle should apply to other audit directorates from any pay and accounts office.

Setting up the Financial Audit: Workshops

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1.28 For audit of Finance accounts and Appropriation accounts and financial audit of complex and big statutory public authorities, the audit engagement teams must participate in an entity-specific short workshop of three to five days preferably, after receipt of draft financial statements. This workshop should be utilised, among other things

- (a) to obtain a preliminary understanding of the entity;
- (b) to determine overall audit strategy;
- (c) to study and recapitulate issues relating to the entity in previous audits;
- (d) to consider feedbacks from compliance and performance audit, if any relating to the entity;
- (e) to consider any additional information relating to the entity available in public domain;
- (f) to study and consider information available relating to the entity in media, web or any other platform;
- (g) to consider major issues in the financial statements of the current year, if available or of the preceding year;
- (h) to review monthly accounts and re-appropriation order in case of audit of Finance Accounts and Appropriation Accounts.

1.29 The above are only suggestive. Such workshops should also be utilised for intense interaction between the Director General and the audit engagement teams. This should be used as the first opportunity for the Director General to direct and supervise the engagement teams as envisaged in the Quality Control System and auditing standards.

1.30 The Director General may consider inviting external experts in such workshops.

1.31 For the sake of convenience, engagement teams of more than one entities may be combined in one workshop. The essence of such workshops- close interaction- should not be vitiated nor it is to be used as a training programme for a large number of officers and staff. Such workshops should be engagement specific.

1.32 With regard to public enterprises, before the commencement of the financial audit season, OCAG wide general workshops should be organised among the personnel to be engaged on financial audits to discuss and review the new accounting standards or any other changes that might have been introduced since last financial audit season and may affect the current financial statements. Suitable sessions on ethics control system and Quality control system also should be included.

Setting up the Financial Audit: Documents to be handed over to the Audit Engagement Team

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1.33 As soon as the audit engagement team is selected, the team leader should be handed over the previous year's audit documentation by the custodian of such papers. No audit engagement team should undertake financial audit without reviewing the documentations of the previous financial audit pertaining to the entity. In case they are not available, the matter should be brought to the notice of the Director General by the Team Leader in writing and an authorisation to carry out the audit in the absence of previous papers should be communicated to the team leader also in writing.

1.34 During the period of setting up the audit, engagement team and the team leader should ask the following questions and find an affirmative answer:

- (i) Do we professionally know each other well?
- (ii) Do we know our roles in this audit engagement?
- (iii) Do we know the name and nature of the entity?
- (iv) Have we got the basic information about the entity?
- (v) Do we know what type of the entity it is?
- (vi) Have we got a fair idea about the financial reporting framework? (In other words, how their financial statements are to be presented?)
- (vii) How their financial statements are structured? How many statements and what are those statements?
- (viii) Have we got a final copy of the financial statements or at least a draft copy?
- (ix) What kind of time do we have to complete the audit? There may be statutory or other requirement to complete the audit within a particular time.
- (x) Do we know the nature of output expected from us?
- (xi) What kind of vetting of the output will be done and by whom?
- (xii) Based on the above, have we created and documented a preliminary timeline for the audit?

Understanding financial statements

1.35 The gamut of the audit jurisdiction of OCAG is extremely wide. At one end of the spectrum are the financial statements of Government of Bangladesh- Finance Accounts and Appropriation Accounts - and at the other end are the accounts of very large statutory public authorities, which contain very complex transactions. It is necessary for every audit engagement team to pay attention to the nature of complexities present in various statements.

1.36 One way of looking at the financial statements would be to understand the accounting basis. Government accounts are maintained on cash basis. Accounts of Government of Bangladesh, auditing of which are the responsibilities of CAG are maintained on cash basis. A

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transaction is therefore not recognised until the cash or cash equivalent has been received or paid out of the treasury.

Some definitions from International Public Sector Accounting Standards

Cash comprises cash on hand, demand deposits and cash equivalents;

Cash basis means a basis of accounting that recognises transactions and events only when cash is received or paid;

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risks of changes in value.

1.37 The cash balance of the Government of Bangladesh is maintained by Bangladesh Bank. However, since it will be extremely inconvenient for the central bank to receive and pay money on behalf of Government at every receipt and payment point, Bangladesh Bank has also authorised Sonali Bank to deal with government transactions through its branches. It is however important to remember that government maintains a single account i.e. Treasury Single Account (TSA) with the Bangladesh Bank for all transactions pertaining to Government.

1.38 The accounts of the public enterprises are, on the other hand maintained on accrual basis. Simply speaking, in accrual basis of accounting, a transaction is recognised when it occurs not when cash is paid on account of the transactions.

1.39 There can be autonomous bodies and statutory public authorities who can also maintain their accounts on semi accrual basis or hybrid method. Simply speaking it means that certain transactions are recognised on cash basis and the other ones are recognised on accrual basis.

1.40 It is important at the stage of setting up the audit to understand the basis of accounting. Each method has its own complexities and challenges.

1.41 Normally with any financial statements, there will be Notes to Accounts. These notes are considered as integral part of accounts. These notes serve many purposes. They document the accounting principles followed in preparing these accounts and changes in these accounting principles during the accounting period. They also contain schedules which provide detailed information on the line items shown in the main statements. These notes are of immense value from an auditor's point of view.

1.42 What are the factors that contribute to the complexity of the financial statements? We have already stated that accounts on cash basis are comparatively simple to accounts on accrual basis. However, we should consider other factors as well.

Value/Turnover

From the point of view of cash vs accrual, the government financial statements might be simple but from the viewpoint of value of transactions, the government accounts are extremely complex. The receipts and expenditure run into trillions and these transactions take place at every nook and corner of the country. The initial accounts are maintained at every corner. Compare this with the financial statements of an autonomous body whose accounts may be maintained on accrual basis but the total receipts and expenditure might be quite modest.

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Volume of Transactions

Closely related to value is the volume of transactions which add to the complexity of the financial statements. Volume of transactions has two aspects, first the number and second, the locations where the transactions are taking place. Now a days, due to computerisation of receipts and payments as also introduction of Core Banking Systems in the Banks, the location is losing its importance but this factor still matters.

Nature of Transactions

The nature of transactions is another factor that adds complexity to the financial statements. From this point of view, the government accounts do not present too many complex transactions but in case of a huge commercial enterprise or a banking company or an import-export corporation, the transactions and the financial instruments will be extremely complex with investments in markets, forward contracts, complex nature of receivables and payables, hedging instruments, multinational and multi-currency transactions.

Uncertainty factor

Some state owned enterprises and some transactions have inherent uncertainty. SOEs dealing with insurance or petroleum or mining etc. function in an inherently uncertain environment. Assets of a commercial bank can turn bad in an economic downturn. In the risk assessment section, we shall consider these factors while assessing inherent risk of the entity but here we are considering their impact on the financial statements.

Complexity Assessor

1.43 Obviously a good point to start with any financial audit is to assess the complexity of the financial statements. This assessment, which is preliminary in nature should provide an easy way to gauge the complexity of the financial statements and plan manpower requirement, duration of the audit and an overall idea of the tasks relating to the audit. The manpower deployed should commensurate with the complexity and so should be the preparation of the audit engagement team.

Form 1/FA/OCAG Bangladesh

Financial Statements Complexity Assessor¹

Preliminary Information	
A	Name of the Entity _____
B	Nature of the Entity
	Autonomous Body established by GOs <input type="checkbox"/>
	Autonomous Body established by Statutes <input type="checkbox"/>
	Statutory Public Authorities of Commercial Nature <input type="checkbox"/>
	Public Enterprise under Companies Act <input type="checkbox"/>

¹ Not applicable to Finance Accounts and Appropriation Accounts.

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Others

C Financial Year _____

D Short Description of the Entity

1 Are the Financial Statements on Cash or Accrual basis?

Accrual	(30)	
Hybrid or Semi Accrual	(20)	
Cash	(10)	<input type="checkbox"/>

2 Are the activities of commercial nature?

Yes	(20)	
No	(15)	<input type="checkbox"/>

3 Is it a not for profit company?

Yes	(0)	
No	(10)	<input type="checkbox"/>

4 Are the Sales/ Receipts of the entity

More than more than BDT 200 Crore	(30)	
More than 100 Crore, less than 200 Crore	(25)	
More than 50 Crore, less than 100 Crore	(15)	
More than 10 Crore, less than 50 Crore	(10)	
Less than 10 Crore	(5)	<input type="checkbox"/>

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5	General state of computerization in the entity. The entity has computerised		
	Most of the Business processes	(30)	
	Most of the Accounting and Financial Processes	(25)	
	No other business process	(10)	
	No significant Computerisation	(0)	<input type="checkbox"/>
6	The financial statements are		
	Consolidated	(30)	
	Stand alone	(0)	<input type="checkbox"/>
7	Accounts Receivables are		
	More than more than BDT 100 Crore	(30)	
	More than 50 Crore, less than 100 Crore	(25)	
	More than 20 Crore, less than 50 Crore	(20)	
	More than 5 Crore, less than 20 Crore	(15)	
	Less than 5 Crore	(10)	
	Not applicable	(0)	<input type="checkbox"/>
8	Cash in Hand and Banks are		
	More than more than BDT 100 Crore	(30)	
	More than 50 Crore, less than 100 Crore	(25)	
	More than 20 Crore, less than 50 Crore	(20)	
	More than 5 Crore, less than 20 Crore	(15)	
	Less than 5 Crore	(10)	<input type="checkbox"/>
9	Is the entity a listed company?		
	Yes	(30)	
	No	(0)	<input type="checkbox"/>
10	Net Borrowings of the entity is		
	More than more than BDT 100 Crore	(30)	
	More than 50 Crore, less than 100 Crore	(25)	
	More than 20 Crore, less than 50 Crore	(20)	
	More than 5 Crore, less than 20 Crore	(15)	
	Less than 5 Crore	(10)	
	Not applicable/NIL	(0)	<input type="checkbox"/>

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11	The debt to equity ratio is		
	More than 5:1	(30)	
	More than 3:1, less than 5:1	(25)	
	More than 2:1, less than 3:1	(20)	
	More than 1:1, less than 2:1	(15)	
	Less than 1:1	(10)	
	Not applicable/NIL	(0)	<input type="checkbox"/>
12	The entity is functioning at		
	Only one location	(10)	
	More than one, less than 5 locations	(20)	
	More than 5 locations	(30)	
	Is proposed to be expanded in more than one location	(25)	<input type="checkbox"/>
13	The entity is dependent on financial assistance from Government		
	Yes	(30)	
	No	(0)	<input type="checkbox"/>
14	Even though, the entity is loss making, it deals with matters of public interest		
	Yes	(20)	
	No/ Not Applicable	(0)	<input type="checkbox"/>
15	Taking WC =Current assets-Current liabilities, if WC is		
	Positive	(10)	
	Negative	(30)	<input type="checkbox"/>
	Not Applicable	(0)	
16	Is the entity managed by a Board/ Governing Board?		
	Yes	(10)	
	No	(20)	<input type="checkbox"/>
17	Does the entity has a credit rating?		
	Yes	(30)	
	No	(0)	

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18 Has the entity changed accounting policies significantly during the financial period?

Yes (30)

No (5)

Accounting Policies and Notes are not appended to FSs (30)

19 The entity is

More than 20 years old (5)

Less than 20 years but more than 10 years (10)

Less than 10 years but more than 5 years (15)

Less than 5 years but more than 2 years (20)

Less than 2 years old (30)

Explanation:

(This is a suggestive questionnaire)

The complexity assessor is expected to provide a first-hand idea about how complex the auditing of any particular set of financial statements would be. The questionnaire is designed in such a manner that it should be possible to provide the responses from the financial statements themselves without consulting any additional documents or any further studies. This is not to suggest that the other audit formalities should be dispensed with. If the scores are high, that should indicate that the audit engagement would entail considerable resources, both in terms of knowledge of the audit engagement teams and activities preceding the undertaking of engagement and subsequently performance of the audit.

The questionnaire has been designed in such a manner that commercial enterprises would turn out to be more complex and among them listed companies with high turnover. A few questions also pertain to the public interest angle of the entity.

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The system of maintenance of accounts in an entity may be governed by more than one Act or Rules. It is important for the audit engagement teams to be aware of the legal framework of the entity in general and particularly in relation to provisions regarding accounts and audit.

The **audit jurisdiction** of CAG of Bangladesh originates from essentially three sources: (a) Article 128(1) of the Constitution of Bangladesh; (b) Section 5(1) of CAG (Additional Functions Act) 1974 and (c) Individual Statutes establishing the entities.

The provisions relating maintenance of books of accounts, financial statements and audit are often guided by the relevant acts and rules. As regards the public accounts of the Republic are concerned, the form and the manner of keeping of accounts are to be prescribed by the Auditor General with the approval of the President.

It is important for the officers and staff of OCA, engaged in financial audit, to familiarise themselves with the provisions of the Constitution, CAG (Additional Functions) Act 1974 and the following:

- (i) The Companies Act (Bangladesh) 1994 (Act No 18 of 1994);
- (ii) The Bank Companies Act 1991 (Act No 14 of 1991);
- (iii) The Financial Reporting Act 2015 (Act No 26 of 2015);
- (iv) The Financial Institutions Act 1993 (Act No 27 of 1993);
- (v) The Insurance Act 2010 (Act No 13 of 2010);
- (vi) The Bangladesh Bank Order, 1972 (President's Order)

Chapter 2: Planning Audit of Financial Statements²

2.1 The main objective of planning an audit of financial statements is to ensure that the audit should be performed in the most effective manner. Audit of financial statements requires the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework. Since OCAG deals with audit of general purpose financial frameworks, the opinion entails an expression whether the financial statements are presented fairly or presents a true and fair view of the financial position, financial performance, cash flow and other elements of the entity.

Understanding Audit Strategy and Audit Planning

2.2 ISA 300 states: “The auditor shall establish an overall audit strategy that sets the scope , timing and direction of the audit and that guides the development of an audit plan.”

2.3 The audit engagement teams need to understand the distinction between strategy and plan as often these two terms are used interchangeably. The audit strategy is a record of key decisions about what needs to be examined during the audit engagement and why. Such strategy should prioritise among various tasks and should lead to a coherent audit plan which should indicate (i) who will audit (ii) how the audit will be performed (iii) when the audit will be performed and lastly (iv) where the audit will be performed.

2.4 Considering the unique position of CAG and OCAG vis-à-vis audit of financial statements of the public accounts and other bodies, the selection of audit engagement teams may be done even without designing the audit strategy. In case of important entities, the audit strategy will be determined at the workshop suggested in Chapter 1. In smaller audits, however, the audit engagement teams are required to determine the audit strategy and submit it for approval of Director General.

2.5 The audit engagement team should fill in the following form which will serve the purpose of audit strategy:

² Many provisions in this chapter are adapted from ISA 300 (ISSAI 2300) to tailor to the functional requirements of OCAG, Bangladesh.

Audit Strategy Form for Financial Audit

(This is a suggestive format)

Part I

Name of the Entity	
Financial Period (MM/YY to MM/YY)	
Directorate	
Audit Engagement Team	
Team Leader	
Officer responsible for Direction, Supervision and Review	

Part II

Complexity Score	
Short Note on Financial Reporting Framework of the Financial Statements including changes that have taken place during the current financial period.	

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Category of Entity (I/II)	
Act/Statute/ Rule under which CAG is authorised to perform the audit	
Experience of Previous audits of the entity	
Feedback from Compliance Audit/ Performance Audit	
Audit Report to be finalised by (Date)	
Expected commencement Date/ End Date (DD/MM/YY to DD/MM/YY)	
Note on Expected Audit Coverage including locations (Pl attach extra sheet, if necessary)	
Preliminary Inherent Risk Assessment	
Preliminary Control Risk Assessment	

Part III

<p>Judging by the Complexity Score and preliminary Inherent and Control Risk assessment, efforts required of the engagement team (High/Medium/Low)</p>	
<p>Whether expert from outside is necessary</p>	
<p>Whether field visits are necessary</p>	
<p>Component of the financial statements to be covered by field visits with elaboration (Please attach separate sheet if necessary)</p>	
<p>Whether accounting data are available on IT and to audit</p>	
<p>Preliminary assessment of the possibility of carrying out substantive procedures on data available to audit by using CAATs</p>	
<p>Proposed Date of meeting management/ entity personnel to set up the audit (DD/MM/YY)</p>	
<p>Other important points including significant industry development/ changes in laws or any other relevant development</p>	

Audit Plan Form for Financial Audit

(This is a suggestive format)

1. Preliminary Information

1.1 Name of the Entity

1.2 Financial Period of the Financial Statements (MM/YY to MM/YY)

1.3 Period of Audit From (DD/MM/YY) To (DD/MM/YY)

1.4 Name of the members of the Audit Engagement Team in terms of Seniority(Team Leader at SI No 1)

Sl. No	Name	Revised
1		
2		
3		
4		
5		

1.5 Document No of Audit Strategy

1.6 Total Number of Working Days

Original
Revised

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Actual

2. Knowledge of the Entity

2.1 Important Characteristics of the Entity

--

2.2 Revision/ Addition

--

2.3 Financial Performance/Parameters

	Initial	Revision/ Addition
1		
2		
3		

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5. Documents consulted before preparation of the Audit Plan

Sl No	Description
1	
2	
3	
4	
5	
6	
7	

(Signature of the Team Leader)
Audit Engagement Team

(Signature of the Officer in charge of Direction, Supervision and Review)

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2.6 The audit plan form should be filled in by the engagement team leader and should be approved by the concerned officer who is in charge of direction, supervision and review of the audit engagement. It should be adequately documented.

Guidance

The following illustrative guidance may be kept in mind while preparing the audit plan:

- (a) The audit plan is more elaborate than the audit strategy as it includes the nature, timing and extent of audit procedures to be performed by each of the member of the engagement team.
- (b) The complex accounting areas comprise mainly classes of transactions, account balances and disclosures. The team should be alert to events which might impact the financial statements.
- (c) While planning the audit, the risk of assets being overstated or liabilities being understated should be kept in mind.
- (d) The engagement team should pay special attention to cash and cash related assets. Movements of cash and investments during the year particularly at the fag end of the financial year should be the focus of attention of the team.
- (e) Trend Analyses should be considered as an important analytical procedure. However, the engagement team should be able to further expand audit procedures or the scope of proposed audit procedures on the basis of the results of the trend analysis.
- (f) While planning for audit, some account balances like “accounts receivables”, “payables” etc., the team may require to examine the journals and ledgers (which include computerized data) of a period before and after the financial period.
- (g) Several audit procedures may require information from outside the general and subsidiary ledgers (including computerized data) and from third parties. Similarly, some account balances (Investments, Bank deposits) will require third party confirmations. The engagement team is advised to seek such confirmations from outside parties at the beginning of the audit engagement to enable timely receipt of such confirmations.
- (h) The engagement team will consider the disclosures early in the audit to enable the auditors to give appropriate attention to and planning adequate time for addressing disclosures in the same way as classes of transactions, events and account balances.
- (j) The team will identify potential assertions in the financial statements and address them in the audit planning.

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2.7 The audit plan must determine the materiality and document it. Such materiality will not be applicable in case of errors due to suspected fraud or misstatement related to cash and investments.

2.8 The main areas of audit and the gist of the overall audit strategy including timeline etc. can be communicated to the auditee if felt necessary and desirable. The risk assessment and other sensitive information should not however be shared. Such communication will assist in eliciting co-operation from the responsible party and smooth conduct of the audit. While sharing the documents, it should be made clear that the plan is subject to revision as allowed in the relevant auditing standards. Such communication and sharing does not change the auditor's sole responsibility to establish the overall audit strategy and audit plan including the nature, timing and extent of the procedures necessary to obtain sufficient and appropriate evidence.

2.9 OCAG shall record in audit management software, profile of each Organisation which shall serve the purpose of obtaining an understanding of the entity. Considering that OCAG is the perpetual auditor, it may not be necessary to undertake an elaborate exercise every year to obtain an understanding of the entity. The changes that might have taken place since the last audit might be explored, examined and studied during the workshop suggested above or in any similar exercise. Each directorate should keep record of such changes as and when these come to its notice.

2.10 Timely access to information and data is the key to smooth conduct of financial audit. Suitable communication with the responsible party must be established with the request that a nodal officer may be nominated to liaison with audit on a day to day basis during the engagement.

2.11 As a result of unexpected events, changes in conditions or the audit evidence obtained from the results of audit procedures, modifications in the overall audit strategy and audit plan may be carried out with the written approval of the officer in charge of direction, supervision and review. Such modifications will be informed to the responsible party as soon as possible if the initial audit plan has been communicated to them.

2.12 The documentation relating to the audit plan of each engagement will include (i) the overall audit strategy (ii) the audit plan and (iii) modifications made during the engagement to the overall audit strategy, audit plan and the reasons for such modifications.

Chapter 3: Audit Risk³

Readings:

Government Auditing Standards of Bangladesh
ISSAI 100 Paragraph 40
ISA 300, 315 and 330⁴

Definitions and Explanations

3.1 Audit risk is the risk that the auditors might provide a report that is inappropriate in the circumstances of audit. In very simple terms, this means that the auditor provides a wrong report. In case of financial audit, it means that the auditor provides an unqualified opinion where there are material misstatements in the financial statements or vice versa i.e. the auditor provides a qualified opinion or adverse opinion where there is no material misstatement. In case of compliance audit, it would mean that the auditor provides findings, conclusions and recommendations that are incorrect in the circumstances of the subject matter of audit.

(Note: Auditors cannot provide absolute assurance. Their duty is to provide reasonable assurance.)

3.2 Audit risk is essentially a combination of three components. These are: Inherent Risks, Control Risks and Detection Risks.

3.3 Inherent risk and Control risk pertain to the audited entities. These are entity's risk. Detection risk pertain to auditors.

Non-conforming engagement

3.4 If any audit engagement is performed without assessing the audit risks, the engagement will not be considered as conforming to Government Auditing Standards of Bangladesh, regardless of the amount of analytical procedures and substantive tests.

Inherent Risk

3.5 Inherent risk is a risk that something might go wrong⁵ because of reasons of the nature of the organization or the activities of the organization and not due to any specific control failure.

Control Risk

3.6 Control risk is a risk that something might go wrong because of lack of internal control or an incident of control failure.

³ Not applicable to Performance Audit.

⁴ These standards are primarily meant for Financial Audit but the concepts can be applied to other types of audit as well.

⁵ "go wrong" is used in the sense that a material misstatement or a deviation or deficiency may occur. Essentially it would signify an event meriting auditor's attention.

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Relationship between Inherent Risk and Control Risk⁶.

3.7 It is desirable that higher the Inherent risk, Control risk should be lower. In other words, if the Inherent risk is perceived high, there should be more control measures in the Organisation so that the overall risk comes down. This will lead to low Control risks. However, Inherent Risks and Control Risks being entity risks and beyond the control of the auditors, the latter should use detection risk to minimize audit risk. If

Relationship with Audit risk.

3.8 There is a direct relationship between audit risk, inherent risk and control risk. If Inherent risk is high, the audit risk will be high. Similarly, if the control risk is high, audit risk will be high.

So $AR \uparrow$ when $CR \uparrow$ or $IR \uparrow$

If the inherent risk is high or the control risk is high, then the chances of auditor not being able to detect a misstatement or deviation or deficiency goes up. This increases the audit risk.

How to bring down the audit risk

3.9 One way to bring down the audit risk (i.e. to minimize chances of not detecting a misstatement or deviation or deficiency) to increase scope and volume of audit test. This minimizes the detection risk.

Detection risk

3.10 Detection risk is the risk of auditor failing to detect a misstatement, deviation or deficiency. It follows that if the audit testing is increased in scope and volume, chances of failing to detect a misstatement or deviation or deficiency would go down.

So $DR \downarrow$ when $Audit\ testing \uparrow$

Relationship with Audit risk.

Audit risk has a direct relationship with the Detection risk.

So $AR \downarrow$ when $DR \downarrow$

If the inherent risk and control risk is high, then a low detection risk can bring down the audit risk. In layman's language this would mean that if the inherent risk and control risk are perceived high, then the scope and volume of audit testing should be increased to reduce detection risk which will reduce audit risk.

OCAG's risk assessment would follow the above framework.

Role of professional judgement and professional Skepticism.

⁶ In some literature, the combination of IR and CR is often referred to as **Risk of Material Misstatement** or RMM. However, in the case of public sector auditing, which is not restricted to financial audit alone, the risks go beyond material misstatements and cover compliance and performance audit as well.

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3.11 Officers and staff will apply professional Skepticism to qualitatively and quantitatively assess the risks. Application of professional Skepticism would mean that no audited entity would be considered as completely free from inherent risks and control risks. Professional judgement would mean that collectively the audit engagement team will assess the risks and allot quantitative values to each of these risks.

Assessment of Risks

Risks can be assessed both quantitatively and qualitatively.

Norm of Qualitative assessment

3.12 There would be three levels namely High, Medium and Low. OCAG will keep the acceptable level of audit risk as “LOW”. However, the Director General may decide in case of a particular entity or cluster.

3.13 To keep the audit risk level at “LOW”, at least two levels of risks should be low and the third one at medium. Audit risk cannot be low if detection risk is high. The best scenario would be to have inherent risk and detection risk at low level and control risk at not more than medium level.

Norm of Quantitative assessment

3.14 Quantitative value for risk assessment will be on a scale of 0 to 1.

Acceptable low level of Audit risk

3.15 Acceptable low level of audit risk should not be more than 0.02. However, the Director General may decide in case of a particular entity or cluster.

Inherent Risk and Control Risk assessment

3.16 *Check the Inherent Risk and Control Risk Template as an excel file. Fill it up by Y/N. The calculation will be done in the file and results shown.*

3.17 In case any parameter needs to be added or deleted it should be done on the excel worksheet relating to specific entity. Each excel file in respect of each entity should be saved as (entity name)_inherent risk assessment.

Fill in the names against column Prepared By: and Approved By:

These filled in excel files will be treated as audit documentation and will be preserved either electronically or a print- out can be kept in the file.

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Detection Risks

3.18 While considering Detection risks, the following risks to the quality of the audit should be kept in mind and mitigating measures should be taken. The risks and illustrative mitigating measures are indicated below:

The Detection risk matrix

	Risks	Mitigating measures
(i)	The audited entity can be very specialized scientific or technical organisation and auditors may not have adequate knowledge of the subject matter and subject matter information.	External experts should be involved with the audit engagement team.
(ii)	The audited entity might have failed to cooperate fully with the audit engagement team in the past.	Matter may be taken up at the highest level and issues must be sorted out before undertaking the audit. It would be worthwhile to commit the working arrangements in writing duly signed by both the parties.
(iii)	The subject matter information may be maintained on a digital platform and to conduct audit the engagement team would require IT experts.	The risk should be mitigated by involving IT experts in the audit engagement team. It would also be necessary to work out suitable arrangements with the audited entity in order to gain suitable access to the systems and databases to facilitate the audit. Audit should have only “Read Only access” to the systems and databases. Audit engagement team should also develop suitable protocol for data authentication so that audit evidence can be authenticated by the audited entity.
(iv)	The financial statements are in arrears or financial statements are not prepared or there is no financial reporting framework.	Audit can take place only when the financial statements are ready for audit.
(v)	The information required to audit the line items, balances and assertions are dispersed over a large number of locations.	The audit engagement team must collect a comprehensive list of such locations and ascertain the volumes and value of transactions. Any of the following two strategies can be used either individually or collectively: (a) Choose transactions on a sample basis and audit these irrespective of the locations; (b) Choose samples of locations and perform intense audit of the locations.

3.19 Logically, if 100% checks are done, then the Audit risk becomes zero. Similarly, if no test is done, then the audit risk remains entirely factored upon inherent risk and control risk. The audit engagement team should determine the extent of audit checks keeping this in view.

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Audit Risk Assessment Tool for Financial Audit (This is a suggestive format)

Form No 4/FA/OCAG Bangladesh

1	Name of the Entity	
2.	Financial Statements for the Year (YYYY-YY)	
3.	Category of the Entity	
4.	Brief Understanding of the Entity highlighting nature of operations, financial aspects and financial reporting framework	
5.	Indicate clearly basis of accounts (In case of hybrid basis, indicate clearly the transactions on cash basis and transactions on accrual basis)	
6.	Indicate documents consulted and procedures performed to obtain the understanding	
7	Indicate Inherent Risk Score with Inherent Risk Assessment Document Number:	

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8.	Indicate Control Risk Score with Control Risk Assessment Document Number:																																																				
9	Detection Risk level																																																				
10	Overall Audit Risk Level																																																				
11	Indicate Documents consulted and procedures performed to assess control Risks																																																				
12	Indicate assertions/ line items and their risk level	<table border="1"> <thead> <tr> <th>Line Item</th> <th>Risk Assessment</th> <th>Basis</th> </tr> </thead> <tbody> <tr> <td>Accounts Payable</td> <td></td> <td></td> </tr> <tr> <td>Accounts Receivable Sales</td> <td></td> <td></td> </tr> <tr> <td>Amortisation of Long Term Liabilities/ Assets</td> <td></td> <td></td> </tr> <tr> <td>Cash</td> <td></td> <td></td> </tr> <tr> <td>Corpus Funds</td> <td></td> <td></td> </tr> <tr> <td>Current Assets</td> <td></td> <td></td> </tr> <tr> <td>Current Liabilities</td> <td></td> <td></td> </tr> <tr> <td>Depreciation</td> <td></td> <td></td> </tr> <tr> <td>Earmarked Fund</td> <td></td> <td></td> </tr> <tr> <td>Equity</td> <td></td> <td></td> </tr> <tr> <td>Expenditure</td> <td></td> <td></td> </tr> <tr> <td>Financial Closing</td> <td></td> <td></td> </tr> <tr> <td>Income</td> <td></td> <td></td> </tr> <tr> <td>Reserves</td> <td></td> <td></td> </tr> <tr> <td>Notes and Disclosures</td> <td></td> <td></td> </tr> <tr> <td>Taxes including Deferred Tax Assets and Tax Liabilities</td> <td></td> <td></td> </tr> </tbody> </table>	Line Item	Risk Assessment	Basis	Accounts Payable			Accounts Receivable Sales			Amortisation of Long Term Liabilities/ Assets			Cash			Corpus Funds			Current Assets			Current Liabilities			Depreciation			Earmarked Fund			Equity			Expenditure			Financial Closing			Income			Reserves			Notes and Disclosures			Taxes including Deferred Tax Assets and Tax Liabilities		
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13. Participants in the Risk Assessment meetings				
14. This Document	Prepared By		Date	
	Approved By		Date	
15. Comments of the Approver				

Chapter 4: Materiality⁷

Readings:

Government Auditing Standards of Bangladesh

ISSAI 100 Paragraph 41

ISA 200, 320, 450,⁸

Definitions and Explanations

4.1 Materiality in the context of audit means that any misstatement or omission or deviation is of such magnitude that it could reasonably be expected to influence the intended users of the financial statements in case of financial audit or audit report in case of compliance audit.

4.2 The auditor's determination of materiality is a matter of professional judgement. However, this professional judgement is not ad hoc and is informed by the circumstances of the audited entity and the auditor's risk assessment.

4.3 Materiality is relevant both in planning and performance of the audit engagement. The overall materiality in case of financial statements is normally set at the planning stage or even at the audit strategy stage.

4.4 It is important to keep in mind that materiality establishes an amount below which, the misstatements might be considered as immaterial to affect the true and fair view of the financial position of the entity or their adherence to the financial reporting framework. However, that is a general statement. The circumstances related to some of the misstatements might lead the auditor to evaluate them as material even if the amount is below the level of materiality.

4.5 The final decisions relating to financial statements will always be determined by the impact of the uncorrected misstatements.

ISA 320 (Paragraph 4) For the purpose of the ISAs, the following terms have the meanings attributed below:

(a) Misstatement- A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with applicable financial reporting framework. Misstatements can arise from error or fraud.

When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial statements to be presented fairly, in all material respects, or give a true and fair view.

⁷ Not applicable to Performance Audit.

⁸ These standards are primarily meant for Financial Audit but the concepts can be applied to other types of audit as well.

Considerations specific to Public Sector Entities

4.6 *ISA 320 (Paragraph A3): In the case of a public sector entity, legislators and regulators are often its primary users of its financial statements. Furthermore, the financial statements may be used to make decisions other than economic decision. The determination of materiality for the financial statements as a whole (and if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) in an audit of the financial statements of a public sector entity is therefore influenced by law, regulations or other authority, and by the financial information needs of the legislators and the public in relation to public sector programs.*

Link between Risk assessment and Materiality

4.7 There is close link between Audit risks and Materiality. Essentially, the auditor's judgement about materiality provide a basis for:

- (a) Determining the nature, timing and extent of risk assessment procedure;
- (b) Identifying and assessing the risks of material misstatements; and
- (c) Determining the nature, timing and extent of audit procedures.

Three types of Materiality

4.8 The auditor needs to determine three types of materiality. These are:

- (a) Overall materiality;
- (b) Performance materiality; and
- (c) Trivial materiality or clearly trivial materiality.

4.9 **Overall materiality** is the materiality level which is set by the auditor for the financial statements as a whole. One can say that it is set at the macro level, more to assist in planning and determination of performance materiality rather than determining the audit procedures.

4.10 *ISA 320 Paragraph 10: When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures, for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.*

4.11 **Performance materiality** is the materiality level set by the auditor below the level of overall materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. To put it simply, the performance materiality can be termed as the working materiality which assists the auditor to plan the audit procedures in respect of the account balances, class of transactions and disclosures.

4.12 The performance materiality for individual balances and class of transactions must therefore be less than the overall materiality but it should not be computed mechanically. The

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following factors should enable decisions relating to performance materiality in respect of line items, account balances, class of transactions and disclosures:

- (a) Professional judgement;
- (b) Overall Risk assessment;
- (c) Understanding of the entity;
- (d) Results of previous audits;
- (e) Importance of each items in the overall context;
- (f) Expectation of misstatements in the current period.

4.13 **Trivial misstatements or clearly trivial misstatements** are such misstatements which are smaller in magnitude or of a nature that is considered inconsequential. The inconsequentiality of the misstatement will be judged by the criteria of size, nature or circumstances.

Key steps to Determination of overall materiality

4.14 The key steps to determine overall materiality are the following:

- Appropriate benchmark
- Determining a percentage of the benchmark
- Explain the choice and the percentage i.e. explain professional judgement.

4.15 *ISA 320 (Paragraph A10)- In an audit of public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for program activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.*

Appropriate benchmark in respect of Finance Accounts

4.16 The Finance Accounts are the statements of receipts and expenditure, assets and liabilities including balances of debt, deposit and remittances of the Government of Bangladesh. The public accounts of the Government comprise Consolidated Fund and Public Account of the Republic. Unlike commercial accounts, Receipts and Disbursements of Government are independent of each other.

4.17 The appropriate benchmark for determining materiality will therefore be the sum total of Receipts and Disbursements of Consolidated Fund and Public Account of the Republic.

Appropriate Benchmark in respect of Appropriation Accounts

4.18 Appropriation Accounts present expenditure against Budget. The statements follow the Demands for Grants structure and depict the Original Grant, Re-appropriations and Supplementaries and Final Grants, expenditure against such Grants with reasons for variations. The Accounts are reported to the Parliament which sanction the original Grants and Supplementary Grant. Each Demand for Grants relates to a particular Ministry or similar entity.

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4.19 Since the benchmark for the Finance Accounts cover expenditure against Grants, no separate benchmark and materiality consideration is recommended for Appropriation Accounts. It is expected that there should be 100% checks of the Grants and re-appropriations and expenditure against these Grants should be reconciled with the figures appearing in the Finance Accounts pertaining to Consolidated Fund.

Appropriate Benchmark in respect of Foreign Aided Projects

4.20 The main objective of Foreign Aided Projects is considered to be service delivery. The appropriate benchmark for these Projects is recommended to be the expenditure in the Income and Expenditure Statement or an equivalent statement which present the inflow of resources in the Project and outflow of such resources to provide services or acquire assets to provide such services. The range is recommended to be 1-2%.

Appropriate Benchmarks in respect of entities not having commercial operations

4.21 The main objective of such entities is public service delivery. It is therefore recommended that the appropriate benchmark for such entities will be the expenditure incurred in the financial year.

Appropriate Benchmarks in respect of entities having commercial operations

4.22 Entities having commercial operations primarily work for revenue/profit. ISA 320 gives a number of examples of benchmarks that can be used. These include:

- profit before tax or normalised (or adjusted) profit before tax
- total income or total expenses
- gross profit
- total equity
- net assets.

It is recommended that the total income from operations and financial activities may be treated as the benchmark to determine overall materiality.

Determining a percentage of the benchmark

4.23 It is recommended that a range of 1-2% of the recommended benchmark should be considered as the appropriate level of overall materiality. It should rarely exceed 5% of the benchmark. However, while choosing the percentage, it should be kept in mind that it is auditor's professional judgement that should determine the percentage. The above percentage should be taken as indicative and not prescriptive.

Performance Materiality

4.24 In case of Finance Accounts, the performance materiality should be proportioned between Consolidated Fund and Public Account of the Republic. In other cases, audit engagement teams should apply professional judgements to determine performance materiality among the account balances, class of transactions and disclosures.

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4.25 Some of the important line items and balances⁹ (illustrative) for which the performance materiality should be set are given below:

- (a) Cash: should be treated as very important;
- (b) Investments;
- (c) Current Assets;
- (d) Corpus Funds;
- (e) Earmarked Funds;
- (f) Current Liabilities;
- (g) Sales;
- (h) Accounts Receivable;
- (i) Income;
- (j) Expenses;
- (k) Taxes including Deferred Tax Assets and Deferred Tax Liabilities;
- (l) Accounts Payables;
- (m) Equity;
- (n) Net Worth;

Revision as the Audit Progresses

4.26 Materiality including performance materiality and clearly trivial materiality can be revised as a result of change in circumstances that occurred during the audit, new information, a change in the auditor's understanding of the entity or any new fact coming into notice requiring change in the scope of audit.

Action on Misstatements identified during the audit

4.27 The following steps would be taken by the audit engagement teams in respect of identified misstatements.

- (i) The audit engagement team shall accumulate all misstatements identified during the audit except those which are considered as clearly trivial;

⁹ To be used where applicable.

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- (ii) The team will consider whether the overall audit strategy and audit plan need to be revised if:
 - (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist which, when added to the identified misstatements, could be material; or
 - (b) The aggregate of the misstatements identified during the audit approaches materiality;
- (iii) The audit engagement team will communicate the identified misstatements in writing to the appropriate level of management with a request to correct them;
- (iv) In case the management refuses to correct some of the misstatements in reasonable time, the team will obtain an understanding of the reasons for such a course of action on the part of the management and reassess (a) audit strategy and audit plan and (b) will take the understanding into account while evaluating the aggregate of misstatements;
- (v) The team's evaluation of the misstatements-in aggregate and individually will be based on the finally uncorrected misstatements.

Documentation

- 4.28 The audit engagement team will include in the audit documentation:
- (a) A list of all misstatements identified during the audit engagement;
 - (b) The amount below which the misstatements would be considered as trivial;
 - (c) The misstatements pointed out to the management during the audit engagement that have been corrected;
 - (d) The conclusion with adequate justification as to whether the uncorrected misstatements are material, individually or in aggregate.

Chapter 5: Audit Evidence¹⁰

Readings:

Government Auditing Standards of Bangladesh

ISSAI 100

ISA 200, 330 Paragraph (A 26), 500, 505, 520, 530¹¹

Definitions and Explanations

5.1 Audit Evidence is all the information that an audit engagement team gathers by performing audit procedures and other sources both inside and outside of the entity, that assist it to arrive at conclusions on the basis of which opinion on the financial statements is formed. Such information includes both information relating to management's assertions regarding financial statements and that which contradicts such assertions. Audit evidence is gathered primarily during the performance of the audit. There can be situations and circumstances in which the absence of information (for example, management's refusal to provide a requested representation or failure of the entity to provide replies to audit queries and memos) can be used by the auditor and hence constitutes audit evidence.

5.2 Audit evidence in its totality needs to be sufficient and appropriate. The audit engagement team is thus required to plan and perform the audit in such a manner that it can obtain appropriate evidence which are sufficient to support the opinion provided on the financial statements.

5.3 Sufficiency is the measure of quantity of audit evidence. It directly relates to risk assessment and the auditor's response to the risks assessed. As the risks increase, the need for quantum of evidence also increases. Sufficiency of evidence also relate to the totality of the evidence. For example, sanction of an expenditure is not sufficient evidence that the expenditure has indeed occurred. Similarly, a document showing an intended journey like a tour programme is not sufficient evidence that a tour has indeed been undertaken. It is to be kept in mind that quantity alone cannot compensate for the poor quality of evidence.

5.4 Appropriateness of audit evidence refers to the quality of the evidence. It relates to relevance and reliability in providing support for the conclusions on the basis of which the opinion will be provided. As quality of evidence increases, the need for additional corroborative evidence decreases. While the relevance of the evidence is related to the objective of the audit procedures, reliability refers to the nature and source of the information. For example, the bank balances on the date of the balance sheet confirmed directly from the banks are far more reliable than from any other document provided by the entity itself.

5.5 Inaccurate or incomplete information affect the relevance and reliability of audit evidence.

¹⁰ Not applicable to Performance Audit.

¹¹ These standards are primarily meant for Financial Audit but the concepts can be applied to other types of audit as well.

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5.6 The following key principles should be kept in mind by the audit engagement teams while considering the relevance and reliability of the audit evidence:

- (a) Evidence obtained directly by the auditors from original documents are more reliable than those obtained indirectly.
- (b) Evidence gathered from originals are more reliable than from photocopies, or documents that have been filmed, digitised, or converted into electronic forms; The auditor is not an expert on document authentication and hence professional scepticism should be exercised while evaluating the authenticity of any document.
- (c) Newspaper and magazine reports, unconfirmed data and reports, unverified complaints, anonymous complaints, photographs- digital or otherwise and similar documents are unreliable evidence for the purpose of audit.
- (d) Unscientific and unauthorised surveys, responses from randomly selected beneficiaries, contradictory responses etc. are both irrelevant and unreliable.
- (e) When information on the same subject is collected from different sources, consistency of the information is the key criterion of reliability of audit evidence.
- (f) Corroboration of information is a key criterion in assessing the reliability of the evidence. Corroboration from a party independent of the entity (for example, banks) is thus a major source of assurance for the auditor regarding the reliability of the evidence.
- (g) The evaluation of the relevance and reliability of audit evidence gathered during an audit engagement is a matter of auditor's professional judgement and is the sole responsibility of the auditor.

Audit Procedures to obtain audit evidence

5.7 Broadly, the audit procedures to obtain sufficient and appropriate audit evidence are:

- (a) Risk assessment Procedures;
- (b) Test of Controls;
- (c) Substantive procedures.

5.8 The methods of these procedures are:

Inspection

Inspection involves examining records and documents, whether internal or external in paper or electronic format or physical examination of an asset.

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Observation

Observation involves looking at a process or procedure being performed by others such as cash verification by entity's personnel or checking physical verification of inventories.

External Confirmation

An external confirmation, widely practiced in case of bank balances, and balances where third parties are involved, is audit evidence as a direct written response to the auditor from a third party. The confirmation can be in paper form or in electronic form.

Recalculation

Recalculation involves checking the mathematical accuracy of documents and records.

Re-performance

Re-performance often used as part of test of controls- involves auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Analytical Procedures

Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Trend analysis is a good example of analytical procedure. Such procedures involve identifying notable fluctuations and relationships among the datasets or that differ from expected values by a significant amount. Normally payroll expenses in an entity in every month is expected to be similar with very little fluctuations. The auditor while comparing the payroll expenses might expect a 5% variation from month to month. Any variation beyond that needs auditor's examination. (Refer to ISA 520 for further details on analytical procedures)

Inquiry

Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry should be used throughout the audit but only in addition of other audit procedures. Inquiries may range from formal written queries to informal interviews and oral inquiries.

The auditor must apply professional judgement and professional scepticism to evaluate evidence emanating from inquiries-particularly oral informal inquiries.

Selecting Items for Testing to Obtain Audit Evidence

5.9 An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained, will be sufficient for the auditor's purpose. While selecting items for testing or while selecting the population from which the sample is to be chosen, it is necessary to keep in mind the issues of relevance and reliability of the evidence. In fact, the auditor must determine the relevance and more importantly the reliability of the information even before deciding on the testing. The means available to the auditor for selecting items for testing are:

- (a) Selecting all items;

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- (b) Selecting specific items;
- (c) Audit sampling.

The application of the selecting methods will depend on the practicality and efficiency of the method as also the circumstances.

In audit reports for public sector auditing, it may not always be possible to arrive at conclusions which will be the basis of providing opinions on the financial statements, on estimations based on statistical sampling.

Selecting All Items

5.9(i) Selecting all items may be necessary when it is most appropriate to examine the entire population of items. Such selection will be more common for test of details. 100% examination may be appropriate when:

- (a) The populations consist of small number of large value items;
- (b) The risks are so significant that 100% items need to be tested;
- (c) When such testing is done using IT and is thus cost effective.

In case of audit of Appropriation Accounts, for example, testing of 100% items relating to Original Grant, Re-appropriations and Supplementary Grants and expenditure against Final Grants is recommended in view of the small number of items in each Grant Statement and the importance of the Appropriation Accounts prepared by the Principal Pay and Accounting Officers.

Selecting Specific Items

5.9(ii) The judgemental selection of selecting is subject to non-sampling risks. However, this can be resorted to in the following circumstances:

- (a) High Value or Key Items: It may be decided to select specific items within a population because they are of high value or exhibit some other characteristics which are significant from the auditor's point of view. Such items can be particularly risk prone, unusual or of particular professional interest to the auditor.
- (b) All items over a certain value: It may be decided to select all items whose value exceed a certain amount. This may also help to verify a large proportion of the total amount of a class of transactions or account balance.
- (c) Items to obtain information: It may be decided to examine items to obtain information about such matters to ascertain the nature of the entity or to understand the nature of the transactions.

Audit Sampling

5.9(iii) Audit sampling is used to provide a reasonable basis to draw conclusions about the population from which the sample is selected. While drawing conclusions, factors like sampling

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methodologies, sampling risks, anomaly etc. should be kept in mind. The following two terms need particular explanation:

(a) **Tolerable misstatements:** A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatements of the population. Tolerable misstatements, thus are the application of performance materiality to sampling procedures. Tolerable misstatements should be the same amount of performance materiality or preferably an amount lower than the performance materiality.

(b) **Tolerable rate of deviation:** Mainly applied for testing of controls, tolerable rate of deviation from the control procedure is set in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

(Example: Signing of cheques by at least two signatories is a critical control measure. The audit team might expect a ZERO rate of deviation to this. Even if one cheque in a sample selected following statistical sampling procedure is found to be lacking two signatures, the auditor may have to reassess the control risks and expand detailed testing.)

Special Considerations: Inventory

5.10 Inventory is often material to the financial statements, especially in case of entities with commercial activities. It is thus important for the audit engagement team to obtain sufficient and appropriate audit evidence regarding the existence and condition of the inventory. The following audit procedures may be used by the team:

(a) **Attendance at the physical inventory counting:** often impracticable as the inventories are recorded on a particular date and there can be many entities using the same balance sheet date. OCAG will find it impossible to attend the inventory counting on the last date of the financial period which is the balance sheet date.

(b) **Evaluation of management's instructions and procedures:** these instructions and procedures will reveal the soundness of these instructions and procedures, on one hand and on the other, the actual performance of the management in following these. Auditors should pay particular attention to slow moving, obsolete and damaged items and ensure that these items have not been included in the list of good inventory.

(c) **Record of physical inventory counting:** examination of records relating to actual counting of physical inventories should be examined. Such physical verification must be as close to the Balance Sheet date as possible. The audit team must specially examine the movement of inventories since physical verification in order to arrive at the account balance on the Balance Sheet date.

(d) **Inspect the Inventory:** the audit team may inspect the inventory on a select date. However, in respect of the sample items, the audit team may arrive at the

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balance independently and physically verify that the balance tallies with the inventories available physically.

Special Considerations: Fixed Assets and Plant and Machinery

5.11 The above procedures can be applied to verify the account balances of Fixed Assets and Plant and Machineries.

Special Considerations: Litigations and Claims

5.12 Litigations and claims are of material significance for the financial statements particularly in respect of disclosures and determinations of contingent liabilities. The procedures to obtain sufficient and appropriate audit evidence will be:

- (a) Inquiry of management and others in the entity including in-house legal counsel;
- (b) Reviewing minutes and correspondence between entity and external legal counsels;
- (c) Reviewing legal expense accounts;
- (d) Direct communication with the entity's legal counsels;

External Confirmations

5.13 The following audit procedures will be performed to obtain external confirmation requests:

- (a) Determine the information to be confirmed or requested;
- (b) Determine the appropriate confirming party;
- (c) Draft the confirmation requests which should include request for return information, where applicable and a time limit;
- (d) send the requests including follow up requests.

Confirmations can be positive or negative. The audit team should suitably evaluate the nature of confirmations and apply professional judgement to determine whether the confirmations received can be treated as sufficient and appropriate evidence.

Documentation

5.14 With regard to documentation, the duties of the audit engagement teams will be :

- (a) To record truthfully all evidence that have been obtained as a result of application of audit procedures applied both for test of controls and substantive procedures;

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(b) To document comprehensively the process of evaluation of the audit evidence obtained and record application of professional judgement.

(c) To recommend conclusions as basis for opinions supported by audit evidence.

Chapter 6: Audit Documentation¹²

Readings:

Government Auditing Standards of Bangladesh

ISSAI 100 Paragraph 42

ISA 200, 230¹³

Definitions and Explanations

6.1 Audit Documentation is the record of all the audit processes and procedures performed, audit evidence obtained and conclusions reached. Audit Documentation often is referred to as audit working papers. In simple terms, Audit Documentation include all records from beginning to end of an audit engagement. Such documentation may include one or more Audit Files or Audit Folders.

6.2 Audit Documentation should be prepared in such a manner that it should be sufficient to enable an experienced auditor who is not at all associated with the particular audit engagement, to understand:

- (a) The nature, timing and extent of the audit procedures performed to comply with the auditing standards and applicable legal and regulatory frameworks;
- (b) The results of the audit procedures and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

What should Audit Documentation include:

6.3 Primarily Audit Documentation should include all records related to the particular audit engagement. The documentation must, therefore include:

- (i) Form 1 referred to in Chapter 1 providing the complexity assessment;
- (ii) Form 2 referred to in Chapter 2 providing the audit strategy decided including revisions, if any;
- (iii) Form 3 referred to in Chapter 2 providing the Audit Plan, with revisions if any;
- (iv) Risk Assessment documentation;

¹² Not applicable to Performance Audit.

¹³ These standards are primarily meant for Financial Audit but the concepts can be applied to other types of audit as well.

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- (v) Any other record relating to audit strategy and audit planning;
- (vi) *Audit procedures planned and performed;*
- (vii) Correspondence with the entity relating to the audit engagement including **ALL** audit queries and audit memos and replies received thereto;
- (viii) Audit evidence collected during the audit engagement;
- (ix) Letters of confirmations and representations;
- (x) Analyses of audit evidence and replies of the entities;
- (xi) Checklists filled in where checklists are prescribed;
- (xii) List of records demanded by the audit engagement team but not provided by the entity and the decision of the audit engagement team on this;
- (xiii) Records of collective professional judgement applied;
- (xiv) Significant matters arising out of the audit engagement;
- (xv) The conclusions arrived at by the audit engagement team and the basis thereof;
- (xvi) Draft audit report.

6.4 The following guidelines should be kept in mind by the audit engagement team with regard to Audit Documentation:

- (a) The assembly of the final Audit Documentation file will be the responsibility of the Team Leader of the audit engagement team;
- (b) No audit query or audit observation memo or any other correspondence with the audited entity will be left out of the Audit Documentation;
- (c) Audit Documentation will include the responses of the entity and comments of the audit engagement team on such responses;
- (d) The audit engagement team shall make a separate list of such communications with the audited entities to which no responses have been received;
- (e) The Audit Documentation will be reviewed by the concerned Director General and his remarks including NIL remarks shall be part of the Audit Documentation.
- (f) After reviewing the Documentation by the Director General, the draft auditor's report shall be authorised to be issued to the audited entity or the management or to those charged with the governance of the entity, as the case may be.

Chapter 7: Audit Reporting

Readings

Government Auditing Standards of Bangladesh

7.1 The following guidelines must be kept in mind with regard to audit of financial statements:

- (a) Audit Report in case of Financial Audit will comprise of an Opinion section, Key Audit Matters and Emphasis of Matters (Optional) section;
- (b) Audit Reports will be signed and dated by the competent authority;
- (c) The Long Form Audit Report is optional but does not form part of the Opinion or Key Audit Matters or the Emphasis of Matter section; The Long Form Audit Report should, where applicable, always be submitted under Article 132 of the Constitution;
- (d) It is the discretion of CAG whether the Long Form Audit Report will be prepared and CAG will decide the contents;
- (e) For the purpose of trend analysis and other relevant points, the financial statements of the earlier years may be referred to;
- (f) The Long Form Audit Report will however avoid any extraneous issues or issues arising out of any other type of audit; It would focus mainly on the financial statements at hand;
- (g) The Long Form Audit Report will contain observations of CAG on matters of general financial interests, review of balances and items, significant financial information about the entity, trend analyses and any other matter relating to the financial health of the entity.
- (h) The Long Form Audit Report may contain recommendations.

Structure of the Opinion Section

7.2 The following would be the structure of the Opinion Section:

- (a) Shall have the heading “Opinion”;
- (b) Shall identify suitably the entity whose financial statements have been audited which would include the dates and period to which the financial statements pertain;
- (c) Shall state each segment of the financial statements have been audited including Notes and Disclosures;

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- (d) Shall refer to the auditing standards according to which the financial statements have been audited;
- (e) Shall refer to the responsibilities of the responsible party with regard to the preparation of financial statements and the responsibility of the CAG with regard to audit of the financial statements;
- (f) Shall, in clear terms, provide an opinion on the financial statements;

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Indicative template for opinion on Finance Accounts

Certificate of the Comptroller and Auditor General

Opinion

My officers have audited the Finance Accounts of the Government of Bangladesh for the period from 01 July 20XX to 30 June 20XX. The Finance Accounts comprise Statements ___ to ___ and <mention any other documents/ schedules etc. including notes and disclosures.¹⁴>. The Finance Accounts are the responsibility of the Controller General of Accounts. My responsibility is to provide an audit opinion on the Accounts.

In my opinion, in all material respects, the accompanying Finance Accounts give a true and fair view of the receipts and disbursements pertaining to Consolidated Fund and Public Account of the Republic during the financial year 20XX to 20XX subject to the observations contained in my reports on the Government Accounts.

Basis for opinion

My officers have conducted the audit under my direction in terms of Article 128 (1) of the Constitution of Bangladesh. The audit is conducted in accordance with the Government Auditing Standards of Bangladesh, which are based on the International Standards of Supreme Audit Institutions (ISSAIs) and the relevant ethical requirements as codified in the Code of Ethics of the Office of the CAG of Bangladesh.

Management Responsibility

Management is responsible for the preparation and proper presentation of these financial statements in accordance with the applicable financial reporting framework.

Auditor's Responsibility

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. Audit involves examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting principles used and significant estimates made as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

My officers have, as part of audit examination identified the risks of material misstatements in the Finance Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

I believe that the audit evidence that my officers have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

<Mention Key Matters, if any>

Signature and Date

¹⁴ It should be precisely mentioned, however detailed it is, exactly what are the statements that are being reported on.

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Indicative template for opinion on Appropriation Accounts

Certificate of the Comptroller and Auditor General

Opinion

My officers have audited the Appropriation Account relating to Grant No _____ of Government of Bangladesh for the period from 01 July 20XX to 30 June 20XX. The Appropriation Account comprises statement depicting the Original Grant against expenditure, supplementary Grants and Re-appropriations relating to the Grant and sums expended against the appropriations and reasons for excesses and savings as applicable.

In my opinion, sums expended have been applied, in all material respects, for the purposes authorized by the Parliament and have, in all material respects, been booked against the Grant or Appropriation mentioned in the schedule appended to the Appropriation Act.

Basis for our opinion

The audit was conducted under my direction in terms of Article 128(1) of the Constitution of Bangladesh. My officers conducted audit in accordance with the Government Auditing Standards of Bangladesh, which are based on the International Standards of Supreme Audit Institutions (ISSAIs) and the relevant ethical requirements as codified in the Code of Ethics of the Office of the CAG of Bangladesh.

Management Responsibility

The Appropriations Accounts are the responsibility of the Principal Accounting Officer.

Auditor's Responsibility

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. It includes assessing the accounting principles used as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

My officers have, as part of audit examination identified the risks of material misstatements in the Appropriation Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

I believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

< Mention Key Matters, if any >

Signature and Date

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Indicative template for opinion on accrual based financial statements. (Name of the Body is ABC)

Opinion

We have audited the financial statements of ABC which comprise the statement of financial position at 30th June, 20XX and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC as at 30th June, 20XX, and its financial performance and its cash flows for the year then ended in accordance with applicable financial reporting framework.

Basis for our opinion

The audit was conducted under the direction of the Comptroller and Auditor General of Bangladesh in terms of <Article 128(1) of the Constitution of Bangladesh> and <Section 5(1) of the CAG (Additional Functions) Act 1974> and <the statute of the entity>. We conducted our audit in accordance with the Government Auditing Standards of Bangladesh, which are based on the International Standards of Supreme Audit Institutions (ISSAIs) and the relevant ethical requirements as codified in the Code of Ethics of the Office of the CAG of Bangladesh.

Management Responsibility

Management is responsible for the preparation and proper presentation of these financial statements in accordance with the applicable financial reporting framework.

Auditor Responsibility

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. Audit involves examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting principles used and significant estimates made as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

We have, as part of our audit examination identified the risks of material misstatements in the Finance Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

< Mention Key Matters, if any >

<Optional >

We are pleased to append hereto a Long Form Audit Report containing our findings and recommendations relating to these accounts.

Signature and Date

Chapter 8: Audit of Cash and Bank Balance

8.1 Cash and Bank Balances constitute significant assets of an entity and is extremely important from an auditor's point of view. These assets are highly prone to misappropriations, embezzlement and fraud.

8.2 While auditing Cash and Bank Balances, the audit engagement team must obtain sufficient and appropriate evidence to corroborate management's assertions regarding the following:

- (a) Existence: that the Cash and Bank Balances as recorded in the financial statements existed at the year-end on the Balance Sheet date;
- (b) Rights and Obligations: that the Cash and Bank Balances asserted as assets of the entity represent assets and the entity enjoys full rights and obligations on these assets;
- (c) Completeness: that there are or were no unrecorded Cash and Bank Balances of the entity.
- (d) Valuations: that the foreign currencies held by the entity on the Balance Sheet date, apart from satisfying the above conditions have been valued correctly in accordance with the accounting principles and rules as applicable and the same has been disclosed fully and unambiguously.

Internal Control Evaluations

8.3 It is important to examine the system of internal control procedures in the entity with regard to Cash and Bank Balances to determine the nature, timing and extent of other audit procedures. The following aspects should be considered for examination:

- (a) Segregation of duties relating to authorisation of cash transactions including handling of cash, writing of cheques, signing of cheques, issue of cheques and recording the issue of cheques in the accounting books;
- (b) Policies relating to rotation of personnel responsible for the duties at (a) above;
- (c) Cash Book maintenance including daily closing of Cash books and physical verification of Cash with the balances available in the Cash Book; in case of computerised maintenance of Cash Books, printing of daily scrolls and physical verification of the balances as per the Scrolls with the Cash available in the Cash Chest; provision of periodic surprise verification of Cash Balances;
- (d) Policies and procedures regarding Cheque Books including safe keeping of Cheque Books and pre-printed stationery, where applicable, system of pre numbering of Cheques, periodical stock verifications;
- (e) Necessity of multiple cash chests in the same location and premises should be examined in depth;

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- (f) Periodical reconciliation of Bank Balances and vigorous and timely pursuance of unreconciled outstanding items.

Verification of Cash balance

8.4 The following procedures will be used by the audit engagement team to obtain sufficient and appropriate audit evidence with regard to Cash balance:

- (a) While it may not be possible to verify Cash on the date of the Balance Sheet, the team shall try to physically verify the Cash balance on the basis of surprise at any time close to the date of the Balance Sheet. The surprise inspection should be carried out after calculation by the team taking the balance on the date of the Balance Sheet as basis and then working out the balance on the date of verification by taking into account all the transactions that have taken place since the date of the Balance Sheet;
- (b) All Cash balances in the same location should be verified simultaneously;
- (c) All Cash balances lying outside the Cash chest(s) and with officers or in their individual bank accounts should be thoroughly checked and necessity for maintenance of such Cash with individuals should be examined;
- (d) All imprests with individual officers must be physically verified and accountants and adjustments of such imprests must be examined;
- (e) Post-dated cheques on hand on the date of the Balance Sheet should be verified for encashment and unusual large scale withdrawals immediately after encashment should be examined thoroughly.

8.6 The engagement team should evaluate the evidence obtained as a result of such audit procedures and report suitably, where warranted, either as an emphasis of matter or in the Long Form Audit Report. The team should be particularly alert to the possibility of misappropriations, embezzlement or fraud and report the matter to the senior officials ON THE SAME DAY. While reporting conclusions on the audit evidence obtained, the following guidance may be kept in mind:

- (a) Unduly large balance of Cash in excess of normal requirement on a regular basis must be brought out in the auditor's report;
- (b) If the Cash in hand is not in agreement with the balance in the book, the same should be brought up in the auditor's report;

Verification of Bank balance

8.7 The following procedures will be used by the audit engagement team to obtain sufficient and appropriate audit evidence with regard to Bank balance:

- (a) The audit engagement team should advise the management of the entity in the very beginning of the audit engagement to send letters to all its bankers to confirm the balances on the date of the Balance Sheet, directly to the auditor. A

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typical pro-forma is at the end of this chapter. Such requests should include dormant accounts and accounts closed during the financial period.

(b) The audit engagement team should examine the bank reconciliation statements in respect of all Bank accounts as on the date of the Balance Sheet as also should examine the reconciliation statements on other dates. The most important aspect of the bank reconciliation statements is to ensure (i) that the cheques issued by the entity but not presented before the bank and (ii) cheques deposited for collection by the entity but not credited in the bank account(s) have been duly debited/credited at any subsequent date. The audit engagement team should also examine the reverse credits and debits and reasons for the same.

(c) The audit engagement team should examine closely the long standing items in the reconciliation statements which are pending.

(d) If a large number of cheques have been issued or deposited in the last days of the financial period and remain outstanding after the end of the financial period, the same might have been done to understate creditors or debtors and overstate bank balances. The audit engagement team should examine all aspects of these transactions and may seek independent confirmations from the parties concerned. The same is true if the entity has a large number of cheques on hand on the date of the balance sheet and such cheques have remained undeposited or uncleared in the subsequent period.

(e) In case of fixed deposits or any other type of deposits, the audit engagement team must see the original receipts or certificates duly supported by bank advices.

(f) Remittances shown in transit must be examined to ensure that they have been credited in the subsequent period.

(g) In case the entity maintains accounts with foreign banks with exchange control restrictions, which are under liquidation or moratorium, the same should be disclosed appropriately.

(h) If the number of bank accounts maintained by the entity is disproportionately large, the audit engagement team should examine the genuineness of the transactions and balances. The responsibility of operations of these bank accounts also should be examined.

Valuations and Disclosures

8.8 The audit engagement team should satisfy itself that the Cash and Bank Balances have been valued and disclosed in the financial statements as per the accounting policies and practices or government rules in this respect. In case of foreign exchange accounts, such valuations will be closely examined by the team. It should also be ensured that temporary advances/ stale or dishonoured or invalid cheques / any dummy cash accounts to route transactions in computerised accounts are not included in the Cash and Bank Balances.

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Illustrative letter of confirmation – Bank Balance

(Letterhead of the Entity)

(Name and Address of the Bank)

(Date)

Dear Sirs,

Please send directly to our auditors..... (Name and address of the auditors) details of balances as at the close of business on(date) of the accounts mentioned in the enclosed sheet, held with your Branch, along with details of charges held against such balances, with a copy to us. The accounts in the attached sheet include dormant accounts as also accounts that have been closed during the year.

Yours Faithfully,

()

Chapter 9: General Auditing Principles for Accrual based Financial Statements

GENERAL GUIDELINES

Risk Assessment

9.1 Risk assessment should be carried out in accordance with the principles laid down in the chapter relating to risk assessment of the entity.

Determination of Materiality

9.2 The determination of materiality will depend on the risk assessment of the entity. For the purpose of materiality, the benchmark is recommended to be the expenditure of the entity as represented in the Income and Expenditure account. Overall materiality should not exceed 3% of the expenditure which can be suitably brought down on the basis of risk assessment. Performance materiality and trivial materiality should be determined in accordance with the principles laid down in the materiality chapter of the guidelines.

Financial Audit and Compliance Audit

9.3 Some of the checks can be equally applicable to financial audit and compliance audit. It will depend on the professional judgement of the audit engagement team to expand and apply the tests based on the audit objective. However, these checks are mainly developed for financial audit. It needs to be mentioned that for the purpose of determination of subject matter information, the financial statements are the subject matter information but while auditing individual line items, the subject matter information indicates related line item information.

General Principles of Accounting: Objectivity, Materiality, Consistency and Prudence

9.4 Needless to say, the general accounting principles of objectivity, materiality, consistency and prudence should apply irrespective of the accounting framework used and the auditor should keep an eye on the application of these principles while auditing the entity.

Upkeep and Maintenance of Ledgers

9.5 Examination of ledgers is recommended audit steps for many line items. It should always be examined whether the ledgers are maintained properly. In case the accounts are maintained on any IT based systems, the basic principles of IT Audit relating to controls and data integrity should be applied.

Trial Balance

9.7 It is expected that these entities would prepare Trial Balance. The auditor should seek a copy of the Trial Balance, which will be the most important document for the purpose of audit. Apart from checking the arithmetical accuracies and comparing the balances with individual ledger balances, the auditor should pay particular attention to post-Trial Balance adjustments and must

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ensure that these adjustments are legitimate and in accordance with the existing rules, regulations and accounting principles. All journal entries which account for post-Trial Balance adjustments must be examined in detail.

Trend Analysis

9.8 Trend analysis has not been shown as a separate analytical procedure in respect of each line item. Such analysis can be carried out in respect of all relevant line items. In cases like establishment expenses and other expense heads, trend analyses may throw up interesting insights. However, results of such analysis may not be included in the opinion section of the Auditor's report.

Common Audit Points

9.9 The following are the common audit points:

- a) Whether the operational activities of the entity are in keeping with the objectives of the entity as envisaged in the documents establishing the entity? Whether the entity has been able to fulfill its mission in its operational activities?
- b) Whether the entity follows government financial rules and regulations or has its own sets of rules? In the latter case, whether the entity has written down rules and manuals for conducting its day to day business?
- c) Whether the entity has an internal audit and a robust internal control system including manuals relating to internal audit and internal control?
- d) Whether the entity prepares a cash budget and capital expenditure decisions and investment decisions are driven by cash budgets;
- e) Whether the entity has maintained a number of bank accounts without any obvious rationale for it? Is there any bank account where the signatory is only one?
- f) Whether the advances to officers and staff are in accordance with rules and regulations and such advances are adjusted in time?
- g) Many of these autonomous bodies being funded by organisations/entities under Budgetary Central Government, these might have to follow several instructions of the Central Government in matters of various policies including policies regarding recruitment, travel, investments, retirement benefits. The audit party should have very clear idea regarding this and check adherence to such instructions. These points have not been indicated in the elaborate audit steps, nevertheless, this should form an important aspects of audit procedures. These procedures can form part of both financial audit and compliance audit but reporting should be done accordingly. In case of financial audit, deviations can be mentioned as emphasis of matter or a separate audit report. An emphasis of matter goes into the opinion part of the report but a separate audit report may be presented to the Parliament in terms of Article 132 of the Constitution.
- h) In case of some line items multiple checks have been recommended on a sample basis. It is expected that such sample for each of the checks would be different. Samples should

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- always be on a random basis on Monetary Unit Sampling (MUS) basis in case of expenditure so that expenditure of high values are included in the sample.
- i) In case of several entities, the line items shown in this document may not exactly match with the items in the financial statements. The audit engagement team should match the items from the types rather than exact nomenclature.
 - j) Audit of Cash, Cash Books (or equivalents) and Bank Books (or equivalents) should be treated as serious audit. The audit engagement team should always be alert to fraud, embezzlement, misappropriations, unlawful cash advances, non-maintenance of cashbooks properly and other risks to cash management.
 - k) Exclusions indicate that any legitimate transaction or commitment which should have been recognized, has not been recognized.
 - l) Under “Test of Controls”, the audit engagement team should examine violations to test controls. Broadly speaking, test of controls is audit of procedures and adherence to them, whereas substantive procedures are to test the transactions and ledger balances.
 - m) For items whose classification depends on the time period (such as current assets and current liabilities which are expected to be cleared in one financial period) an aging analyses should invariably be done to examine whether old items continue to be depicted as such.
 - n) Check of ARITHMETICAL ACCURACIES, TOTALS AND CONSISTENCIES OF FIGURES are universal checks for all line items.
 - o) Check that all earnings (revenue/ receipts) are for legitimate services provided or goods supplied. **CHECK FOR PARKING OF FUNDS AND SUCH FUNDS SHOULD NOT BE SHOWN AS REVENUE OF THE ENTITY.**

Assumptions

9.10 These audit steps are designed on the basis of the following assumptions particularly with reference to autonomous bodies and non-commercial Statutory Public Authorities:

- a) At present, autonomous bodies are bodies which are expected to provide non-marketable public service. However, in a limited way, they might have sales income or provide services for an income as in the case of universities etc.
- b) There is no overall financial reporting framework applicable to such autonomous bodies. However, it is expected that these bodies are required to prepare Balance Sheet and Income & Expenditure account and to maintain accounts on accrual basis following commercial principles of accounting.
- c) Given the nature of such bodies, it is assumed that the complexity grading of the financial statements of these bodies would be low.
- d) The accounting system of such bodies envisages journal books and ledgers. In case the accounts are computerized, the audit engagement teams should identify data that corresponds to journal and reports that correspond to ledgers. In case the entity maintains accounts in some other format like loose leaves/registers/excel sheets or does not

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maintain accounts properly, the matter should be treated very seriously and should be dealt with accordingly.

Reporting

9.11 This is primarily for financial audit. Based on the evidence a supplementary compliance audit may be undertaken. Reporting on the findings may take the following forms:

- a) Modified opinion;
- b) Emphasis of matter or key matter;
- c) A separate Long Form Audit Report;

9.12 The opinion including emphasis of matter is published with the financial statements and thus have limited readership. If the findings are serious, a separate audit report may be considered in accordance with Article 132 of the Constitution.

Chapter 10: Audit Checklist for hybrid or accrual based financial statements (and aspects of interest to the financial auditor)

Capital Works-in Progress: (Balance Sheet)

10.1 Capital Works-in-Progress represents the costs incurred on account of creating fixed assets/ construction works etc. which remain unfinished on the date of the balance sheet. Normally significant balance under this item will indicate existence of major on-going activities in the entity. The following possibilities (illustrative) are of interest to the auditor:

- (a) In some cases, the balances may be shown as Works-in-Progress due to delay in capitalizing the balances. There can be many reasons for this. Some frequent reasons are:
- due to lack of completion certificates in construction works;
 - The asset may be lying unused;
 - disputes with the contractor;
 - fixed assets ordered and advances paid but the assets are yet to be supplied;
 - the entity has not taken action to capitalize the assets;
 - legal complications;
 - other reasons.

10.2 An analysis of the underlying ledger balances will indicate the number of items and the auditor should analyze the reasons for balances which are lying non capitalized for a long time and explore the reasons for the same. Significant movements in the Corpus Fund should invite auditor's attention.

Contingent Liabilities (Notes and Disclosures)

10.3 Contingent liabilities mainly consist of claims against the entity not acknowledged as debt. There can be other items also but rare in case of non-commercial autonomous bodies. These can be (i) liabilities for partly paid investments (ii) disputed claims by contractors or other parties (iii) liabilities on account of undischarged forward contracts (iv) Guarantees and (v) others for which the entity is contingently liable.

10.4 Most important for the auditor is to examine whether any genuine liability has been shifted to contingent liability thereby improving the financial position in the balance sheet. The auditor therefore needs to examine critically the "contingent" part of such liabilities. Generally, the most frequent reasons for creation of contingent liabilities are disputed law suits and disputed tax demands. Contingent liabilities are more of a disclosure issue.

10.5 The auditor should be particularly attentive to such items which have not been disclosed as contingent liability. The audit procedures should include scanning all law suits and demands on the entity including tax demands and evaluate them to see whether they should be treated as a liability or a contingent liability.

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Corpus Fund (also known as Capital Fund): (Balance Sheet)

10.6 This is essentially a Fund provided by the entities under Government, as an Initial Fund which over the years is enhanced by surplus from previous years and Grants from Government. The entity might be established by this Corpus Fund. It can be compared with the Capital of the Organisation. Excess operating expenditure over Income depletes the Corpus Fund, unless the entity has any other special funds to meet the excess expenditure.

Current Assets, Loans and Advances

10.7 The item represents the assets of the entity which are expected to be converted in cash in the normal course of business of the entity within one year. This includes:

Inventories:

10.8 Autonomous Bodies providing public non marketable service, are not expected to have inventories held for sale in the ordinary course of business. If they do, such inventories will include stock in trade, work in progress and raw materials, loose tools and stores and spares. Auditor should examine the basis of valuation of such inventories.

Sundry Debtors

10.9 Debtors represent amount due to the entity due to goods sold or services rendered or any other contractual obligations. Normally Debtors considered good for recovery and those considered doubtful are to be shown separately. Provisions for doubtful debts should be charged to the Income & Expenditure account and to be shown in the Balance sheet as reduction of the asset. Auditor should:

- (i) examine the possibility of recovery of the debts;
- (ii) do an age analysis to ensure that no debt is long pending;
- (iii) examine the reasons for non-payments and whether the entity is pursuing the debts effectively;
- (iv) ensure that provisions have been made reflecting the reality of the debt collection;
- (v) examine whether debtors represent select individuals/ agencies with whom the entity continues to do business despite outstandings;

Current Liabilities: (Balance Sheet)

10.10 The item represents the liabilities of the entity which will have to be met in the short term usually a period of one year. Current liabilities would normally cover:

Sundry Creditors

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The amount shown under this line represents the payment owed by the entity for goods or services received or any other contractual obligations. From an auditor's point of view, this balance is extremely important. Auditor should:

- (i) examine the reasons for non-payment of liabilities despite having fallen due and link it with any cash shortage indicating status of financial health of the entity;
- (ii) examine whether there are any administrative or procedural delays in payment;
- (iii) examine such items for clues regarding supply of goods and services to the entity;
- (iv) whether sequence is maintained in payment to contractors and no adhocism or favoritism is shown to any particular contractor;
- (v) link advances paid under current assets whether proper financial propriety is maintained and advances are paid while genuine dues are not paid;

Advances received

Normally an autonomous body should not receive advances unless for specific reasons, these are not treated as income and depicted in the Income and Expenditure account. The auditor should examine the nature of such advances.

Statutory liabilities

Such statutory liabilities may include overdue rent, rates and taxes, statutory bonus, provident and pension fund, other statutory payments on account of the staff. Auditor should examine such items to ensure that statutory items which are due are not delayed as often such delays are visited by punishment or fines or other liabilities on the entity.

Earmarked/ Endowment Fund (Balance Sheet)

10.11 This item represents amounts received by the entity either in cash or in kind for specific purpose or to meet certain specific types of expenditure. Normally there would be conditions notably relating to object of the expenditure attached to such receipts. The auditor should:

- (i) examine whether the conditions attached to the funds have been fully complied with;
- (ii) no impermissible expenditure has been incurred from any such Fund;
- (iii) Often such grants have taxation benefits for the donor. The donations either in cash or in kind should be irrevocable.

Fixed Assets (Balance Sheet)

10.12 Fixed Assets are normally depicted in sequence of their longevity. Fixed Assets include:

Land

Most of the accounting reporting framework would require Land to be represented at its cost and no depreciation is charged on Land. Normally, land is also treated as a core asset of the entity. No revaluation is carried out and depicted in the revaluation reserve on account of land.

In case land is on leasehold and at a consideration, the amount needs to be amortized over the period of lease unless the leasehold is in perpetuity.

Buildings

Buildings would include both owned and rented buildings on freehold or leased land. Such assets would include housing complexes, apartments, guest houses, recreational facilities or any other superstructure over which the entity has significant control. Such buildings need not be used directly for the day to day operations of the entity. Most of the accounting framework will allow depreciation on the buildings.

Rents of the rented buildings would be treated as expenditure in the Income and expenditure account and may not be shown as an asset of the entity.

Plant, Machinery and Equipment

This item represents such plants, machinery or equipment which are directly connected with the operations of the entity.

Vehicles

This items represents vehicles owned by the entity. Rents for rented vehicles will be represented in the Income and Expenditure account as an expenditure.

Office equipment/ Computers

This item represents office equipment which are not consumable and has a reasonably long life. The same applies to computers and peripherals.

Library Books

This is particularly relevant for academic bodies.

Points of interests for the auditor

- (i) examine fixed assets registers to verify the balances;
- (ii) examine depreciation rates and calculations;
- (iii) examine classifications;

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- (iv) verify that rents have not been capitalized; examine documents to establish ownerships and conditions of such ownerships;
- (v) examine that the physical stock verification is carried out regularly and as per extant regulations;
- (vi) examine the changes from the last balance sheet;
- (vii) examine the system of stock maintenance of fixed assets particularly relating to stocks of limited longevity;
- (viii) examine procedures of disposal of obsolete assets;

Provisions (Balance Sheet/ Income and Expenditure Account)

10.13 Provisions in Income and Expenditure Account are normally known as the “Below the line” items. After calculating the surplus/ Deficit from operational activities, a number of charges are provided for. Normally, such provisions include:

- (i) For Taxation: This is provision for outstanding tax liability;
- (ii) Staff-related provisions: Staff related provisions include amortization of staff related liabilities like pension, gratuity, encashment of leave etc.
- (iii) Provisions in the Balance Sheet are shown as deduction from the value of the assets. (Example: Provision for Doubtful Debtors).

10.14 Auditor should check the calculations and ensure that no short provision has been made to inflate the surplus.

Reserve: (Balance Sheet)

10.15 Revaluation Reserve is a non-cash reserve which represents the difference between the original value of an asset and the revaluation of the asset value on a particular date. In case of non-commercial entities like autonomous bodies established by the Government, such revaluation reserve may be infrequent.

10.16 An entity however can also maintain General or Special Reserve to meet its requirements at a future date. Normally such reserves will be established in accordance with the regulatory framework for such entities and with the approval of the competent authorities. There can be conditions associated with expenditure out of these reserves.

Secured Loans and Borrowings (Balance Sheet)

10.17 This item represents loans and borrowings on the basis of securities provided by the entity, normally assets and lands. Extremely unusual for autonomous bodies, such secured loans can be from Government, Financial Institutions, Banks (Term Loans), International Funding Agencies and other agencies. This being a stock item, the auditor should examine such loans and borrowings taken by the entity throughout the year so that window dressing on the Balance Sheet date, if any,

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can be detected. The analytical procedure should therefore include a trend analysis and examination of all such loans and repayments.

10.18 Such loans are indicative of deteriorating financial health of the entity. The auditor should, additionally

- (i) examine the circumstances in which such loans became necessary;
- (ii) examine the purpose of the loans including viability for repayment;
- (iii) examine the overall financial health of the entity and in extreme cases going concern considerations;
- (iv) ensure that the purpose for which such loans were taken has been or being fulfilled;
- (v) ensure that no such loan has been taken from an individual or unauthorized body or any unscrupulous agency;
- (vi) ensure that all such loans have been taken at reasonable rate of interest.

Unsecured Loans and Borrowings (Balance Sheet)

10.19 It is not unusual that every entity from time to time faces liquidity crisis requiring short term loans from the banks to tide over the crisis. Normally banks might offer a credit line while doing business with the entity, which would avail itself of the facility should circumstances require. The auditor should:

- (i) examine the circumstances in which such loans became necessary;
- (ii) examine the frequency of such loans taken and their impact on the financial health of the entity;
- (iii) ensure that no such loan has been taken from an individual or unauthorized body or any unscrupulous agency;
- (iv) ensure that all such loans have been taken at reasonable rate of interest.
- (v) Check the repayments.

Chapter 11: Line Item wise Audit Steps including Test of Controls for hybrid and accrual based financial statements.

Line Item	Subject Matter Information	Test of Controls	Substantive Testing
Income from Sales and Services (IE ¹⁶)	<p>(i) List of goods (products) and services offered;</p> <p>(ii) Sales Ledger- Product and Service-wise;</p> <p>(iii) Policies regarding recognition and measurement of income i.e. Accounting Policies and Framework;</p> <p>(iv) Sales Return Ledger</p>	<p>(i) Check procedures for authorizing inventories for sales;</p> <p>(ii) Check pricing procedures;</p> <p>(iii) Check for segregation of duties regarding authorization for sales; stocks for sales;</p> <p>(iii) reconciliation between sales records and sales income;</p> <p>(iv) check segregation of duties regarding collection of money and their accountal;</p> <p>(v) check procedures for reconciliation of cash book/bank book for credits;</p> <p>(vi) check procedures for physical stock verification and periodicity of it;</p> <p>(vii) check procedures for internal surprise inspection;</p>	<p>On Sample Basis</p> <p>(i) Check copies of sales cash memos and reconcile with sales ledgers;</p> <p>(ii) Check cash memos and reconcile with cash book/ Bank books;</p> <p>(iii) Check Sales ledgers with Cash Book/ Bank Book;</p> <p>(iv) Check sales returns and their accountal;</p> <p>(v) Check Cash/bank reconciliation memos;</p> <p>(vi) Check physical verification reports and follow up on discrepancies and their impact on financial statements;</p> <p>(vii) check outstandings and reasons for them including whether long pending items are still recognized as Income.</p>

¹⁶ IE stands for Income and Expenditure Account

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
			<p>(ix) check policies for discounts, if any;</p> <p>(x) in case of on line sales, check the procedures particularly in respect of payment gateways and control over such payment gateways;</p>	
Grants and Subsidies (IE)	<p>(i) Grants and Subsidy Ledgers;</p> <p>(ii) Orders of such Grants and Subsidies;</p> <p>(iii) Bank advices/ payment advices;</p>		<p>(i) check procedures for receipt of Grants and Subsidies and their accountal;</p> <p>(ii) check procedures for reconciling Grants/ Subsidies order with payment advices;</p> <p>(iii) check procedures for ledger posting of such Grants/ Subsidies;</p> <p>(iv) check recognition and measurement policies for non-cash grants/subsidies;</p> <p>(v) check control measures that no such grant/ subsidy has been left out;</p>	<p>(i) Check all Grants/ Subsidies Orders;</p> <p>(ii) check all payment advices and link them with the orders;</p> <p>(iii) check correctness of ledger postings;</p> <p>(iv) check long pending items in ledgers where money is due;</p> <p>(v) cross-verify, on a sample basis with the Grants/Subsidy giving authority;</p> <p>(vi) check the terms and conditions of the grants/subsidies and see whether the entity has violated any conditions, which might lead to forfeiture of such grants/subsidies;</p> <p>(vii) Check that the non-cash grant/subsidy has been recognized and measured correctly;</p> <p>(viii) check that grants for revenue</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				purpose only is routed through IE account; grants for capital purpose may be routed through BS; (ix) Check that appropriate disclosures have been made in the financial statements.
Other Income(IE)	<p>(i) List of ledger balances aggregating in the line item;</p> <p>(ii) In case of Fees/Subscriptions/Royalty/ Publications; individual ledgers;</p> <p>(iii) Policies relating to recognition and measurement of income;</p>		<p>(i) collect list of all balances which aggregate to this balance;</p> <p>(ii) check policies for treatment of other income;</p> <p>(iii) check policies for recognizing and measurement of other income;</p> <p>(ii) Check pricing procedures;</p> <p>(iii) Check for segregation of duties regarding authorization and collection;</p> <p>(iv) reconciliation between sales records and sales income;</p> <p>(v) check segregation of duties regarding collection of money and their accountal;</p> <p>(v) check procedures for reconciliation of</p>	<p>On Sample Basis</p> <p>(i) Check individual journal entries to ascertain that such entries reflect legitimate other income;</p> <p>(ii) in case cash is yet to be received, check whether there is reasonable possibility for receipt of cash;</p> <p>(iii) check outstandings and reasons for them including whether long pending items are still recognized as Income;</p> <p>(iv) check for recognition and measurement misstatements;</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
			<p>cash book/bank book for credits;</p> <p>(vi) check procedures for physical stock verification and periodicity of it;</p> <p>(vii) check procedures for internal surprise inspection;</p> <p>(ix) check policies for discounts, if any;</p>	
Interest Income (IE)	<p>(i) Investment Ledgers;</p> <p>(ii) Bank Statements and other investment documents;</p> <p>(iii) Rate Lists;</p>		<p>(i) check the decision-making process for investments including risk assessment process and ensure that there is collegiate decision making;</p> <p>(ii) check policies relating to allocation for different types of investments;</p> <p>(iii) check that for interest bearing deposits and investments, competitive rates have been explored;</p> <p>(iv) check the tenor of investments with cash budget projections;</p>	<p>(i) collect and check list of all interest-bearing deposits and investments;</p> <p>(ii) check whether any deposits have been made with any dubious/ non-approved agency or in any toxic instruments;</p> <p>(iii) check whether any high-risk investments have been made;</p> <p>(iv) check that payments for all interest accrued has been received in time;</p> <p>(v) check that there is no default in receipt of interest;</p> <p>(vi) check that the correct amount has been received;</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				<p>(vii) reconcile interest income ledger with cash/bank book and follow up discrepancies;</p> <p>(viii) crosscheck with borrowings from banks and examine whether the entity is keeping investments and at the same time borrowing from banks. Weigh such actions from the point of view of prudent cash management;</p>
Income from Investments	<p>(i) Investment Ledgers;</p> <p>(ii) Dividend ledgers;</p>		<p>(i) check the decision-making process for investments including risk assessment process and ensure that there is collegiate decision making;</p> <p>(ii) check policies relating to allocation for different types of investments;</p> <p>(iii) check for written policies for investments;</p> <p>(iv) check the tenor of investments with cash budget projections.</p>	<p>(i) collect and check list of all investments;</p> <p>(ii) in case of investments in shares and mutual funds, check that prudential norms have been followed to depict investments in the financial statements;</p> <p>(ii) check for significant variations between the initial value and current market value of the investments;</p> <p>(iii) check whether any high-risk or imprudent investments have been made;</p> <p>(iv) check that dividends when and</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				<p>where due have been received and accounted for;</p> <p>(v) check that there has been no default in payment on maturity of any investment and if so, the recognition, measurement and accounting treatment of it;</p> <p>(vi) check whether any agency commission has been paid and if so to whom; make reasonable enquiries to ensure that such agency commission has not been paid to any related party of those charged with governance of the entity;</p> <p>(viii) crosscheck with borrowings from banks and examine whether the entity is keeping investments and at the same time borrowing from banks. Weigh such actions from the point of view of prudent cash management;</p> <p>(ix) Check for parking of funds and ensure that the entity is not recognizing them as revenue for future services and</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				earning interest on them.
Establishment Expenses (IE)	<p>(i) Establishment Registers showing number of staff employed, pay scales etc.</p> <p>(ii) Payrolls;</p> <p>(iii) payroll ledgers;</p>		<p>(i) check policies of recruitment and check whether there are any broad violations {the idea is not to check each and every recruitment, but whether the entity has made recruitments despite ban on recruitment or recruitment has been made on contract basis despite a ban on such recruitments}</p> <p>(ii) check segregation of duties regarding maker, checker and approver of payroll bills;</p> <p>(iii) check that adequate system exists to resolve discrepancies in pay and allowances;</p>	<p>(i) check the results of trend analyses and identify the bumps and dips, if any and examine the reasons;</p> <p>(ii) check 100% of payrolls of the top 20 personnel and that of the maker, checker and approver of payrolls for at least 4 months randomly selected, to ensure that the pay and allowances drawn by them are correct;</p> <p>(iii) check on <i>a small sample basis</i> pay roll of other employees;</p> <p>(iv) check <i>on a sample basis</i> position of advances and their recoupment;</p> <p>(v) check payroll with actual payments;</p> <p>(vi) in case of payment directly to the bank, <i>check on a sample basis</i>, the bank scrolls to reconcile the actual payments;</p> <p>(vii) check that the establishment expenses are booked on gross basis with adjustments for deductions in other</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				ledgers; reconcile with other ledgers relating to deductions; (viii) check exclusions;
Other Administrative Expenses(IE)	(i) List/ contributing to this balance	Ledgers to this	(i) check delegation of financial powers to ensure that proper control exists; (ii) collect list of ledger balances which aggregate to this balance;	(i) check the results of trend analysis in respect of individual ledgers (i) check <i>on a sample basis</i> journal and ledger entries to ensure that no imprudent expenditure or any expenditure which is prima facie excessive has taken place; (ii) check <i>on a sample basis</i> that no expenses which should be booked under establishment expenses are booked as other administrative expenses; (iii) check <i>on a sample basis</i> items of expenditure to ensure that these are supported by proper sanction by the competent authority and proper procedures have been followed particularly in cases of procurement; (iv) check and reconcile with cash book/ bank book;

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				(vi) check exclusions;
Grants/ Subsidies (Expenditure)(IE)	<p>(i) List/ Ledgers of such Grants and Subsidies;</p> <p>(ii) Authorities for such Grants/ Subsidies.</p> <p>(iii) Individual Grant Files</p>		<p>(i) check procedures for sanctions including the delegations and policies for such sanctions;</p> <p>(ii) check whether the circumstances for such grants/ subsidies entail physical verifications and other procedures;</p>	<p>(i) check individual grant files to ensure that conditions and procedures have been adhered to;</p> <p>(ii) check for any ad hoc grant sanctioned;</p> <p>(iii) check that formal requests/ demands exist for such grants/ subsidies;</p> <p>(iv) check with payment details;</p> <p>(v) check for transactions which can have elements for related party transactions;</p>
Interest paid (IE)	<p>(i) List of Loan accounts/ loan ledgers</p> <p>(ii) Interest Ledgers;</p> <p>(iii) Rate List;</p> <p>(iv) bank Statements;</p>		<p>(i) check procedures including delegation of financial powers to resort to borrowings;</p> <p>(ii) check policies regarding borrowings;</p>	<p>(i) check the interest ledgers to examine whether interests have been paid correctly and in accordance with the rates applicable;</p> <p>(ii) check with the cash budget to examine circumstances leading to borrowings;</p> <p>(iii) check the bank statements and other documents to ascertain that interest fallen due has not remained unpaid.</p>

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
Depreciation	<p>(i) List of Fixed Assets/ Fixed Assets Registers;</p> <p>(ii) Rates of Depreciations and Schedule;</p> <p>(iii) Depreciation Ledgers;</p>	(i) Check rates of depreciation;	<p>(i) check <i>on a sample basis</i> the correctness of the depreciation charged;</p> <p>(ii) check the account of depreciation and the ledger balances of depreciation reserve fund;</p>
Fixed Assets (BS ¹⁷)	<p>(i) Fixed Assets Registers/ Fixed Asset ledger;</p> <p>(ii) Accounting Policy;</p>	<p>(i) check segregation policies relating to procurement of fixed assets;</p> <p>(ii) check financial rules followed;</p> <p>(iii) check the quality of maintenance of fixed assets;</p> <p>(iv) check capitalization policy;</p>	<p>(i) scan the fixed asset register to ascertain (a) that all items have been included in the registers;</p> <p>(ii) reconcile (<i>on a sample basis</i>) with the procurement files with the entries in the fixed asset registers;</p> <p>(iii) examine whether all the fixed assets are numbered;</p> <p>(iv) reconcile the fixed asset ledger with depreciation ledger and examine whether all depreciations have been entered in the depreciation ledger and the value of the fixed assets has been correctly depicted;</p> <p>(v) check the total of the fixed asset registers with the fixed asset ledger and then with the fixed</p>

¹⁷ BS stands for Balance Sheet

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				<p>asset balance in the Balance Sheet;</p> <p>(vi) check that the ownership of the assets fully vests with the entity;</p> <p>(vii) check that no inadmissible items have been capitalized, particularly in civil constructions;</p> <p>(viii) check the maintenance expenditure which does not add to the future benefits have been capitalized;</p> <p>(ix) check that no borrowings have been resorted to by pledging any fixed asset;</p> <p>(x) check that all moveable assets and plants and machineries are in active use;</p> <p>(xi) check accounting policy regarding treatment of impairment of assets;</p>
Investments (BS)	<p>(i) Investment Ledger/ Investment Registers;</p> <p>(ii) Instruments/ Documents relating to Investments;</p>		<p>i) check the decision-making process for investments including risk assessment process and ensure that there is collegiate decision making;</p>	<p>(i) carry out trend analysis of all investments and returns on them for an analytical review;</p> <p>(ii) check the value of the investments in the investment</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
			<p>(ii) check policies relating to allocation for different types of investments;</p> <p>(iii) check for written policies for investments;</p> <p>(iv) check the tenor of investments with cash budget projections.</p>	<p>registers tally with the investment balances in the Balance Sheet;</p> <p>(iii) check whether prudential policies are followed in depicting investments and these are shown at cost, while those with declining (excepting temporary decline) market values are shown at the market value;</p> <p>(iv) check whether any provision has been made for the impairment of investments;</p> <p>(v) check that all investments have been made in accordance with the stated investment policies of the entity and approval of the competent authorities exist;</p> <p>(vi) check commissions paid for investments and any related party transaction on account of this;</p>
Capital Works-in-Progress(BS)	<p>(i) Projects Registers;</p> <p>(ii) List of Capital Works aggregating to the balance;</p>		<p>(i) check projects registers;</p> <p>(ii) check that there are regular reviews to monitor the progress of the projects;</p>	<p>(i) check list of projects which are reflected in the capital works in progress;</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				<p>(ii) do an age wise analysis to ascertain whether there are any long pending projects;</p> <p>(iii) check for projects which are in use but still being shown as works-in-progress and ascertain reasons;</p> <p>(iv) check ledger balance of each project and tally it with the balances shown in the Balance Sheet;</p> <p>(v) check that there are regular follow up as a result and monitoring of such projects;</p> <p>(vi) check fund flow in these projects and ascertain whether such projects are getting delayed for lack of funds;</p> <p>(vii) check if there are any contractual problems;</p> <p>(viii) check for arbitration issues;</p>
Current Assets (BS)	<p>(i) List of assets and ledger balances comprising the balance;</p> <p>(ii) Cash Book and Bank Details;</p>		Note: There would be three main balances under this: (a) Inventories (b) Sundry Debtors and most importantly, (c) Cash and Bank Balances.	(i) check <i>on a sample basis</i> inventories ledgers and valuations to examine that the ledgers are maintained carefully

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
	(iii) Bank Reconciliation Statements;		<p>Some entities with significant cash may show the Cash and Bank Balances separately.</p> <p>(i) Ledger Books of each of the balances comprising the Balance in the Balance Sheet should be collected and checked for procedures and policies regarding recognition and measurement of these balances.</p> <p>(ii) Cash and Bank Balances require particular attention from the control point of view. Some of the usual test of controls would be to ascertain that daily cashbooks are closed daily; regular bank reconciliations are carried out and discrepancies are resolved; close supervision and monitoring exists over cash management;</p>	<p>and correctly and all items represent current assets;</p> <p>(ii) check <i>on a sample basis</i> that all inventories are such that they can be converted into monetary assets quickly in the course of the normal activities of the entity;</p> <p>(iii) do an age-wise analysis of the inventories to examine whether any of these inventories are being held longer than one financial period;</p> <p>(iv) check <i>on a sample basis</i> individual sundry debtor balances and examine the prospects of recovery.</p> <p>(v) check that all debtors are legitimate and no advances for service to be rendered or staff advances or entitlement advances paid have been included in this category.</p>
Secured Loans and Borrowings (BS)	(i) Secured Loan Ledgers;		(i) check the policies and procedures relating to secured loans and borrowings	(i) check value of secured assets and examine whether the value is

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
		to ensure that adequate controls are exercised;	<p>commensurate with the amount of loans and borrowings;</p> <p>(ii) check terms and conditions of loans and examine whether they are not usurious;</p> <p>(iii) check commissions paid if any and examine justifications;</p> <p>(iv) check cash budget and examine the feasibility of such loans and borrowings and repayment capability;</p> <p>(v) check ledgers of each loan and examine that they are closely monitored;</p> <p>(vi) check instances of default;</p> <p>(vii) check evergreening of loans;</p> <p>(viii) check and ascertain that the terms and conditions are competitive and proper value discovery process was undertaken;</p> <p>(ix) evaluate risks to the entity on default;</p> <p>(x) check approvals in respect of each loan;</p>	

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				<p>(xi) check whether intimations to Government, if required have been provided;</p> <p>(xii) check the rationale of such loans as the entity is expected to be supported by budgetary central government;</p>
Unsecured Loans and Borrowings (BS)	(ii) Unsecured Loan Ledgers;		(i) check policies and procedures and ensure that adequate controls are ensured;	<p>(i) check terms and conditions of loans and examine whether they are not usurious;</p> <p>(ii) check commissions paid if any and examine justifications;</p> <p>(iii) check cash budget and examine the feasibility of such loans and borrowings and repayment capability;</p> <p>(iv) check ledgers of each loan and examine that they are closely monitored;</p> <p>(v) check instances of default;</p> <p>(vi) check evergreening of loans;</p> <p>(vii) check and ascertain that the terms and conditions are competitive and proper value</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				<p>discovery process was undertaken;</p> <p>(viii) evaluate risks to the entity on default;</p> <p>(ix) check approvals in respect of each loan;</p> <p>(x) check whether intimations to Government, if required have been provided;</p> <p>(xi) check the rationale of such loans as the entity is expected to be supported by budgetary central government;</p>
Current Liabilities and Provisions (BS)	(i) List of ledger balances contributing to this balance;			
Corpus Fund (BS)	(i) Ledgers of Corpus Funds;		(i) check the ledger book of Corpus Funds to ensure that adequate controls are existing and implemented;	<p>(i) check the movements in the corpus fund;</p> <p>(ii) check that no items that should not be treated as corpus fund is included-particularly any funds that are temporarily parked in the entity;</p> <p>(iii) check if any establishment expenses/ administrative expenses are being met out of the corpus fund;</p> <p>(iv) do a trend analyses of the</p>

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Line Item	Subject Information	Matter	Test of Controls	Substantive Testing
				balances and see if the fund is declining or increasing; check reasons for that.
Earmarked/ Endowment Funds	(i) Ledgers of such Funds;		(i) check policies and procedures to receive endowment/ earmarked fund;	(i)

Chapter 12: Special Considerations for Financial Audit of Public Accounts

Financial Statements of Public Accounts

12.1 The financial statements of Public Accounts comprise of Finance Accounts and Appropriation Accounts. Public Accounts consists of Consolidated Fund and the Public Account of the Republic.

Article 84 of the constitution of Bangladesh

84(1) All revenues received by the Government, all loans raised by the Government, and all moneys received by it in repayment of any loan, shall form part of one Fund to be known as the Consolidated Fund.

84(2) All other public moneys received by or on behalf of the Government shall be credited to the Public Account of the Republic.

12.2 The Office of the Controller General of Accounts is responsible for preparation of the Finance Accounts. Finance Accounts materials relating to Defence Services are provided from the accounts kept by Controller General Defence Finance. Similarly, FA materials relating to Railways are provided by the Financial Advisor and Chief Accounts Officer under the administrative control of Additional Director General (Finance), Bangladesh Railways. The FA materials relating to Postal Accounts are provided by the Chief Accounts and Finance Officer (CAFO), Postal Department. The responsibility of consolidating the finance accounts rests with the Controller General of Accounts.

Finance Accounts and Appropriation Accounts

12.3 Finance Accounts in relation to the Government, means the accounts showing the receipts and disbursements of the Government for a financial year together with financial results disclosed by the revenue and capital accounts, the accounts relating to public debts and assets and other liabilities, as deduced from the balances recorded in its books and other information. Appropriation Accounts means accounts relating to expenditure brought into account during a financial year to the several items specified in the Appropriation Act. For each of the grants approved by the parliament or for each appropriation there is a corresponding Appropriation Account.

Objective of financial audit of Finance Accounts

12.4 The objective of financial audit of the Finance Accounts is to obtain sufficient and appropriate audit evidence to enable CAG to express an opinion as to whether the set of statements and schedules together called Finance Accounts are free from material misstatements due to fraud or error and thus present a true and fair view.

12.5 At present, the Finance Accounts comprise of 15 statements. These are:

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Statement 1: Summary statement of Consolidated Fund (Revenue and Capital) (Schedules 1,2,3,4,5)

Statement 2: Summary Statement of Loans and Advances (Schedules 8 & 9);

Statement 3: Summary Statement of Public Account (Schedule 24);

Statement 4: Consolidated Fund: Summary Statement of Income and Expenditure with economic analysis;

Statement 5: Public Account: Summary Statement of Income and Expenditure with economic analysis;

Statement 6: Consolidated Fund: Summary Statement of Income and Expenditure based on Institutional Code;

Statement 6A: Summary of Income and Expenditure with economic analysis;

Statement 7: Statement of Cash Balance for Consolidated Fund and Public Account;

Statement 8: Summary of Budget Activities;

Statement 9: Consolidated Fund: Direct Demand on the Revenue;

Statement 10: Summary statement of Loan receipts and Capital expenditure;

Statement 11: Summary Statement of Income and Expenditure according to institutional code;

Statement 12: Consolidated Fund: Cost of Collection of Revenues;

Statement 13: Consolidated Fund: Analysis of Revenue Receipts;

Statement 14: Annual accounts of Assets;

12.6 These statements however are statements of aggregates and are supported by 32 schedules (*Tafsil*) and 7 Annexures (*Parishista*). These schedules and Annexures are considered as integral part of the Finance Accounts. Some of the schedules contain Notes and Comments on the Accounts, which also are to be considered as part of the accounts.

12.7 Brief Descriptions of the Schedules are given below:

Schedule 1: Statement of Revenue (Consolidated Fund);

Schedule 2: Statement of Implementation Unit-wise Revenue expenditure (*Anunnayan*) from Consolidated Fund;

Schedule 3: Statement of Revenue expenditure (Development) (*Unnayan*) Ministry wise from Consolidated Fund;

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Comment: Schedule 1 is the primary statement of all revenue receipts. Several statements of the Finance Accounts derive from this Schedule. This Schedule will be of primary interest to audit. Schedules 2 & 3 are to be reconciled with Schedule 1 as they contain the same data which are presented in different format. The assurance regarding receipts and expenditure related to Consolidated Fund will be derived mainly from these three statements.

Schedule 4: Summary Statement of Capital expenditure (*Anunnayan*) from Consolidated Fund;

Comment: Schedule 4 is the summary statement of capital expenditure (non-development). The line items in these statements are:

- i) Asset acquisition /Purchase
- ii) Land and other asset acquisition;
- iii) Building and Works;
- iv) Investment in shares and equity;
- v) Capital Grants;
- vi) Loans and Advances;
- vii) Loans and advances to government employees;
- viii) Long term Loan – Repayment of Principal;
- ix) Current loans- Repayment of Principal;
- x) Repayment of Foreign loans;
- xi) Development Import duty and VAT.

Schedule 5: Capital expenditure (Development: *Unnayan*) Project wise/ Ministry wise;

Comment: Schedule 5 is a ministry wise statement of capital expenditure. The total capital expenditure as reflected in the main statements are derived from schedule 4 and schedule 5. The ministry wise expenditure provides varied picture. The assurance about this schedule would require a sample selection and verification of the figures. Not all ministries show expenditure in the current year and hence only those ministries or departments which saw heavy expenditure may be selected. The opening balances also can be sampled accordingly. Even hundred percent of the opening balances can be verified.

Schedule 6: Summary statement of non-development (*Anunnayan*) Loans and Advances from the Consolidated Fund;

Comments: Schedule 6 is the summary statement of non-development loans and advances. The line items are as follows:

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- i) Financial institutions;
- ii) Non-financial institutions;
- iii) not for profit institutions;
- iv) private institutions;
- v) local institutions.

Schedule 6A: Detailed statement of non-development Loans and advances from Consolidated Fund;

Comments: Schedule 6A provides the details of the data contained in schedule six. From an audit point of view, schedule 6A is of primary audit interest. The negative balances need to be examined in detail. The examination Will comprise mainly checking the opening balances as transactions during the current year are very minimal in most of the cases. Except in case of loans and advances to local institutions.

Schedule 7: Detailed Statement of development(Unnayan) Loans and advances from the Consolidated Fund;

Comments: Schedule 7 is the detailed account of loans and advances on account of development given to various organisations. It contains opening balances, transactions during the year and the closing balances. The audit therefore would be to check the opening balances and closing balances as also verify the correctness of the transactions during the year. It should contribute both to opinion and to Long Form of Audit Report.

Schedule 8: Year end balances of Loans and Advances provided by Government;

Comments: Schedule 8 provides the summary position of all loans and advances given by the government. It gives the information regarding opening balance, recoveries, fresh loans given, the closing balance and interest earned. It also provides information about loans and advances given to the government servants.

Schedule 9: Statement of Government liabilities: Loans and Advances from Foreign sources;

Comments: Schedule 9 provides information regarding Government debt from Foreign sources;

Schedule 9A: Statement of Government liabilities: Loans and Advances of the Government;

Comments: Consolidated position of Government Debt: Line items represent individual instrument wise;

Schedule 10: Public Account: Statement of accounts of National Savings Scheme;

Comments: Schedule 10 provides scheme-wise balances;

Schedule10A: Public Account: Statement of accounts of State Provident Fund;

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Comments: Provides balances of General Provident Fund with 5 line items;

Schedule 11: Public Account: Statement of Accounts of Renewal, Reserve and Depreciation Fund;

Comments: Of little interest to audit as current transactions are almost Nil.

Schedule 11A: Public Account: Statement of Accounts of Welfare and Relied Fund;

Comments: Important are 5 line items;

Telecommunications and Telegraphs Welfare Fund;

Postal Departmental Welfare Fund;

Government Servants Welfare Fund;

Government Servants Group Insurance Scheme;

Defence Welfare Fund;

Schedule 12: Public Account: Statement of accounts of Local Funds;

Line Items:

Departmental Fund

District Fund

Municipality Fund

Upazilla Fund

Other Local Funds

Schedule 13: Public Account: State of accounts of Advance Income Tax Deposit;

Negligible. Of little interest to audit;

Schedule 13A: Public Account: Statement of accounts of Departmental and Court Deposits;

Line Items

Civil court deposits

Criminal Court deposits

Cess deposits

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Forest department deposits

Postal department deposits

Railway deposits

T & T deposits

Supply and Inspection department deposits

Public Works deposits

Public Health deposits

Local Rates deposit

Ship Captain deposit

Military deposit

BTCL pension

Schedule 13B: Public Account: Statement of accounts of Deposits against Supply and Works Contracts;

Earnest money deposit, subscription to international organisation, duties and VAT deposits, security deposits from contractors and suppliers, deposits on account of works, miscellaneous deposits.

Schedule 13C: Public Account: Personal Ledger Account;

Schedule 14: Public Account: Statement of accounts of Other Deposits;

Schedule 15: Public Account: Statement of accounts of Foreign Food Aid;

Schedule 16: Public Account: Statement of accounts of Repayable advance;

Schedule 17: Public Account: Statement of accounts of Permanent Advance;

Schedule 18: Public Account: Statement of accounts of Adjustment Account with Foreign Governments;

Schedule 19: Public Account: Statement of accounts of Currency;

Schedule 20: Public Account: Statement of accounts of Suspense accounts;

Schedule 21: Public Account: Statement of accounts of Cheques and Bills;

Schedule 22: Public Account: Statement of accounts of Departmental Cash Control account;

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Schedule 23: Public Account: Statement of accounts of Remittance;

Schedule 24: Public Account: Summary statement of Public Account;

Schedule 25: Consolidated Fund: Summary of Consolidated Fund;

12.6 For the purpose of financial audit of the finance accounts, the schedules are to be considered as primary subject matter information from which the statements are aggregated. Audit of the schedules and annexures are therefore of primary interest to audit and must therefore provide the main assurance on the basis of which the conclusion would be drawn.

Risks of Material Misstatements

12.7 The following are identified as the risks of material misstatements due to fraud or error:

- (i) Risks of erroneous figures shown in any of the statements;
- (ii) Risks of wrong classifications of Receipts;
- (iii) Risks of wrong classifications of expenditure;
- (iv) Risks of Revenue expenditure depicted as Capital expenditure or vice versa;
- (v) Risks of opening balances not brought to the statements correctly;
- (vi) Risks of improper expenditure booked in suspense heads to hide such transactions and to accommodate expenditure to avoid budget;
- (vii) Risks of cash balance shown in statement No 7 not reconciled with the cash balance of the government available with Bangladesh Bank.
- (viii) Risks of final statements' figures not in agreement with the primary books of accounts;
- (ix) Risks of book transfer entries and other adjustments not valid;
- (x) Risks of final statements not supported by figures in schedules accompanying the statements;
- (xi) Risks of final statements' not being prepared according to applicable financial reporting framework.
- (xii) Risks of high outstanding.

Risk Factors and their assessment

12.8 The overall risk assessment in audit of Finance Accounts will take into account the following factors:

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(i) The Consolidated Fund and the Public Account of the Republic are based on cash basis i.e. transactions are not recognised until the cash or cash equivalent has been received or paid out of the treasury. In the Finance Accounts, therefore, no estimate or assertion based on anticipated events in future are accounted for. **This reduces the inherent risk.**

(ii) There is a well-established system of revenue receipts and government payments in existence. The network of CAFOs in Ministries and Divisions, the District Accounts and Finance Officers and the Upazilla Accounts officers, all functions under the overall guidance of Controller General of Accounts. There are also clear cut demarcation and division of responsibilities between the spending units and the accounting units who clears (pre audits before payment) the claims of the drawing and disbursing officers. The Pay and Accounts offices function independently of the Drawing and Disbursing officers who are responsible for withdrawing money from government account by presenting bills to the Pay and Accounts offices where the bills are scrutinised carefully and payment authorised. There are however some departments like Public Works and Forests Department where the Drawing and Disbursing officers are cheque drawing. In case of Defence Services the system of cash assignment to the units also add to control risks.

(iii) The computerisation of Budget and Accounting system iBAS++ (Integrated Budget and Accounting System) has further improved the receipt and payment system as also the system of preparation of accounts. Apart from automating receipt and payment systems, the system generates a good number of accounting reports which form the basis for preparation of finance accounts.

(iv) It is also to be noted that personnel incurring expenditure / disbursement from Public Accounts are government employees and are subject to government control and rules. Any misdemeanour is visited by serious disciplinary proceedings and there are many layers of controls. These controls are budgetary controls at different hierarchical levels, requirements of specific sanctions according to Delegation of Financial Powers which need to be presented along with the claims, post audit, periodic transfer of personnel and more than one staff handling financial matters in any spending unit.

(v) The controls risks are significantly mitigated by the fact that the Pay & Accounts offices are part of the office of the Controller General of Accounts. The officers and staff are specialised in auditing and accounting and thus have considerable expertise in dealing with financial matters.

Overall risk assessment

12.9 In view of the above factors, the overall inherent risk assessment in case of finance accounts is determined as low; the overall control risk assessment is determined as low to moderate.

Grading of individual risks with justifications

SL NO	Risk	Probability	Justification
OR1	Risks of erroneous figures shown in any of the statements;	Low	i) Independent transaction authorisation functions; ii) Significant part of the transactions originating in iBAS++;

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			<p>iii) Oversight by the office of the Controller General of Accounts;</p> <p>iv) Independence of transaction authorisation from the spending unit (separation of responsibilities between maker and checker).</p> <p>v) Compilation of accounts are done at many levels and adequate checks are exercised.</p>
OR2	Risks of wrong classifications of Receipts;	Low	i) Main source of receipts are NBR revenue. Taxes are paid by the taxpayers directly and mistakes shall affect their assessments at the later date.
OR3	Risks of wrong classifications of expenditure;	Moderate	i) Availability of Budget may influence classification decisions and there may be tendencies to classify expenditure against codes where budget is available;
OR4	Risks of Revenue expenditure depicted as Capital expenditure or vice versa;	Moderate	<p>i) Availability of budget may influence classification decisions;</p> <p>ii) Revenue expenditure in capital projects tend to be classified as Capital expenditure;</p>
OR5	Risks of opening balances not brought to the statements correctly;	<p>Low in case of Consolidated Fund;</p> <p>High in case of Public Account of the Republic (PAR);</p>	<p>i) Considered Low in case of Consolidated Fund where accounts are closed to cash;</p> <p>ii) In case of PAR, the risk is High as these accounts are closed to book balance;</p> <p>iii) Many items of the PAR are maintained in many offices like small courts, at districts and Upazilla levels; the closing balances and opening balances may not be aggregated correctly;</p> <p>iv) Ledgers may not be maintained correctly;</p> <p>v) Since accounts are maintained on a TSA basis with Bangladesh Bank, individual reconciliations with the Bank is not feasible;</p> <p>vi) Deposits and Remittances in some offices may be kept in local banks outside TSA;</p> <p>vii) Discrepancy between closing balance of the previous year and opening balance of the current</p>

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			year may be indicative of fraud and embezzlement.
OR6	Risks of improper expenditure booked in suspense heads to hide such transactions and to accommodate expenditure to avoid budget;	High	i) Since expenditure under suspense heads affects appropriation in as much as that such expenditure is incurred and cash outflow occurs but not exhibited against appropriations.
OR7	Risks of cash balance not reconciled with the cash balance of the government available with Bangladesh Bank.	High	i) Government payment and receipts statements are marked by multiple payment points and one single account. Government cheques are rarely dishonoured and also such cheques are paid without pre-checking of availability of cash balances. Reconciliation between Cash balance of Government as depicted in the financial statements of the Government with the balance available with Bangladesh Bank is of utmost importance. ii) The unreconciled items may also be indicative of fraud and embezzlement.
OR8	Risks of final statements not in agreement with the primary books of accounts	Low	i) The Finance Accounts are prepared partly through iBAS++ and there are many stages through which the accounts are compiled.
OR9	Risks of book transfer entries and other adjustments not valid;	Low	i) Almost, all such adjusting entries are passed in the Office of the CGA.
OR10	Risks of final statements not supported by figures in schedules accompanying the statements;	Low	i) The schedules are the building bricks for the final statements and figures are derived from the schedules, which are compiled from the books of accounts.
OR11	Risks of final statements not being prepared according to applicable financial reporting framework.	Low	i) The CGA, CGDF, ADG(F) Railways and CAFO (Postal) are all experienced in accounting matters. ii) The government financial system of Bangladesh is a proved system.
OR12	Risks of high outstanding balances	High	i) Lack of timely clearances may hide irregular bookings.

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Line Items and Risk Mapping

(The followings are indicative items and suggestive.)

Sl No	Line Item	Statement/Schedules	Risk Mapping	Comments
1	Revenue Expenditure from Consolidated Fund	Schedule 1,2 &3	OR1, OR3	.
2	Capital Expenditure from Consolidated Fund	Schedule 4 & 5	OR1, OR3, OR4, OR5	
3	Revenue Receipts and Capital Receipts	Schedule 1	OR1,OR2	
4	Loans and Advances from Consolidated Fund (Both Development & Non-Development)	Schedule 6, 6A, 7,8	OR1, OR3, OR5, OR12	
5	Liabilities of the Government	Schedule 9, 9A	OR1,OR3 OR5	
6	Public Account: National Savings Scheme	Schedule 10	OR1,OR5	
7	Public Account: General Provident Fund	Schedule 10A	OR1,OR5	
8	Public Account: Renewal, Reserve and Depreciation Fund	Schedule 11	OR1,OR5	
9	Public Account: Welfare and Relief Fund	Schedule 11A	OR1,OR5	
10	Public Account: Local Fund	Schedule 12	OR1,OR5	
11	Public Account: Advance Income Tax ¹⁸	Schedule 13	OR1,OR5	
12	Public Account: Departmental and Judicial Deposits	Schedule 13A	OR1, OR5, OR7	
13	Public Account:	Schedule 13B	OR1,OR5 , OR7, OR 12	

¹⁸ The amount is materially negligible and hence not of audit interest.

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	Deposits against Supply and Works Contract			
14	Public Account: Personal Ledger Account	Schedule 13C	OR1, OR5, OR7, OR12	
15	Public Account: Other Deposits	Schedule 14	OR1, OR5, OR7, OR12	
16	Public Account: Food Aid ¹⁹	Schedule 15	OR5	
17	Public Account: Repayable Advances	Schedule 16	OR1, OR5, OR7, OR12	
18	Public Account: Permanent Advance	Schedule 17	OR1, OR5, OR7, OR12	
19	Public Account: Adjusting Account with Foreign Governments ²⁰	Schedule 18	OR5	
20	Public Account: Currency and Coinage	Schedule 19	OR5, OR7	
21	Public Account: Suspense Account	Schedule 20	OR 1, OR 2, OR5, OR 7, OR 6, OR 12	
22	Public Account: Cheques and Bills	Schedule 21	OR1, OR 5, OR7, OR12	
23	Public Account: Departmental Cash Control Account	Schedule 22	OR1, OR5, OR7, OR12	
24	Public Account: Remittances within Bangladesh	Schedule 23	OR1, OR5, OR7, OR12	

¹⁹ There is no fresh entries in this head and hence not of audit interest.

²⁰ There is no fresh entries in this head and hence not of audit interest.

Chapter 13: Audit Steps for Finance Accounts

Overall objective of audit of Finance Accounts

13.1 The Finance Accounts have been prepared in accordance with the financial reporting framework and related rules and regulations; and

13.2 The statements of the Finance Accounts and the schedules are free from material misstatements, where,

“free from misstatement” would mean that:

- ⇒ the amounts shown as receipts and expenditure (disbursements) are accurate;
- ⇒ the amounts shown are against the accurate codes, i.e. no misclassification has taken place;
- ⇒ the opening balances have been carried over correctly and match with the closing balances of the previous year;
- ⇒ the amounts shown as receipts and expenditure/disbursement either from Consolidated Fund and Public Account of the Republic match with the cash inflow and outflow in and from government cash balance;
- ⇒ No transaction that has taken place, has been left out of the statements and schedules;
- ⇒ The statements and schedules do not suffer from arithmetical inaccuracies;
- ⇒ The Notes and other comments are relevant and accurate; and
- ⇒ There are internal consistencies between and among the statements and schedules.

13.3 The conclusion whether the Finance Accounts are free from material misstatements will be made after corrections and adjustment made as a result of audit observations.

Determination of Materiality

13.4 The benchmark for determining **overall materiality** for the Finance Accounts is proposed to be the total of receipts and expenditure of both Consolidated Fund and Public Account. The overall materiality level is proposed at 2% of

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CFR+CFP+PARR+PARP²¹ (Statement 4 and Statement 5 of Finance Accounts) rounded to lakh crore Taka.

13.5 The **performance materiality**, **tolerable misstatement level** and **trivial misstatement level** are indicated in the Audit steps against each line item/ class of transactions.

13.6 Based on the Finance Accounts of 20XX – XX-1, the following is the calculation for overall materiality:

Component	Amount (in '000)	%	Component ratio
PARR ('000)	3114073587	24.49	24
PARP ('000)	2701359544	21.24	21
CFR ('000)	3242778738	25.50	26
CFP ('000)	3654949714	28.74	29
Total('000)	12713161583		
OM at 2% (in Crore)	25426		

Preparatory action for audit of Finance Accounts

These steps presuppose that the OCAg would, as a first step, collect or list out all the accounting elements that go into the schedules and statements of the Finance Accounts. This includes monthly accounts prepared by all accounts formations. The following steps are recommended:

i) While preparing audit plan, the risk categories of individual line items/ class of transactions should be kept in mind and checks should be planned accordingly.

ii) Since audit of Finance Accounts are considered as a year-long activity, audit planning and carrying out audit checks should be done in terms of these steps and all audit outputs should be consolidated to:

- ensure that the misstatements pointed out by audit have been corrected before incorporating in the final accounts;
- if not, the figures of misstatements should be consolidated and added to the misstatement figures during the year end audit;

(iii) Audit steps involving matching opening balances of the current year with the closing balances of the previous year will involve checking of such balances at underlying levels as these balances are collections of individual balances. Such balances may be the aggregate of many balances kept at different offices. For example, the balances of capital expenditure

²¹ CFR=Consolidated Fund Receipt; CFP=Consolidated Fund Payment; PARR=Public Account of the Republic Receipt; PARP=Public Account of the Republic Payment.

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under Building and Works shown in the Finance Accounts are aggregate of balances of large number of projects. This check should be carried out while checking individual offices on the basis of their monthly accounts and by interrogating centralised data, if such balances are available.

(iv) Sampling is important. In case of computerized transactions both on iBAS++ and NBR site, efforts should be made to interrogate the data centrally to carry out the audit checks.

In case sampling is done not on the basis of transactions but on some other populations, namely Upailla Accounts Offices, the audit checks should be carried out based on these steps to maintain uniformity. It is suggested that in an Upazilla Accounts office, it should be ensured that the transactions that have gone into the monthly accounts are test checked. Thus, Upazilla Accounts Office X Month of Accounts should be considered as a unit and transactions in that unit should be test-checked as part of the audit of Finance Accounts. The same is true of Public Works and other Departments with self-drawing facilities.

The same should be considered for Public Works and other Divisions where self-drawing system is prevalent and monthly accounts are prepared by the department for submission. The division X month of accounts may be considered as a unit and transactions in that unit should be test checked as part of the audit of Finance Accounts.

Each monthly account mirrors the final statements partially. The line items of the monthly accounts should be test checked according to these steps. *(Guidance: Check the line items of the monthly accounts and map them to these steps. Check the sample of transactions according to the audit steps. Similarly, check the Loans and advances reflected in the monthly accounts as also the Public Account balances. Document all the results.)*

(v) Most of these line items are important from the point of view of LFAR and financial analysis. A separate cell can be established to carry out the financial analysis and it should not be made part of the work of audit checks.

(vi) The steps present more audit checks on the Public Account, particularly a few of them. This should be kept in mind.

(vii) As regards Defence, Railways and Postal Departments are concerned the steps will apply but only to those parts which has relevance for the accounts of these departments.

(viii) There may be a possibility that while doing audit, the audit engagement teams may come across compliance issues relating to a transaction. A mechanism should be created to communicate the issue to the concerned Directorate unless the issue is so important or the amount is so considerable that the matter needs to be included suitably in the opinion section of the CAG's report on the Finance Accounts. The materiality of the matter may be kept in mind.

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(ix) It should be kept in mind that the risk assessment indicated in these pages are only in respect of financial audit of Finance Accounts. It does not indicate risk assessment for Compliance Audit.

(x) The audit of transactions taking place during the month of June(June withdrawals) are of special significance from the point of view of Finance Accounts and Appropriation Accounts. It is suggested that irrespective of sampling size, all transactions or a major part of the transactions are closely checked by a special team. The risks are:

- Disbursement risk- money is withdrawn from Government account but is not disbursed to the recipient as cases for disbursements have not matured; (A variant of parking of Funds)
- Money is withdrawn from the Government accounts and are deposited in some extra-budgetary body as advance or any other instrument;
- Money is withdrawn from Government account and kept by an officer till expenditure is possible.

All these measures are used to utilise the budget in full. Thus such actions have significance for both Finance Accounts and Appropriation Accounts.

(xi) The audit of book adjustments of June (Final) accounts is extremely important from the point of view of Finance Accounts and Appropriation Accounts. In fact, it is more important from the point of view of Appropriation Accounts than of Finance Accounts. Broadly the risks are:

- Adjustments may be carried out to accommodate budget surplus or deficit in codes without any reference to the expenditure;
- Adjustments may be carried out to (correct details of an expenditure while the expenditure has taken place earlier);

(xii) Audit Documentation will include records of checks carried out under each of these line items by all audit engagement teams and results thereof.

(xiii) For debts and long term loans and advances, there will be accounting records and departmental records. Departmental records means records of loans maintained by Bangladesh Bank or specific department/ Ministries/ offices. It is important that a reconciliation check is carried out by audit between the accounting balances and departmental balances.

(xiv) Booking of expenditure in gross means that the expenditure on bills are to be booked for the gross amount. For example, A typical Pay & Allowance bill or a running account bill will have deductions on the bill. These deductions are adjusted in respective accounts and net

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cash payment is made. However, the expenditure under the relevant code is the total expenditure on the bill and **NOT** the net cash payment.

(xv) In case of quite a large number of line items, checks have been suggested for checking of individual balances. Such checking is to ensure that individual accounts are being maintained properly. They might not add up to the aggregate balances as the task will be beyond the resources of audit. The objective is to have reasonable assurance.

(xvi) One of the most important checks would be to ensure that the figures in the schedules completely match with the statements of the Finance Accounts.

Page :		TEMPLATE	
Line Item/Class of Transactions:			
Schedule/Component			
Risk Grading			
Assurance to be derived			
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)			

Remarks

--

Audit Procedures

Procedure	Audit Steps

Expected Audit Output

--

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Page : Master Page 1	
Line Item/Class of Transactions:	Standard checks for material misstatements
Schedule/Component	
Risk Grading	
Assurance to be derived	No material misstatements, which means (i) No arithmetical inaccuracy; (ii) No misclassification; (iii) Expenditure has been booked in gross; (iv) Payment details match with cheque issued or cash paid; (v) The expenditure is duly sanctioned; (vi) Vouchers are supported by supporting documents;
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	

Remarks

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Audit Procedures

Procedure	Audit Steps
Arithmetical accuracy	Check the arithmetical accuracies of challans and vouchers. In case, the data is available in iBAS++, the same can be downloaded suitably and the checks should be carried out. The arithmetical accuracies in this context, are only of figures, the gross and net figures, deductions.
	Check that the additions of deductions are correct.
	It is presumed that data from iBAS++ will not require this check as the accuracy is calculated by the system. However, if aggregate deductions are entered, the aggregates are to be checked with reference to individual items.
	In Handmade bills, words and figures should be matched.
Misclassification	Check Budget Code and judge from the nature of the receipt and expenditure that the budget code is correct. The budget code should be checked in respect of each item on the receipt and vouchers.
	Normally a voucher and sometimes a receipt will contain many items. Check for each of these items with reference to the budget code.
Gross Expenditure	Check that the gross expenditure has been booked.

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Payment Details match with Cheque issued or cash paid or money received	Check that the amount required to be paid match with the transaction documents. Ensure that in case of payments, the cash outgo is the net amount to be paid.
	In case of web-based payment system, this check is very important. Check that the money received or paid out is reflected in the bank statements or other bank documents. Since this is a painstaking exercise, a sample can be chosen using Monetary Unit Sampling but this check should be carried out on individual items and not on aggregates.
	Check “Cheques and Bills” where appropriate.
The expenditure is sanctioned.	Check that the expenditure is sanctioned by a competent authority and the sanction is attached to the bill.

Expected Audit Output

Amounts of misstatements under each heading.

Financial Audit Guidelines

CAG Bangladesh

Page :	1		
Line Item/Class of Transactions:	Revenue Receipts, Revenue Expenditure (Development and Non-Development)		
Schedule/Component	1,2,3	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatements, which means (i) No arithmetical inaccuracy; (ii) No misclassification; (iii) Expenditure has been booked in gross; (iv) Payment details match with cheque issued or cash paid; (v) The expenditure is duly sanctioned; (vi) The vouchers are supported by supporting documents.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM	5	3	0.1
	5	3	0.1
	7	4	0.1

Remarks

Performance materiality is kept at 17% for these three items i.e. Revenue Receipts, Revenue Expenditure (Non-Development) and Revenue Expenditure(Development).

This requires sampling.

Audit Steps

	Audit Steps
Arithmetical accuracy	Check the arithmetical accuracies of challans and vouchers. In case, the data is available in iBAS++, the same can be downloaded suitably and the checks should be carried out. The arithmetical accuracies in this context, are only of figures, the gross and net figures, deductions.
	Check that the additions of deductions are correct.
	It is presumed that data from iBAS++ will not require this check as the accuracy is calculated by the system. However, if aggregate deductions are entered, the aggregates are to be checked with reference to individual items.
	In Handmade bills, words and figures should be matched.
Misclassification	Check Budget Code and judge from the nature of the receipt and expenditure that the budget code is correct. The budget code should be checked in respect of each item on the receipt and vouchers.
	Normally a voucher and sometimes a receipt will contain many items. Check for each of these items with reference to the budget code.
Gross Expenditure	Check that the gross expenditure has been booked.

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<p>Payment Details match with Cheque issued or cash paid or money received</p>	<p>Check that the amount required to be paid match with the transaction documents. Ensure that in case of payments, the cash outgo is the net amount to be paid.</p> <p>In case of web-based payment system, this check is very important. Check that the money received or paid out is reflected in the bank statements or other bank documents. Since this is a painstaking exercise, a sample can be chosen using Monetary Unit Sampling but this check should be carried out on individual items and not on aggregates.</p> <p>Check “Cheques and Bills” where appropriate.</p>
<p>The expenditure is sanctioned.</p>	<p>Check that the expenditure is sanctioned by a competent authority and the sanction is attached to the bill.</p>

Expected Audit Output

A table showing amounts misstated under different headings.

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Page :		2	
Line Item/Class of Transactions:	Asset acquisition/ Capital Expenditure (Non-Development)		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	That the Assets shown as acquired have indeed been acquired and no material misstatement is there. That the aggregate Opening Balances shown match with the Closing Balances of the preceding year, individual account wise.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM	4	1	0.5

Remarks

Schedule 4 essentially is a summary statement. It should be audited in conjunction with the detailed account implementation-unit wise. Most of the non-development capital expenditure are incurred by Ministries of Finance, Defence, Home, Agriculture. It is recommended that a threshold limit may be decided and then the figures of the individual units may be checked.
Visits to selected implementation units may be required.

Audit Steps

	Audit Steps
Assets have been acquired	<p>Get a list of underlying figures- implementation unit-wise, pertaining to only this head;</p> <p>Obtain evidence of assets being acquired and their accounting in the concerned registers;</p> <p>Check whether advance payments in anticipation of supply have been booked under this head and that such advance payments are legitimate;</p> <p>Check whether any payment has been made to utilize the budget without adequate processes for asset acquisition;</p> <p>Check that all assets acquisition shown in the current year's account have indeed been acquired in the current year.</p> <p>Check evidence of parking of funds.</p>
Material Misstatement	Carry out checks of material misstatements as mentioned in Master Page 1.
Opening Balances Matching	Check each account and match current year's Opening Balances with the Closing Balances of the preceding year.

Expected Audit Output

Amounts based on the examination as indicated in audit steps.
NOTE: Under this head, accounting corrections on being pointed out by audit may not be possible in all cases except those relating to material misstatements.

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Page : 3	
Line Item/Class of Transactions:	Land and other asset acquisition/ Capital Expenditure
Schedule/Component	4 Consolidated Fund
Risk Grading	Medium
Assurance to be derived	That the Land and other assets shown as acquired have indeed been acquired and no material misstatement is there. That the aggregate Opening Balances shown match with the Closing Balances of the preceding year, individual account wise.
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM	1 0.2 .02

Remarks

Land is normally acquired by civil officials/ Land acquisition officer and payment to such officers/ advances made to such officers are depicted as expenditure. The audit engagement team should be able to crosscheck the balances lying with the civil officials and make a comment on huge balances if noticed, in the LFAR.

Audit Steps

	Audit Steps
Assets have been acquired	<p>Get a list of underlying figures- implementation unit-wise, pertaining to only this head;</p> <p>Obtain evidence of assets being acquired and their accounting in the concerned registers;</p> <p>Check whether payments and advance payments in anticipation of acquisition have been booked under this head and that such advance payments are legitimate;</p> <p>Cross-check with other Departmental officials if such advances have been paid to other departmental officials and shown in the books as expenditure. Check that such payments including advance payments are legitimate.</p> <p>Check that the departmental officials who are recipients of such payments, have booked correctly in their accounts.</p> <p>Check whether any payment has been made to utilize the budget without adequate processes for asset acquisition;</p> <p>Check that all acquisition shown in the current year's account have indeed been acquired in the current year.</p> <p>Check evidence of parking of funds.</p>
Age analysis of Opening Balances	If there is a system of payment to the district officials/ land acquisition officials for land acquisition, do an age analysis of the

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	opening balances and test check whether acquisition of land and other assets are completed or some amounts are pending for a long time. Check if there are any Court deposits and pendency of such deposits.
Material Misstatement	Carry out checks of material misstatements as mentioned in Master Page 1.
Opening Balances Matching	Check each account and match current year's Opening Balances with the Closing Balances of the preceding year.

Expected Audit Output

Amounts under different Heads.

Some compliance issues may be thrown up in this audit.

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Page :	4		
Line Item/Class of Transactions:	Building and Works/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Medium		
Assurance to be derived	No material misstatement. That the aggregate Opening Balances shown match with the Closing Balances of the preceding year, individual account wise.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1.5	.02

Remarks

This is an expenditure Code and expenditure of capital nature under Buildings and Works are exercised by the Public Works Department, whereas the budget is shown against the concerned department. The concerned department places the budget at the disposal of the Public Works Department. Thus, two agencies are involved.

There are risks that the works are carried on by the PWD without availability of budget and at the end of year, adjustments are made according to budget availability. End of year adjustments particularly in June Final accounts should be watched carefully.

Audit Steps

	Audit Steps
Material Misstatements	Carry out checks according to Master Page 1
Post Expenditure adjustments	Check June (pre) and June (Final) balances for each of the underlying balances and expenditure booked and identify any book adjustments carried out after closing of accounts of June and before closing of June (Final) accounts. Study impact on appropriations and mark points for appropriation audit.
Closure of Capital projects	Normally Capital projects are closed after implementation. Check the projects under the Opening balances for projects where there is no expenditure but still being shown in the statements and books of accounts.
Matching of Opening Balances	Check each account and match current year's Opening Balances with the Closing Balances of the preceding year.

Expected Audit Output

Adjustment Bookings in June Final Accounts;
Amounts of misstatements.

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Page :		5	
Line Item/Class of Transactions:	Investment in shares and equity/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	That the amount shown have been invested in the shares and equity; That the share certificates and other documents have been received, where due;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	4	1	0. 1

Remarks

This should be an audit of lumpsum as such investments are sanctioned and authorised by Ministry of Finance.

Once in a while- once in three years- an exercise may be made to reconcile the balances in this account with the investments of government in all bodies reflected in these balances.

Audit Steps

	Audit Steps
Sanctions and Booking of Expenditure	Check sanctions and booking of expenditure; Check whether share certificates and other documents have been received.
Misstatements	Carry out checks as per Master Page 1;
Match Opening Balances	Check Opening and closing balances;

Expected Audit Output

List out checked items.

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Page :		6	
Line Item/Class of Transactions:	Capital Grants/Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No Misstatement		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	-	-	-

Remarks

Probably no expenditure or negligible expenditure.

Audit Steps

	Audit Steps
Misstatement	Standard steps as per Master Page 1

Expected Audit Output

Nil.

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Page :		7	
Line Item/Class of Transactions:	Loans and Advances/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material Misstatements; Matching of Opening Balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1	Nil

Remarks

Not very clear how loans and advances are treated as capital expenditure.

Audit Steps

	Audit Steps
Material misstatement	Usual checks according to Steps.
Individual records	Check as much individual records as possible particularly during the audit of UAO/ accounts records holder to check the veracity and balances. The balances may not be matched with the aggregate which is a different audit. This check is only to ensure that individual records are maintained properly.
Aggregate records	Check the records on the basis of which the figures in the schedules have been aggregated. Check the veracity of the underlying figures through a sample check.

Expected Audit Output

List of individual cases where balances contain material misstatement

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Page :		8	
Line Item/Class of Transactions:	Loans and Advances to Government Servants/ Capital expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No Material Misstatement Opening Balance matching		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1	Nil

Remarks

--

Audit Steps

	Audit Steps
Material misstatement	Usual checks according to Steps.
Individual records	Check as much individual records as possible particularly during the audit of UAO/ accounts records holder to check the veracity and balances. The balances may not be matched with the aggregate which is a different audit. This check is only to ensure that individual records are maintained properly.
Aggregate records	Check the records on the basis of which the figures in the schedules have been aggregated. Check the veracity of the underlying figures through a sample check.

Expected Audit Output

List of Accounts with misstatements

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Page :		9	
Line Item/Class of Transactions:	Long Term Loan- Repayment of Principal/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatement; Opening Balances match with preceding year's closing balance. Reconciliation between accounting balances and departmental/ bank balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.002

Remarks

Audit of this line item will be just checking of figures.

Audit Steps

	Audit Steps
Material Misstatements	Master Page 1
Matching of Balances	Check opening Balances with preceding year's closing balance.
	Check individual loan ledgers.

Expected Audit Output

Misstatement figures.

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Page :		10	
Line Item/Class of Transactions:	Repayment of Current Loans/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatements; Matching of Opening Balances; Reconciliation between accounting balances and departmental/ bank balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.002

Remarks

The amount is very high but it is expected to be a simple audit of checking the individual figures and orders.

Audit Steps

	Audit Steps
Misstatements	Collect the underlying figures from supporting documents and tally them up. Check the loan ledgers, if maintained. These loan ledgers may be maintained by third party like Bangladesh Bank.
Matching Opening Balances	Check the correctness of opening balances from the loan ledgers or supporting documents.

Expected Audit Output

List out items checked and misstatements, if any.

Good materials may be found for LFAR.

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Page :		11	
Line Item/Class of Transactions:	Repayment of Foreign Loans/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatements; Matching of Opening Balances; Reconciliation between accounting balances and departmental/ bank balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.002

Remarks

--

Audit Steps

	Audit Steps
Misstatements	Collect the underlying figures from supporting documents and tally them up. Check the loan ledgers, if maintained. These loan ledgers may be maintained by third party like Bangladesh Bank.
Matching Opening Balances	Check the correctness of opening balances from the loan ledgers or supporting documents.

Expected Audit Output

<p>List out items checked and misstatements, if any.</p> <p>Good materials may be found for LFAR.</p>

Financial Audit Guidelines

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Page :		12	
Line Item/Class of Transactions:	Account with IMF/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatements; Matching of Opening Balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.002

Remarks

--

Audit Steps

	Audit Steps
Misstatements	Collect the underlying figures from Loan ledger/ supporting documents and tally them up. Check the loan ledgers, if maintained. These loan ledgers may be maintained by third party like Bangladesh Bank.
Matching Opening Balances	Check the correctness of opening balances from the loan ledgers or supporting documents.

Expected Audit Output

<p>List out items checked and misstatements, if any.</p> <p>Good materials may be found for LFAR.</p>

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Page :		13	
Line Item/Class of Transactions:	Duties on Development Import/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatements; Matching of Opening Balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.002

Remarks

Almost no transaction. May not be selected for checking.

Audit Steps

	Audit Steps
Misstatements	Collect the underlying figures from Loan ledger/ supporting documents and tally them up. Check the loan ledgers, if maintained. These loan ledgers may be maintained by third party like Bangladesh Bank.
Matching Opening Balances	Check the correctness of opening balances from the loan ledgers or supporting documents.

Expected Audit Output

Nil as there is no transaction.

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Page :	14		
Line Item/Class of Transactions:	Non-Development Capital Expenditure/ Capital Expenditure		
Schedule/Component	4	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	That Reconciliation has been done with the summary statement.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.05

Remarks

This appears to be Ministry/ Implementation Unit wise Non-development Capital expenditure. It will be worthwhile to reconcile this statement with the summary statement. This statement is also an important source for selecting projects for compliance audit. However, items like repayment of loans etc. are not so important from compliance point of view as these are lumpsum payment which are mandatory in nature.

Audit Procedures

Procedure	Audit Steps
Reconciliation between the Finance Accounts statement, summary schedule and this schedule.	Check the figures to reconcile.

Expected Audit Output

None.

Financial Audit Guidelines

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Page :		15	
Line Item/Class of Transactions:	Capital Expenditure Development/ Capital Expenditure		
Schedule/Component	5	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatement; Opening Balance match with Closing Balance.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.05

Remarks

Schedule 5 appears to be a summary statement as also department-wise statement of closed projects.

Audit Steps

	Audit Steps
Closure Statements	<p>Check the Closure statements of the some of the projects.</p> <p>Check the figures of expenditure booked.</p> <p>Departmental documents can be cross checked with accounting documents.</p>

Expected Audit Output

Discrepancy between the Departmental figures and accounting figures.

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Page :		16	
Line Item/Class of Transactions:	Loans and Advances (Non- Development)/ Loans and Advances		
Schedule/Component	6A	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatement Opening balance matching		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1.5	.01

Remarks

Reconcile with Schedule 6. Some compliance issues or Performance audit issues can emerge from this statement.

Audit Steps

	Audit Steps
Repayment	Select a sample of big loans granted to various bodies and check whether repayment was due according to the conditions of loans. If repayment was due, then check with the repayment amount and reasons if repayment has not been done.
Accounting records	Check that that accounting records have been maintained for loans and advances correctly.

Expected Audit Output

List of cases with discrepancies

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Page :		17	
Line Item/Class of Transactions:	Development Loans and Advances given by Government/ Loans and Advances		
Schedule/Component	7	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatement; Opening Balance Matching;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1.5	.01

Remarks

There are a number of line items and quite a lot of transactions.

Audit Steps

	Audit Steps
Repayment	Select a sample of big loans granted to various bodies and check whether repayment was due according to the conditions of loans. If repayment was due, then check with the repayment amount and reasons if repayment has not been done.
Accounting records	Check that that accounting records have been maintained for loans and advances correctly and reconciled with departmental balances.

Expected Audit Output

List of cases with misstatements.

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Page :		18	
Line Item/Class of Transactions:	Loans and Advances from Foreign Sources/ Loans and Advances/ Liabilities of Government		
Schedule/Component	9	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No material misstatement Opening Balance matching; Reconciliation between accounting balances and departmental/bank balances; Exchange rate applied is correct.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1.5	.01

Remarks

Important audit

Audit Steps

	Audit Steps
Repayment	Select a sample of big loans taken from various countries (more than BDT 100 Crore) and check whether repayment was due according to the conditions of loans. If repayment was due, then check with the repayment amount and reasons if repayment has not been done.
Accounting records	Check that that accounting records have been maintained for loans and advances correctly.

Expected Audit Output

List of items with material misstatements; Good material for LFAR.

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Page :		19	
Line Item/Class of Transactions:	Government Debt/ Liabilities of Government		
Schedule/Component	9A	Consolidated Fund	
Risk Grading	Low		
Assurance to be derived	No Material misstatement; Opening Balance Matching;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1.5	1

Remarks

Check for failures for repayment

Audit Steps

	Audit Steps
Individual accounts	Check the maintenance of accounts. For most of these loans, either Ministry of Finance or Bangladesh Bank may be having the records.
Material misstatement	Usual checks.

Expected Audit Output

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Page :		20	
Line Item/Class of Transactions:	National Savings Scheme/ Liabilities of Government		
Schedule/Component	10	PAR	
Risk Grading	Low		
Assurance to be derived	No material misstatement Opening Balances Matching; Reconciliation between department/bank balances and accounting balances; Interest figures match with CF figures.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	2	1	.01

Remarks

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Audit Steps

	Audit Steps
Misstatements	Usual Checks Master Page 1;
Check Opening Balances	Match individual account wise;
Check disbursements	Audit may check disbursements on a small selected sample if disbursements are not on Real Time Gross Settlement etc.
Check interest figures and cross check with	Check interest figures and calculation for each scheme with amount booked under CF.

Expected Audit Output

List of balances with misstatements.

Financial Audit Guidelines

CAG Bangladesh

Page :		21	
Line Item/Class of Transactions:	General Provident Fund/ Liabilities of Government		
Schedule/Component	10A	PAR	
Risk Grading	Low		
Assurance to be derived	No Material misstatement Opening Balance matching Interest figures match with CF figures.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	.5	.01

Remarks

List of balances with misstatements.

Audit Procedures

Procedure	Audit Steps
Misstatements	Usual Check Master Page 1;
Check Opening Balances	Match individual account wise;
Check disbursements	Audit may check disbursements on a small selected sample if disbursements are not on RTGS etc.
Check interest figures and cross check with	Check interest figures and calculation for each scheme with amount booked under CF.

Expected Audit Output

List of balances with misstatements.

Financial Audit Guidelines

CAG Bangladesh

Page : 22	
Line Item/Class of Transactions:	Renewal, Reserve and Depreciation Fund
Schedule/Component	11 PAR
Risk Grading	
Assurance to be derived	
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	

Remarks

No Fresh Transaction.

Audit Procedures

Procedure	Audit Steps

Expected Audit Output

Financial Audit Guidelines

CAG Bangladesh

Page : 23	
Line Item/Class of Transactions:	Welfare and Relief Fund
Schedule/Component	11A PAR
Risk Grading	
Assurance to be derived	
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	

Remarks

Negligible balances and transactions. Important is Government Servants Welfare Fund.

Audit Procedures

Procedure	Audit Steps

Expected Audit Output

Financial Audit Guidelines

CAG Bangladesh

Page :		24	
Line Item/Class of Transactions:	Local Fund Deposits		
Schedule/Component	12	PAR	
Risk Grading	Medium		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	2	.05

Remarks

Though the amounts are not significant, the fund is maintained by local officials. Medium Risk;

This can be the subject of year-long audit.

Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements; Discrepancies in individual cases;

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CAG Bangladesh

Page : 25	
Line Item/Class of Transactions:	Advance Income Tax Deposit
Schedule/Component	13 PAR
Risk Grading	
Assurance to be derived	
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	

Remarks

Insignificant amount and transactions. Not significant for audit.

Audit Procedures

Procedure	Audit Steps

Expected Audit Output

Nil.

Financial Audit Guidelines

CAG Bangladesh

Page :		26	
Line Item/Class of Transactions:	Civil and Court Deposits/ Deposits		
Schedule/Component	13A	PAR	
Risk Grading	Medium		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	4	1	0.5

Remarks

To be considered extremely important.

Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements; Comments on general upkeep of accounts.

Financial Audit Guidelines

CAG Bangladesh

Page :		27	
Line Item/Class of Transactions:	Deposits against Supply and Works		
Schedule/Component	13B	PAR	
Risk Grading	Medium		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	4	1	0.5

Remarks

Important.

Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements.

Financial Audit Guidelines

CAG Bangladesh

Page :		28	
Line Item/Class of Transactions:	Personal Ledger Account		
Schedule/Component	13C	PAR	
Risk Grading	High		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	4	3	0.01

Remarks

High Risk. Significant for Audit.

Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements; Comments on General upkeep of accounts balances.

Financial Audit Guidelines

CAG Bangladesh

Page :		29	
Line Item/Class of Transactions:	Other Deposits		
Schedule/Component	14	PAR	
Risk Grading	Low		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM)	2	0.5	0.05

Remarks

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Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements. Comments on general upkeep of balances.
--

Financial Audit Guidelines

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Page :		30	
Line Item/Class of Transactions:	Food Aid		
Schedule/Component	15	PAR	
Risk Grading			
Assurance to be derived	No Transaction.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM)			

Remarks

No Transaction. Historical statement.

Audit Procedures

Procedure	Audit Steps

Expected Audit Output

Nil.

Financial Audit Guidelines

CAG Bangladesh

Page :		31	
Line Item/Class of Transactions:	Repayable Advance		
Schedule/Component	16	PAR	
Risk Grading	Medium		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1	0.5

Remarks

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Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements; General comments on upkeep of balances.
--

Financial Audit Guidelines

CAG Bangladesh

Page :		32	
Line Item/Class of Transactions:	Permanent Advance		
Schedule/Component	17	PAR	
Risk Grading	Medium		
Assurance to be derived	No material misstatements Opening Balances matching; Reconciliation between Departmental balances and accounting balances;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	3	1	.05

Remarks

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Audit Steps

	Audit Steps
Checking of accounting records with officials	Check a significant number of balances available with departmental officials, District Funds and others to mitigate the risk of actual balances not available with the officials who are responsible to have these balances; Check that accounting records as required, are maintained and receipts and payments are accounted for correctly.
Check figures	Check that the figures available with the officials responsible for maintaining these balances do match with the subsidiary ledgers which contribute to these balances at the aggregate level.
Check compliance	During the audit, checks may also be carried out to ensure that disbursements are in accordance with the rules. (compliance audit)

Expected Audit Output

List of misstatements; comments on adjustments of advances and submission of accounts.
--

Financial Audit Guidelines

CAG Bangladesh

Page : 33	
Line Item/Class of Transactions:	Adjusting Account with Foreign Governments
Schedule/Component	18 PAR
Risk Grading	
Assurance to be derived	Virtually no transactions.
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM)	

Remarks

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Audit Procedures

Procedure	Audit Steps

Expected Audit Output

Nil.

Financial Audit Guidelines

CAG Bangladesh

Page :		34	
Line Item/Class of Transactions:	Currency and Coinage Account		
Schedule/Component	19	PAR	
Risk Grading	Low		
Assurance to be derived	No Material Misstatement		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM)	1	0.5	0.01

Remarks

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Audit Steps

	Audit Steps
	Check the figures for the current year and the opening and closing balances. Most probably, the figures are coming from Bangladesh Bank and hence the figures should be reconciled.

Expected Audit Output

No material misstatement.

Financial Audit Guidelines

CAG Bangladesh

Page :		35	
Line Item/Class of Transactions:	Suspense Account		
Schedule/Component	20	PAR	
Risk Grading	High		
Assurance to be derived	No material misstatement; No amount kept in the suspense account unnecessarily; Adequate efforts have been taken to clear the suspense;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level(as % of OM	5	3	1

Remarks

This is one of the most important aspects of Financial audit of Finance Accounts.

Audit Steps

	Audit Steps
	An audit team should sit down and analyze all the figures including the opening balances and lack of clearance. The impact of these transactions on the accounts in general should be properly understood. The new accretions in the current year's accounts should be analyzed and their impact on the appropriations should be carefully analyzed and commented.
	Check the figures.

Expected Audit Output

More emphasis should be given to clearance.

Financial Audit Guidelines

CAG Bangladesh

Page :		36	
Line Item/Class of Transactions:	Cheques and Bills		
Schedule/Component	21	PAR	
Risk Grading	Low		
Assurance to be derived	No material misstatements.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	1	0.5	0.01

Remarks

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Audit Steps

	Audit Steps
	Check the clearance of the previous year and treatment of uncleared items;
	Check opening balances;
	Check the figures of the current year's figures;

Expected Audit Output

More emphasis should be given to clearance.

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CAG Bangladesh

Page :		37	
Line Item/Class of Transactions:	Departmental Cash Control		
Schedule/Component	22	PAR	
Risk Grading	High		
Assurance to be derived	No Material Misstatement; The adjustment bills that are required to be given have been given and all expenditures from this code have been accounted for.		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	5	3	1

Remarks

--

Audit Procedures

Procedure	Audit Steps
	Check thoroughly the balances and transactions during the year from an accounting point of view.
	Check whether parking of funds is involved.

Expected Audit Output

Adjustments.

Financial Audit Guidelines

CAG Bangladesh

Page :		38	
Line Item/Class of Transactions:	Remittance within Bangladesh		
Schedule/Component	23	PAR	
Risk Grading	High		
Assurance to be derived	No material misstatements; Regular reconciliation takes place;		
Performance Materiality /Tolerable Misstatement level/ Trivial Misstatement level (as % of OM)	5		

Remarks

--

Audit Steps

	Audit Steps
	Do reconciliation including reconciliation of cash in transit.
	Check the system of accounting and monitoring.
	Check the arithmetical accuracy of the figures.

Expected Audit Output

No material misstatements. Clearances.
--

Chapter 14: Audit Steps for Appropriation Accounts

Resources and Authorities:

- (i) Articles 90 & 91 of Constitution of Bangladesh
- (ii) সরকারি অর্থ ও বাজেট ব্যবস্থাপনা আইন, ২০০৯ (Act 40 of 2009)
- (iii) Rules of Business, 1996
- (iv) Budget and Accounting Classification System
- (v) General Financial Rules: Chapter 5

It is important that for the purpose of audit of Appropriation Accounts, arrangements are made to receive all appropriation / re-appropriation orders in OCAG in addition to Office of the CGA and other Accounts Offices.

All audit steps are required to be carried out in respect of all grants and all items within a particular grant. The checks are such that they cannot be carried out on a sample within the grant. Appropriation accounts of each grant is sent to CAG and is treated as an entity.

Checks carried out and results thereof will form part of the audit documentation.

The Audit of Appropriation Accounts is a year-long audit. The stages in this audit are:

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STAGE 1

14.1 Procedure: Check of Codes and amount of Original Grant

Guidance

This stage can be completed quite early in the financial year, as soon as the detailed estimates are ready. The Principal Accounting Officer can be requested to prepare this statement early in the year.

Note: OCAg shall have to ensure that the checked figures are not subsequently changed in any manner. A year-end quick check may be necessary.

Note: Mistakes found out in audit may be allowed to be corrected by the PAOs and a corrected statement should be submitted.

Audit Steps:

14.1.1 Check the correctness of Classification Code (100% check).

14.1.2 Check the amount of Budget Grant indicated against each Classification Code (100% check).

14.1.3 Check that the total does not exceed the total allocation of the Grant as approved by the Parliament.

STAGE 2

14.2 Procedure: Check of appropriation

Guidance:

This is essentially a year-end audit routine when all the re-appropriation orders are received. However, a few of the checks can be carried out at the time of receiving these orders.

Audit Steps:

14.2.1 Check that no appropriation orders have the effect of increasing the amount of a grant. (*Guidance: Under no circumstances, the total amount of a Grant can exceed the authorization of Parliament except without a supplementary. So it may also be the aggregate of the re-appropriations that need to be checked.*)

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14.2.2 Check that when an appropriation order is issued, that the amount appropriated is available under the unit from which it has been allotted.

14.2.3 Check that orders of appropriation or re- appropriation are issued by Competent Authority. (*Guidance: Delegation of Financial Powers; Please also check with reference to the items that need to be referred to the Ministry of Finance.*)

14.2.4 Check that all orders of appropriation or re- appropriation are issued before the close of financial year. (*Guidance: The risk is that after closure of June accounts, particularly in case of self-drawing officers, to adjust savings or excess, re-appropriation orders are issued and then book adjustments are made in the June(Final) accounts.*)

14.2.5 Check that any appropriation/re-appropriation order does not have the effect of creating a new service.

14.2.6 Check that the re-appropriation orders are issued as per Item No 10 of Delegation of Financial Powers Rules dated 28 August 2020. (Not applicable for Appropriations for 2019-20, the relevant rules of the earlier version of DoFP should be made applicable.) (*Guidance: It is not only the competent authority but also the extent of powers of the competent authority and the limitations that need to be checked.*)

14.2.7 Check that no re-appropriations have been made from revenue to Capital or vice versa.

14.2.8 Check that no re-appropriations have been made from Charged to Voted or vice versa.

14.2.9 Check to the extent possible, that authorised supply is not exceeded or the excess expenditure is kept uncovered by appropriations. A commitment however is not covered by this clause.

14.2.10 In cases where orders are required for specific appropriation, ensure that the expenditure is watched against the specific appropriation. (*Guidance: Expenditure should not be incurred first and then re-appropriation orders issued, unless it is an emergency expenditure.*)

14.2.11 Examine propriety, sufficiency, necessity and frequency of re-appropriations.

14.2.12 Check whether there is any failure to regularize excesses by re-appropriations.

14.2.13 See whether orders of re-appropriations were passed as soon as necessity for additional expenditure was foreseen or if they were left over to be sanctioned towards the close of the year.

14.2.14 Check whether there were frequent re-appropriations which have led to defective budgeting; while faulty, unnecessary or insufficient re-appropriations may point to an inadequate watch over expenditure by the controlling authority.

14.2.15 Check whether inadequate watch is due to any defect in procedure in the Accounts or the Administrative Offices or to any other causes.

14.3 Procedure: Review of supplementary grants.

Guidance:

If any LFAR is prepared, this procedure will produce most of the materials. A sound analysis of the budgetary process and control can be attempted from the results of audit.

Audit Steps

14.3.1 Examine supplementary for defective estimates. Essentially it would mean that despite supplementary grants, there were significant savings or excesses covering a large part of supplementary grant.

14.3.2 Check Supplementary grants with reference to the final re-appropriation statements/orders with a view to discovering that funds made available by re-appropriation do not involve utilization of the supplementary grant for sub-codes of the appropriation accounts for which no supplementary grant was particularly sanctioned by the Parliament.

14.3.3 Whenever the Supplementary grant proved excessive or unnecessary and funds have been withdrawn by the Ministries by means of re-appropriations, examine whether there are any cases of defective estimating.

14.3.4 Check cases where the overall savings in a Grant exceeded the Supplementary Grant.

14.3.5 Check cases where the amount surrendered exceeded the overall savings in a Grant.

14.3.6 Review Specific Codes of Accounts in each Grant under which the entire Supplementary Grant remained unutilised.

14.3.7 Review Specific Codes of Accounts under which the entire provision remained unutilized.

14.3.8 Review Specific Codes of Accounts under which more than 10% of the Supplementary Grant.

14.4 Procedure: Review of compliance of restrictions imposed by the Parliament

Audit Steps:

14.4.1 Check that the money voted by the Parliament has been spent within the scope of the demand granted by the Parliament.

14.4.2 Ensure that no re-appropriation is made from one grant to another.

STAGE 3

14.5 Procedure: Check of expenditure figures

Guidance:

If any LFAR is prepared, this procedure will also produce good materials. A sound analysis of the budgetary process and control can be attempted from the results of audit.

Audit Steps:

14.5.1 Check the figures in the Appropriation Accounts carefully.

14.5.2 Ensure that the explanations for variations between final grant and actual expenditure are correct and complete.

14.5.3 Verify the accuracy of figures with initial accounting records and reconcile with the figures of the Finance Accounts. (*Guidance: This is probably the most important step in audit of appropriation accounts particularly in view of the fact that both the accounts are audited by CAG.*)

14.5.4 Examine the explanations of variations and arrange to secure such amplification or modification as may be found necessary.

14.5.5 See whether all excesses in the various sub-codes of accounts have been covered by re - appropriations sanctioned by Competent Authority.

14.5.6 Check whether the accounts were prepared in a hurried manner which ignored fundamental principles by the incorporation of unrealistic or fictitious explanations unrelated to actual facts and figures.

14.5.7 See whether alert to drawing and disbursing officers are issued when the progress of expenditure indicates likely excesses. (*Guidance: A test check can be resorted to.*)

14.5.8 Verify that in cases, when the order requires specific appropriation, the expenditure is incurred against the specific appropriation.

14.6 Procedure: Form of Appropriation Accounts

Audit Step:

14.6.1 Verify that the form of the Appropriation Accounts presented by the Principal Accounting officers are in the correct form.

14.6.2 See that *any* important changes in forms and classification are mentioned either in the explanatory notes below the sub-codes of the grants or in the important comments appended to the Appropriation Accounts concerned.

Chapter 15: Checklist of a Financial Audit

<i>Sl No</i>	<i>Checklist</i>	<i>Responsibility in OCAg</i>
1	Receive the Financial Statements/ Draft Financial Statements.	Directorate
2	Carry out preliminary examination of the Financial Statements and obtain a preliminary understanding of the Financial Statements. Such understanding should at least cover: (a) Basis of Accounts: Cash or Accrual; (b) Nature of the Entity: Commercial/ Non Commercial; Category II/ Category III/ Category IV; (c) Authority for Audit: Article 128(1)/ Section 5(1)/ Statute of the Entity/ Any Other: (c) Time line of the Audit; Deadline to complete the audit; (d) Structure of the Entity: Responsible Party? / Who are charged with Governance? Who are the first intended users (Board of Governors?/ Shareholders?/ Parliament?) (e) What would be the nature of the Audit Report in addition to Audit Opinion?	Directorate
3	Form the Audit Engagement Team.	Directorate
4	Collect underlying documents like Trial Balance, Post Trial Balance Adjustments, Details about Ledgers and Journals	Audit Engagement Team
5	Assess Complexity by Complexity Assessor.	Audit Engagement Team
6	Review the formation of the Audit Engagement Team in view of the Complexity.	Directorate and Audit Engagement Team
7	2 nd intense and serious examination of the Financial Statements.	Audit Engagement Team
8	Set Up the Audit/ Audit Workshop: Firm up the following issues: (a) Obtain Understanding of the Entity, particularly with reference to number of locations, branches to be audited; (b) Carry out an inherent risk assessment;	Directorate with the Audit Engagement Team

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<i>Sl No</i>	<i>Checklist</i>	<i>Responsibility in OCAG</i>
	(c) Work out the Audit Strategy; (d) Gather information about Control Risk Assessment and carry out preliminary control risk assessment; (e) Work out the Audit Planning Components;	
9	Prepare the Audit Plan and Submit.	Audit Engagement Team
10	Approval of the Audit Plan.	Directorate
11	Set Up the Audit with the Entity and work out the audit programme.	Audit Engagement Team
12	Perform the Audit.	Audit Engagement Team
13	Evaluate the evidence and Audit Documentation.	Directorate with Audit Engagement Team
14	Prepare Draft Report.	Directorate with Audit Engagement Team
15	Communicate to the Entity	Directorate with Audit Engagement Team
16	Evaluate response of the Entity and finalise the Audit Report.	Directorate with Audit Engagement Team
17	Issue Report and Close the Audit	Directorate.