|  |  |  |  |
| --- | --- | --- | --- |
| **Client: XYZ Limited** | **Year End: 31-12-14** | **File No.** | **Ref: C3** |

**PLANNING MEMORANDUM**

**Company profile:**

XYZ Ltd was incorporated in Bangladesh on the [*Date Month Year*] as a private Ltd company in Bangladesh under companies Act 1994. This Company also obtained listing with Dhaka Stock Exchange and Chittagong Stock Exchange on [*Date Month Year]*

**Nature of Business:**

1. Pharmaceuticals: XYZ provides the people of Bangladesh with quality medicines and healthcare products. Its state-of-the art pharmaceutical plant represents Bangladesh's quest for a truly world class manufacturing facility. XYZ's rich heritage leads to innovative and higher value added formulations.

The comprehensive product range of XYZ pharmaceuticals include products from all major therapeutic classes and in various dosage forms like tablet, capsule, dry powder, liquid, cream, gel, ointment, ophthalmic and injectable. It produces world class Modified Release drug and medicine to cater the requirement of pharmaceutical manufacturer of domestic and international market.

It exports high quality pharmaceuticals to a good number of countries all over the world.

2. Consumer Brands & Commodity Products: The Consumer Brands Division boasts in having an unequivocal presence in consumers' heart with the market leading brands. These are the persistent performers in keeping the household clean and free from germs and harmful insects.

3. Agribusiness: XYZ Agribusiness is the largest integrator in Agriculture and Livestock and Fisheries. These businesses have subunits like Crop Protection, Seed, Fertilizer, Agrimachineries, and Animal Health. These businesses have glorified presence in Bangladesh.

CC & PH supplies crop protection chemicals, Seed supplies Hybrid Rice, vegetable and Maize seeds, Fertilizer Supplies Micronutrient and Foiler fertilizer, Agrimachineries supplies Tractors, Power Tiller and Harvester and Animal Health supplies high quality Nutritional, Veterinary and Poultry medicines and vaccines.

XYZ Agribusiness is having strong partnership with national and international R & D companies, universities and research institutions. Before introducing any product, it is elaborately tested in the laboratory and farmers field.

XYZ Agribusiness has a large, knowledgeable and highly skilled Field Force provides training and technical advices to the farmers.

XYZ is significantly contributing to national food security through its Agribusinesses division, which is the leading agricultural integrator of the country. XYZ Agribusinesses is providing complete solution to the farmers need. Farmers have developed confidence in XYZ’s products for quality and economics. Farmers have also come to expect proper knowledge based service from XYZ’s field force.

4. Retail Chain: The retail chain business unit of the entity was formed in [*Year*] with a vision to setup nationwide retail outlets utilize XYZ’s strong presence in Bangladesh through implementation of world-class supply chain mechanism.

XYZ provides customers and shareholders a broad range of products from following five business units:

**Health Care division-Pharmaceuticals:**

This division is the large income generating division (about 60% of total turnover) of the company. The pharmaceutical manufacturing plant is located at Narayanganj, by the bank of river Shitolokkhya. It encompasses a land area of 11.5 acres with 85,000 square feet covered area. 235 skilled persons are involved in the plant to produce world-class quality products.

**Consumer Brand Division:**

This division is another major income generating division (about 32% of total turnover) of the company. XYZ LTD consumer brands have been manufacturing and marketing various products of highest standard and reputation. XYZ LTD Consumer Brands was initiated in 1995 with two major brands of the company – XYZ LTD Aerosol and Savlon. These are two of most prestigious products, which are enjoying the leadership position in the market. The division started to take new businesses through few off shore trading as well as local manufacturing. In this process, XYZ LTD Consumer Brands launched many new products and also bonded with Joint Venture business relationships with ‘Dabur India’ and ‘Tetley UK’ and attained international alliances with world-renowned companies.

**Other business divisions:**

Other three divisions are e.g. agro chemicals, animal health, seeds and fertilizers. All of these divisions are involved in providing complete package of agro related products in conjunction with other departments products to the users.

***Ownership structure***

The shareholding structure of the company is as follows:

|  |  |  |
| --- | --- | --- |
| **Name of the shareholder** | **No. of ordinary shares held** | **% of shareholding** |
| Directors/Sponsors | XXXXXX | 36.81 |
| Institutions | XXXX | 37.48 |
| General shareholders | XXXXX | 25.71 |
| **Total** | **XXXXX** | **100** |

During the year under audit there has been no change in the legal structure or ownership of the company.

***Corporate Governance***

XYZ Board of Directors is committed to meeting the highest standard of corporate governance and disclosure. The Directors are conscious of their responsibilities in supervision and direction of the affairs of the company in conformity with the practices of sound corporate governance. In fulfillment of those responsibilities the Directors have set for themselves the principles that will be followed in their own involvement in the oversight functions and in setting up clear guidelines for the executive management.

***Composition of the Board***

The Board presently consists of 10 members drawn from amongst the major shareowners, business professionals and bankers. Mr M occupies the position of the Chairman of the Board and Mr. A occupies the position of Managing Director of the company.

***Role of the Board***

The Board is the highest level of authority of the Company to oversee its operation through appropriate delegation and control.

***Responsibility of the Board***

The Directors hold the ultimate responsibility of conducting the activities on behalf of the Company in accordance with the law and in the interest of its shareowners and other stakeholders, keeping in view the long-term interest of the Company.

***Functioning of the Board***

The Board is required under the law to meet at least once in three months. The number of Board meetings held in 2014 was six. The Directors are kept informed of the results and the major activities through monthly reporting by the Managing Director. The Board agenda includes financial results, consideration of major investments, new business initiatives, borrowings, liquidity etc.

***Management committee***

The Board has delegated adequate operational and financial authority to the Managing Director to manage the operations of the company. The Managing Director conducts the affairs of the company through further delegation down the line and in consultation with a management committee. Senior Managers of the company with responsibilities for the business, operations and functional services are members of the management committee, which meets fortnightly to discuss the business results, to review the current business condition and discuss policy matters. Consensus building as a management style is encouraged in the deliberations of the management committee meetings. The Managing Director is responsible for implementing the Board’s decision and the uses the management committee as a consultative boldly to assist and advise him on issues under consideration. The management committee advises the Managing Director on new products, major items of capital expenditure and overall supervision of the affairs of the Company.

***Empowerment of people***

The Board has given a clear guideline to the Managing Director to ensure that there is appropriate delegation of authority and clear statement of accountability of the management staff all the way down to the Supervisory level and that performance of the individuals is judged on the basis of clearly set measurable goals and through objective assessment of their achievement.

***Internal control***

The Managing Director has to satisfy the Board those adequate internal checks and controls are in place through appropriate MIS and employment of Internal Audit team to check and validate the expenses and the systems in operation. To further strengthen the controls, the Company has introduced ISO XXXXX Quality Management System under which all activities are carried out on basis of Standard Operating Procedures. This standard has now been updated to its XXXXX version. The company also has introduced ISO XXXXX Environment Management System; the first Company in Bangladesh to do so and as a result has undertaken a task of continuing improvement through annual goals. In addition the Company has adopted the principles of Global Compact, an initiative taken by the Secretary General of the United Nations and adopted by world-wide by large and progressive companies.

***Reporting and Communication***

The Managing Director reviews and approves the strategic plans of each Business unit once a year. He also reviews monthly report and commentary on the sales and financial performance of the business from the head of businesses and the activities of the functional heads.

***Communication with Shareowners***

The Company holds the Annual General Meeting regularly in time. The Directors attending the Annual General Meeting take careful note of the views and suggestions of the shareowners and institutional stakeholders offered at the AGM and consider them with utmost seriousness. The Managing Director also brings to the notice of the Board any written communication received by him from the shareowners.

The Board of Directors consists of 10 members. There has been no change in governance structure in the year.

***Internal Audit***

The entity has an internal audit department headed by Mr. Uddin. IA reports functionally and administratively to the Audit Committee, IA works according to an annual internal audit plan. The audit plan contains which divisions are to be visited on which dates or which sides to be audited. The activities of IA focus primarily on:

* Follow up
* Compliance
* Division audit
* Internal regulations etc.

***Sources of fund:***

* Primarily, ordinary share capital.
* Long-term loans from Standard Chartered Bank (SCB) and HSBC
* Short-term borrowings and overdraft facilities from SCB, HSBC, Commercial Bank of Ceylon, Citi Bank N.A. and Mercantile bank.

**Objectives and strategies**

| Objectives | Strategy and method of implementing the strategy |
| --- | --- |
| To increase the Net Asset Value Per Share (On 31 December 2014 NAV was 192.08) | * Introduction of new product. * Increase of promotional activities such as publicity and advertisement, donation and gifts, samples, sales service, doctors’ entertainment, medical services, product bonus to customer, sales incentive to sales representative etc. * Increase production efficiency through reducing process loss * Penetration of new markets for animal health, fertilizers, tractors, seeds and consumer business. * Increase quality of customer service through prompt response of queries. * Sales and marketing department has been restructured from traditional to customer-oriented center. |
| Achieving a gross profit to sales ratio of 45% for Pharmaceutical, 10% for Animal Health, 15% for Consumer Brands and 30% for Crop Care and Public Health | * By increasing concentrsting more on high margin products and increasing sales price and profit through product diversification and better utilization of resources and facilities. Furthermore they plan to penetrate the new markets for agro chemical products. In addition to the above, the company will emphasize on the promotional activities to the current addressed market of pharmaceuticals for capturing more sales. * Decrease of stock holding period * Increased of stock turnover based on sales * Decreased of stock to sales ratio |

***Conduct of operations***

The key operational activities may be summarized as follows:

* Inventory management and logistics
* Supplier selection and material procurement
* Production
* Sales and marketing
* Overall administration

**Customers**

Based on the following divisions and mode of sales, customers are varied. The following divisions operate XYZ’s sales

* Pharmaceuticals
* Consumer brands
* Agro chemicals
* Fertilizers
* Seeds
* Animal health

**Major customer segments in relation to business divisions are mentioned as follows:**

**Pharmaceuticals:**

* Hospitals
* Clinics
* Doctor-cum-chemists
* Government Institutions

**Consumer brands**

* Wholesalers
* Distributors

**Agro chemicals, fertilizers, seeds and animal health**

* Government Institutions-municipality, City Corporation etc.
* Wholesalers
* Distributors

**Suppliers**

The key suppliers of diverged business division are the following:

**Pharmaceuticals:**

*Local suppliers:*

Local suppliers include some press companies like K Press Limited, H Printing, I printing and packaging limited, L Plastic Industries Ltd.,X ltd, Y Ltd, Z Ltd E Ltd X Ltd, pharmaceutical company like Square Pharmaceuticals etc. CC & PH supplies crop protection chemicals, Seed supplies Hybrid Rice, vegetable and Maize seeds, Fertilizer Supplies Micronutrient and Foiler fertilizer, Agrimachineries supplies Tractors, Power Tiller and Harvester and Animal Health supplies high quality Nutritional, Veterinary and Poultry medicines and vaccines.

*Foreign suppliers from the following countries:*

UK, USA, Germany, Holland, Italy, France, Hungary, Japan, China, Korea, Thailand, Malaysia, Indonesia, India, Pakistan etc.

**Consumer brands:**

* Asian Care
* Colgate
* Holdiram
* Godrej Sara Lee
* Perfetti

**Other divisions:**

Foreign suppliers from the following countries:

UK, USA, Germany, Holland,France, India etc.

**Financing**

There have been no changes in the equity structure during 2014. There are no planned changes in the capital structure or in the financing strategies.

The working capital is financed by overdraft facitilities and short-term loans (secured) from four private commercial banks. The company is using overdraft facilities offered by Standard Chartered Bank, Commercial bank of Ceylon Ltd., HSBC and Citibank N. A.,in the current year.

In addition to the above, the company also has long-term fXYZ LTDlities with two multinational banks.

No financial instruments have been acquired.

***Related Party***

| Related party | Relationship | Relevant transactions with the related party (including business rationale for the transaction) |
| --- | --- | --- |
| XYZ Salt Limited | Associate | Providing working capital finance |
| Apex Leather Craft Limited | Associate | Lease of Corporate Office |
| Flyban Insecticides Ltd. | Associate | Providing working capital finance |
| XYZ Pure Flour Ltd. | Associate | Providing working capital finance |
| XYZ Foods Ltd. | Associate | Providing working capital finance |
| XYZ Agrochemicals Ltd. | Associate | Providing working capital finance |
| Creative Communications Ltd. | Associate | Providing working capital finance |
| XYZ Motors Limited | Associate | Providing working capital finance |
| Premiaflex Plastic Limited | Associate | Providing working capital finance |
| Tetley XYZ Bangladesh Limited | Joint Venture | Purchase of products |
| Asian Consumer Care (Pvt) Limited | Joint Venture | Promotional expenses |
| XYZ Agrovet Bangladesh (Pvt) Ltd. | Joint Venture | Providing working capital finance |
| Key management personnel |  |  |
| Director’s emoluments | Key personnel | Employee benefit |
| Please refer to section risk assessment documents of this document where we identified some risk related to related parties. | | |

**Litigation and claims**

The company have a separate legal division / department and all the legal affairs are handled by the Estate and Legal Affairs Manager (Mr. YYY). In addition to the above, the legal matters are dealt by the external lawyers,

* X & Co.
* Mr. Advocate KC

We are not aware of any significant pending litigation and claim.

***Government regulation***

There are no specific regulations for the pharmaceutical industry but the company has to comply with Factories Act 1965 and The Companies Profit (Workers’ Participation) Act, 1968 Labour law 2006 as ammended 2013.

***Employees***

There is a wide pool of suitably skilled labor available for workers in the factory.

Due to the high profile nature of the Company, many applications from suitable candidates are received for roles within senior management.

Competitive remuneration packages have also ensured that sufficient, appropriately skilled people have applied for roles within sales, marketing and finance.

***Types of employees***

There are two types of employees –

* Permanent Staff
* Contractual Staff

***Employee benefit arrangements***

There is an employee bonus scheme. Employees are evaluated and reviewed annually and are rewarded financially based on certain operational performance measures.

Financial rewards are only applied after employees have completed their first six months probationary period. Once the probationary period has been completed, employees are also entitled to join the company’s provident fund.

Targets are agreed for management as part of the budget setting process. The key financial target is steady growth of the business.

In addition to the above, sales incentive is allowed to the sales representatives based on the target sales.

The terms and conditions including job responsibility are mentioned in the employment contract of each permanent employee. Every permanent employee has to sign mentioning that he has understood the code of conduct of the business.

***Compensation arrangements***

An employee is paid a consolidated amount during provision period.

Financial rewards are only applied after employees have completed their first six months probationary period. Once the probationary period has been completed, employees are entitled to join the company pension scheme, provident fund and company gratuity scheme. There is an employee bonus scheme. Employees are evaluated and reviewed annually and are rewarded financially based on certain operational performance measures.

***WPPF:***

All workers and officers are entitled to 5% contribution to Workers Profit Participation Fund (WPPF) from profit before tax of the company. Employees and workers are also entitled to free medical benefit and Group insurance policy.

***Contributory staff provident fund:***

The company contributes to the employees’ provident fund at the following rates wherein the employees also subscribe the equal amount:

In case of workers 10.00% of base salary

In case of other than workers 10.00% of base salary

The company pays monthly contributions to the Trustees of the fund.

**Gratuity**

The company maintains an unfunded gratuity scheme for the employees other than managerial staff. Gratuity to workers and salesmen is payable on retirement @ 6 weeks salary (last 5 years average) for each completed year of service; while gratuity to other employees is payable on retirement @ 5 weeks salary (last 5 years average) for each completed year of service subject to payment for a maximum of 125 weeks salary. Actuarial valuation of the gratuity has been done and as per actuary report, provision for gratuity is adequate.

***Pension***

A pension scheme for managerial staff was introduced in XX. The company contributes 15% of base salary in respect of each manager. The contributions are charged to expenses. A separate Trust was formed for management of the assets and activities of the fund. Actuarial valuation of the Pension Fund has been done and as per actuary report, contribution to the Fund by the company is adequate.

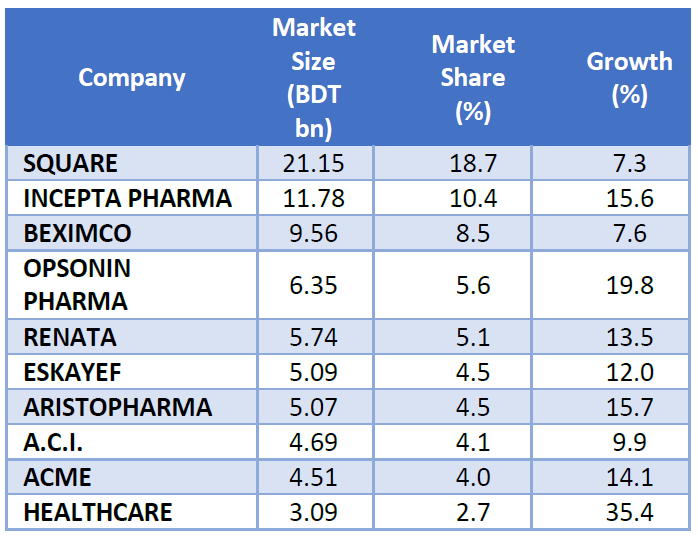
***Staff turnover***

During the year there is no top level staff turnover. However, the chief Accountant has transferred to Srilanka. Now this post is vacant. His works is done by the manager accounts under the direct supervision of CFO.

The entity’s industry and environment

The domestic market is highly concentrated and competitive. The local manufacturers dominate the industry capturing market share of 90%. While the multinationals cater to the remaining demand. According to IMS( intercontinental Medical statistics) Health, the top 10 companies hold 68.5% market share, the top 20 hold 85.73%, and the top 31 hold 94.1%, while the remaining 169 companies shared 5.9% among them. Square Pharmaceuticals led the industry with a market share of 18.7%. Incepta and Beximco took 2nd and 3rd positions with market shares of 10.42% and 8.47% respectively.

The domestic market Industrial/Mfg growth rate (6% of GDP) is XXX in 2014. At present there are XXX listed Pharmaceuticals & Chemicals companies operating in Bangladesh. Market share analysis of local pharmaceuticals companies in Bangladesh are given below:



Data source: online search: [www.lightcastlebd.com](http://www.lightcastlebd.com), <http://www.bapi-bd.com/bangladesh-pharma-industry/prospect-opportunities>, <https://www.thedailystar.net/business/new-horizon-opens-pharma-ingredient-makers-1561084>

Net asset value per share of top 10 Pharmaceuticals & Chemicals companies in 2014 were as follows:

1. Al-Amin Chemicals – Tk.XX
2. Ambee Pharma- Tk. XX
3. BCIL- Tk. XX
4. Glaxo Smith Kline- Tk. XX
5. Square Pharmaceuticals Ltd.- Tk. XX
6. Beximco Pharma- Tk. XX
7. The Ibn Sina- Tk. XX
8. Renata Ltd.- Tk. XX
9. Kohinoor Chemicals- Tk. (XX)
10. Pharma Aids- Tk. XX
11. XYZ Limited.- Tk. 192.00

Maintaining its market share therefore remains a stiff challenge for the company

**Economic, political and social environment**

**Economic**

The economy is mainly market based, but the Government still plays a significant role. The Government is trying to improve the climate for foreign investors and liberalizing the capital markets. A growth of 6%-6.5% is projected and inflation rate would be between 7.5% to 8.5%

There have been no significant changes in the tax regulations in the year. The taxation regime does not provide any significant new challenge to the company.

**Political**

Though the country is has stable political govt elected of major political parties and attempt for overruling corruption by the current government is the motivation for greater investment in established fair businesses. There is no such political issue that may adversely impact the operation of XYZ LTD Limited. However, uncertainty growing in anticipation of political instability regarding due national election issue remains a worry.

**Social**

The manufacturing processes do not generate any toxic or environmentally hazardous waste that cross the limit of any standard environmental parameter set for this industry. Moreover, the company has in place processes for safe waste disposal. So the risk of any toxic leak or spillage and the resultant social backlash is minimal. The establishment of its factory has brought with it greater employment opportunities for the local population. As a result, the social environment is on the whole favorable to the operation of the company. Anyway, the company is very concerned about the safety, health and environmental (Refer to SHE policy of XYZ) considerations of the country.

Considering the above factors, we have not identified any financial statement risk.

**Legal and regulatory environment**

The Companies Act 1994 provides the primary legal framework for the operation of the company. The principal regulatory authority with regard to corporate affairs is the Registrar of Joint Stock Companies (RJSC). As the company is public limited company and listed in stock exchange, it has to comply with the rules and regulations promulgated by Securities and Exchange Commission (SEC).

Other significant laws which form part of the company’s legal and regulatory framework are:

|  |  |  |
| --- | --- | --- |
| **Nature of legislation** | **Title** | **Impact on operations** |
| Tax laws | The Income Tax Ordinance 1984 & Income Tax Rules 1987  The VAT Act & Rules 1991 | The company is liable to pay tax @35% on taxable income. If the company pays dividend more than 20% then it will get the rebate @ 10% on tax payable amount. Therefore the effective interest rate for the company is 27%. In addition, it is required to withhold tax from various parties as prescribed by the law.  The company is also required to pay VAT @ 0% to 15% varied for its diverged business. VAT is a complex issue in this industry and the company has to comply with the strict laws, regulations, circulars issued by the VAT authority. |
| Commercial laws | The Contract Act –1872  The Sale of Goods Act -1930  The Arbitration Act -2001 | The Contract Act 1872 defines virtually all the important relationships of the company with its stakeholders.  The particular contractual aspects of purchases and sales are governed by the Sale of Goods Act 1930.  For any dispute resolution the entity follows the regulation of The Arbitration Act -2001 |
| Industrial & Labor laws | The Bangladesh Labor Act and The Bangladesh Labor Code 2006 as ammended 2013  The Factory Act-1965 & The Factory Rules 1979  Payment of Wages Act -1936  The Minimum Wages Ordinance –1961  The Workmen’s Compensation Act – 1923  The Employers Liabilities Act –1935  The Workmen’s Security Act –1934 | These laws are related with the compliance of wages, safety, health and environmental factors in the factory premises. |
| Quality control | Bangladesh Standards and Testing Institution (BSTI) Ordinance -1985  ISO-9001,  ISO-14001 | The company has to take the approval from BSTI for launching any new product. It also has to pay license fees to BSTI for the use of the BSTI trademark as a symbol of quality approval. |

***Accounting framework***

***International Financial Reporting Standards (IFRS)***

The Company is required to prepare financial statements according to International Financial Reporting Standards (IFRS) and has to comply with some discloser requirements of the Companies Act 1994 while preparing financial statements. The company during the year has not change the accounting policy.

**Laws and regulations:**

***Companies Act 1994***

The Companies Act 1994 provides the primary legal framework for the operation of the Company. The principal regulatory authority in relation to corporate affairs is the RJSC. The entity is obliged to comply with the Companies Act 1994 governing its regulatory filing with the RJSC. This legislation includes provisions on the information to be filed, the time permitted to make required filing and penalties for non-compliance.

***Income Tax Ordinance 1984 and Income Tax Rules 1984***

The Company has to pay advance income tax and deduct tax at source on payment for goods and services as per the provisions of income tax ordinance. The Company also has to submit quarterly tax returns for deducted tax amount to National Board of Revenue (NBR) as per the said ordinance.

The current tax provision of the Company is calculated considering the allowable expenses as per income tax ordinance.

***Value Added Tax Act and Rules 1991***

To comply with VAT rules for the collection, charge and rebate of VAT on purchase of goods and services.

***Labour Act 2006 (as amended in 2013)***

To comply with labour act for payment of wages and participation of company's profit. The Company has to pay 5% of its profit before charging such expenses to the Workers' Profit Participation Fund (WPPF).

***Bangladesh Securities and Exchange Rules, 1987***

The Company is also required to prepare its financial statement in accordance with Bangladesh Securities and Exchange Rules, 1987. The Rule also guides the Company regarding the manner of share transaction in the stock exchange, maintenance of accounts and audit, required qualifications to be registered in the stock exchange, revaluation of assets etc.

Critical accounting policies

Critical accounting policies are those that, in our judgment, are both most important to the portrayal of the entity’s financial condition, cash flows, and results of operations and require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

* Revenue recognition (Please refer to section C6 of risk evaluation summary where we identified some risk related to it)
* Valuation of inventory(Please refer to section C6 of this document where we identified some risk related to it)
* Valuation of investment in subsidiaries, assosiates and joint ventures
* Related party transactions(Please refer to section C6.3 of this document where we identified some risk related to it)
* Valuation of accounts receivables(Please refer to section C7 of this document where we identified some risk related to it)
* Cash and bank balances (Please refer to section XX of this document where we identified some risk related to it)
* Plant, property and equipment(Please refer to section C6 of this document where we identified some risk related to it)
* VAT related (Please refer to section XXXX of this documents where we identified some risk related to it.)

***Compliance with legal and regulatory framework by the entity:***

The entity complies with the legal and regulatory framework by reviewing the compliance issues on regular basis. Legal department guided by the Company Secretary has devoted the team to ensure legal compliance as per legal regulation and instruction.

Moreover, the Company ensures compliance with the legal and regulatory framework by undertaking the followings:

1. Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
2. Instituting and operating appropriate internal control systems.
3. Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry.
4. Developing, publicizing and following employee handbook.
5. Ensuring employees are properly trained and understand the employee handbook.

***Key engagement team members:***

|  |  |  |
| --- | --- | --- |
| **Name** | **Role** | **Email** |
| Mr. X | Engagement partner | [x@xyz.com](mailto:x@xyz.com) |
| Mr. F | EQCR partner | [d@xyz.com](mailto:d@xyz.com) |
| Mr. Y | Engagement manager | [y@xyz.com](mailto:y@xyz.com) |
| Mr.B | Engagement in-charge | [b@xyz.com](mailto:b@xyz.com) |
|  |  |  |
| Mr. G | Manager (IRM) | [e@xyz.com](mailto:e@xyz.com) |
| Mr. H | Manager (Tax) | [f@xyz.com](mailto:f@xyz.com) |
|  |  |  |

***Timetable:***

|  |  |
| --- | --- |
| **Relevant Milestones** | **Timing** |
| Resource planning - audit team, audit specialists, external experts | DD-MM-YYYY |
| Initial risk assessment and planning discussion | DD-MM-YYYY |
| Final risk assessment and planning discussion | DD-MM-YYYY |
| Final audit meeting(s) | DD-MM-YYYY |
| Client communications | Ongoing activities |
| Expected audit report date | DD-MM-YYYY |
| Subsequent event review | DD-MM-YYYY |
| Debrief meeting | DD-MM-YYYY |
| Physical Verification of Assets | DD-MM-YYYY |
| Stock Taking | DD-MM-YYYY |
| Management representation letter | DD-MM-YYYY |

*The entity’s financial performance*

1. External expectations

We document relevant external expectations related to the entity’s financial performance, particularly those that may put pressure on, or provide incentives to management for fraudulent financial reporting arising from third party expectations.

|  |
| --- |
| ***Shareholders***  Since XYZ LTD Limited is a SEC listed publicly traded company, the expectation of the majority shareholders are:   * Steady growth * Increase in turnover and profit * Cash management * Growth in earnings per share and divided distribution * Growth in Net Asset Value per share * Decrease in Price Earnings Ratio   ***Other shareholders (minority interest)***   * Increase in turnover and profit * Dividend distribution   ***Bank***  Because of the brand image of the business, banks are providing short-term loan and overdraft facility to XYZ Limited. The company also has long-term loans with a number of private commercial banks. During the year, the company has taken long-term loan from HSBC amounted to Tk XXXXX and Tk XXXX from SCB. Further loans from the bank may be required to fund continued expansion. There are several bank covenants in place, which XYZ Limited must adhere to retain the loan.  **Terms of payment and interest rate**  **Long term loan**   1. Long-term loan with HSBC is repayable in sixteen equal quarterly installments. On maturity each installment will be adjusted by debiting company’s bank account and quarterly interest will be charged into the same account. Security against loan is as follows: demand promissory note of Tk. XXXXX with letter of revival and continuity. First pari-passu charges with other lenders over the borrower’s stock of raw materials, work-in-progress and finished goods and book debts/receivables for Tk. 645,000,000 with the Registrar of Joint Stock Companies (RJSC). First pari-passu charges with other lenders over the borrower’s plant and machinery for Tk. XXXX with the Registrar of Joint Stock Companies (RJSC). 2. Long-term loan with SCB is repayable in sixteen equal quarterly installments. On maturity each installment will be adjusted by debiting company’s bank account and quarterly interest will be charged into the same account. On maturity each installment will be adjusted by debiting company’s bank account and quarterly interest will be charged into the same account. 3. Interest @ 12% p.a. and 12.25% will be paid quarterly on March, June, September and December for long term loan of HSBC and Standard Chartered Bank respectively. 4. All credit facilities are secured by hypothecation of all present and future moveable property including book debts, inventory, machinery and equipment on a pari-pasu basis   **Short-term bank loan:**  The company has credit fXYZ LTDlities from Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited (HSBC), Commercial Bank of Ceylon Limited and Citibank, N.A. All credit facilities are secured by hypothecation of all present and future moveable property including book debts, inventory, land and building, machinery and equipment on a pari-pasu basis.  **Bank overdraft:**  The company has credit facilities from Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited (HSBC), Commercial Bank of Ceylon Limited and Citibank, N.A. All credit facilities are secured by hypothecation of all present and future moveable property including book debts, inventory, land, machinery and equipment on a pari-pasu basis.  **Debt covenants:**  Banks suggest the entity to maintain certain covenants. Any breach in covenants may lead to discontinuation of the fund provided by the bank. (Please refer to section VI.B of this document where we identified some risk related to it and refer to XX where we documented whether there is any breach in relation to debt covenant in extant.) |

Analysis

a. Analysis prepared by the entity and related results Please see the attachment ratio analysis.( C7)

We understand the financial and business analysis performed by the entity that is relevant to our audit. We summarize the results that are relevant to risk identification or planning the audit.

Summary of identified risks

Key Risks and responses identified in the client/engagement continuance/acceptance process

1. Change to the nature, size, or structure of the client's business, including major acquisitions or disposals**,** Prospective business may be sold out with a view to managing earnings or Management may invest in risky or bad ventures with assessing the merit of investment.

* Inquire the management regarding the purpose and details of the divestment.
* Review the meeting minutes and details of the transactions
* Documentation in ‘Audit program-Investment’
* Review the meeting minutes
* Confirmation regading the declaration of the investment to the shareholder as price sensetive information
* Documentation in ‘Audit program-Investment’

***Key risks and responses at financial statements level:***

1. No going concern issues identified but the auditors will keep alert for factors that may affect the going concern assumption.
2. One of the criteria for rewarding the performance bonus is to achieve budgeted operating result. Therefore, the management can manipulate the result of financial position and performance of the company. In addition to the above, sales incentive are given to the sales representative based on the budgeted sales.
3. The company must comply with the debt covenants instructed by the banks; otherwise, the debt will be withdrawn. Hence, the employees may resort to manipulating data that may help to maintain debt covenant in prescribed manner artificially.

***Key risks and responses at assertion level:***

Revenue is susceptible to material misstatements due to fraudulent financial reporting and property, plant and equipment is susceptible to material misstatements due to misappropriation of assets. The auditors planned responses to the risks of fraud identified are summarized here as follows:

***Revenue (Completeness, Occurrence, Accuracy)***

1. Inquire of the management as to the incentive schemes the company has for top-management personnel;
2. Inquire of the management as to communications to employees regarding management’s views on business practices and ethical behavior;
3. Inquire of the management as to the control procedures they have to prevent any fraudulent financial reporting;
4. Inquire of the management as to the IT components in the internal control system over revenue recognition and measurement;
5. Inquire of the internal auditors as to the fraud-related activities by internal audit;
6. Inquire of those charged with governance as to the programs and controls to prevent, detect and deter fraud – oversight by those charged with governance;
7. Perform test of controls in accordance with planning (see C5.1);
8. Perform substantive analytical procedures relating to revenue using disaggregated financial and non-financial information (see C6.2);
9. Use information and risk management team to test the design and implementation, and operating effectiveness of those IT components identified.

***Property, plant and equipment (Completeness, Existence, Valuation, Ownership)***

1. Inquire of the management as to what physical controls they have to prevent misappropriation of assets;
2. Inquire of the management as to the company’s asset disposal and write-off policy;
3. Perform analytical procedures in relation to disposal transactions using disaggregated data;
4. Performing analytical procedures for depreciation;
5. Perform test of control for addition of assets in accordance with planning (see C5.1);
6. Perform substantive analytical procedures relating to property, plant and equipment using disaggregated financial and non-financial information (see C6.2);
7. Use information and risk management team to test the design and implementation, and operating effectiveness of those IT components identified.
8. Physical examination of assets;
9. Verify for accuracy the asset disposal and write-off transactions to supporting documents to identify the rationality behind the disposal or write-off.

**Stock and WIP is susceptible to material misstatements due to misappropriation of assets (Completeness, Existence, Valuation, and Ownership).**

1. Inquire of the management as to what physical controls they have to prevent misappropriation of inventory;
2. Inquire of the management as to the company’s inventory procurement and storage policy;
3. Inquire of the management as to the company’s inventory disposal and write-off policy;
4. Perform test of control for addition of inventory in accordance with planning and its valuation (see C5.1);
5. Use information and risk management team to test the design and implementation, and operating effectiveness of those IT components identified.
6. Physical count of stocks;
7. Verify for accuracy of the inventory disposal and write-off transactions to supporting documents to identify the rationality behind the disposal or write-off.

**Provisions and contingencies are susceptible to material misstatements due to fraudulent financial reporting (Completeness, Accuracy, and Valuation).**

1. Inquire of the management as to how the process of recording a provision is initiated;
2. Inquire of the management as to the basis of identifying the events that requires provision and the events that are to be treated as contingencies.
3. Inquire of the management as to the process of determining and recording provisions in the books;
4. Inquire of the management as to whether there were any unrecorded liabilities;
5. Perform test of control for addition of provisions in accordance with planning (see C5.1);
6. Verify for accuracy and reasonableness of the provisions recorded in the books in light of the available information and judgments used by management.

**Related party transactions are susceptible to material misstatements due to fraudulent financial reporting. (Completeness, Existence, Accuracy, Presentation)**

1. Inquire of the management about the nature of the transactions and basis of allocation;
2. Inquire of the management as to frequency and modality of the transactions and whether there is any special arrangement (i.e. discount, interest etc.)
3. Inquire of the management to assess whether the transactions with related parties of the nature of arm’s length transactions. If so, inquire of the management as to the pricing mechanism;
4. Verify for occurrence of the transactions and accuracy of the amount booked for the transactions held between related parties. Also, check the disclosure given in the financial statements relating to related party transactions.

**Other minor risk identified (For exercise purpose :)**

Lack of adequate record for non-reconciled transactions in bank reconciliation statement. Intentionally of cash

1. **Intentional misstatement of revenue by sales people or finance department may be in extant.**

* Intense competition may force the company to sell to credit unworthy customers. The company also does not have any policy for the creation of provision for bad and doubtful debts
* Intercompany transactions may not be properly identified; adequate disclosures may not be made in the financial statements
* Cost to inventory may not properly be assigned.NRV may not be properly calculated**.**
* Valuation regarding acquisition of property, plant and equipment and accuracy of transfer from capital-work-in-progress to fixed assets
* Financial expenses on long term loan, short term loan and overdraft may be under charged or unrecorded

| Risk  # | Nature of risk | Significant account(s)  or disclosure | Relevant assertions(s) | Risk of fraud |
| --- | --- | --- | --- | --- |
| a | Recognition of revenue might not be done properly.  Intentional misstatement of revenue by sales people or finance department may be in extant. | Sales, Trade debtors | C,E, A | Y |
| b | Lack of adequate record for non-reconciled transactions in bank reconciliation statement. Intentionally of cash | Cash and bank balance and bank overdraft | C,E,A | Y |
| c | Intense competition may force the company to sell to credit unworthy customers. The company also does not have any policy for the creation of provision for bad and doubtful debts | Trade debtors and doubtful debt allowance | C, E, A, V | N |
| d | Intercompany transactions may not be properly identified; adequate disclosures may not be made in the financial statements | Inter-company receivables  Inter-company payables | C, E, V | N |
| e | Cost to inventory may not properly be assigned  NRV may not be properly calculated | Inventories | V | N |
| f | Lack of reconciliation of balances between VAT current account (Mushak-18) and financial statements. | Sales, Advance, deposits and prepayments (VAT current account) | C,A,V | N |
| g | Allocation of common expenses (production overhead) may be arbitrarily assigned among the businesses and products. | Cost of goods sold and Inventories | C,A,V | N |
| h | Valuation regarding acquisition of property, plant and equipment and accuracy of transfer from capital-work-in-progress to fixed assets | Property, plant and equipment and Accumulated depreciation | C,E,A,V | N |
| i | Management may invest in risky or bad ventures with assessing the merit of investment.  Prospective business may be sold out with a view to managing earnings. | Investment  Profit from sale of shares of ACI trading | C,E,A,V | Y |
| j | Related party transactions may not be properly identified | Disclosure related to related party transactions | P | N |
| k | Financial expenses on long term loan, short term loan and overdraft may be under charged or unrecorded | Financial expenses | C,E,A | N |

**The objective and-scope of the audit:**

The auditors will audit the financial statements of XYZ Limited (the Company), which comprise the statement of financial position as at 31 December 2014 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the ear then ended, and a summary of significant accounting policies and other explanatory information.

The auditors will conduct the audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent Imitation of an audit, together with the inherent limitation of internal control, there is an unavoidable risk that some material misstatement may not be detected, even though the audit is properly planned and performed in accordance with ISA. In making the auditors’ risk assessments, the auditors consider internal control relevant to the Company's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. However, the auditors will communicate to client in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that auditors have identified during the audit. As part of the audit, auditors will read the other information in Company’s annual report and consider whether such information, or the manner of its presentation, is materially consistent with information, or the manner of its presentation, appearing in the financial statements. However, the audit does not include the performance of procedures to corroborate such other information (including forward-looking statements).

**The responsibilities of management:**

The audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

1. For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS), the requirements , of Companies Act 1994 and Securities and Exchange Rules 1987;
2. For identifying and ensuring that the Company complies with laws and regulations applicable to its activities;
3. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
4. For maintaining proper accounting records' and selecting and applying proper accounting policies consistently; and
5. To provide auditors with:
6. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
7. Additional information that we may request from management for the purpose of the audit; and
8. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence'

As part of the audit process, the auditors will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

**Reporting:**

The auditors are required to form audit opinion on whether the financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at the date of statement of financial position, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards. In accordance with the Companies Act 1994 and Securities and Exchange Rules 1987, the auditors are also required to report on whether:

1. auditors have obtained all the information and explanations which to the best of the auditors’ knowledge and belief were necessary for the purpose of the audit and made due verification thereof;
2. proper books of account as required by law have been kept by the Company so far as it appeared from auditors’ examination of those books;
3. the Company’s statement of financial position and statement of profit or loss and other comprehensive income dealt with by the report are in agreement with the books of account and
4. the expenditure incurred and payments made were for the purpose of the Company's business for the year.

Audit report will be addressed to the shareholders of the Company. The auditors cannot provide assurance that an unqualified opinion will be rendered and circumstances may arise in which it would be necessary for the auditors to modify audit report or withdraw from the engagement. In such circumstances, auditors’ findings or reasons for withdrawal will be communicated to the Board of Directors.

**Disclaimer: Dummy audit working files have been prepared and published to improve the quality of audit documentation of member firms providing audit services in Bangladesh. Member firms providing audit services should not assume these dummy working files as absolute benchmark for the purpose of preparing and keeping audit documentation. Every audit client has unique characteristics and risks. International Standards on Auditing (ISA) also requires to exercise engagement partner’s judgment on a number of areas in conducting the audit of an entity. Therefore, member firms should use their professional knowledge, skill, experiences along with these dummy working files to keep adequate and appropriate working papers for each audit engagement. The preparers do not assume any liability for drawing an inappropriate audit opinion based on the working papers prepared on the basis of these dummy working files.**