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| **Client: XYZ LTD** | **Prepared by:MR:A** | **Date: 04 January 2015** | **Ref:**  **PAF 3.1** |
| **Year end: 31December 2014** | **Reviewed by:MR:S** | **Date: 01 February 2015** |

**SYSTEM NOTES:**

**Sales:**

**Sources of income:**

Sales on goods, revenue arising from services, revenue arising from commission and dividend income.

**Method of recording orders:**

**Credit sales:** Revenue is recognized upon invoicing the customer for goods sold and delivered. Sales are accounted for net of value added tax, trade discount and allowances (if any).

**Cash sales:** revenue is recognized when delivery is made and cash is received by the company.

**Revenue arising from services:** revenue from services rendered is recognized in income statement in portion to the stage of completion of the transaction at the reporting date.

**Revenue recognizing from commission:** the revenue is recognized in the net amount of commission earned by the organization.

**Dividend income:** Dividend income is recognized when right to receive payment of such dividend is established.

**Accounting record and method of use:**Information on sales totals are from the sales department and input directly to the computerized accounting system by the accounts personnel on daily basis. At the end of each month independent review is carried out on all stage of inventory. Closing values are given as input into the general ledger and gross profit margin are monitored by the directors. Any variation in the inventory shrinkage and wastage from that expected are followed up with the responsible personnel.

The accounts department reconcile the cash, cheque credit card and other mode of payment with banked and receipts recorded on the bank statement on a weekly basis. Former weekly bank reconciliation is carried out. Accounts department keeps a file of all unpaid invoices from sales department and where payment is received in the post, this is matched to the invoices. The file is reviewed every weeks by the directors and outstanding debts are regularly monitored. A monthly aged receivables list is produced**.**

**Evaluation of system and impact on audit:**

As the business has a cash based transaction, so there is a fraud risk from the possible misappropriation of cash sales, if proper safeguard is not applied. So there is a significant risk.

There is also a danger that deposit invoices raised in advance of a function or party may be treated as sales at the time of invoicing rather than the date of the function creating a possible cut off error but the number of deposit taken during the year is relatively low.

The use of goods from the company for the management owns personal use is also a risk. All such transaction must be recorded in a log by the directors. This is not a significant risk as the amount concerned would have to be extremely material.

**Purchase:**

**Types of expenditure:**

The company has the following types of expenditure:

1. Cost of sales-cost of material purchase and finished goods purchase
2. Salary and wages
3. Travelling and conveyance
4. Rent and rates
5. Repair and maintenance
6. Fuel and power
7. Postage
8. Printing and stationary
9. Promotional expense
10. Entertainment
11. Vehicles maintenance
12. Bad debts
13. Truck and handling
14. Legal and professional charges
15. Audit fees
16. Insurance
17. Directors fee
18. Bank charges
19. Sundry expense
20. Product and development expense
21. Training expense
22. Depreciation
23. Amortization
24. Lab chemicals and apparatus
25. Meeting expense
26. Share department expense
27. Export expenses
28. ISO/TQM related expense
29. Market research
30. Corporate social responsibility expense

The bulk of the expenditure are cost of goods sold and finished goods, salary and wages and promotional expenditure.

Method of recording orders: the company prepares purchase orders for all productsorservices purchased and paid by cheque. However the company pays utility bill and other expenses by cash. All purchase order are pre-numbered and issued against purchase requisition form. The purchase invoice is always agreed back to a delivery note. All delivery notes are retained**.**

Orders are such expenses are authorized when the facility is first set up. There are two levels of authorizing purchase order depending on the level of expenditure. Item under BDT 10,000/= are authorized by one director and above that limit is authorized by two director.

**Accounting record and method of use:**

When any goods and services are required, the appropriate authority is obtained and a purchased order is completed before any order is sent to the supplier. Copies of all purchased orders are retained. Goods can also order by telephone and e-mail but again a purchased order must be present. Once the goods or services have been received, they are checked to the invoices to ensure that quantities and specification are as ordered.

If the invoices are correct and the goods or services have been received, the invoices is entered in to the purchase and nominal ledgers. The invoices is marked to prevent duplicate entries. The invoices are filled together with the relevant purchased order.

All supplier statement are retained monthly reconciliation are performed.Payment are made by cheque. No company debit or credit card is maintained.

**Evaluation of system and impact on the audit:**

The controls are reasonable for the size and nature of the business. The impact on the audit is quite low as the system is robust and no problem have been encountered with it in the past. The potential for misstatements or errors is low, but analytical review procedures and some testing of the operational effectiveness of the control will be carried out to check that under/overstatement of expenditure does not occur.

**Inventory:**

**Inventory locations:**

Different type of raw and packing material are stored in warehouse according to specifications. Moreover the finished goods are kept in different warehouse and work in progress goods are kept separated from raw material and finished goods.

**Types of inventory:**

**Raw and packing material**: the goods which are received from supplier and ready to move to production department.

**Work in progress:** the material which is moved from warehouse to production department but has not completed yet.

**Finished Goods:**The goods which are moved from production department to warehouse and ready for sale.

**Details of the system:**

When goods arrive from the vendor, the receiving dept. inspects, counts, and pre- pares a receiving report. Goods are moved from receiving to warehouse and perpetual inventory record are updated.When needed, goods are moved from the warehouse to production and perpetual record are updated**.**

When finished, goods are moved from production to the warehouse and when sold, goods are shipped and perpetual inventory re- cords are updated.

The warehouses are locked and CCTV is used to help opportunity for theft is reduced. Only appropriate personnel have the key of warehouse.

The following types of document are used to record the inventory:

1. Production Schedule

2. Receiving Report

3. Materials Requisition

4. Inventory Master File

5. Production Data Information

6. Cost Accumulation and Variance Report

7. Inventory Status Report

8. Shipping Order

**Method of valuation:**

Inventories except material in transit are measured at the lower of cost and net realizable value. The cost of inventories is based on weighted average method, and include expenditure incurred in acquiring the inventories, production and conversion costs and other cost incurred in bringing them to their existing location and condition. In the case of manufacturing inventories and work in progress, cost includes an appropriate share of production overhead based on normal operation capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the selling expenses.

Stock in transit represents the cost incurred up to the date of the statement of financial position for the items that were not received till the date of reporting. Inventory losses and abnormal losses are recognize as an expense.

**Evaluation of the system and impact on the audit:**

The controls are reasonable for the size and nature of the business. The impact on the audit is quite low as the system is robust and no problem have been encountered with it in the past. The potential for misstatements or errors is low, but analytical review procedures and some testing of the operational effectiveness of the control will be carried out to check that proper allocation of overhead is exist , under/ overstatement of inventory, and value of obsolete, slow-moving, or excess inventory.

**Payroll**

**Types and number of staff**

At the end of the year DD-MM-YYYY the company has 6930 employee except 7executive directors and 3 nonexecutive directors. Most of the employees are permanent**.**

**Method of calculating Payroll**

All the member of staff have a gross salary which can be divided by basic salary (50%), house rent (25%), communication (10%), entertainment (10%), medical allowances (5%). Moreover the staff are entitle to get 2 festival bonus which is equivalent to basic salary, provident fund and gratuity and workers profit participation fund.

**Define contribution plan (provident fund):**

The company operates a recognized provident fund scheme where employee contribute 10% of their basic salary with equal contribution by the company. The provident fund is consider as define contribution plan being managed by a board of trustee.

**Define benefit plan (gratuity):**

The company operates an unfunded gratuity scheme, provision in respect of which is made annually covering all payment employee. The employee gratuity fund is consider as defined benefit plan.

Define benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefits are determined by reference to employee’s earnings and year of services. The rate used to discount post-employment benefit obligations is determined by reference to the rate stated in the actuarial report. Actuarial valuation of gratuity scheme has been made in YYYY to assess the adequacy of the liabilities provided for the schemes.

**Workers profit participation fund:**

The company had created funds for workers as “Workers profit participation fund” and 5% of the profit before charging such expense have been transfer to the fund.

**Accounting record and method of use**

The salary and wages are prepare on a bespoke computerized salary package by the company’s payroll staff following instruction received from Human resource department. Human resource department gives details of the gross pay and statutory and non-statutory deductions. The company has strict policy of paying all salary in bank transfer and wages to pay in cash with pay slip.

**Method and frequency of payment:**

Once the final payroll for the month has been authorized by Managing directors, the bank transfer forms are completed and authorized by him and faxed to bank. The bank then transfer each employee’s net pay to their respective bank accounts and send copies of the transfer details to the company. The salary is paid monthly basis.

Wages are accounted monthly as well based on the day worked and overtime are calculated based on the overtime hour. The hour worked are recorded in a time sheet which is approved by director. At the end of the month the total day and hours are added up and the wages are calculated as the same basis by the book keeper.

**Evaluation of the system and Impact of the audit**

The system has not caused problem in the past, but because salaries and wages costs are a substantial overhead for the company and an important area, we will perform some walk through test on the system to ensure that it is being implemented properly.

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