



ISSAI Compliant Revenue Audit Manual

**OFFICE OF THE
COMPTROLLER AND AUDITOR GENERAL**



Preface

The Supreme Audit Institution (SAI) of Bangladesh always tries to keep pace with the modern audit world. The INTOSAI- the global forum of the Auditors General issued International Standards of Supreme Audit Institutions, commonly known as ISSAIs in 2010 for the guidance of public sector auditors across member nations. If these professional standards are followed in the SAI of Bangladesh, I am confident, that will enhance the quality and efficiency of government auditors and help them in playing their entrusted role. The present Manual is based on the ISSAIs.

This Revenue Audit Manual is an important deliverable under the current development project, i.e., Strengthening the Public Expenditure Management Programme (SPEMP-B). International and national consultants as well as the evaluation team and OCAG officials deserve special appreciation for being contributors to this valuable product. Meanwhile pilot audits have been carried out in line with this Manual. From now on revenue audit will be conducted as per this Manual and other audit standards.

The SAI Bangladesh published a 'Revenue Audit Manual' in August 2000 under previous reform initiative known as Reforms in Government Audit (RIGA) as per the then available standards. The ISSAIs came into audit terminology later on. The previous Manual will continue to be used side by side with this currently available Revenue Audit Manual based on ISSAIs.

The Manual derives its authority from articles 128 and 132 of the Constitution of Bangladesh and the Comptroller and Auditor General (Additional Functions) Act, 1974 and subsequent amendments thereof.

This Manual is a living document. It will be updated periodically. Any suggestion to improve it will be welcomed and much appreciated. However, while applying the Manual if any error or omission is noticed, the matter may please be brought to the notice of the Office of the Comptroller and Auditor General of Bangladesh for due remedy.

Masud Ahmed

Dated: Dhaka May 2016

Comptroller and Auditor General of Bangladesh

General Overview of the Manual

The Constitution of the People's Republic of Bangladesh gives the authority to the Comptroller and Auditor General to conduct audit of public money. In exercising this authority it is the responsibility of OCAg to carry out all audit work with highest professional attitude and best standards. To fulfil this unique trust and responsibility, this Revenue Audit Manual is prepared based on ISSA's guidelines, Government Auditing Standards, Audit Code and relevant laws and regulations pertaining to revenue collection in Bangladesh. This manual provides guidance on all relevant aspects of revenue audit functions and describes in details techniques and procedures to be followed by the auditors while conducting revenue audit.

This manual comprises of 16 Chapters. Theoretical aspects of this manual is described in Chapter 1 to Chapter 5 which includes the mandate of the CAG, INTOSAI and ASOSAI declarations on Revenue Audit and responsibilities of the respective audit directorates, objective and scope of revenue audit, audit process, audit approach, audit documentation, audit planning, audit examination process with reporting and follow-up mechanism.

Chapters 6 to 16 deal with different revenue collecting entities including National Board of Revenue (NBR), Bonded Warehouse both diplomatic and special with duty free shop, EPZ, DEDO, etc. These chapters provide an insight and overview about tax computation on income, relevant laws, rules and regulations governing the operation of income tax, procedures, guidelines and programmes on the audit of Value Added Tax (VAT), steps that are normally followed to audit Duty Exemption and Drawback, Cash Incentives, Land Taxes and Revenues, Stamp Duty, Narcotics Duty, Registration Fees and National Savings, etc.

Annexures (nine in numbers) of the manual describe the overall audit strategy, practical audit planning, understanding revenue streams in Bangladesh, revenue audit planning checklists, audit report format, templates, etc those are necessary for an auditor practically for carrying out audit in the field.

IT audit manual incorporating international standards and best practices has already been issued by OCAg. While conducting Revenue Audit in an IT environment, the Auditors should follow the instructions and guidelines provided there side by side instructions provided in this manual where applicable.

Revenue Audit Manual

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CHAPTER 1- INTRODUCTION

1.1 The Mandate of the Comptroller and Auditor General

- 1.1.1 The International Organisation of Supreme Audit Institution's (INTOSAI) Compliance Audit Guidelines (ISSAI 4000 - 4200) provide guidance for conducting audits by the Supreme Audit Institutions (SAI) as to whether the activities of public sector entities are in accordance with the relevant laws, regulations and authorities that govern the entities.
- 1.1.2 The guideline states that in general, the mandate of the SAI determines whether the SAI carries out the compliance audit activities or not. In Bangladesh, Article 128 (1) of the Constitution confers on the Comptroller and Auditor General (CAG) the authority to audit public accounts. It states 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 on by the Auditor General and for that purpose he or any person authorised by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the Republic".
- 1.1.3 The authority of the CAG was further enhanced in Article 11 of the Comptroller and Auditor General's Additional Functions Act, 1974 which states, "The Comptroller and Auditor General may make rules and give directions in respect of all matters pertaining to the audit of any accounts he is required to audit".

1.2 INTOSAI & ASOSAI Declarations on Revenue Audit

- 1.2.1 The Office of the Comptroller and Auditor General (OCAG), Bangladesh is a member of INTOSAI and the Asian Organisation of Supreme Audit Institutions (ASOSAI) - a regional working group of INTOSAI. The conduct of revenue audit by the SAIs has been influenced by the following INTOSAI and ASOSAI declarations:

(a) INTOSAI - The Lima Declaration of Guidelines on Auditing Precepts (1977)

Supreme Audit Institutions shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files. Tax audits are primarily for legality and regularity audits. However, when auditing the application of tax laws, Supreme Audit Institutions shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body. (ISSAI 1: Section 20)

(b) ASOSAI Bali Declaration of 1988

Audit mandates of many SAIs provide for the audit of public accounts which include revenues such as tax receipts. However, SAIs should seek clear and specific legal authority for undertaking comprehensive tax audits in conformity with the relevant provisions of the Lima Declaration on Auditing Precepts.

1.2.2 The Auditor General derived his mandate from the Constitution for the audit of public accounts, and whilst there is no specific legal authority for undertaking comprehensive tax audit (or the audit of revenue) as required by ASOSAI Bali Declaration of 1988, the CAG has exercised his authority for the audit of revenue under Article 11 of the Comptroller and Auditor General’s Additional Functions Act 1974, which states that the Comptroller and Auditor General may make rules and give directions in respect of all matters pertaining to the audit of any accounts he is required to audit [Audit Code para (9) of Chapter Two regarding Powers, Duties and Functions of Auditors].

1.3 Audit Responsibility and Types of Revenue Receipts

1.3.1 Rule 28 of General Financial Rules states, “Subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Accounts. They should accordingly arrange to obtain from their subordinates monthly accounts and returns in suitable form claiming credit for so much paid into the Bank or otherwise accounted for and compare them with the statements of credits furnished by the Accounts Officer to see that the amounts reported as collected have been duly credited in the Public Accounts”.

1.3.2 Rule 19 of General Financial Rules further states – “It is the duty of every departmental and controlling officer to see that the Auditor General is afforded all reasonable facilities in the discharge of his functions and furnished with the fullest possible information for which he may ask, for the preparation of any reports which it is his duty to prepare. No such information nor books or other documents to which Auditor General has a statutory right of access shall be withheld from him”.

1.3.3 **Statement I** of the National budget - the **Broad Details of Revenue Receipts** (excluding Grants, Loans and Food Account Transactions) provides details of major revenue sources of the Government of Bangladesh and the Auditor General under the relevant authority has taken responsibility for the audit of these revenue streams.

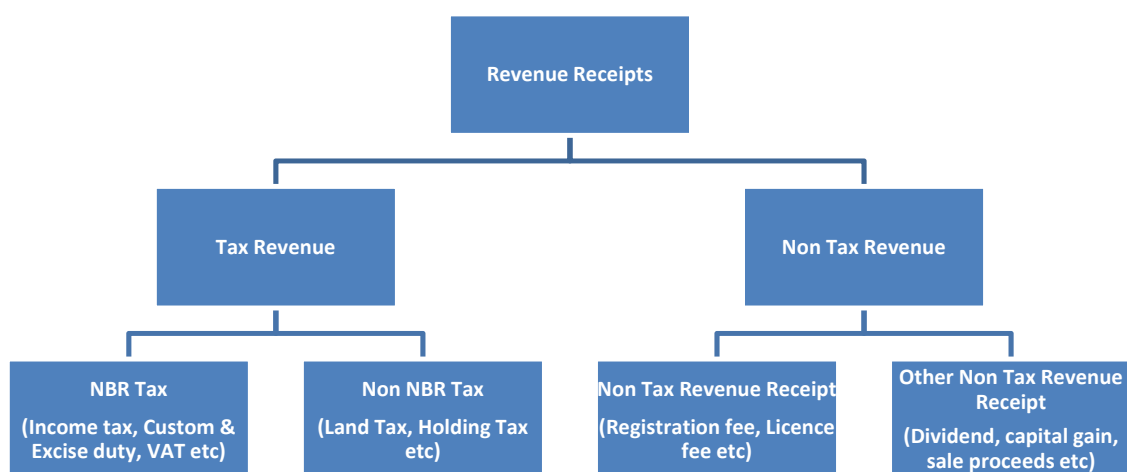
1.3.4 In the discharge of his duty, Audit Code (Para 16) states, “the Comptroller and Auditor General will organise the audit directorates and assign their functional responsibilities as he deems appropriate”. The responsibilities of the existing audit directorates against the revenue streams as contained in the Statement I of the National Budget are as follow:

Major Revenue Source Per statement 1	Revenue Stream	Responsible audit Directorate
National Board of Revenue (NBR) – Tax Revenue	Taxes on Income and Profit	Local and Revenue Audit Directorate
	Value Added Tax (VAT)	
	Import Duty	

Major Revenue Source Per statement 1	Revenue Stream	Responsible audit Directorate
	Export Duty	
	Excise Duty	
	Supplementary Duty	
	Other Taxes and Duties	
Non- NBR Tax Revenue	Narcotics and Liquor Duty	Local and Revenue Audit Directorate
	Taxes on Vehicles	
	Land Revenue	
Non-Tax Revenue	Dividend and Profit	Commercial Audit Directorate
	Interest	Mainly- Local and Revenue Audit Directorate, Works Audit Directorate, and Foreign Aided Project Audit Directorate
	Administrative Fees and Charges like: Registration fees, Licence fees, etc.	Mainly- Local and Revenue Audit Directorate, and Works Audit Directorate
	Fines, Penalties and Forfeiture	Mainly- Local and Revenue Audit Directorate, Works Audit Directorate, and Foreign Aided Project Audit Directorate
	Receipts for Services Rendered	Mainly- Local and Revenue Audit Directorate, Works Audit Directorate, and Foreign Aided Project Audit Directorate
	Rents, Leases and Recoveries	Mainly- Local and Revenue Audit Directorate, Works Audit Directorate, and Foreign Aided Project Audit Directorate

Major Revenue Source Per statement 1	Revenue Stream	Responsible audit Directorate
	Tolls and Levies	Mainly- Local and Revenue Audit Directorate, Works Audit Directorate, and Foreign Aided Project Audit Directorate
	Non-Commercial Sales	Mainly- Local and Revenue Audit Directorate, Works Audit Directorate, and Foreign Aided Project Audit Directorate
	Defence Receipts	Defence Audit Directorate
Other Non-Tax Revenue and Receipts	Railway	Railway Audit Directorate
	Post Offices	Post, Telecommunication, Science and Technology Audit Directorate
	Capital Revenue	Mainly Commercial Audit Directorate

Figure 1: Revenue Receipts Tree as per statement One



1.4 Purpose of Revenue Audit Manual

- 1.4.1 This manual developed for the audit of revenue receipts by the responsible Audit Directorate complies with INTOSAI guidelines on Compliance Audit (ISSA1 4000-4200), and provides auditors with a set of modern auditing concepts, techniques and quality assurance arrangements to promote consistency and efficiency in the conduct of audits and to enhance the quality of audit work.
- 1.4.2 It should be noted that audit of revenue may be performed during the period and close to the time of effecting transactions (Concurrent Audit) or after the end of year within which the transactions have fallen (Ex-post or Regular Audit). Whether regular or concurrent, all auditors undertaking the audit of revenue are required to follow the provisions of this manual to plan, conduct and conclude their revenue audits.

CHAPTER 2– FRAMEWORK

2.1 The Revenue Audit Assurance Engagement (ISSAI 4100.2.2; ISSAI 100:31-33)

2.1.1 The Audit Directorate conducts its engagements so as to express a conclusion(s) regarding the objectives of the revenue audit. The engagements are called assurance engagements, as they are designed to enhance the degree of confidence, or assurance, of the intended users in the conclusions drawn on the revenue audit. An assurance engagement may be:

- a **reasonable assurance engagement** (an audit): this requires the auditor to reduce risk to an acceptably low level so as to obtain reasonable assurance as the basis for a positive form of expression of the conclusion(s) on the basis of audit procedures performed (e.g. "the revenue processes comply/do not comply ...");
- a **limited assurance engagement** (a review): the auditor performs more limited procedures than those required of an audit, thus enabling him/her to obtain limited or moderate assurance as the basis for a negative form of expression of his/her conclusion ("nothing has come to our attention to indicate that...").

2.1.2 This manual addresses reasonable assurance engagements.

2.2 Objective & Scope of Revenue Audit (ISSAI 4100:2.1; ISSAI 4100:3)

2.2.1 The objective of performing Revenue Audit, based on the direction from the C&AG, is to:

- provide assurance that adequate regulations and procedures have been formulated by the Revenue Departments to secure an effective check on assessment, collection and proper allocation of revenue; and
- satisfy itself by adequate test checks that such regulations and procedures are being carried out.

2.2.2 The table below summarises relationship between Revenue Audit Objective and the International Auditing Standard:

	Revenue Audit Objective	International Standards on Auditing
Adequacy of Design	To ascertain that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and proper allocation of revenue.	<u>Nature and Extent of the Understanding of Relevant Controls</u> When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Para 13 of ISA 315 also referred to Para 14 of ISSAI 1315)

	Revenue Audit Objective	International Standards on Auditing
Operating Effectiveness	...and that they are being duly carried out.	<p>Tests of Controls</p> <p>The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls when the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively. (Para 8 of ISA 330 also referred to Para 7 of ISSAI 1330)</p>

2.2.3 In broader interpretation, the objective of the revenue audit will be to:

- satisfy that collection of revenues are lawfully made;
- verify that procedures and checks are properly applied;
- ascertain that accounts are duly kept;
- verify the efficiency of internal control and accounting systems;
- verify the accuracy of revenue estimates and to ensure that the revenue estimates are fair and based on adequate data and sound footing; and
- review refunds and exemptions of revenues and their legality.

2.2.4 The scope of each audit engagement will be risk based and will include test procedures to provide assurance over revenue audit assertions of assessment, collection and allocation and will in broad terms include:

- test checks to ensure that in matters of assessment, collection and allocation of revenues, applicable laws, regulations and procedures have been complied with;
- a review of the adequacy of regulations, procedures and processes relating to the assessment, collection and allocation of revenues;
- test checks to ensure that appropriate action has been taken on non-compliance.

2.3 Audit Assertions (ISSAI 1315: A121-A131; ISSAI 4200: 2-3)

2.3.1 The main objective of revenue audit is to provide assurance that adequate regulations and procedures have been formulated by the Revenue Departments to secure an effective check on assessment, collection and proper allocation of revenue.

2.3.2 In accordance with the INTOSAI guidelines, the assertions that the auditors are required to conclude on are implicitly stated in the above stated objective – namely: ASSESSMENT, COLLECTION and ALLOCATION.

- **ASSESSMENT** – to provide assurance adequate controls are in place to ensure appropriate and correct assessment of revenue.

- **COLLECTION** – that assurance exists for the correct and timely collecting and accounting for revenue due.
- **ALLOCATION** – that assurance exists to controls are in place to ensure correct allocation of revenue collected to heads of duty and accounts.

2.3.3 Providing assurance over the above assertion also involves consideration of assertions over revenue audit balances. These assertions include:

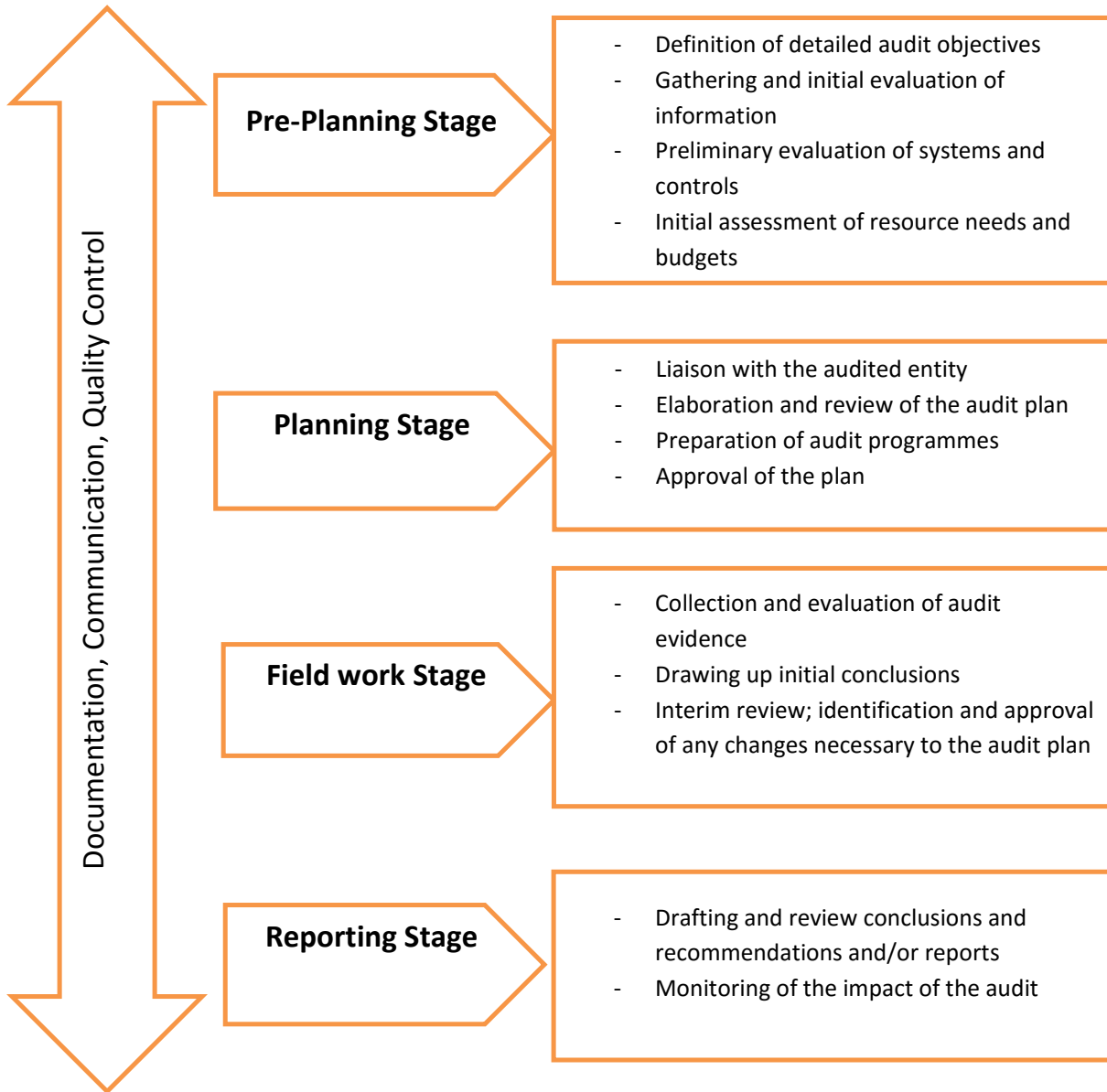
- **Occurrence** - transactions and events that have been recorded have occurred and pertain to the entity.
- **Completeness** - all transactions and events that should have been recorded have been recorded.
- **Accuracy** - amounts and other data relating to recorded transactions and events have been recorded appropriately.
- **Cut-off** - transactions and events have been recorded in the correct accounting period.
- **Classification** - transactions and events have been recorded in the proper accounts.
- **Regularity** – transactions are in accordance with applicable laws, rules and regulations.

2.4 Audit Process (ISSAI 100:34; ISSAI 4100: 1:7)

2.4.1 Revenue audit is a risk based audit that looks at the process of revenue assessment, collection and allocation by government in order to identify risks to the process and develops appropriate response. Typically, the audit process consists of the following stages:

- Pre-planning stage
- Planning stage
- Field work stage
- Reporting stage

The diagram below shows the stages and the expected audit tasks at each stage.



2.4.2 These stages are not necessarily distinct, and may overlap in some regard. Appropriate documentation, communication and quality control should also be maintained throughout the audit process.

2.4.3 Auditors are required to observe the audit process stages above in their audit planning, execution and reporting. Each of these stages will be discussed in more detail later in the manual.

2.5 Audit Approaches (ISSAI 1330)

2.5.1 The audit approach is the combination of different types of audit tests that are employed to obtain the evidence necessary to achieve the objectives of an audit. Generally an auditor will

adopt a systems-based or direct substantive testing approach.

The Systems Based Approach (SBA)

2.5.2 In this approach, auditor relies upon the entity's system of internal control where the auditor is satisfied to the adequacy and effectiveness of controls in place by the audited entities over their operations, the substantive procedures to undertake can be reduced in accordance with the level of assurance provided by the effective operation of the internal control system. The system based approach has the following stages:

1. obtaining, documenting and understanding the audited entity, including its system of internal control;
2. identification and in-depth evaluation of relevant key controls, and assessment of extent the extent to which (if any) the auditor can rely upon these controls provided that they are found to be operating effectively;
3. the testing of the operation of those key controls to establish whether they have operated effectively throughout the period under examination;
4. the evaluation of the results of the tests of control to establish whether the degree of reliance foreseen can be taken from the examination of the controls;
5. substantive testing of a number audit items to determine whether irrespective of the entity's system of controls, the audit objectives have been achieved.

2.5.3 Ideally the systems based approach to auditing is regarded as a more efficient and effective method than relying entirely on detailed or substantive tests, because it focuses attention on the reliability of procedures and controls. It also enables auditors to identify any underlying weaknesses and seek remedial action from audited bodies. It follows the principle that, 'prevention is better than cure'.

Direct Substantive Testing (DST) Approach

2.5.4 Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of detail and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

Substantive Analytical Procedure

2.5.5 Substantive Analytical Procedures involve developing an expectation of the value of the revenue stream based upon an understanding of plausible relationships between financial and non-financial data.

2.5.6 Where a suitable expectation has been developed and actual results are within a tolerable amount of the expectation, this provides the planned level of substantive assurance. Auditors may develop an expectation based upon:

- comparable information for prior periods;
- anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor;

- similar entity information, such as a comparison of cost levels to similar entities;
- relationships that would be expected to conform to a predictable pattern based on the entity's experience; or
- relationships between financial information and relevant non-financial information.

2.5.7 For example, auditor could perform a substantive analytical procedure on the non-tax revenue balances using independent data from the relevant Ministries, Departments and Agencies (MDAs) to predict what the revenue balances for these non-tax revenue streams should be for the year. To predict the revenue from the Immigration Department for the year, the auditor could obtain the department's own data on (i) the numbers and types of passports issued for the year and multiply these by the relevant rates for these passport types; (ii) the numbers and types of resident permits and visas issued multiplied by the appropriate fees and charges; and (iii) a similar exercise should be performed for all other revenue areas within the department. This predicted revenue should then be compared to the tax revenue for the area, and check if the difference is within tolerable limits.

2.5.8 Where fluctuations or relationships are identified that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor should investigate the reasons for these and either:

- obtain the planned level of assurance by identifying appropriate evidence to support the explanations received;
- identify misstatements in the recorded amounts; or
- (unusually) identify evidence that the identified relationship is not an appropriate basis for Substantive Analytical Procedures and revise the planned audit approach.

Test of details

2.5.9 Tests of detail are based on an audit of individual assessments to ensure that they are free from material error, comply with procedures and regulations and are correctly classified and recorded in the accounts. Their purpose is to obtain audit evidence to detect material non-compliance at the assertion level. However, irrespective of the assessed risk and level of reliance, the auditor should design and perform substantive procedures (tests of details) for each material area (e.g., class of transactions). Tests of details that may typically be performed include:

	E.g.
Computation	Re-performance of calculations on claims
Analysis (Excluding Analytical Review)	Analysis of legal basis, legal and budgetary commitments
Re-performance	Re-performance of already inspected or audited transactions
Inspection	Supporting document, Tax files

Enquiry and confirmation	Enquiry of auditee management and Staff, and Bank circulars
Observation	On the spot checks

2.6 Assuring Audit Quality (ISSAI 4100:5.2; ISSAI 200: 2.1.26 and 2.2.36)

- 2.6.1 INTOSAI Compliance Audit Guidelines (ISSAI 4100: 5.2.30) require that appropriate processes and procedures are in place to ensure that public sector auditors perform audits collectively having the necessary competence and skills to deliver quality audits and that the work of the team is appropriately directed, supervised and reviewed. The general guidance on Government Auditing and Standards with Ethical Significance (ISSAI 200: 1.2) further expands on the resource capability and recommends SAIs to adopt policies and procedures to recruit personnel with suitable qualification, develop and train SAI employees to enable them perform their tasks effectively; support existing skills and identify and plug skills gaps; and ensure appropriate mix of skills and resources exist to perform audit tasks.
- 2.6.2 The leadership of the Audit Directorate has the responsibility for adopting and implementing policies and procedures to ensure audit engagement team is appropriately constituted both in terms of quality and quantity and that the mix of skills available to the team is sufficient to effectively deliver on tasks assigned. The senior level officer heading each engagement team will confirm to the leadership that the team is appropriately constituted and adequately resourced to effectively undertake and deliver on the audit.
- 2.6.3 To provide assurance that the audit is appropriately directed, at the commencement of any audit, a director general level authorisation is required. The authorisation should include a clear statement of the objectives of the audit, its scope and focus, resources to be applied to the audit in terms of skills and quantum, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided. (See Planning [Approval of the Overall Audit Strategy](#))
- 2.6.4 Each member of the audit team has the responsibility for ensuring audit quality. Each team member, therefore, has to confirm the possession of appropriate skills and experience required for the audit tasks.
- 2.6.5 Line managers are required to provide evidence on file to demonstrate work supervision and review. In particular, there should be evidence of quality assurance on the audit plan, fieldwork and audit conclusions. All review points are required to be cleared before the sign-off of the audit.
- 2.6.6 Regular supervision during the audit should also be undertaken to ensure that:
1. the audit is proceeding within the budgeted time and programmed areas;
 2. the enquired standards in the Government Auditing Standards, the Audit Code and in this manual are followed;

3. working papers adequately document the work performed;
4. any significant variations considered necessary by the auditor are agreed in advance.

2.6.7 To provide an overall quality control assurance, the Directorate will participate in the annual programme of quality control inspections as may be agreed between the C&AG and the Director General of the relevant Audit Directorate.

2.7 Audit Documentation (ISSAI 4100: 7.2; ISSAI 1230)

2.7.1 The auditor should prepare the audit documentation so as to enable an experienced auditor not having participated in the audit to understand:

- the nature, timing and extent of audit procedures performed;
- the results of the audit procedures and the audit evidence obtained;
- significant matters arising during the audit, the conclusions reached and significant professional judgements made in reaching those conclusions.

2.7.2 In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- the identifying characteristics of the specific items or matters tested;
- who performed the audit work and the date such work was completed; and
- who reviewed the audit work performed and the date and extent of such review.

2.7.3 Recording the identifying characteristics enables the auditor to be accountable for work done and facilitates the investigation of exceptions or inconsistencies. Identifying characteristics will vary with the nature of the audit procedure and the item or matter tested. For example:

- For a detailed test of entity-generated purchase orders, the auditor may identify the documents selected for testing by their dates and unique purchase order numbers.
- For a procedure requiring selection or review of all items over a specific amount from a given population, the auditor may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register).
- For an observation procedure, the auditor may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.

2.7.4 The auditor shall assemble the audit documentation in an audit file and complete the documentation on a timely basis to enhance the quality of the audit and facilitate the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised.

2.7.5 The form, content and extent of audit documentation depend on factors such as the size and complexity of the entity, the nature of the audit procedures to be performed, the identified risks of material misstatement, the significance of the audit evidence obtained, the nature and extent of exceptions identified and the need to document a conclusion or the basis for a

conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.

- 2.7.6 Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include: Audit programs, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists and correspondence (including e-mail) concerning significant matters.

CHAPTER 3 – AUDIT PLANNING (ISSAI 4100:6; ISSAI 1300)

3.1 Audit Planning

3.1.1 The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in timely manner (ISSAI 300 Para 3.1.1). Good planning is of great importance to the success of an audit. Without it, there is a real danger that auditors may fail to obtain sufficient, appropriate audit evidence to support audit conclusions. This is a risk based audit that will look at the process of revenue collection by government in order to identify risk areas, assess the design adequacy of controls to address these risks, as well as the operational effectiveness of these controls. The risks of material misstatement to the revenue balances will also be considered and a suitable audit approach determined to address the risks identified.

3.2 Pre-planning Stage and the Overall Audit Strategy

3.2.1 The auditor is required to document the overall audit strategy (OAS). The OAS articulates among others, the existing knowledge by the engagement team about the client. Existing knowledge would include a consideration of issues from previous audits (for continuous audits), preliminary gathering and evaluation of publicly and sometimes privileged available information about the client. The OAS will also cover a preliminary evaluation of systems and controls and the initial assessment of risks, resource needs and the audit timetable.

The Overall Audit Strategy (ISSAI 4100: 6.5)

3.2.2 The overall audit strategy or the Operational Audit Plan is an internal document to assist the engagement team leader, a deputy director and above, in directing the audit implementation. The Audit engagement team should document the Overall Audit Strategy using the template presented as Annex 1 of this manual.

3.2.3 In establishing the overall audit strategy and documented in Annex 1, the auditor shall:

- (a) Identify the characteristics of the audit that define its scope;
- (b) Ascertain the reporting objectives of the audit to plan the timing of the audit and the nature of the communications required;
- (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the auditor's efforts;
- (d) Consider the results of preliminary audit engagement activities and, where applicable, whether knowledge gained on other audits performed by the Audit Directorate for the entity is relevant; and
- (e) Ascertain the nature, timing and extent of resources necessary to perform the audit.

3.2.4 The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:

- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to high yield processing centres or the audit budget in hours to allocate to high risk areas; and
- How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how Director General or Director and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete audit quality control reviews.

3.2.5 The Overall Audit Strategy should be kept within the audit file and will record the key decisions made in planning the audit and facilitate communication of significant matters to the audit team.

3.2.6 The Overall Audit Strategy guides the audit planning process, and so it is important to capture at this stage the Director's or Director General's expectations and concerns for the audit so that the audit can be planned to address them.

3.2.7 As part of developing the Overall Audit Strategy, the Director General will have identified the required Risk Assessment Procedures. The audit team should ensure that they follow this planned approach.

3.2.8 In planning the audit, the auditor should ensure that that all points identified in the Overall Audit Strategy flow through to the planned approach. Where detailed audit planning provides additional information, for example indicating that a possible risk identified in the Overall Audit Strategy is not relevant in the current year, the documentation should be revised, clearly setting out the basis for this conclusion and, where relevant, the supporting audit evidence.

Approval of the Overall Audit Strategy

3.2.9 Engagement team are not expected to undertake further audit work until the Overall Audit Strategy has been approved by the Director General and evidence retained on file. This ensures that the direction of the audit has the approval of the engagement leader and helps to drive efficiency by avoiding nugatory activities in the audit process.

3.2.10 Any changes to the Overall Audit Strategy should be subject to the same level of review and approval as the original Overall Audit Strategy. The changes should be clearly documented in the working papers. A formal consideration of the planning assumptions should be undertaken at the end of the development of the Audit Plan and at the end of the audit fieldwork stage.

Audit Planning Report (or the Opening Statement) - (ISSAI 4100:7.3; ISSAI 1260:15)

3.2.11 Upon the approval of the Overall Audit Strategy, the audit team should prepare Audit Planning Report (APR). This is the external version of the Overall Audit Strategy to communicate the current period audit plan to the client. It is also a stage setting document for discussing with the client, the proposed areas of audit focus based on the engagement team's initial risk assessment. The report will, among others, include the following:

- the work area to be audited;
- reasons for the audit;
- the perceived objective(s) of the system/ activity;
- its main risks;
- audit objectives;
- proposed scope of the audit; and
- reporting arrangements.

A template for the Audit Planning Report is shown in Annex 2.

Client Planning Meeting (ISSAI 1210)

3.2.12 The Team Leader along with his members of the team will arrange a formal opening meeting with the Head and other relevant members of the organisation to be audited before commencement of audit for introducing themselves and for discussion about the contents of the Audit Planning Report.

3.2.13 The objectives of this meeting are to obtain agreement to the draft Opening Statement and to obtain further strategic and lower level information (e.g. management Opinion on Risk) and to discuss any matters that might be important to the audit.

3.2.14 This is also a good opportunity to establish relationships for on-going communications throughout the Audit process. It is a good practice at this stage to explain and discuss the audit techniques to be used (e.g., the need to talk to key staff and to obtain other information later) and to obtain their co-operation in these matters. It is also a good idea to request a contact person through whom on-going communications can be conducted.

3.3 Understanding the Entity and its Environment (ISSAI 4100:6.4; ISSAI 1315)

3.3.1 The auditor should gain adequate knowledge of the legislative framework and other external factors impacting on the client entity (ISSAI 1315, ISSAI 4100:6.4). The auditor should use Annex 3 to document the following:

- 1) **Relevant industry, regulatory, and other external factors**- Understanding the laws and regulations governing revenue assessments and the collection of revenue are essential for auditors of revenue. The auditor should, in particular, be sensitive to changes in the

governing laws and regulations and even consider implications of impending or proposed changes to the extant laws and regulations.

- 2) **General organisation and governance** – Understanding of the operational structure, resources and management arrangements over the revenue stream.
- 3) **Business processes** - The purpose is to enable an understanding of the nature of the revenue and operations supporting the assessment, collection and allocation of the revenue. The auditor is required to:
 - give consideration to key characteristics of the revenue stream as this will assist in directing the auditor’s focus to areas of interest within the revenue stream.
 - develop a relevant and robust knowledge of the revenue’s end-to-end process regarding the assessment, collection and allocation of the revenue stream. In this regard, the auditor is expected to:
 - develop narrative systems notes of activities (importantly highlighting control steps) involved in the assessment, collection and allocation of the revenue stream.
 - where possible, also commission and produce process maps. These are pictorial representation of end-to-end of procedures and control activities for the assessment, collection and allocation of the revenue stream.

In understanding the revenue stream, it is important to recognise that a particular revenue stream may be administered in different locations where different processes and controls operate. It is, therefore, the auditor’s responsibility to ensure the systems notes and process maps reflect different processes and controls over the assessment, collection and allocation of the revenue stream. This is usually achieved by having separate systems notes and process maps for key operations within the relevant revenue stream.

- 4) **Business risks** related to the client’s objectives and strategies that may result in material deviations. This includes consideration of, the entity’s capacity to handle operational and legislative changes and whether the Information System is appropriately designed and configured to deliver business objectives.
- 5) **Performance measures**–Understanding the nature of performance measures helps the auditor in the consideration of whether there are pressures on the management to deliver and which may result in management actions that increase the risk of material irregularity.

3.4 Understanding Entity’s Internal Control (ISSAI 4100:6.6; ISSAI 1315; ISSAI 1330)

3.4.1 The auditor is required to assess the strength of the Overall Control Environment (ISSAI 4100:6.6; ISSAI 1315; ISSAI 1330). During planning, the auditor should be concerned with the existence of the high level structures which the audit entity has, in place, to maintain appropriate operational and functional oversight. The auditor is required to consider

implications for his audit of any identified weaknesses in the entity's internal control system. Annex 3 is available to document the auditor's assessment of the entity's internal control system.

3.4.2 In documenting their understanding of internal control systems including Information Technology (IT) Systems, the auditors should document their understanding of the following five interrelated control components for the entity:

1) Control environment - The purpose of understanding the governance arrangement over the revenue stream is to establish that appropriate structures exist to provide an effective oversight over the administration and operation of the revenue stream. The documentation should include details of management and other committee structures together and their respective responsibilities.

2) The entity's risk assessment process- Public Sector Bodies should have a risk assessment process, which should be appropriate for the size and complexity of the entity. The risk assessment process is involved in:

(a) Identifying business risks relevant to revenue audit objectives;

(b) Estimating the significance of the risks;

(c) Assessing the likelihood of their occurrence; and

(d) Deciding about actions to address those risks.

The auditor should engage with the client's key officers to understand and document how the above tasks are performed in the administration and management of the revenue stream.

3) Monitoring and Performance – The auditor should understand and document management actions over the operation of the revenue stream. In particular, the auditor should document the management's response to the following lines of enquiry:

- How do management measure the performance of the revenue stream?
- Key messages arising from management's monitoring of the revenue stream;
- The management's level of assurance over the accuracy of management information provided.

4) Control Activities–The auditors should document policies and specific procedures implemented by the client to ensure that risks identified are appropriately and effectively managed. These may include activities such as physical controls and segregation of duties, and management assurance programmes.

5) Information and Communication – The auditors should understand and document framework for achieving the revenue audit objectives. In particular the auditors should

have an understanding of how significant matters are communicated within the organisation and externally.

The auditor should also have sufficient understanding of the entity's information systems, in particular those supporting key revenue operations and their interaction with business controls to be able to:

- identify any related risks to operations;
- identify where business controls are dependent upon General Information Technology Controls (GITC); and
- plan an effective and efficient audit.

In this regard, the auditor is expected to include within the systems notes the manner of support provided by Information Technology (IT) in the assessment, collection and allocation of revenue. In addition, a diagram of IT systems and interfaces complimented by initial enquiry will help in the effective assessment of information flow for possible identification of areas of weaknesses to address. For the relevant systems, initial enquiry should include:

- the nature of management assurance carried out to ensure the system is processing information as intended;
- automated processes which rely on automated controls and operate outside the management assurance programmes;
- control over the systems' access, change and incident management and operations.

3.5 Materiality (ISSAI 4100:6.7; ISSAI 1320)

3.5.1 Auditors should set materiality limit when planning revenue audit so as to ensure that material deviations are detected by audit tests and resources are employed economically, efficiently and effectively (ISSAI 1320, ISSAI 4100:6.7). In general terms, deviations, or errors, are material if they, individually or aggregated with other errors or deviations, would reasonably affect the underlying audit conclusions or the decisions of the addresses of the revenue audit output.

3.5.2 Materiality should be considered by the auditor [ISSAI 4100:6.7 (68)] during:

- **Planning** – to assist assessing material risk and determining the nature, timing and extent of audit procedures;
- **Fieldwork** – to assist in the evaluation of new information which may require changes to planned audit approach and evaluating the effect of deviations;
- **Reporting** – to assist in identifying significant audit findings and, where required in forming an audit opinion.

3.5.3 In setting materiality level, the auditor should consider both quantitative and qualitative [ISSAI 4100: 6.7 (70)] factors:

- (a) **Quantitative materiality or Materiality by value** is determined by setting a numerical value. This is the materiality level or the Materiality threshold. The threshold is a necessary component in the calculation of sample sizes for substantive testing and in the interpretation of audit results.

The threshold is usually determined directly by fixing an absolute sum of money or indirectly by using a percentage (e.g. X% of gross revenue) to calculate such an amount. The recommended threshold percentage is between 0.5 % and 2% for the audit of revenue. The choice of percentage within the range is a matter for judgement by the auditor based on the auditor's knowledge of the revenue stream, including an understanding of the risks to the revenue stream.

- (b) **Qualitative materiality** should also always be assessed by auditors. These relate to matters that have to be considered at a lower level of value or incidence than the general determination of materiality and include items that may be material by nature or by context.

(i) **material by nature** - this is related to inherent characteristics and concerns issues where there may be specific disclosure requirements or high political or public interest. This includes fraud, intentional unlawful acts or non-compliance or intentional misstatements or misrepresentation of results or information, intentional disregard for follow-up of requests made by management, authoritative bodies or auditors and events and transactions made despite knowledge of the lack of legal basis to carry out the particular event or transaction.

(ii) **material by context**—these are situations where items are material by their circumstance, so that they change the impression given to users. In particular, it would not be appropriate to use quantitative materiality as the only benchmark in the context of systems failures. A system's weakness should be considered material after consideration has been given to both the quantitative aspect (financial impact) and the qualitative aspect (specifically, the seriousness of the short coming found). If the impact of these two elements together is judged to exceed defined limits, the system's weakness must be considered material.

3.6 Risk Assessment (ISSAI 4100:6.8; ISSAI 1240; ISSAI 1315 and ISSAI 1550)

3.6.1 International Standards on Auditing require the auditor to perform risk assessment procedures as early in the audit as possible. The outcomes of most of the risk assessment activities would have been documented using the 'Understanding the entity' and understanding the entity's internal control forms (ISSAI 1315, ISSAI 4100:6.8). The risk assessment activities together with their sources of information would include:

Risk Assessment Procedures	Sources of information
Inquiry – Seeking information from knowledgeable persons, inside or outside the entity to be audited	Those charged with governance, management and other entity key officers, Internal Audit (if external to the organisation)
Inspection – Examining records or documents whether internal or external to the entity	Visits to the entity’s premises and facilities
	Internal documents – Records and Manuals
	Entity’s website - Publicly available information about the entity
	Other Media –other publicly available information about the entity
	Findings from previous audits
Observation - Looking at a process or procedure being performed by others	Observation of the audited body’s activities and operations being carried out
Analysis of relationships in and between financial and non- financial information	Financial and non-financial information – to provide a broad preliminary indication of unusual or unexpected relationships (See Analytical procedure below)

3.6.2 Risk assessment performed as part of understanding the entity is geared toward identifying inherent risks existing within the entity. Inherent Risk is the risk related to the nature of the activities, operations and management structures that deviations will occur which, if not prevented or detected and corrected by internal control, will result in failure of the entity to achieve its objectives in terms of reliability and regularity.

3.6.3 Preliminary risk assessment on the entity’s control environment will help identify Control Risks. These are risks that the internal control arrangement will fail to prevent material deviations or to detect and correct them on a timely basis. Where the auditor expects to be able to rely on his or her assessment of control risk to reduce the extent of substantive procedures relating to compliance, the auditor should undertake a preliminary assessment of control risk (Design and implementation) and plans and performs tests of control to support that assessment.

3.7 Consideration of Fraud (ISSAI 4100: 6.8.1)

3.7.1 The auditor is, in particular, required to consider the risk of material non-compliance due to fraud. The Fraud Risk Assessment form at Annex 4 is designed to assist auditors in the evaluation of the potential risks of fraud in arriving at an assessment of the risk of material non-compliance due to fraud.

3.7.2 Auditors also should assess whether there is a significant risk of non-compliance. To do this, auditors should use judgement to evaluate relevant factors identified from the Risk Assessment Procedures including:

- the complexity of the regulations;
- the introduction of major new legislation or changes in existing regulations;
- services and programmes delivered through third parties; and
- payments and receipts made on the basis of claims or declarations.

3.7.3 Where the auditor in his/her judgement has identified risks that require special audit consideration (Significant risks) , the auditor should evaluate the design of the related controls and determine through testing whether these controls have been implemented effectively and continuously throughout the period under review.

3.7.4 The auditor's responses to significant risks should be clearly documented in the Areas of Audit Emphasis Testing Plan at Annex 5.

3.8 Analytical Procedures (ISSAI 1520; ISSAI 4100: 7.1.6)

3.8.1 As part of risk assessment, auditor should perform analytical procedures. These are the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts.

3.8.2 To carry out an effective audit we must have a detailed knowledge of the business. A structured approach to planning including the use of analytical procedures helps to improve this knowledge. We should apply analytical procedures at the planning stage to assist in understanding the entity's business in identifying areas of potentially high inherent risk and control risk and in planning the nature, timing and extent of other audit procedures.

3.8.3 Analytical procedures can be used on all audits at the planning stage to:

- confirm and improve their understanding of the organisation's activities;
- identify areas of potentially high inherent risk and control risk;
- identify significant non-routine or unusual transactions;
- assist in planning the nature, timing and extent of audit tests.

3.8.4 The knowledge which the auditor gains from analytical procedure at the planning stage can be used to support the rest of the planning process and the development of the audit approach for the revenue stream. Where analytical procedures used for planning reveal significant departures from expectations the auditor will need to develop specific procedures to discover the cause of these fluctuations.

3.8.5 The auditor will usually consider information from various sources both internal and external to the organization, when undertaking analytical procedures at the planning stage and at later stages. Typically the auditor may consider information such as:

- prior year financial information;
- appropriate external reports (e.g. performance and statistical reports);
- relevant non-financial information (e.g. staff numbers, claims processed);

- reports and other analysis by the organisation's management comparing the current period results with prior periods and with current period budgets and forecast, and
 - data on significant ratios and achievements against performance targets.
- 3.8.6 The sophistication and extent of the analytical procedures applied at the planning stage are matters for the auditor's judgment and will vary depending on the size of the organization, its complexity and the availability of information. For some organizations the procedures may be limited to reviewing changes in account balances between the prior year and the current year. In other organizations the procedures might involve more extensive analysis of monthly financial information and comparisons with non-financial data.
- 3.8.7 These procedures will help the auditor to identify change in the organization's activities and operations which may affect the assessment, collection and allocation of the revenue stream. They should also direct the auditor's attention to specific areas of the revenue streams which require particular consideration.
- 3.8.8 Auditors should seek explanations for significant variances and use the outcome to inform the audit approach.

3.9 Revenue Audit Test Plan (ISSAI 4100:6.8; ISSAI 1240; ISSAI 1315 and ISSAI 1550)

- 3.9.1 In developing a revenue audit test plan, the auditor should identify key processes, risks and controls in place for each revenue component. In the case of tax revenues, components could be Personal Tax, Corporate tax, VAT, or Customs.
- 3.9.2 Auditors should ensure that all relevant assertions regarding the assessment, collection and allocation of the revenue are adequately covered.
- 3.9.3 Auditors should focus their attention on assessing the adequacy and implementation of internal controls put in place by the management of the Revenue Authority. These controls are in place to ensure that all tax returns are received; correctly assessed and outstanding amounts are collected and appropriately allocated to the correct head of duty. Where controls are in place and operating effectively, the auditors are required to perform minimum substantive testing. It is always necessary to perform some substantive tests due to:
- i. mitigate the risk of management override of controls or collusion;
 - ii. comply with the requirement by international auditing standards that all material accounts should be tested.
- 3.9.4 Where the Revenue Authority has not put in place appropriate controls, auditors are required to perform extensive substantive audit procedures, including physical inspections at the taxpayers' premises (for tax revenue).
- 3.9.5 Revenue transaction cycle or process includes the consideration of the following steps:
- **Identifying the revenue base** – have we identified the liable traders/customers?

- **Receiving declarations** – have these traders/ customers sent in returns when due?
- **Assessment of declarations** – do they include all relevant income and are these accurately calculated and charged?
- **Recording revenue in the system**- whether the revenue has been correctly recorded and allocated to the correct head of duty.
- **Recording cash receipts** – whether cash received, recorded and agreed to cash receivable, deposited into bank on a timely basis and bank balance agreed.

3.9.6 In light of the above, a generic revenue audit plan, will include consideration of risks within the transaction cycle and possible controls to mitigate the risks and tests to provide substantive assurance, especially where internal control is found to be absent or deficient (as per table below):

	Risk	Controls	Audit programs
ASSESSMENT	<ul style="list-style-type: none"> • Fraudulent/ ineligible traders / customers infiltrate the system 	Good Traders/ customers registration procedures	<p>Tests of Control: Management assurance in place to ensure only eligible traders/customers makes it on to the system.</p> <p>Substantive Test: Ensure appropriate procedures are observed for a sample of new traders / customers registration applications.</p>
	<ul style="list-style-type: none"> • Non-submission of returns • Late submission of returns • Non-payment of penalties 	<p>Returns/ declarations received should be periodically compared to the list of registered taxpayers</p> <p>Returns/ declarations submitted late that penalties are charged to those taxpayers.</p>	<p>Tests of Control: Inspect evidence that the delegated official has reconciled the returns received to the list of taxpayers.</p> <p>Substantive Test: Reconcile the list of taxpayers to the return received and identify taxpayer who did not submit returns / declarations submitted returns late. For taxpayers who did not submit returns / declarations identify whether the penalties were charged correctly.</p>
	<ul style="list-style-type: none"> • Incorrect assessment of liability 	Delegated official should inspect	<p>Tests of Control: Inspect evidence that the</p>

	Risk	Controls	Audit programs
		<p>and review selected returns to supporting documents, including financial statements and other relevant information.</p> <p>The criteria to select files for review should be consistently applied.</p>	<p>delegated official has reviewed selected returns and:</p> <ul style="list-style-type: none"> Reconciled the returns received to the list of taxpayers. Recalculated the tax payable. <p>Inspect files assessed and confirm whether selection criteria for assessments have been applied consistently.</p> <p>Substantive Test: For selected sample of returns / declarations: Compare income on supporting documents to estimated taxable income on the return. The taxes have been correctly charged.</p>
COLLECTION	<ul style="list-style-type: none"> Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	<p>Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.</p>	<p>Tests of controls: For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests: For selected assessments confirm that payments have been recorded:</p> <ul style="list-style-type: none"> - At the correct amounts, - In the correct account, - In the correct period.
	<ul style="list-style-type: none"> Not all cash received is recorded. 	<p>Pre-numbered receipts are issued and regularly accounted for. Cash book is updated with all receipts. Unused receipt</p>	<p>Tests of controls: Inspect the cash book and identify whether it is maintained and up to date. Inspect documents and confirm that: Pre-numbered receipts are used by cashiers. Unused receipt books are stored</p>

	Risk	Controls	Audit programs
		books are stored safely. Issues of receipt books are documented.	safely. Receipt book issues are documented. For selected periods inspect proof that pre-numbered receipts are accounted for regularly (daily, weekly). Substantive tests: For a selected period, account for all the receipt books and pre-numbered receipts issued. For a selected sample of receipts confirm that receipts have been recorded: <ul style="list-style-type: none"> • accurately in the ledger; • in the correct account; and • in the correct period.
	<ul style="list-style-type: none"> • Not all cash receipts are banked or not banked on a timely basis. 	Regular daily / weekly deposit of cash received. Independent reconciliations between receipts issued and amounts deposited in the bank.	Tests of controls: Inspect proof of: Regular banking of cash received, Independent reconciliation of cash received and deposit slips, Daily cash ups for all cashiers, Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank. Substantive tests: For a selected sample of receipts issued confirm that cash was banked timely. For selected days confirm that all cash received have been adequately accounted for and

	Risk	Controls	Audit programs
			banked timely.
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	Good procedure in place to ensure unpaid liabilities is pursued.	<p>Tests of Controls: Inspect evidence of review of arrear report by a higher authority</p> <p>Substantive tests: For a sample of outstanding amount, confirm follow – up action has been effected in accordance with the organisation’s debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in to head of duty or accounts. 	Independent checking of classification of revenue.	<p>Tests of Controls: Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests: Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>

3.9.7 As the above is generic and indicative of the likely areas a revenue audit plan will address, auditors are required to exercise judgement to ensure the test plan for any revenue stream adequately reflects the specific nature of the revenue stream. The risk assessment process already carried out at planning should assist the auditor in this regard.

3.9.8 Auditors should use the template at Annex 6 to document audit plan for each revenue stream. Main features of the template:

- Breakdown of revenue stream into processes (end-to-end);
- Documentation of risks within end-to-end activities of each process;
- Identification and documentation of controls mitigating risks identified. For each control, auditors should document the design of the control, how the implementation of the control will be evaluated and how the control will be tested; and
- Substantive procedures to perform to compliment planned control tests.

3.9.9 Some tips on controls identification and documentation are set out below:

a) **Control Activities:** Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities include:

- approvals,
- authorisations,
- verifications,
- reconciliations,
- reviews of operating performance,
- security of assets,
- segregation of duties, and
- information processing activities, for example:
 - exception/edit reports,
 - system configuration controls, and
 - interface controls.

b) **Identifying Relevant Controls** - When determining which controls to evaluate, we consider the following factors:

- the nature of the controls (i.e. preventative or detective),
- the risk that the control addresses,
- the significance of the control in achieving the objective of the control (is more than one control necessary to achieve the control objective?),
- the number of different assertions addressed by each control,
- the risk that the control might not operate effectively, for example:
 - changes in the volume or nature of transactions that might adversely affect control design or operating effectiveness
 - changes in the design of controls
 - the degree to which the control relies on the effectiveness of other controls, such as IT general controls,
 - changes in key personnel who perform the control or monitor its performance,
 - whether the control relies on the performance of an individual or is automated,
 - the complexity of the control (e.g. the extent of judgement necessary to effectively operate the control), and
 - the results of tests of controls performed in prior periods.

c) **Documentation of controls** - When documenting controls we record:

- the objective of the control;
- how it is performed;
- how frequently it is applied;
- who performs it (considering the knowledge, experience, and expertise of the person performing it);
- the nature of the size of the potential misstatements, both intentional and unintentional, that it is likely to prevent, detect or correct; and
- whether the control has an IT component.

3.9.10 Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. We can then test the presence or absence of those conditions to determine whether the controls have operated effectively.

3.10 Areas of Audit Emphasis (ISSAI 1330)

3.10.1 International Standards on Auditing require auditors to provide appropriate response to significant risks. Such risks would usually not have been addressed through the normal audit response as documented in the Revenue Audit Plan.

3.10.2 Where auditors have identified risks that require special audit consideration, auditors should document audit approach to provide the necessary audit assurance.

3.10.3 The response should include the identification and evaluation of controls in place to mitigate the observed risks. Where the controls are judged to be adequate, the auditors are required to test these controls before placing reliance and also test to confirm the effective operation of the controls throughout the period.

3.10.4 Auditors should consider using the template in Annex 5 to document areas requiring special audit consideration.

3.11 Audit Programmes (ISSAI 4100:6.9)

3.11.1 The audit programme is a set of instructions to the audit team that lays out in detail the nature, timing and extent of the audit procedures which the auditors are to adopt. It also states the audit objectives and indicates the sample sizes and basis of selection. The results of the audit work done and the conclusions drawn there from should also be shown.

3.11.2 Auditors are required to translate the contents of the Revenue Audit Plan and the Areas of Audit Emphasis into audit programmes.

3.12 Audit Assurance Model

- 3.12.1 Generally 95% level of confidence is required audit testing through substantive procedure or in combination with controls testing. The nature and extent of planned audit tests will vary, depending on the auditor's assessment of both inherent and control risk (known as the combined risk assessment).
- 3.12.2 The Assurance Model provides audit response to audit risk, which is the risk that the auditor will fail to express a reservation material non-compliance. As it is almost always impractical to test all items of audit population, the auditor must accept some level of audit risk, hence the general 95% level of confidence.
- 3.12.3 There are three components of audit risk. These are:
- **Inherent risk (IR):** the risk of material non-compliance occurring in the first place regardless of the existence of internal controls;
 - **Control risk (CR):** the risk that internal controls within the audited entity will fail to prevent or detect a material non-compliance;
 - **Detection risk (DR):** the risk that any material non-compliance that has not been corrected by the organisation's internal controls will not be detected by the auditor.
- 3.12.4 The auditor must assess the inherent and control risks and, based on those assessments, design appropriate audit response to reduce detection risk to a level which, in the auditor's judgement, results in an appropriately low level of overall audit risk. This is achieved through the audit assurance model.
- 3.12.5 There is a relationship between the auditor's assessment of inherent and control risk on the one hand and the acceptable level of detection risk on the other. The higher the auditor assesses the level of inherent and/or control risk to be, the greater the level of audit work that will be required to lower the detection risk sufficiently to achieve the desired level of audit risk.
- 3.12.6 In developing the Audit Assurance Model, the starting point is the assessment of the inherent risk and the preliminary evaluation of the supervisory and control systems, the aim being to estimate the degree of confidence that can be derived from the latter. Depending on the results, the level of substantive testing providing the remaining confidence level has to be determined.
- 3.12.7 The following table shows the components of the audit risk model, and the resulting assurance level derivable from control and substantive procedures:

Assessed Inherent Risk	Evaluation of Internal Control System	Assurance from Combined Risk Assessment	Confidence from Inherent and Control Assurance	Residual level of Substantive Testing to be carried out
Not High	Good	High control assurance	Inherent Assurance plus Control Assurance	Minimum
	Poor	No control assurance	Inherent Assurance, but No Control Assurance	Standard
High	Good	High control assurance	No Inherent Assurance but Control Assurance, Control test can be extended to reduce Substantive Test	Standard
	Poor	No control assurance	No Inherent Assurance and No Control assurance. Assurance only from Substantive Tests.	Focused

3.12.8 Auditors are required to use the above table to develop their audit approach demonstrating that the extent and quantum of audit work is based on perceived risk to the audit, as well as the extent and the effectiveness of controls to mitigate those risks. This is the heart of risk based methodology. In the above table, where the assessed inherent risk is low and the control environment is good, the auditor should consider developing plan that takes assurance from the low inherent risk and the good control environment and perform only minimum substantive work.

3.12.9 Whilst it is deliberate not to be too prescriptive as to what constitutes a minimum, standard or focused substantive testing thereby giving room for the exercise of professional judgement, auditors are required to demonstrate through working paper evidence that more work has been done for planned focused testing than would have been for standard testing and where standard testing is planned, more work has been done than would have been for minimum testing. The key is to demonstrate that the level of work carried out agrees with work plan

3.13 Determining Audit Sample Size (ISSAI 1530)

3.13.1 The choice of audit approach will direct the nature, extent and size of audit sample. If we are able to obtain assurance over the operating effectiveness of appropriately designed and implemented controls, this reduces the extent of our substantive procedures. Controls tests are audit procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material non-compliance.

3.13.2 To standardise approach, it is, therefore, essential to develop a directorate wide system of determining the sample size for controls tests and for substantive procedures. These are covered below.

3.14 Determining Sample Size for Controls Testing

3.14.1 As 'controls' testing reduces the scope of substantive procedures, it is important that we are clear how the controls being tested provide assurance over each assertion that we are relying on them for, and that we have appropriate evidence to support our conclusion that the control would prevent or detect a material non-compliance.

3.14.2 In determining the extent of tests of controls, we should also consider:

- the frequency of the control;
- the expected rate of deviation from a control;
- the relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level;
- the length of time during the period that we are relying on the operating effectiveness of the control (typically, this will be the full period).

3.14.3 In selecting control sample, therefore, auditors are required to exercise professional judgement ensuring, in particular, that the number of sample selected reflects the frequency (e.g. Daily, Weekly, Monthly, Quarterly, Annually, etc.). It logically follows that more samples would be required for testing where control is performed more frequently (e.g. Daily).

3.14.4 When testing to obtain assurance that the control operates throughout the year, the sample should be selected across the year. Particularly it must include year-end samples.

3.14.5 The Engagement Team should select items for testing effectively to obtain the planned level of assurance. In general, this will be through selecting a representative sample, i.e. selecting items for the sample in such a way that each "sampling unit" in the population has a chance of selection.

3.14.6 The "sampling units" that the auditors will select for testing will vary depending on the nature of the control and the detail of how it operates. For example testing a control based on the review of month-end reconciliation would take into account how the review of the month end reconciliation is performed.

3.15 Determining Sample Size for Substantive Testing

3.15.1 The actual number of sample tested in each category of audit population is a matter of judgement by the auditor. However, the judgement should reflect that the auditor has taken into consideration materiality and assessed risks relating to the area tested. There should also be evidence that more substantive work has been performed where the auditor plans to place more reliance on substantive testing.

3.15.2 For simplicity, we have not been prescriptive on sample size determination in this manual. Therefore, auditors are required to consult the relevant sections of the newly developed **Financial Audit and Compliance Manual** for more guidance on sample size determination and sampling methodology.

3.16 Audit Sampling (ISSAI 1530)

3.16.1 Audit sampling refers to the application of audit procedures to less than 100% of items in a population, so that all individual items in the population should have a chance of selection. In order to be able to form conclusions about certain defined characteristics of the population without testing the whole population, the sample drawn should be representative of the population and free from bias.

3.16.2 Audit sampling usually involves statistical sampling (although a non-statistical sample where all items have a chance of selection would also enable us to draw conclusions about the whole population).

3.16.3 The decision whether to use a statistical or non-statistical approach depends on the auditor's judgment. However, only the results of statistical samples can be projected to the population.

3.16.4 In the choice and design of an appropriate sample approach, the auditor should consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

3.16.5 Methods of sample selection include:

- **Simple Random Sampling** (for high error rate balances) - the main characteristic of this method is that every transaction has the same chance of being included in the sample. For example, if an auditor wishes to test 12 income tax assessments out of a population (e.g. total number) of 1000 tax assessments, then the numbers selected will require the use of random number tables. The tables ensure that the 12 assessments selected are random, whereas if selected by auditors haphazardly (i.e. based on judgment) the sample is likely to be biased and not representative.
- **Systematic Selection** is a modified form of random selection. The first item to be tested is selected randomly (from random number tables) but the remaining ones are based on the sampling interval required. For example, suppose an auditor needs to test 5 invoices out of a total of 1000, then:

Step 1 Calculate sampling interval = $1000/5 = 200$

Step 2 Select item 1 from random number tables = say invoice number 25
(based on 25th invoice)

Step 3 The remaining items to be tested will therefore be, 225, 425, 625, and 825, i.e. 200 are added to 25 and so on.

- **Profiling (Cell Selection)** - is a further refinement of random selection. Under this method the population is first divided into discrete sub-populations which share characteristics which may be of audit interest. Sampling can then be carried out in each sub-population. For instance, Corporation Taxes could be split between Public Bodies and Non- public Bodies before randomly selecting a sample of assessments from each category. To use this method, a good knowledge of the audit area is required.
- **Judgemental Sampling** - this is a method where the sample size is set judgementally, rather than on statistical grounds. In order to provide assurance over an assertion, the sampling method should give each item in the population a chance of selection.
- **Monetary Unit Sampling (MUS)** - this is a method where the higher the value of a transaction or balance, the more likely it is to be selected.

3.16.6 The sample size should be sufficient to allow the auditor to conclude, at an appropriate level of sampling risk (i.e. the risk that the auditor's conclusion based on a sample may be different from the conclusion that would have been reached if the entire population had been tested) that:

- for tests of controls, the total rate of deviation does not exceed the tolerable rate of deviation (Refer to **Determining Sample size for Controls testing** and **Evaluating the results of test of Controls**)
- for substantive tests of details, the monetary amount of the deviation does not exceed that which the auditor is willing to accept (*Refer to **Determining Sample size for Substantive testing** and **Evaluating the results of tests of details***)

3.17 Maintaining Oversight Over Planning Process

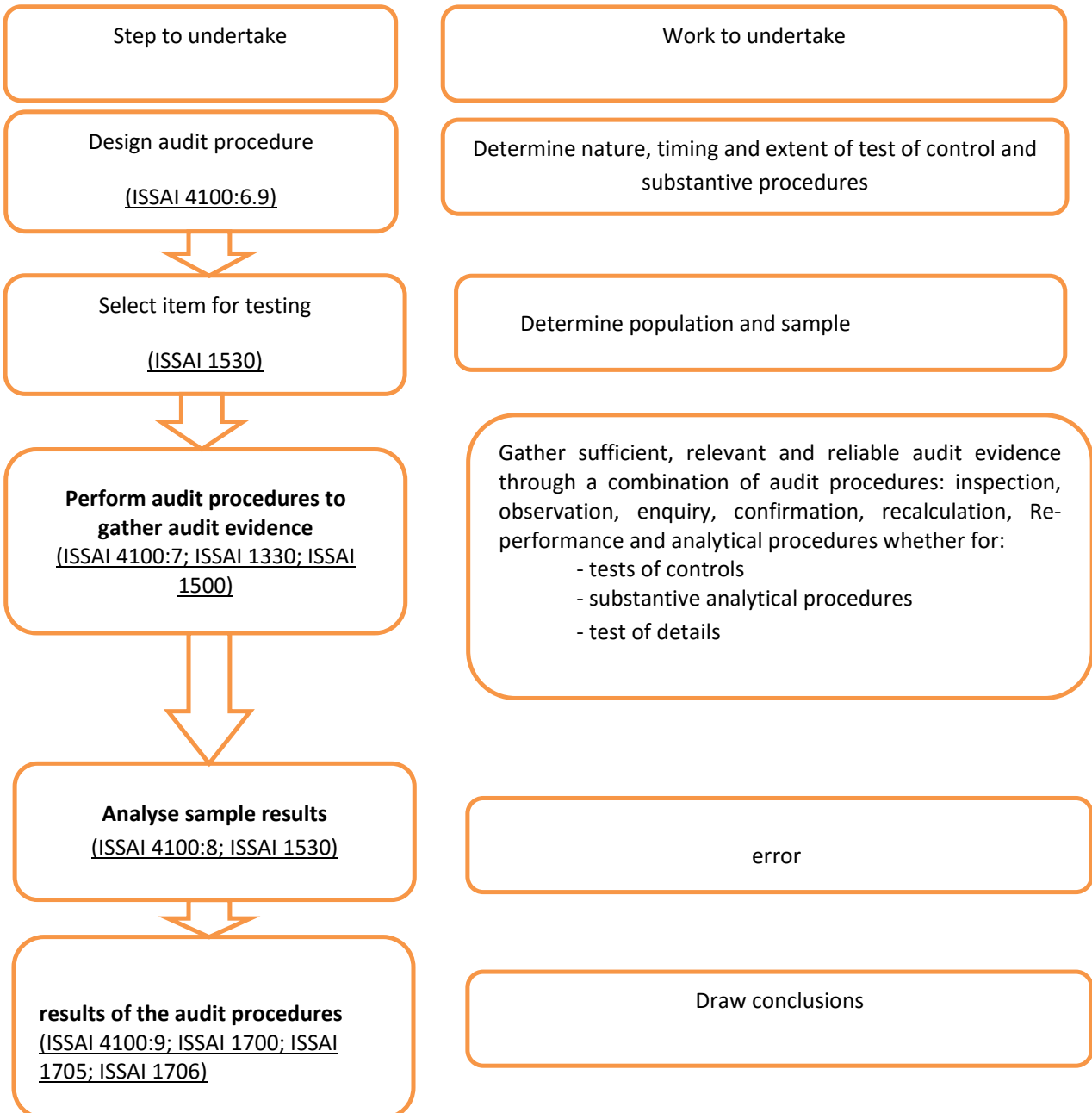
3.17.1 Auditors should consider, using the template in Annex 7, to provide assurance that all key steps in the planning process have been addressed and documented in the relevant section of the audit file.

CHAPTER 4 – AUDIT FIELDWORK

4.1 An Overview of Audit Examination Process

4.1.1 The audit examination phase consists of carrying out the audit procedures as planned, modified as necessary during the course of the audit, and evaluating the results thereof (ISSAI 4100:7).

The diagram below provides an overview of audit examination process



4.1.2 Evidence may be obtained at the fieldwork phase by carrying out a mixture of tests of controls (preceded by design and implementation of the controls concerned), substantive tests of

details and analytical procedures. While the auditor obtains some audit evidence by testing the records (e.g. computation – re-performing calculations or verifying accuracy by performing different calculations - or analysis), this alone is not sufficient audit evidence on which to base an audit conclusion, and other procedures are also used (e.g. inspection, observation, or enquiry and confirmation).

4.2 Audit Evidence (ISSAI 4100:7; ISSAI 1230; ISSAI 1315; ISSAI 1500)

4.2.1 **Competent, relevant and reasonable** audit evidence should be obtained in support of the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit (ISSAI 300: 3.5.1, ISSAI 4100:7.1).

4.2.2 **Competent evidence** is information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability. The auditor is frequently confronted with a choice of alternative forms of evidence, sources and method and it is incumbent on the auditor to seek to ensure that the most reliable sources and methods are employed within the time and cost constraints imposed upon the audit.

4.2.3 **Relevant audit evidence** is information that is pertinent to the audit objectives. To ensure the audit evidence is relevant, the objectives of the audit must be clearly defined at the planning stage.

4.2.4 **Reasonable audit evidence** is information that is economical in that the cost of gathering it is commensurate with the result that the auditor is trying to achieve. Cost-effective audit evidence will require the auditor to evaluate at an early stage in the audit process, the alternative audit approach (Systems Based Approach, Direct Substantive testing Approach and varying combination of the two approaches) and to judge which of these will achieve the desired results most economically.

4.2.5 Sources of Evidence

Audit evidence can be generated directly by the auditor, or obtained from third parties or the audited entities. Generally speaking, evidence generated directly by the auditor will be more reliable than that obtained from others, whilst evidence obtained from third parties may be more reliable than that obtained from the audited entity, in particular where the evidence is truly independent and complete.

4.2.6 Methods of Obtaining Evidence

Evidence may be obtained by one or more of the following audit techniques:

- Inspection (ISSAI 1500, para A14 –A16);
- Observation (ISSAI 1500, para A17);
- External Confirmation (ISSAI 1500, para A18);
- Recalculation (ISSA 1500, para A19);
- Re-performance (ISSA 1500, para A20);

- Analytical procedures (ISSAI 1500, para A21);
- Inquiry (ISSAI 1500, para A22); and
- External confirmation.

4.2.7 The auditor must make a judgement regarding which method of obtaining evidence will be suitably reliable and balance reliability of evidence against the cost of obtaining it.

4.3 Performing Tests of Controls (ISSAI 1330)

4.3.1 Auditors are required to test controls before placing reliance on those controls. The objective of tests of controls is to evaluate whether those key controls operated effectively and continuously during the period under review. If the tests of controls confirm that the controls have operated continuously and effectively throughout the period under review, then reliance can be placed on these controls, and minimum substantive testing can be performed.

4.3.2 When these controls are found not to have operated continuously and effectively throughout the period under review, the auditor should reassess the audit approach, and increase the extent of substantive testing to be performed.

4.3.3 The process of controls testing involves understanding of the controls that are relevant to the audit, evaluate the design and implementation of these controls and test the operating effectiveness of the key controls.

4.3.4 Identifying and understanding relevant controls are covered under audit planning (*Refer: Some tips on the Identification of controls - para 3.9.9 of chapter-3*). Evaluation of design and implementation of controls; and testing of key controls are covered below.

4.4 Evaluating the Design and Implementation of Controls (ISSAI 1315:13, A66- A68)

4.4.1 Obtaining an understanding of internal controls involves:

- evaluating the design of a control, and
- determining whether it has been implemented.

4.4.2 Evaluating the design of a control involves considering whether the control individually or in combination with other controls is capable of effectively preventing, detecting and preventing, material misstatements. Implementation means the control exists and the entity is using it.

4.4.3 Evaluation of the design and implementation of controls may include:

- inspection of documents and records,
- observation of controls being performed,
- inquiries of appropriate personnel (supplemented by other procedures).

4.4.4 Auditors should evaluate the design and implementation of controls to understand how controls were applied, and their consistency, at relevant times during the period. Practical steps would be through a walkthrough of controls, which would include:

- Understand/document the transaction flow and policies & procedures of the controls,
- Confirm the process, data used for controls and time of the control is in place,
- Interview individuals performing the control on the type of information they look for, how they detect errors, deviations and/or anomalies, and how they treat them.

4.4.5 Auditors should not proceed to test controls unless the design and implementation of such controls are judged to be inadequate. That is, a confirmation that the control in its current form is well designed and implemented to address the risk identified. Assurance that the control is actually addressing the risk can then be obtained through the test of effectiveness of the control.

4.5 Testing the Operating Effectiveness of Controls (ISSAI 1240; ISSAI 1330)

4.5.1 Tests of operating effectiveness of controls (and related controls such as IT controls) are necessary in the following circumstances:

- Where substantive procedures alone do not provide sufficient appropriate audit evidence (ISSAI 1330:8b);
- Where the nature, extent and timing of our planned substantive procedures include an expectation that controls are operating effectively (i.e. we plan to rely on controls to reduce the extent of our substantive testing (ISSAI 1330:8a);
- Where a fraud risk has been identified for the audit objective (ISSAI 240:32c).

4.5.2 Tests of the operating effectiveness of controls should only be performed on those controls judged as suitably designed to prevent, or detect and correct, a significant misstatement in an assertion.

4.5.3 The purpose of testing the operating effectiveness of controls is to obtain audit evidence that the relevant control has been operating effectively, as designed, at relevant times during the period of the audit. Therefore, auditor may be required to perform a test of operating effectiveness at more than one point during the audit.

4.5.4 Tests of operating effectiveness are concerned with:

- how controls were applied,
- the consistency with which they were applied during the period, and
- by whom they were applied.

4.5.5 When testing the operating effectiveness of controls, auditor should consider the nature, timing, and the extent of testing as well as the reliability of underlying data (ISSAI 1330:6).

Nature	<p>Control testing techniques that can be used to obtain evidence about the effectiveness of the operation of controls:</p> <ul style="list-style-type: none"> • Observation: Observe the performance of the control. • Inquiry: Ask a knowledgeable person about the operation of a control. • Re-performance: Re-perform the operation of a control to ascertain
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	<p>that it was performed correctly.</p> <ul style="list-style-type: none"> • Inspection: Look at the records or documents supporting the operation of the control. • Corroborative Inquiry: Corroborate the results of inquiries concerning the performance of a control through confirmation with other members of the entity. Corroboration helps to confirm the validity and consistency of the application of a control. • Knowledge assessment: Combine inquiry, inspection, and re-performance techniques to test an individual's knowledge of a subject or his or her ability to perform a control effectively. • System Query: Test automated controls within an information technology application to determine whether they are operating as expected. <p>Auditor should perform other audit procedures in combination with inquiry to test the operating effectiveness of controls.</p>
Concurrent Testing	<p>Auditor can design tests of control to be performed concurrently with tests of details on the same transaction. This is also known as dual-purpose testing.</p> <p>The objective of tests of controls is to evaluate whether a control operated effectively.</p> <p>The objective of tests of details is to detect significant misstatements at the assertion level.</p>
Timing	<p>The timing of tests of controls depends on the audit objective and the period of reliance on those controls.</p> <p>If controls are tested at a particular time, evidence that controls operated effectively could only be obtained for that particular time.</p> <p>If controls are tested throughout a period then evidence can be obtained that the controls operated effectively during the period.</p> <p>Where tests of controls have been performed prior to the period-end; the auditor should consider the additional assurance required for the remaining period.</p>
Extent	<p>The extent includes the specific quantity of an audit procedure to be performed, for example, the sample size or the number of observations of a control activity.</p> <p>The auditors are required to determine the extent of an audit procedure after considering:</p> <ul style="list-style-type: none"> • The (planning) materiality for the audit • The assessed risk of material misstatement (i.e. high or low) • The degree of assurance we plan to obtain. <p>The extent of audit procedures will usually be increased as the risk of significant misstatement increases.</p> <p>However, increasing the extent of an audit procedure is effective only if the</p>

	audit procedure is relevant to the specific risk; therefore, the nature and timing of the audit procedure is the most important consideration.
Reliability of underlying data	<p>Auditors need to consider the following factors when planning tests on the compilation of underlying data:</p> <ul style="list-style-type: none"> Risk of deliberate manipulation of the data Consideration is given to the entity's control environment, past experience of the relevant operating / accounting system and its reliability, management bias, our understanding of the quality of management information systems and comments received about the system producing reports. Audit trail Need to reconcile the number of transactions subject to the control (reconciliation, KPI, etc.) to the underlying books and records of the entity for which auditors are gaining audit evidence. Level of precision at which the control is operating Need to consider whether the control is performed at a level consistent with expectation. <p>If auditors identify indications that the underlying data may not be reliable, auditors may extend testing on the compilation of the underlying data.</p>

4.6 Performing Substantive Procedures

4.6.1 The extent of substantive procedures refers to the choice of the nature and size of the sample in order to address all the significant risks in all the relevant audit assertion. See the **Audit Assurance Model**.

4.6.2 Substantive procedures are concerned with monetary amounts and are of two types (ISSAI 1330: 4):

- Substantive analytical procedures; and
- Tests of details - test procedures applied to selected individual items.

4.7 Substantive Analytical Procedures (ISSAI 4100:7.1.6; ISSAI 1520)

4.7.1 The use of analytical procedures involves acquiring information from various sources in order to determine what is expected; comparing the actual situation with that expectation; investigating the reasons for any discrepancies arising; and evaluating the results (ISSAI 4100: 7.1.6).

4.7.2 Analytical procedures may be used at three stages in the audit process:

- **Planning** - as risk assessment procedures, in order to identify areas of potential risk and help design further audit procedures (ISSAI 1315);
- **Execution** –as substantive procedure, to provide direct, positive and corroborative evidence for audit assurance (ISSAI 1520);

- **Conclusion** - as part of the overall review at the end of the audit, to help assess if external information is consistent with audit findings (ISSAI 1520).

4.7.3 The use of analytical review as a substantive procedure involves predicting values, based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.

4.7.4 Auditors may develop an expectation based upon:

- comparable information for prior periods;
- anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor;
- similar entity information, such as a comparison of cost levels to similar entities;
- relationships that would be expected to conform to a predictable pattern based on the entity's experience; or
- relationships between financial information and relevant non-financial information, such as with some non-tax revenue.

4.7.5 Analytical review process is shown below:

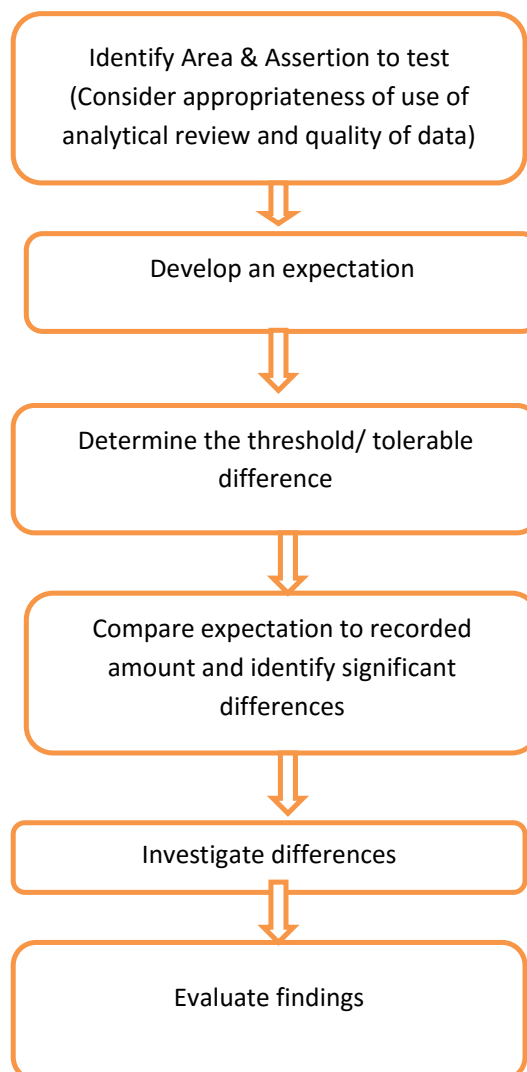


Illustration on the use of analytical procedure to audit revenue

The Assistant Commissioner (Land) office has responsibility for collecting land taxes. The total amount of land tax chargeable depends on total quantities of the applicable land category (commercial, residential, khas) and rate of land tax, as different rates apply to different categories of land.

Analytical procedure could be used to confirm the accuracy and completeness of total land taxes collected by calculating the expected land tax revenue (multiplying the quantities of different categories of applicable land with the respective rate of land tax). The calculated amount can then be compared with the actual collections to establish if difference remains within the tolerable amount.

See the application of the substantive analytical procedure below:

Procedure step	Example																				
Identify area and assertion to test	The area is the land taxes collected and the assertion to test is completeness. (Given the relationship between the quantities of applicable land, chargeable fees and the total amount collected, assurance can be taken through substantive analytical procedure for the area).																				
Develop an expectation	<table border="1"> <thead> <tr> <th>Type of Land</th> <th>Quantity of Land</th> <th>Land Fees (BDT)</th> <th>Total Expected Land Fees (BDT)</th> </tr> </thead> <tbody> <tr> <td>Commercial</td> <td>10,000</td> <td>225</td> <td>22,50,000</td> </tr> <tr> <td>Residential</td> <td>30,000</td> <td>100</td> <td>30,00,000</td> </tr> <tr> <td>Khas</td> <td>5,000</td> <td>75</td> <td>7,50,000</td> </tr> <tr> <td colspan="3">Total Expected Amount</td> <td>60,00,000</td> </tr> </tbody> </table>	Type of Land	Quantity of Land	Land Fees (BDT)	Total Expected Land Fees (BDT)	Commercial	10,000	225	22,50,000	Residential	30,000	100	30,00,000	Khas	5,000	75	7,50,000	Total Expected Amount			60,00,000
Type of Land	Quantity of Land	Land Fees (BDT)	Total Expected Land Fees (BDT)																		
Commercial	10,000	225	22,50,000																		
Residential	30,000	100	30,00,000																		
Khas	5,000	75	7,50,000																		
Total Expected Amount			60,00,000																		
Determine the threshold/ tolerable difference	Amounts within 10% variation of actual fees collected will be accepted. (Tolerable difference is the amount of variation that the auditor consider acceptable and which will not invalidate the result of the substantive analytical procedure).																				
Identify significant difference	Actual fees collected: BDT 50,00,000 Expected amount: BDT 60,00,000 Difference: (BDT 10,00,000) – under collection																				
Investigate differences	Difference of BDT 10,00,000 is more than the threshold or tolerable difference of BDT 5,00,000 ((i.e. 10% of actual fees																				

	collected) Management should, therefore, be requested to provide reasons for the differences.
Evaluate findings	<p>Our investigation may result in two scenarios:</p> <p>(a) The management was able to provide corroborative evidence for the reduction in the overall amount collected (e.g. Exemptions have been granted on a number of applicable lands, hence no fees expected from these lands)</p> <p>When this new information was taken into account, the variation was within the threshold.</p> <p>Audit conclusion: Assurance obtained from the substantive analytical procedure performed.</p> <p>(b) The management was unable to provide satisfactory explanation for the wide variation of BDT 1,000,000 and there was no other information available to the auditor to explain the difference.</p> <p>Audit Conclusion: Assurance cannot be taken from the substantive analytical procedure performed. The auditor would have to seek other means of obtaining assurance (e.g. test of details) for the audit area.</p>

Where auditor is able to develop a reliable expectation, substantive analytical procedures can provide sufficient appropriate audit evidence to provide assurance:

- on their own for assertions not affected by significant risks; or
- in combination with tests of controls or tests of detail for significant risks.

4.7.6 When designing and performing substantive analytical procedures, either alone or in combination with tests of details, public sector auditors may consider that analytical procedures do not normally provide evidence about certain additional objectives, such as compliance with authorities (ISSAI 1520, para 6).

4.7.7 Public sector auditors should also consider that they may have additional responsibilities when management is unable to provide explanations for differences identified in performing analytical procedures (ISSAI 1520, para 11).

4.8 Test of Details/Direct Substantive Testing (DST)

4.8.1 Tests of detail or DST are substantive audit procedures which do not involve analytical review.

4.8.2 When deciding which items to test, there are three main methods available to the auditor:

- selecting every item in a population (100% examination)** – This is appropriate when the number of items is small but of high value, when the risk is

high, or when Computer Assisted Audit Techniques (CAATs) allow all items to be tested efficiently.

(ii) **selecting specific items** –This is appropriate for testing certain items from a population because of specific characteristics they possess. These are typically high-value or high-risk items (e.g. relatively high or low amounts, negative value items, etc.) or items that represent a large proportion of the area under review.

(iii) **audit sampling** – method used by the auditor to apply audit procedures to less than 100% of the population (For more details see **Audit Sampling**).

1.4.3 The choice of method is a matter for the auditor's professional judgment, based on risk assessment, materiality, audit efficiency and cost, but the method chosen should be effective in meeting the purpose of the audit procedure.

Illustration – Test of details

To provide substantive assurance over correct assessment of tax liabilities:

- (1) Select a sample of tax returns (ensuring the sample is representative of the population),
- (2) Compare income on supporting document to estimated taxable income on the tax return and confirm they agree,
- (3) Establish that the correct tax rates have been applied,
- (4) Re-perform tax computation and compare with tax liabilities on the tax returns.

4.9 Evaluating the Results of Test of Controls (ISSAI 1330:16-17)

4.9.1 If auditors have evaluated the design and implementation of a control as adequate, and our testing of operational effectiveness did not identify any exceptions then conclusion can be drawn that the control is operating effectively.

4.9.2 Where exceptions have been identified during testing, the auditors should consider whether such exceptions are indicative of a control deficiency and whether that control deficiency, or a combination of control deficiencies, represents a material weakness that should be reported to the management (and those charged with governance). The auditors should also consider the impact of any control deficiencies on the planned audit approach and the assessment of the risk of significant misstatement.

4.9.3 A control deficiency may consist of either a design or operating deficiency.

- A **design deficiency** exists when either a necessary control is missing or an existing control is not properly designed so that even when the control is operating as designed the control objective is not always met.

- An **operating deficiency** exists when a properly designed control is either not operating as designed or the person operating the control does not possess the necessary authority or qualifications to perform the control effectively.

4.9.4 When such exceptions are detected during the performance of tests of controls, the auditors should make specific enquiries to understand these matters and their potential consequences, for example by inquiring about the timing of personnel changes in key internal control functions.

4.9.5 The auditors should also determine whether:

- the tests of controls performed provide an appropriate basis for reliance on the controls,
- additional tests are necessary, or
- the potential risk of misstatement need to be addressed using substantive procedures.

4.9.6 Where exceptions have been identified, the auditors should consider what is described below in tabular form:

Issues	Periodic or automated control	Recurring manual control
Increasing the extent of testing performed	N/A	✓
If other controls may provide the evidence we require	✓	✓
The possibility of performing substantive procedures to obtain sufficient appropriate audit evidence	✓	✓

4.9.7 If auditors find an exception for a recurring manual control where such exception is not expected, the auditors should consider whether the exception is an isolated incident by testing additional items equal to a third of the initial sample size for each exception and up to a maximum of twice the original sample size chosen. If the exception is an isolated incident, the auditors may conclude that the control is operating effectively.

4.9.8 Auditors are required to use judgement in considering the overall operating effectiveness of the control by considering:

- the number of exceptions detected,
- the potential significance of their effect on the area tested, as well as
- other qualitative aspects of the exceptions such as the cause of the exception.

4.10 Evaluating the Results of Tests of Details

- 4.10.1 The auditor should evaluate the sample results in order to determine that the relevant characteristic of the population is confirmed. Based on the evaluation of the results, auditors may need to extend their audit procedures and/or carry out additional procedures.
- 4.10.2 The percentage error and the monetary value of the quantifiable error discovered should be calculated in relation to the recorded value of the transaction at the level concerned. Quantification depends on a comparison between the actual value of the transaction and the value if it had been conducted in accordance with applicable provisions. The difference thus calculated is expressed as a percentage underestimation or overestimation of the value of the transaction recorded.
- 4.10.3 Errors detected should be analysed in a step-by-step process in order to determine whether and to what extent they are relevant for inclusion in the audit conclusion of:
- whether legal requirements (conditions for compliance issues) are affected;
 - whether errors are quantifiable and material (i.e. higher than the materiality threshold) and, if not, whether they are material by nature or context;
 - whether errors are systemic;
- the overall impact of errors as a result of the extrapolation of quantifiable findings. Auditors should note that findings can only be extrapolated if the selection procedure (i.e. sampling) has resulted in a representative sample.
- 4.10.4 A number of factors are taken into account in applying professional judgment to determine whether or not the non-compliance is material. Such factors may include the:
- a) Importance of amounts involved (monetary amounts or other quantitative measures such as number of citizens or entities involved, carbon emissions levels, time delays in relation to deadlines, etc.)
 - b) Circumstances
 - c) Nature of the non-compliance
 - d) Cause leading to the non-compliance
 - e) Possible effects and consequences non-compliance may have
 - f) Visibility and sensitivity of the programme in question, (for example, is it the subject of significant public interest, does it impact vulnerable citizens, etc.)
 - g) Needs and expectations of the legislature, the public or other users of the audit report
 - h) Nature of the relevant authorities
 - i) Extent or monetary value of the non-compliance [ISSAI 4100:8.1(129)].
- 4.10.5 The auditor may have to consider how to report deviations that have been identified and which may not be quantitatively material, as these may relate to breaches of authority in certain sensitive areas.

4.11 Clearing Audit Findings

- 4.11.1 The auditor should promote an effective two-way communication throughout the audit and communicate significant findings, including material weaknesses in internal control, on a timely basis to management (ISSAI 1260, ISSAI 1265).
- 4.11.2 As a way of achieving this, the auditor should maintain an issues log for every audit visit to record audit findings and follow-up actions (including management response) to the issues raised. The log also provides opportunity to show the current status (i.e. whether the issue has been cleared and closed or is still open). The log should be used to clear facts with the management, which then provide the raw material for the final report. Properly cleared facts are the basis of a soundly-based report, and thus reduce the time required to agree the final report with the audited entity.
- 4.11.3 At the end of each audit visit the auditor should consider holding a wash-up (Exit) meeting with the management responsible for the audit area visited. A key agenda item would be to discuss key audit findings with the management. This provides the auditor the opportunity to obtain the management's preliminary views on the issues raised. The meeting should essentially be followed -up by sending the issues log to the management requesting that formal response be provided on each of the issues raised.
- 4.114 The auditor should analyse this response, ensuring that valid issues raised by the audited entity are taken into account when drafting the final report [ISSAI 4100:9.1.1.3 (152)].
- 4.11.5 The Auditor should use the issues log template at Annex 8 to record audit findings and to engage with the audited entity in regard to the issues raised.

CHAPTER 5 – AUDIT REPORTING

5.1 Reporting

5.1.1 The auditor should conclude whether reasonable assurance has been obtained about whether the underlying transactions taken as a whole are free from material errors and irregularities taking into account as to whether sufficient appropriate audit evidence has been obtained and identified errors or irregularities are material, individually or in aggregate.

5.1.2 This is communicated through the Audit report. The key to a good report is effective communication. The audit should ensure that the reports are accurate, objective, clear, concise, constructive, complete and timely:

- a) **Accurate:** communications are free from errors (of substance, grammar, punctuation, etc.) and the data and evidence gathered are presented with care and precision.
- b) **Objective:** communications are fair, impartial, and unbiased, and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.
- c) **Clear:** communications are easily understood and logical. All significant and relevant information are provided and unnecessary technical language and jargon are avoided. Clarity can be improved by the use of tables, graphs, diagrams, and pictures.
- d) **Concise:** communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness.
- e) **Constructive:** communications are helpful to the audited entity and lead to improvements where needed.
- f) **Complete:** communications include all significant and relevant information and observations necessary to support recommendations and conclusions.
- g) **Timely:** communications are opportune and expedient. Audit reports should be presented to the audited entity without undue delay to enable prompt reply.

5.1.3 The principles of completeness, objectivity and timeliness are important in reporting on compliance audits. Public Sector Auditors take care to ensure that reports presented are factually correct, and that findings are presented in the proper perspective and in a balanced manner. This involves applying the Principle of Contradiction which involves checking facts with the audited entity and incorporating responses from responsible officials as appropriate [ISSAI 4100: 9(137)].

5.2 Form and Content of the Audit Report [ISSAI 4100:9.1.1(143)]

5.2.1 Consistency in audit reports help users to understand the audit work done and conclusions reached as well as identify unusual circumstances when they arise. Therefore, a revenue audit report would include the following elements:

- Title;
- Addressee;

- Objectives and scope of the audit, including the time period covered;
- Responsibilities of the various parties (legal basis);
- Identification of the auditing standards applied in performing the work;
- A summary of the work performed;
- A Conclusion;
- Audit findings and recommendations (as appropriate);
- Responses from the audited entity (as appropriate);
- Report Date; and
- Auditor's signature.

5.3 Audit Conclusions [ISSAI 4100:9.1.1.2(147-151)]

5.3.1 In drawing audit conclusions, auditors must give regard to the overall audit findings. Where no material instances of non-compliance have been identified, the conclusion is **Unqualified**. This is an expression of opinion expressly stating that the audited entity is in compliance in all material respect with the applied revenue audit criteria.

5.3.2 Audit conclusions can be modified where there are material instances of non-compliance. Depending on the extent of the non-compliance, audit conclusion may result in:

- **A qualified conclusion**- Applicable where material non-compliance relates to specific areas of the audit. The auditor then uses 'except for' to state the specific areas of material non-compliance whilst concluding that the audit entity complied in all other material respects.
- **An adverse conclusion**-Where the material non-compliance is pervasive (i.e. not limited to specific areas of the audit), the auditor has to conclude that the audit entity is not in compliance with the applied revenue audit criteria.

5.3.5 Audit conclusions can also be modified where there are instances of scope limitations. These are situations preventing the auditors from obtaining the required evidence to support audit conclusions. Depending on the extent of the limitation, audit conclusion may result in:

- **A qualified conclusion** – Arises where the auditor is unable to obtain sufficient evidence on specific material audit areas. The auditor again uses 'except for' to identify and state the specific areas of scope limitation and concludes that the audit entity is in compliance in all other respects.
- **A Disclaimer Conclusion** – Referring to a situation where the auditor was unable to obtain sufficient evidence in respect of many material audit areas and therefore, unable to confirm whether or not the entity is in compliance with the applied revenue audit criteria. A disclaimer conclusion states the conditions surrounding the scope limitation and concludes that as a result, the auditor does not express a conclusion.

5.3.6 The template in Annex 9 has been developed taking into account the above requirements and auditors are required to use the template to conclude on their audit of revenue.

5.4 Follow-up (ISSAI 4100:9.2)

- 5.4.1 As per ISSAI 4100 para 182, “The Fundamental Auditing Principles place emphasis on the reporting of constructive recommendations and additional follow-up as necessary in regard to correction of identified weaknesses (ISSAI 400, 4.0 .26). The need for any follow-up of previously reported instances of non-compliance will vary with the nature of the non-compliance and the particular circumstances. This may include formal reporting by the auditor to the legislature, as well as to the audited entity or other appropriate bodies. Other follow-up processes may include reports, internal reviews and evaluations prepared by the audited entity or others, a follow-up audit, conferences and seminars held for, or by, the audited entity, etc. In general, a follow-up process facilitates the effective implementation of corrective actions and provides useful feedback to the audited entity and to the users of the report and to public sector auditors in planning future audits”.
- 5.4.2 Government Auditing Standards, Chapter 3 para 3.3.1 mentioned, “Auditors should follow-up on known material findings and recommendations from previous audits to determine whether the auditee has taken timely and appropriate corrective action. Auditors should report the status of uncorrected material findings and recommendations from previous audits”.
- 5.4.3 Audit Code Para 66 & 67 also mentioned, “The responsibility to follow-up audit reports on the basis of decisions of Parliament as recommended by the Public Accounts Committee and as communicated by Government for execution will rest on the audit directorates concerned. In case of any doubt as to whether a particular report or question has been adequately dealt with by Parliament or its Public Accounts Committee or the Government, the matter should be referred to the Comptroller and Auditor-General for advice on further appropriate action”. “The Comptroller and Auditor-General shall have the authority to apprise the cabinet or any higher authority of the instances of irregularities and wastage including fraud, misappropriation and embezzlement embodied in the audit reports referred to the Public Accounts Committee for immediate action on them”.
- 5.4.4 Follow-up refers to the situation where the auditor examines the corrective actions the audited entity has taken on the basis of the results of previous audit. Follow-up is the assessment of whether weaknesses identified in the audit have been corrected by the audited entity (ISSAI 3000:5.5). Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations and following up on the recommendations the SAI and the PAC have made in reports may serve four main purposes:
- Increasing the effectiveness of audit reports – the prime reason for following up audit report is to increase the probability that recommendations will be implemented;
 - Assisting the government and the legislature – following up may be valuable in guiding the actions of the legislature;
 - Evaluation of Audit Directorate’s performance – following up activity provides a basis for assessing and evaluating directorate’s performance; and

- Creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice within the SAI.

5.4.5 What to follow up:

- Implementation of audit recommendations
- Concerns raised by Parliament following the original audit report
- Recommendations of Public Accounts Committee
- Key concerns and questions raised by public.

5.4.6 When to follow up:

- Depends on context and nature of audit recommendations provided, and
- OACG policies or mandate.

5.4.7 How to follow up:

In-house/Desk Review and Bipartite/Tripartite Meeting:

Auditors collect information in order to assess the extent and the status of implementation of audit recommendations provided in the previous audit report. Presently it has been done by Broad Sheet Reply (BSR), by organising Bipartite and tripartite meeting.

Workshop/Seminar:

Directorates may organize workshop/seminar to aware the auditee about the importance of implementation of audit recommendations.

Follow-up Audit:

A new audit on the same area if it is evident that the audited entity has not taken appropriate measures to correct the findings or if the measures have not had sufficient effect.

5.4.7 Reporting on follow up:

- Reporting mandatory
- According to general reporting principles of the OACG
- Report to, for example:
 - Parliament
 - Appropriate authorities/forums
 - Audited entity.

CHAPTER 6 – AUDIT OF INCOME TAXES

6.1 Introduction to Income Tax

6.1.1 Income Tax is a tax on the income of individuals and businesses (Corporations and other legal entities). Bangladesh, like many other countries operates a progressive income tax system in which higher income earners pay at a higher rate of tax, a mechanism to distribute wealth more evenly within the population. Income Tax is a key source of funds that government uses to fund its activities and serve the general public. Not all income is taxable. The relevant tax laws prescribe the type and nature of incomes which are taxable as well as conditions for exemptions and allowances available to the taxpayers.

6.1.2 The relevant laws, rules and guidance governing the operation of Income Tax in Bangladesh include:

- The Income Tax Ordinance, 1984 (the Ordinance);
- The Income Tax Rules, 1984;
- Finance Acts;
- The Travel Tax Act, 2003
- The Gift Tax Act, 1990
- Circulars and notifications issued by the Internal Resource Division (IRD)/National Board of Revenue from time to time.

6.1.3 The main elements of income as defined in the ordinance for tax purposes are:

- any income, profits or gains from whatever source derived, chargeable to income tax under any provision of the ordinance under any head specified in section 20;
- any loss of such income, profits or gains;
- the profits and gains of any insurance association carried on by mutual insurance associations;
- any sum deemed to be income, or any income arising or received, or deemed to accrue or arise or be received in Bangladesh under any provision of the ordinance.

6.1.4 The main heads of income mentioned in Section 20 of the Ordinance are:

- salaries (Under Section 21);
- interest on securities (Under Section 22);
- income from property (House) (Under Section 24);
- agricultural income (Under Section 26);
- income from business or profession (Under Section 28);
- capital gains (Under Section 31); and
- income from other sources (Under Section 33).

6.1.5 A taxpayer may be allowed various deductions, exclusions, exemptions and allowances from the above income. The net figure of income is then subject to tax at the rates prevailing at the time.

6.2 Income Tax Administration

6.2.1 For income tax purposes, Bangladesh is divided into 29 Zones, which are distributed as follows:

Area	Number of Zones
Dhaka	15
Narayangonj	1
Gazipur	1
Comilla	1
Noakhali	1
Chittagong	4
Barishal	1
Khulna	1
Rajshahi	1
Rongpur	1
Bogra	1
Sylhet	1

A Commissioner who has oversight of assessment and collection of income taxes heads each zone. Each zone is further divided into circles for the purposes of assessment and collection of income taxes.

6.2.2 A circle is the administrative unit of tax administration which is generally headed by one class one officer. He is supported by one inspector and few clerks for his day to day operation. A circle is basically the building block of taxes system where the officer in charge is responsible for:

- a) Receiving returns
- b) Assessment of returns
- c) Creation, collection and enforcement of demands
- d) Appeals management
- e) Reporting

6.2.3 There are four types of circles depending of jurisdictions and type of cases it handles. These four types are:

- companies circle,

- salaries circle,
- contractors circle; and
- normal circle.

Currently there are 638 circles. Of them 140 are Companies circles, 86 are Salaries circles, 2 are Contractors circles and 410 are Normal circles.

6.2.4 As it can be assumed from the names, a typical companies circle handles company cases and individual cases of its directors. Salary circle and Contractor circle holds jurisdiction of personal income tax cases of salary holders and contractors respectively. A normal circle holds territorial jurisdiction of sole proprietorship and partnership businesses. However, it is not uncommon for a circle to hold mixed jurisdictions.

6.2.5 Circle office is monitored by an inspecting range official. A range officer normally assigned to monitor all functions of 5 to 6 circle offices. Range officer reports to Commissioner of Taxes who is the administrative head of taxes zone.

6.2.6 A Commissioner holds all the administrative authority for overall management of a taxes zone. He monitors every legal and administrative aspect of taxes circles. Normally a taxes zone consists of four range offices and around 22 circles.

There are 8 Tax Appellate Zones with 28 Range Offices and 7 Benches of Appellate Tribunal. Tax Administration also consists of one training academy, one Tax Survey Zone with 5 range and 11 circles, and a Central Intelligence Cell (CIC).

6.2.7 **Large Taxpayers Unit (LTU):** After the introduction of Large Taxpayers Unit (LTU), direct tax administration is now operating with a combination of old traditional type and functional type taxation administration. In November, 2003 LTU was established with the intention to focus more on the largest taxpayers of the country who possesses the most concentration of tax revenue. LTU is responsible for collecting more than 30% of the total income tax revenue. LTU organization is arranged around 4 core factions of a typical tax administration, as detailed below:

1. Taxpayer Services Wing:

- a. Providing taxpayer's education
- b. Receiving returns and payments
- c. Apprising taxpayers of changes in tax laws

2. Revenue Accounting Wing:

- a. Maintaining records of demand and payments
- b. Making all correction, revision of demand
- c. Maintaining all statistics on audit report

3. Tax Collection Enforcement /Appeal Wing:

- a. Monitoring of collection of advance tax, outstanding tax
- b. Impose penalty on non-filers and defaulters
- c. Filing appeal before Tribunal, High Court
- d. Enforcement such as seizure, freezing, civil suit

4. Audit Wing:
 - a. Selecting audit cases
 - b. Determining audit points
 - c. Test and verification of audit points
 - d. Confront the audit findings with the taxpayer
 - e. Determine the tax payable as per audit

6.3 Income Tax Mechanism

- 6.3.1 A taxation cycle starts when a taxpayer submits his or her return. Taxpayers are required to submit income tax return by September 30 each year at their respective circle. A taxpayer can choose to submit his return basically either under Self Assessment System (SAS) or under Normal system. For LTU and Corporate taxpayers some other provisions also apply. To qualify for SAS, a taxpayer must satisfy certain conditions. A return submitted under SAS is treated as accepted and finalized unless it falls under risk based audit system.
- 6.3.2 In the second phase of the cycle, returns are scrutinized. The returns submitted under normal system and found suspicious or found not supported with enough evidence, receive notice for submitting required documents or appearing for personal hearings. After verifying additional records or after hearing and occasional audits the case is resolved. The officer then issue an assessment order together with a demand notice if additional demand is due from the taxpayer.
- 6.3.3 A taxpayer aggrieved with the assessment may choose to go for appeal and can choose among the following alternatives. In fact, taxpayers have a quite many and lengthy choices in their hand in this regard:
 1. Can apply for commissioner's review. In this case, the Tax Commissioner who controls the circle where the original assessment was made may review the assessment. In this case, the appellant must waive his further right to appeal. The decision passed by the commissioner is treated as final disposal of the case.
 2. The appellant can choose to go to the appellate authority of the department.
 3. If the appellant is still unsatisfied with the order passed by the appellant authority, he can choose to appeal the case in the Taxes Appellate Tribunal. This appellate authority is independent from the income tax department and is the highest appellate authority in the matter of factual grounds.
 4. Still aggrieved with the decision of Taxes Appellate Tribunal, the taxpayer with enough legal ground can further make a reference to the High Court Division of the Supreme Court of the country. Finally, the aggrieved taxpayer may finally appeal against the verdict of High court Division to Appellate Division of the Supreme Court.

6.4 Matters of Audit Consideration

- 6.4.1 Auditors are required to identify key processes, risks and mitigating controls relating to income taxes. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Revenue Authority, as these controls are in place to ensure that all returns are received; correctly assessed and amount outstanding are collected.
- 6.4.2 Auditors are also required to be aware of other activities that indirectly impact on the assessment, collection and allocation of revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protecting of revenue.
- 6.4.3 Auditors are also required to look for common types of suspicious and fraudulent activities. Listed below are categories of fraud indicators. Each category list is not intended to be all-inclusive, instead citing examples of actions taxpayers may take to deceive or defraud.

1. Indicators of Fraud—Income

- A. Omitting specific items where similar items are included.
- B. Omitting entire sources of income.
- C. Failing to report or explain substantial amounts of income identified as received.
- D. Inability to explain substantial increases in net worth, especially over a period of years.
- E. Substantial personal expenditures exceeding reported resources.
- F. Inability to explain sources of bank deposits substantially exceeding reported income.
- G. Concealing bank accounts, brokerage accounts, and other property.
- H. Inadequately explaining dealings in large sums of currency, or the unexplained expenditure of currency.
- I. Consistent concealment of unexplained currency, especially in a business not routinely requiring large cash transactions.
- J. Failing to deposit receipts in a business account, contrary to established practices.
- K. Failing to file a tax return, especially for a period of several years, despite evidence of receipt of substantial amounts of taxable income.
- L. Cashing checks, representing income, at check cashing services and at banks where the taxpayer does not maintain an account.
- M. Concealing sources of receipts by false description of the source(s) of disclosed income, and/or non-taxable receipts.

2. Indicators of Fraud—Expenses or Deductions

- A. Claiming fictitious or substantially overstated deductions.
- B. Claiming substantial business expense deductions for personal expenditures.
- C. Claiming dependency exemptions for nonexistent, deceased, or self-supporting persons. Providing false or altered documents, such as birth certificates, lease documents, school/medical records, for the purpose of claiming the education credit, additional child tax credit, earned income tax credit (EITC), or other refundable credits.
- D. Disguising trust fund loans as expenses or deductions.

3. Indicators of Fraud—Books and Records

- A. Multiple sets of books or no records.
- B. Failure to keep adequate records, concealment of records, or refusal to make records available.
- C. False entries, or alterations made on the books and records; back-dated or post-dated documents; false invoices, false applications, false statements, or other false documents or applications.
- D. Invoices are irregularly numbered, unnumbered or altered.
- E. Checks made payable to third parties that are endorsed back to the taxpayer. Checks made payable to vendors and other business payees that are cashed by the taxpayer.
- F. Variances between treatments of questionable items as reflected on the tax return, and representations within the books.
- G. Intentional under- or over-footing of columns in journal or ledger.
- H. Amounts on tax return not in agreement with amounts in books.
- I. Amounts posted to ledger accounts not in agreement with source books or records.
- J. Journalizing questionable items out of correct account.
- K. Recording income items in suspense or asset accounts.
- L. False receipts to donors by exempt organizations.

4. Indicators of Fraud—Allocations of Income

- A. Distribution of profits to fictitious partners.
- B. Inclusion of income or deductions in the tax return of a related taxpayer, when tax rate differences are a factor.

5. Indicators of Fraud—Conduct of Taxpayer

- A. False statement about a material fact pertaining to the examination.

- B. Attempt to hinder or obstruct the examination. For example, failure to answer questions; repeated cancelled or rescheduled appointments; refusal to provide records; threatening potential witnesses, including the examiner; or assaulting the examiner.
- C. Failure to follow the advice of accountant, attorney or return preparer.
- D. Failure to make full disclosure of relevant facts to the accountant, attorney or return preparer.
- E. The taxpayer's knowledge of taxes and business practices where numerous questionable items appear on the tax returns.
- F. Testimony of employees concerning irregular business practices by the taxpayer.
- G. Destruction of books and records, especially if just after examination was started.
- H. Transfer of assets for purposes of concealment, or diversion of funds and/or assets by officials or trustees.
- I. Pattern of consistent failure over several years to report income fully.
- J. Proof that the tax return was incorrect to such an extent and in respect to items of such magnitude and character as to compel the conclusion that the falsity was known and deliberate.
- K. Payment of improper expenses by or for officials or trustees.
- L. Wilful and intentional failure to execute pension plan amendments
- M. Backdated applications and related documents.
- N. False statements on Tax Exempt/Government Entity (TE/GE) determination letter applications.
- O. Use of false social security numbers.
- P. Submission of false Form W-4.
- Q. Submission of a false affidavit.
- R. Attempt to bribe the examiner.
- S. Submission of tax returns with false claims of withholding (Form 1099-OID, Form W-2) or refundable credits (Form 4136, Form 2439) resulting in a substantial refund.
- T. Intentional submission of a bad check resulting in erroneous refunds and releases of liens.
- U. Submission of false Form W-7 information to secure Individual Taxpayer Identification Number (ITIN) for self and dependents.

6. Indicators of Fraud—Methods of Concealment

- A. Inadequacy of consideration.
- B. Insolvency of transferor.
- C. Asset ownership placed in other names.
- D. Transfer of all or nearly all of debtor's property.
- E. Close relationship between parties to the transfer.
- F. Reservation of any interest in the property transferred.
- G. Transaction not in the usual course of business.
- H. Retention of possession or continued use of asset.
- I. False entries in books of transferor or transferee.
- J. Unusual disposition of the consideration received for the property.
- K. Use of secret bank accounts for income.
- L. Deposits into bank accounts under nominee names.
- M. Conduct of business transactions in false names.

6.4.4 The generic Revenue Audit Test plan in Section 3.9 has been adapted for the audit of income taxes as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
ASSESSMENT	<ul style="list-style-type: none"> • Eligible income tax payers have not been identified. 	The National Board of Revenue (NBR) has processes in place for identifying and bringing eligible traders/ customers to tax.	<p>Tests of Control: Assess procedures in operation at NBR, which ensure eligible income tax payers are identified and brought to tax.</p> <p>Substantive Test: Option A <i>To clarify from understanding the system – are there independent sources for identifying new traders/individuals subject to income tax –and is information assessable – (for instance, land registry, motor licensing office, Company Registration</i></p>

	Risk	Controls	Audit programmes
			<p>Department).</p> <p>Select a sample of eligible traders from other independent sources and confirm these to the register of eligible traders maintained by NBR.</p> <p>Option B</p> <p><i>To clarify from understanding the system</i></p> <p>Select a sample of newly registered traders/customers and by reference to their available supporting information (in their respective files) confirm these have been promptly identified and brought to tax (e.g. for newly registered trader, confirm the trader has registered for tax in accordance with the time period allowed by law).</p> <p>Ensure appropriate procedures are observed for a sample of new traders/customers registration.</p>
	<ul style="list-style-type: none"> • Non-submission of returns • Late submission of returns • Non-payment of penalties 	<p>Returns / declarations received are periodically compared to the list of registered taxpayers</p> <p>Returns / declarations submitted late that penalties are charged to those taxpayers.</p>	<p>Tests of Control:</p> <p>Inspect evidence that the delegated official has reconciled the returns received to the list of taxpayers.</p> <p>Substantive Test:</p> <p>Reconcile the list of taxpayers to the return received and identify taxpayer who did not submit returns / declarations or submitted returns late.</p> <p>For taxpayers who did not submit returns / declarations to identify whether the penalties were charged correctly.</p>
	<ul style="list-style-type: none"> • Possible collusion between the tax assessment staff and tax payer results in incorrect assessment of 	<p>A higher officer performs regular review of assessments carried out by the</p>	<p>Tests of Control:</p> <p>Inspect evidence of regular review of Assessment Officers' work by an independent higher</p>

	Risk	Controls	Audit programmes
	liability	assessment officers (The criteria to select files for review should be consistently applied).	officer. Inspect files assessed and confirm whether selection criteria for assessments have been applied consistently. Substantive Test: For selected sample of returns / declarations: <ul style="list-style-type: none"> • Compare income on supporting documents to estimated taxable income on the return and test to confirm that the taxes have been correctly charged. • Where practicable, agree income declared to other independent sources.
COLLECTION	<ul style="list-style-type: none"> • Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.	Tests of controls: For selected periods inspect proof of reconciliations between assessments and receipts. Substantive tests: For selected assessments confirm that payments have been recorded: At the correct amounts, In the correct account, In the correct period.
	<ul style="list-style-type: none"> • Cash receipts are not banked on a timely basis. 	Regular daily / weekly deposit of cash received. Independent reconciliations between receipts issued and amounts deposited in the bank.	Tests of controls: Inspect proof of: Regular banking of cash received. Independent reconciliation of cash received and deposit slips. Daily cash ups for all cashiers. Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank. Substantive tests: For a selected sample of receipts issued confirm that cash was

	Risk	Controls	Audit programmes
			banked timely. For selected days confirm that all cash received have been adequately accounted for and banked timely.
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	Good procedures in place to ensure unpaid liabilities are pursued.	<p>Tests of Controls: Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests: For a sample of outstanding amount, confirm follow – up action has been effected in accordance with the organisation’s debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified into head of duty or accounts. 	Independent checking of classification of revenue.	<p>Tests of Controls: Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests: Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
REFUNDS	<ul style="list-style-type: none"> Refunds of income tax are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls: Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test: Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>

	Risk	Controls	Audit programmes
WRITE OFFS	<ul style="list-style-type: none"> Income tax due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls: Inspect proof supporting that write-offs can only be approved at the authorised level.</p> <p>Substantive test: Select a sample of Income Tax write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

6.5 Illustration: Computation of Tax Liability

Basis of tax computation on Income

- Basic salary and all bonuses are fully taxable.
- House rent and allowance exceeding 50% of the basic pay or Tk. 25,000 only per month, whichever is less, shall be included in taxable income.
- Medical allowance exceeding 10% of the basic pay or Tk. 1,20,000 only annually, whichever is less, shall be included in taxable income.
- Conveyance allowance in excess of Tk. 30,000 only per annum shall be included in taxable income.
- 5% of basic pay or Tk. 60,000 only whichever is higher will be treated as deemed income for those who have been provided with car facilities with all expenditure.
- Employer's contribution to Provident Fund is taxable (if any).
- Mention may be made here that an employee may take the opportunity to reduce their tax liability by:
 - investing 30% of total income excluding Employer's contribution to Provident Fund (if any) or TK 1.50 crore whichever is less in Debenture, Shares (IPO & Secondary) and Govt. Securities, DPS up to TK 60,000 (Any schedule Bank or at any Financial Institution), Sanchay Patra;
 - Purchasing one computer or one laptop etc. within the income year.

Investment allowance shall also include the premium paid on insurance policies for self, wife and minor children. As per law tax rebate @15% shall be available on the allowable investment

after calculating tax liability on total income of the concerned employee including employer's contribution to Provident Fund provided the total amount invested does not exceed 30% or limits laid down as above.

- Income tax is payable by an individual employee having a total annual income exceeding:
 - TK 2,50,000 only for men;
 - TK 3,00,000 only for women and persons aged 65 years or over;
 - TK 3,75,000 only for autistic people; and
 - TK 4,25,000 for wounded freedom fighter.

- Tax payable rates on total income is furnished below:
 - On 1st TK 2,50,000 of total income @ nil
 - On next TK 4,00,000 of total income @ 10%
 - On next TK 5,00,000 of total income @ 15%
 - On next TK 6,00,000 of total income @ 20%
 - On next TK 30,00,000 of total income @25%
 - On the remaining balance of total income @30%

- Minimum tax to be paid should be not less than :
 - TK 5,000 only for the taxpayers of Dhaka & Chittagong City Corporation
 - TK 4,000 only for the taxpayers of other City Corporation area
 - TK 3,000 only for the taxpayers outside of City Corporation areas

- An Individual assessee will be charged with additional surcharge on his applicable tax at following rates:

For the Assessee having Net worth	Rate of Surcharge	Remarks
Above TK 2.25 crore	0%	Minimum surcharge TK.3,000
Above TK 2.25 crore to TK 10 Crore	10%	
Above TK 10 crore to TK 20 Crore	15%	

Above TK 20 crore to TK 30 Crore	20%	
Above TK 30 crore	25%	

N.B. Tax and Vat rates are not fixed. It may change from year to year. So auditors should consider the applicable rates while performing audit.

Example:

- a. Mr. AVC 65 years old is the owner of a residential building. He has let out the building for a monthly rent of Tk. 70,000.00. He pays Tk 2,500.00 annually to the government as land development tax. He has constructed the building with borrowed capital for which he pays monthly interest of Tk. 15,000.00. According to his statement, he incurs an annual expenditure of Tk. 3,00,000.00 on account of maintenance and provision of basic services. The building was completed on 30-6-2014 and let out from 1-7-2014.

Calculate his tax liability:

	TK.	TK.
Gross Income from house property (Tk. 70,000 x12)		8,40,000
Deductions:		
Land Development Tax	2,500	
Interest on borrowed capital (TK. 15,000 x12)	1,80,000	
Cost of annual maintenance (evidences not produced) @25% permissible as deduction, i.e. 25% of Tk. 300,000.00	75,000	
Total Deductions:		(257,500)
Income (Taxable Income)		5,82,500
Income Tax Liability		
On first Tk. 300,000 (for Age 65 and over)		Nil
On next Tk 400,000 is @10% Balance amount TK (582,500-300,000)=28,250@10%		28,250

6.6 List of Records and Documents on Income Tax

Some examples of major documents and records that need to be checked while doing the audit of Income Tax are given below-

1. Income Tax assessment files, including tax returns, statements, etc. (IR 24)
2. Statements of assets, liabilities and expenses (IR 25)
3. Register of Taxpayers
4. Register of outstanding Taxes
5. Taxpayers' Ledgers
6. Tax Computation Sheets (IT 30)
7. Daily Collection Register
8. Monthly Tax Assessment Register
9. Applications for Refund of Tax (IR 36)
10. Depreciation Allowance Detail (IR 41)
11. Appeal Forms.

CHAPTER 7 – AUDIT OF CUSTOMS AND EXCISE DUTIES

7.1 Introduction to Customs Duties

7.1.1 Customs duty is payable on goods or merchandise imported into or exported from Bangladesh. It is payable before the action giving rise to the duty payable is carried out, i.e. before the goods are cleared through customs. Customs duties are also normally payable on goods brought from any foreign country to any customs station without payment of duties there, transhipped or thence carried to, and imported at, any other customs stations; as well as goods brought in bond from one customs station to another.

7.1.2 Customs duties are based on the value of goods imported or exported. Inspectors of land customs and airport custom and appraisers of customs houses propose the appraisal and assessment of duty. The assessments are subject to approval by the Principal Appraisers/Superintendents in these offices. The customs duties are calculated on the basis of the import value certified by the Pre Shipment Inspection (PSI) agencies.

7.1.3 Custom duties can be used effectively to encourage or discourage the import or/and export of certain goods. Customs revenue beyond import and export duty can also include demurrage charges, regulatory duty, anti-dumping duty and others depending on the legislative framework.

7.1.4 Demurrage charges are a form of compensation for the delay of a ship or freight car or other cargo beyond its scheduled time of departure. It can also refer to a charge for storage in a warehouse, which accrues after a given time for consignments not collected.

7.1.5 Some exemptions could also be allowed by the Government from time to time. For instance, duty drawbacks on goods used in the manufacture of goods for export may be allowed under certain conditions.

7.1.6 The main legislation relating to customs duties are:

- The Protective Duties Act, 1950
- The Customs Act, 1969
- The Customs Act, 2014
- Bonded Ware House Licensing Rules, 2008
- Transfer of Residence Rules, 2000
- Tourist Baggage Rules, 1981
- Baggage Rules, 2011
- Related SROs, Orders and Tariff schedule

7.1.7 The protective duties act (as amended) was enacted to enable the Government to impose protective duties of customs on goods produced or manufactured outside Bangladesh and imported into Bangladesh where such imposition is urgently necessary in the interest of industries established in Bangladesh.

- 7.1.8 The Customs Act, 1969 on the other hand came into existence to consolidate and amend the law relating to the levy and collection of customs-duties and to provide for other allied matters. It is the reference Act on the administration of customs duties (including the appointment of key officers) throughout Bangladesh.
- 7.1.9 Bangladesh Customs Tariff is contained in the First Schedule to the Customs Act, 1969. This tariff was previously based on the schedules to the Tariff Act, 1934, which was partially repealed in 1969 and fully repealed in 1980. By the Finance Act, 1980, section 18 of the Customs Act was substituted to consolidate the provisions relating to the tariff of customs duties.
- 7.1.10 The **Harmonized Commodity Description and Coding System**, also known as the **Harmonized System (HS)** of tariff nomenclature is an internationally standardized system of names and numbers to classify traded products. It came into effect in 1988 and has since been developed and maintained by the World Customs Organization (WCO) (formerly the Customs Co-operation Council), an independent intergovernmental organization based in Brussels, Belgium, with over 200 member countries along with Bangladesh. The HS, therefore, assigns up to a total of 8 digits at the tariff-rate (legal) level. Two extra digits may also be assigned as statistical reporting numbers for a total of 10 digits to be listed on entries. All existing products can be classified into the existing HS system by using the General Rules of Interpretation. Product codes can be determined according to their form and function. An example of a product classified according to its form would be whole potatoes. The classification will also change depending on whether the potatoes are fresh or frozen. Fresh potatoes are classified in position 0701.90, under the Header *Potatoes, fresh or chilled*, sub header "*Other*", while frozen potatoes are classified in position 0710.10 under the Header *Vegetables (uncooked or cooked by steaming or boiling in water), frozen*, Sub header *Potatoes*.
- 7.1.11 In order to hasten custom clearance and thereby encourage investment in the country, government has introduced Pre-shipment Inspection (PSI) Scheme under which approved internationally reputed inspection firms issue certificate regarding quality, price, and classification of the imported items. On the basis of that certificate (known as 'Clean Report on Finding'), goods are cleared without delay at sea or air ports. But audit experience finds detection of under-invoicing and wrong classification by the PSI agencies, which deprives the government of large revenues. Moreover, bonded warehouses get special duty privileges for imports.
- 7.1.12 Through UNCTAD (United Nations Conference on Trade and Development), Bangladesh Customs has introduced Automated System for Customs Data (known as ASYCUDA). UNCTAD member countries have adapted ASYCUDA in the context of their own systems. Accordingly, National Board of Revenue has named the system as Special Processing of Electronically Entered /Declarations (or SPEED).

7.2 Introduction to Excise Duties

- 7.2.1 Excise duty is levied on a manufacturer or seller of specific commodities either produced in the country or imported. Excise duties often serve political as well as financial ends. Public safety and health, public morals, environmental protection, and national defence are all legitimate reasons for the imposition of excise duty.
- 7.2.2 The main Excise Duties legislation is the Central Excises and Salt Act, 1944. The act extends to the whole of Bangladesh (Except the areas of Export Processing Zones declared under section 10 of the Bangladesh Export Processing Authority Act, 1980). Under the Act, the National Board of Revenue (NBR) can among others, make rules to provide for the assessment and collection of Excise Duties and prohibit the production of excisable goods or of any component parts or ingredients or the rendering of any excisable services, except on land or premises approved for the purpose.
- 7.2.3 Under the schedule to the Act, excisable services include services rendered by financial institutions and Airlines. Excisable goods which must be produced under license include Tobacco, Betel nuts, Coffee, Gold and Silver products. Section 8 of the Act also places restriction on individuals to be in possession of certain excisable goods in excess of the maximum amount prescribed from time to time, except as provided by the rules under the Act.

7.3 Administration of Customs and Excise

- 7.3.1 Customs and Excise Duties are assessed and collected via nine offices around Bangladesh. Three are known as Customs Houses and are based in Dhaka, Chittagong and Khulna. These customs houses deal with the major revenues collectable at Airports and other ports. Basically, International trade (Export-Import trade) is conducted through Dhaka, Chittagong, Benapole, and Mongla Custom Houses and through a few Land Customs Stations.
- 7.3.2 There are also a number of other offices which deal with appeals, inspection, credits/refunds, and duty appraisals. There is a separate Training Academy covering Customs, Excise and VAT training based in Chittagong.
- 7.3.3 At each of the assessment and collection centres there are internal control measures operating to protect revenue. For instance, supervising officer supervises the work of tax officials and there are monitoring officers who review the reports of progress in collecting taxes.

7.4 Concurrent Audit

Due to the volume of activities on custom and excise duties, the Local and Revenue Audit Directorate (LRAD) conducts concurrent audit on these revenue streams. The Concurrent Audit Teams are resident in Custom Houses to check duty assessments and amounts collected

immediately after the processes are completed so that government revenue is not lost due to under assessment of duty. Examination of the duty assessment and collection on the Bills of Entry/ Bills of Export immediately after the transactions aims to promptly identify under assessment of duty to ensure corrective actions are taken within the limited time-frame fixed by Section 32(3) of Customs Act, 1969.

Audit Parties based in the Chittagong, Khulna and Dhaka Custom Houses are entrusted mainly with the responsibilities of checking all papers relating to, Bills of Entry, Bills of Export, Bonded Goods, Baggage Bills, Post Parcel Bills, Auction and Removal List, Duty Drawback, Refunds on Assessment and other relevant related activities.

In addition to concurrent audits, teams from LRAD also carry out regular post audits of these revenue streams in fulfilment of the statutory responsibility of the Comptroller and Auditor General.

7.5 Matters of Audit Consideration

7.5.1 Auditors are required to identify key processes, risks and mitigating controls relating to Customs and Excise Duties operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Revenue Authority, as these controls are in place to ensure that all returns are received; correctly assessed and amount outstanding are collected.

7.5.2 Auditors are required to be aware of other activities that indirectly impact on the assessment, collection and allocation of revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protecting of revenue.

7.5.3 Auditors also need to assess the risk of fraudulent practices. The information may assist auditors to map fraudulent practices in custom agencies:

Selected customs functions	Examples of integrity violations	Measures addressing motive and opportunities for corruption in Customs Agencies (absence of these practices may indicate risk of fraudulent practices)
Processing of import, export, and transit declarations	Soliciting or accepting payment to: <ul style="list-style-type: none"> • accelerate the processing of documents; • ignore the fact that some cargos listed on the manifest were not declared; • certify the exportation of fictitious 	<ul style="list-style-type: none"> • Clear legal framework reducing discretion • Positive career development • Clarified valuation procedures • Competitive base pay and incentives for high performance • Inspections based on risk

Selected customs functions	Examples of integrity violations	Measures addressing motive and opportunities for corruption in Customs Agencies (absence of these practices may indicate risk of fraudulent practices)
	<p>exports or provide for a wrong HS (harmonized system) classification; and</p> <ul style="list-style-type: none"> • permit goods in transit to be released for domestic consumption. 	<p>analysis</p> <ul style="list-style-type: none"> • Sanctions for corrupt behaviour • Stronger supervision and controls • Stakeholder surveys • Arm's length transactions and reduction of discretionary powers
Assessment of origin, value, and classification of goods	<p>Soliciting or accepting payments to:</p> <ul style="list-style-type: none"> • permit under invoicing of goods; • not challenge the declaration of goods under a different HS that attracts a lower tariff rate; and • accept a false country-of-origin declaration, thus permitting the importer to benefit from a preferential tariff regime. 	<ul style="list-style-type: none"> • Transparent clearance requirements • Rotation of officers • Functional organization and effective Internal Audit Unit
Physical inspection, examination, and release of cargo	<p>Soliciting or accepting staff who would:</p> <ul style="list-style-type: none"> • ensure that an inspecting officer is chosen who will take an accommodating approach to the inspection; • skip the inspection; • influence the findings of the inspection. 	
Administration of concessions, suspense and exemption schemes, and drawback schemes	<p>Soliciting or accepting payment to:</p> <ul style="list-style-type: none"> • permit traders to release, for domestic consumption and without paying the required import duties, goods that entered under suspense regimes or goods made with inputs that entered under such regimes; • obtain a release of the bond that is to protect customs revenues in 	

Selected customs functions	Examples of integrity violations	Measures addressing motive and opportunities for corruption in Customs Agencies (absence of these practices may indicate risk of fraudulent practices)
	<p>cases of temporary admission of imports without adequate documentation;</p> <ul style="list-style-type: none"> • permit traders to claim excessive input coefficients for exports produced with inputs that benefited from the suspense regimes; • permit traders to claim drawbacks for fictitious exports; • permit importers to transfer imports that benefited from duty relief to unauthorized users or for unintended purposes, or permitting them to import such goods in excess of the amounts agreed to. 	
Conduct of post clearance audits	Soliciting or accepting payments to influence the outcome of audit findings.	
Issuing of import licenses, warehouse approvals, and authorized trader status approvals	Soliciting or accepting payments to obtain these licenses and certificates without proper justification.	
Processing of urgent consignments	Soliciting or accepting payments to obtain preferential treatment or speedy clearance.	

7.5.4 Matters to consider for customs duties also include the following:

- **The transaction value**

According to General Agreement on Tariff and Trade (GATT), the basis for the valuation of the goods imported is the transaction value. Customs duty is levied according to the transaction value which is the total amount actually paid or payable

for the goods. It also includes the amounts incurred or likely to be incurred for freight, insurance and all other expenses up to the border of the country. Documentation proving such amounts should be presented to the customs officer. If documentation is not available, the customs officer may be empowered to determine the transaction value on the basis of the presumptive expenses.

- **Imports under special conditions**

Auditors should be aware of the special requirements for vehicles, machines, equipment and goods that are imported under customs privileges (diplomatic, full or partial privilege), or entering the country temporarily. For example, customs duty may be charged on the value of such items after deducting depreciation. Transaction value is normally a value fixed at the time of importation, based on the value of similar goods of regular import. In case the second-hand goods, specific regulations may determine how the transaction value is determined.

- **Dealing with transit cargo**

Transit cargo may cause revenue lost as some of the goods declared as transit would never make exit but disposed of on the local market. In most countries after making the transit entry the exit of goods is not confirmed. Auditors should inquire as to what measures have the Revenue Authority put in place to deal with the identification of transit cargo which is aimed at local markets.

- **Bonded warehouse facility**

Goods can be imported into a licensed bonded warehouse and can be kept there for a period of up to two years before payment of duty. The facility is meant for importers who want to make bulk purchases and enjoy quantity discounts and cheaper transport costs for bulk shipments. The importer also has a pre-identified time limit to sell his goods direct from that warehouse and will only take out small quantities as per his customers' requirements. This helps the importer in that he does not tie-up his cash on goods not yet marketable. Cash Guarantee deposit facilities may be allowed against applicable import duty on the import of specific raw materials to industries not having bonded warehouse facilities.

- **Re-export or re-import of goods**

There may be instances when goods which have already been exported following proper customs processes are re-imported due to rejection by receiving party or other reasons. It may be that the applicable import duty can be waived. In addition, any import duty paid on the raw material or auxiliary raw material relating to that finished product originally allowed to be imported under bank guarantee may be recovered.

7.5.5 Matters to consider for excise duties also include the followings:

- **Excise duty collection**

Excise is levied at the rates prescribed in relevant regulations which are normally amended each year. Excise duty is recovered at the time when goods are issued for sale by the manufacturer or importer. For services, excise is recovered at the time of issue of the invoice.

7.5.6 The generic Revenue Audit Test plan has been adapted for the audit of Customs and Excise Duties as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
Customs Duties			
ASSESSMENT	<ul style="list-style-type: none"> • The value of goods is incorrectly assessed due to incorrect declaration, resulting in underpayment of taxes. 	Physical inspection by customs officer to compare details on the declaration with the goods and independent reconciliations between the details of the goods included on the declaration and the insurance documents.	Test of controls: For a selected transaction: <ul style="list-style-type: none"> • Inspect the signature of the customs officer as proof of the physical inspection of the goods, • Inspect proof of regular independent reconciliations between the details of the goods included on the declarations and the insurance documents Substantive test: For selected declarations: <ul style="list-style-type: none"> • Match details to goods invoices (and insurance documents), • Confirm the taxable amount includes necessary expenses (freight, insurance, etc.).

	Risk	Controls	Audit programmes
	<ul style="list-style-type: none"> Wrong tax tariff is applied resulting in underpayment of tax. 	An adequate system of testing application of rates.	<p>Test of controls:</p> <ul style="list-style-type: none"> Inspect evidence to support regular review of tariffs to ensure correct application of applicable tariffs. <p>Substantive tests:</p> <p>Select a sample of tariffs applied during the period and match to the prescribed tariffs for the period.</p>
	Collusion between Customs and Excise Staff and assessed importers/ exporters results in less duty being collected.	An independent review of assessments by authorised revenue authority staff not involved in the initial assessment process.	<p>Test of controls:</p> <ul style="list-style-type: none"> Inspect evidence of review of assessments by authorised staff not involved in the initial assessment process. <p>Substantive tests:</p> <p>Make a selection of assessments which have been independently reviewed and by reference to supporting evidence, confirm:</p> <ul style="list-style-type: none"> The value of goods is correct, Correct tariff rate has been applied, Customs duty calculated is correct.
	Theft or loss of goods may occur in customs warehouses.	All goods are recorded and the warehouse properly secured.	<p>Test of Control:</p> <p>Inspect evidence that:</p> <ul style="list-style-type: none"> Stock book is updated on daily basis. Regular stock counts are performed. Regular reconciliations are performed between physical items according to the stock-counts and the entries in the stock lists. Lost / damaged goods are

	Risk	Controls	Audit programmes
			<p>identified and accounted for.</p> <ul style="list-style-type: none"> Items long outstanding for collections are identified and demurrage is charged. <p>Substantive Test:</p> <ul style="list-style-type: none"> For selected items listed in the stock lists confirm: <ul style="list-style-type: none"> The date of entry; The duration taken in ware house; The adequacy of notices issued; Recalculate duties charged; and confirm that duties have been recovered. Where item on the stock list remains un-cleared, confirm item physically exists in the warehouse. Obtain appropriate explanation for the missing item from the warehouse. Identify goods which have not been collected for a long period and confirm that they were followed- up.
COLLECTION	<ul style="list-style-type: none"> Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	<p>Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.</p>	<p>Tests of controls:</p> <p>For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests:</p> <p>For selected assessments confirm that payments have been recorded:</p> <p style="padding-left: 40px;">At the correct amounts,</p> <p style="padding-left: 40px;">In the correct account,</p> <p style="padding-left: 40px;">In the correct period.</p>

	Risk	Controls	Audit programmes
	<ul style="list-style-type: none"> • Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the bank.</p>	<p>Tests of controls:</p> <p>Inspect proof of:</p> <p>Regular banking of cash received,</p> <p>Independent reconciliation of cash received and deposit slips;</p> <p>Daily cash ups for all cashiers;</p> <p>Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p> <p>Substantive tests:</p> <ul style="list-style-type: none"> • For a selected sample of receipts issued confirm that cash was banked timely. • For selected days confirm that all cash received have been adequately accounted for and banked timely.
	<ul style="list-style-type: none"> • Amount assessed as due is not paid. 	<p>Good procedure in place to ensure unpaid liabilities is pursued.</p>	<p>Tests of Controls:</p> <p>Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests:</p> <p>For a sample of outstanding amount, confirm follow-up action has been effected in accordance with the organisation's debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> • Amount is incorrectly classified into head of duty or accounts. 	<p>Independent checking of classification of revenue.</p>	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the</p>

	Risk	Controls	Audit programmes
			<p>revenue schedule.</p> <p>Substantive tests: Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
REFUNDS	<ul style="list-style-type: none"> Refunds of customs duties are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls: Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test: Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>
WRITE OFFS	<ul style="list-style-type: none"> Customs duty due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls: Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test: Select a sample of Customs Duties tax write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>
Excise Duties			
ASSESSMENT	<ul style="list-style-type: none"> Not all manufacturers and importers of excisable products are registered for paying duties. 	<ul style="list-style-type: none"> The revenue authority reviews regularly the register of 	<p>Test of Controls: Inspect proof that the revenue authority performs regular review of excise duties businesses register to provide</p>

	Risk	Controls	Audit programmes
		excise duties eligible businesses to ensure that all manufacturers and importers of excisable products have been identified and included in the register.	assurance that the register is regularly updated with new excise duties businesses. Substantive test: Select a sample of newly registered excise duties businesses and by reference to the registration supporting information, confirm the registration application was made at the within the time period prescribed for application for excise duties registration.
	<ul style="list-style-type: none"> • Misstated quantity, quality or value of goods removed from the warehouse, resulting in understatement of the amount of excise duty payable. 	<ul style="list-style-type: none"> • Excise officer verifies the correctness of the information included on the declaration when goods are taken out from the warehouse or the Manufacturers premises and released to the market. 	Test of control: Inspect proof that the excise officer verified the correctness of the requisition forms. Substantive tests: For selected declarations, confirm that values, quantities and quality are accurate and that values are not understated.
	<ul style="list-style-type: none"> • Possible collusion between the factory owner and the resident excise staff reducing the amount of excise duty payable. 	<ul style="list-style-type: none"> • An independent review of assessments by authorised revenue authority staff not involved in the initial assessment process. 	Test of Control: Check evidence of: <ul style="list-style-type: none"> • Independent checks and approval of assessments; • Effective risk management and close supervision; • Rotation of staff for different manufacturers; • Increase in collections as a result of spot checks;

	Risk	Controls	Audit programmes
			<ul style="list-style-type: none"> Post clearance audits have been performed. <p>Substantive test:</p> <p>For selected assessments recalculate the duty charged based on supporting information.</p> <p>Analyse information by comparing collections month to month, from prior year to current year and calculating increases.</p>
COLLECTION	<ul style="list-style-type: none"> Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.	<p>Tests of controls:</p> <p>For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests:</p> <p>For selected assessments confirm that payments have been recorded:</p> <p style="padding-left: 40px;">At the correct amounts, In the correct account, In the correct period.</p>
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	Regular daily / weekly deposit of cash received. Independent reconciliations between receipts issued and amounts deposited in the bank.	<p>Tests of controls:</p> <p>Inspect proof of:</p> <p>Regular banking of cash received, Independent reconciliation of cash received and deposit slips; Daily cash ups for all cashiers; Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p> <p>Substantive tests:</p>

	Risk	Controls	Audit programmes
			<p>For a selected sample of receipts issued confirm that cash was been banked timely.</p> <p>For selected days confirm that all cash received have been adequately accounted for and banked timely.</p>
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	<p>Good procedures in place to ensure unpaid liabilities are pursued.</p>	<p>Tests of Controls:</p> <p>Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests:</p> <p>For a sample of outstanding amounts, confirm follow -up action has been effected in accordance with the organisation's debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified into head of duty or accounts. 	<p>Independent checking of classification of revenue.</p>	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests:</p> <p>Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
REFUNDS	<ul style="list-style-type: none"> Refunds of excise duties are incorrectly made – wrong amount or to wrong person. 	<p>Independent verification and authorisation of refunds prior to payment.</p>	<p>Test of controls:</p> <p>Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test:</p> <p>Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>

	Risk	Controls	Audit programmes
WRITE OFFS	<ul style="list-style-type: none"> Excise Duty due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls:</p> <p>Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test:</p> <p>Select a sample of excise duties tax write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

7.6 Illustration - Computation of Custom Duties

Import of Grey Portland cement at Chittagong:

- | | |
|---|--------------|
| 1. Value as per bill of entry (per ton) | US\$ 75.00 |
| 2. Value in taka (if 1US\$ = Tk. 70) | Tk. 5,250.00 |

Applicable taxes, Insurance and charges (per ton) are as below:

	TK	TK
Value in Taka		5,250.00
Add insurance 1% of Value or actual		52.50
		5302.50
Add landing charge -1% of Tk. 5,302.50		53.03
Assessable value (landing cost)		5,355.53
Customs duty at say 30% on Tk. 5,355.53		1,606.66
Duty paid value (5,355.53 +1,606.66)		6,962.19
Supplementary duty at say 15% of duty paid value = Tk.		1,044.33

6,962.19 @15%		
		8,006.52
VAT at say 10% of total taxed value (TK.8,006.52)	800.65	
Advance income tax @2.5% of assessable value (TK. 5,355.53)	133.89	
License fee @ 2.5% of assessable value (TK.5,355.53)	133.89	
Infrastructure Development Surcharge @2.5% of assessable value (TK.5,355.53)	133.89	
		1,202.32
Total value of imported goods including taxes		9,208.84
Value of goods excluding tax		(5,250.00)
Total taxes, insurance and charges paid		3,958.84

7.7 List of Records and Documents on Customs and Excise Duties

Example of some main documents and records that need to be considered while doing an audit of Customs and Excise are stated below.

Customs Duty

1. Bills of entry/ export
2. Pre-shipment inspection agencies certificates - on classification, quality, price etc
3. Valuation/Certificate files
4. Shipping documents, invoices, etc
5. Bond register and bond documents
6. Register of Customs Duty Receipts
7. Register of Penalties
8. Register of Seizures, Attachments & Forfeitures
9. Register of unclaimed goods
10. Importer/Exporter Ledgers
11. Account Current
12. Treasury Challans of revenue paid
13. Refund documents
14. Duty drawback/exemption papers
15. Registration certificates/licenses for importer/exporter

16. Letters of Credit
17. Trans-shipment Advice notes
18. Files of monthly returns (All RT Forms)

Excise Duty

1. Application forms for trade license in excisable goods
2. Register of excisable goods (All RG Forms)
3. Register regarding payment of duty (AR 1)
4. Various forms regarding movement of goods (AR Forms)
5. Files of monthly returns (ST Forms)
6. Warehouse/Store room register (WRG registers)

CHAPTER 8 – AUDIT OF VALUE ADDED TAX (VAT)

8.1 Introduction to Value Added Tax (VAT)

8.1.1 VAT is a form of consumption tax. From the perspective of the consumer, it is a tax on the purchase price whereas, from that of the seller, it is a tax only on the “value added” to a product, material, or service. The “value added” to a product by or with a business is the difference between the sale price charged to its customer and the cost of materials or and other taxable inputs.

8.1.2 The main legislations relating to VAT are-

- Value Added Tax Act, 1991
- Value Added Tax and Supplementary Duty Act, 2012
- The Finance Acts produced annually
- Value Added Tax Rules, 1991
- Related SROs and Orders.

8.1.3 VAT is usually levied on goods and services supplied or provided within Bangladesh. Certain goods and services are, however, exempt from VAT. Section 3 of the Value Added Tax Act, 1991 states among others that:

- Value Added Tax shall be imposed and payable at the rate of 15% on the base values on all goods imported into Bangladesh, except the goods listed in the First Schedule of the Act, and all the supply of all goods not listed in the said schedule and on all services rendered in Bangladesh, except those specified in the second schedule of the Act.
- Zero rate tax shall be imposed on the following goods or services:
 - Any goods or services exported or deemed to have been exported from Bangladesh.
 - Food and other things supplied to any foreign going transport for consumption outside Bangladesh in accordance with section 24 of the Customs Act, 1969.

8.1.4 Truncated Rate of VAT shall be imposed in special cases as determined by NBR. E.g. Information Technology Enabled Services (ITES) @4.5%, Land Development Firm @3%, etc.

8.1.5 For the purpose of levying VAT, the value of goods and services is determined as follows:

- In the case of imported goods, the value for levying VAT is determined on the basis of the value chargeable to import duty under section 25 or section 25A of the Customs Act, 1969 plus supplementary duty and other duties and taxes except advance income tax.

- In case of goods supplied, VAT is determined on the basis of the value receivable by the manufacturers, producers or traders which will include the value of inputs purchased, all charges, commission fees, all duties and taxes including supplementary duty (except VAT) and profits.

8.1.6 With the exception of certain cases, mentioned in Sub-section (1) of section 9 of the Act, credits for input tax against the output tax paid by the suppliers, traders or providers of taxable goods and services are allowed.

8.1.7 Importers, exporters, suppliers, traders and service providers whose annual turnover exceeds the threshold determined by NBR time to time, must register for VAT. Traders with turnover less than the set threshold may choose to register. The government may also grant registration exemption to traders with turnover of set threshold provided they meet certain terms and conditions.

8.1.8 Two types of methods are applied in determining VAT, one is inclusive and other one is exclusive. The two methods are shown below:

8.1.8.1 Any person engaged in the business of goods and services subject to VAT having yearly sale of less than set threshold has to pay Turn-over Tax (TT) instead of VAT, at the rate of 4% on the amount of the yearly sale.

8.1.8.2 Any person doing business that is subject to VAT is required to comply with following procedures prior to clearing goods and services from taxpayer's premises:

- Get registered with VAT authority, collect Business Identification Number (BIN) which is referred in all matters relating to VAT.
- Submit value declaration – the basis for imposing VAT i.e., price per unit on which rate of VAT to be charged- and get it approved by VAT authority (usually by Divisional Officers).
- Maintain prescribed books and records.

8.2 The Mechanics of VAT

8.2.1 When one registered operator supplies another registered operator with goods or services, the supplier of those goods or services will levy VAT. The VAT incurred by a registered operator is known as input tax.

8.2.2 When this registered operator in turn supplies goods or services to other persons (or traders), VAT must be included in the price charged for those goods or services. This is known as output tax.

8.2.3 The difference between the output tax collected and input tax incurred for making taxable supplies is the amount of VAT payable to the Revenue Authority or refundable therefrom.

8.2.4 **VAT Formula:** The simplest way to calculate the VAT on a purchase is to multiply the price of the item by the rate of the VAT and add the total to the price of the item. For instance, to buy

a sweater for TK 3,000 and the VAT is 15 percent, and then the VAT is TK 450, so the total price would be TK 3,450.

Calculate VAT by Combining Price and VAT (Exclusive Method)

Auditor can also calculate the total price of an item in one step by multiplying it by 1 plus the percentage of the VAT. Taking the example above, multiply the price of the items (TK 3,000) by 1 plus the VAT percentage (1 + 0.15, or 1.15), get the same result, a final price of TK 3,450.

Calculate VAT from Total Price (Inclusive Method)

Auditor can also work backward from the final price to figure out the VAT. This can be helpful if the VAT is not broken out on receipt, or if it was included in the price. In this case, final cost of the item needs to be divided by 1 plus the VAT rate, and then subtract that from the total cost to get the VAT paid. Using the same example, sweater price value TK 3,450 divide by 1.15, yielding TK. 3,000 and subtract that from the full price (TK 3,450) to get TK 450 - the amount of VAT.

VAT Due/Refundable = Output Tax – Input Tax

8.2.5 How does VAT work?

Output Tax on sales (TK 60,000 × 15%) = TK 9,000.00

Less Input Tax on purchases (TK 50,000 × 15%) = TK 7,500.00

VAT liability = TK 1,500.00 (TK 9,000 – TK 7,500)

VAT is remitted each time a product is sold by a business. VAT paid on the product by the previous vendor is claimed as input VAT. End-consumers of products and services, however, cannot recover VAT on their purchases.

8.3 Administration of VAT

8.3.1 There are Twelve VAT Commissionerates all over Bangladesh each headed by a Commissioner of VAT. The Commissionerates are Dhaka (south), Dhaka (North), Dhaka (West), Dhaka (East), Rajshahi, Rongpur, Jessore, Khulna, Sylhet, Chittagong, Comilla and VAT Large Taxpayers' Unit (LTU). Each VAT Commissionerate has divisions which are headed by Divisional Officers who may be Deputy Commissioners or Assistant Commissioners. Under each VAT Division there are number of circles which are headed by Superintendents. These circles are the basic building block of VAT administration. However, the head of each VAT division plays the most significant role for VAT collection and administration in the field level. Commissioners, Additional Commissioners, Joint Commissioners usually monitor and supervise the functions of VAT circles.

8.3.2 There are also a number of other offices which deal with appeals, inspection, credits/refunds, and duty appraisals. There is a separate Training Academy covering Customs, Excise and VAT training based in Chittagong.

8.3.3 At each of the assessment and collection centres there are internal control measures operating to protect revenue. For instance, supervising officers supervise the work of tax officials and there are monitoring officers who review the reports of progress in collecting taxes.

8.3.4 Appeal against VAT assessment by the Departmental assessment officers can be made to the Turnover Tax Commission within sixty days of the assessment raised. The decision of the Turnover Tax Commission is final, and no legal remedies can be sought in the courts. The Commissioners (Appeals) are responsible for all VAT appeals against the decisions of the officers of the rank of Additional Commissioner and below. Appeals against the decisions of the Commissioner (s) or the Commissioners (Appeal) can be lodged before the Customs, Excise and VAT Appellate Tribunal. Decisions of the Tribunal can go before the High Court Division. Government can also review the decisions of the Tribunal.

8.4 Matters of Audit Consideration

8.4.1 Auditors are required to identify key processes, risks and mitigating controls relating to VAT operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Revenue Authority, as these controls are in place to ensure that all returns are received; correctly assessed and amount outstanding are collected.

8.4.2 Auditors are also required to be aware of other activities that indirectly impact on the assessment, collection and allocation of revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protection of revenue.

8.4.3 Auditors also need to assess the risk of fraudulent practices. Possibilities include:

- **Under-reported sales:** A trader may report only a proportion of sales, falsifying records and accounts to match, or may make some sales "off the books" entirely.
- **Failure to register:** The most common such cases under the VAT are relatively small businesses operating close to the level of turnover at which registration becomes compulsory, that fail to register, saving both the VAT for which they would be liable and VAT compliance costs.
- Misclassification of commodities.
- VAT collected but not remitted.
- Imported goods/raw materials under bond facility but selling them in the home market.
- False claims for credit or refund.
- Credit claimed for VAT on purchases that are not creditable.
- **Bogus traders:** Companies may be set up solely to generate invoices that allow recovery of VAT. Such "invoice mills" exploit the practical impossibility of cross-checking every invoice against evidence that earlier tax has been paid.

- **Rate differentiation:** Multiple rates create scope for misclassification fraud.

8.4.4 The generic Revenue Audit Test plan has been adapted for the audit of VAT as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.), additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit Programmes
ASSESSMENT	<ul style="list-style-type: none"> • Not all returns are received. 	Returns received are regularly compared to the list of taxpayers to identify late and non-receipt of returns.	<p>Tests of controls:</p> <ul style="list-style-type: none"> • Inspect the register of returns received and confirm that it is regularly maintained. • Inspect reconciliations performed by the VAT processing team between returns received and the list of taxpayers. <p>Substantive tests:</p> <ul style="list-style-type: none"> • For selected periods reconcile the list of taxpayers to the returns received and identify taxpayers who did not submit returns / submitted returns late. • Where returns have not been submitted or submitted late, confirm appropriate penalties have been applied.
	<ul style="list-style-type: none"> • Under-declaration of output VAT or over-claim of input VAT 	An Official responsible for examination of returns reviews the return for completeness and compares information to supporting documents such	<p>Tests of control:</p> <ul style="list-style-type: none"> • Inspect evidence of reviews of declarations performed by responsible official. • Inspect evidence that returns with incomplete or incorrect information are identified and sent for further verification.

	Risk	Controls	Audit Programmes
		as sales, purchases and banking records.	<p>Substantive tests:</p> <p>For selected sample of returns:</p> <ul style="list-style-type: none"> • Compare information from supporting documents to actual amounts declared on the return. • Recalculate VAT charged confirm the correct use of exemptions applied.
	<ul style="list-style-type: none"> • Businesses not registered for VAT, charge and collect VAT without submitting returns. 	<ul style="list-style-type: none"> • The revenue authority operates a good system that clearly identifies businesses authorised to charge VAT, • Appropriate actions are taken against businesses charging and claiming VAT illegally. 	<p>Tests of control:</p> <ul style="list-style-type: none"> • Confirm evidence that the revenue authority performs test to establish that only authorised businesses charge and collect VAT. • Inspect proof that businesses illegally charging VAT are identified and punished. <p>Substantive Test:</p> <ul style="list-style-type: none"> • For a sample of returns, test to confirm that: Supporting information clearly displays authority to collect VAT. • From the list of erring businesses, select a sample and test to confirm that appropriate penalties have been raised and measures taken to prevent the operation of the illegal activity.
COLLECTION	<ul style="list-style-type: none"> • Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the	<p>Tests of controls:</p> <p>For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests:</p> <p>For selected assessments confirm that payments have been recorded:</p> <ul style="list-style-type: none"> -At the correct amounts, -In the correct account,

	Risk	Controls	Audit Programmes
		bank.	-In the correct period.
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the bank.</p>	<p>Tests of controls: Inspect proof of: Regular banking of cash received; Independent reconciliation of cash received and deposit slips; Daily cash ups for all cashiers;</p> <p>Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p> <p>Substantive tests: For a selected sample of receipts issued confirm that cash was banked timely.</p> <p>For selected days confirm that all cash received have been adequately accounted for and banked timely.</p>
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	<p>Good procedures in place to ensure unpaid liabilities are pursued.</p>	<p>Tests of Controls: Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests: For a sample of outstanding amount, confirm follow – up action has been effected in accordance with the organisation’s debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in to head of duty or accounts. 	<p>Independent checking of classification of revenue.</p>	<p>Tests of Controls: Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p>

	Risk	Controls	Audit Programmes
			<p>Substantive tests:</p> <p>Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
REFUNDS	<ul style="list-style-type: none"> • Refunds of VAT are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls:</p> <p>Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test:</p> <p>Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>
WRITE OFFS	<ul style="list-style-type: none"> • VAT due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls:</p> <p>Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test:</p> <p>Select a sample of VAT write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

8.5 List of Records and Documents on Value Added Tax

Example of some major records and documents that need to be considered while doing an audit of VAT-

1. Bills of entry/export,
2. Bill of Lading/Airway Bill,
3. Pre-shipment inspection agencies' certificates,
4. Valuation Certificate files,
5. Shipping documents, invoices, etc,
6. Bond register and bond documents,
7. Register of VAT Receipts,
8. Register of Penalties and Fines,
9. Register of Seizures, Attachments and Forfeitures,
10. Register of unclaimed goods,
11. Importer/Exporter Ledger,
12. Account Current,
13. Treasury Challan of VAT paid,
14. Refund documents,
15. Drawback/Exemption papers,
16. Registration Certificates/ Licenses for importers/exporters/ producers/manufacturers/ traders,
17. Letters of Credit,
18. Trans-shipment Advice Notes,
19. Files of monthly/ quarterly/ annual returns,
20. Declaration of Value Basis,
21. Annual declaration of turnover,
22. Credit Notes/ Debit Notes,
23. Registers of Purchases/Sales,
24. Register of unused/unusable inputs,
25. Register of damaged/destroyed/unserviceable goods.

CHAPTER 9 – AUDIT OF BONDED WAREHOUSE

9.1 Introduction

9.1.1 To promote export and also for industrialisation, the Government has introduced three incentives:

- Bond facility
- Duty Drawback
- Cash Incentive

This chapter focuses on the audit of Bonded Warehouse while the next two chapters will focus on the other two incentives.

9.1.2 Export Policy of Bangladesh 2012-13, Section 4.8.1 states that, the National Board of Revenue will consider the possibility of providing bonded warehouse facilities to import-dependent export industries. Especially, the board will examine whether bonded warehouse facilities can be extended to all export-oriented industries.

9.1.3 As per Customs Act, 1969 and Value Added Tax Act, 1991 with very few exceptions, almost all exports by are tax free. They also get tax free benefit on import or local purchases of raw materials to be used in manufacturing export goods. Ordinarily, imports of raw materials are taxable under the regular tax regime and exporting industries under the regular tax regime are required to pay taxes when importing raw materials. However, taxes paid can be claimed back as Duty Drawback from DEDO (Duty Exemption and Drawback Office) or the respective VAT Commissionerate once the goods have been exported. Alternatively, the exporting industries can apply for a special tax system that will exempt them from having to pay tax when importing raw materials.

9.1.4 According to the system, export-oriented industries are allowed to import duty-free items under the bonded warehouse system. Eighty per cent of the items that come under the system are supposed to be exported while the rest 20 per cent is allowed as wastage. If anyone violates the rules or sells the imported items in the local market without giving proper duty and tax, there is a provision to impose 200 per cent duty and tax on the items. Even the license of that organisation could be cancelled.

9.1.5 The main legislations relating to Bonded Warehouse are:

- Licensing Rules, 2008
- Duty Free shop Licensing Rules
- Value Added Tax and Supplementary Duty Act, 2012
- Value Added Tax Act, 1991
- Import Export (Control) Act, 1950

- The Bangladesh Export Processing Zone Authority Act,1980
- Export Policy 2012-15
- Foreign Private Investment (Promotion & Protection) Act, 1980
- The Bangladesh Economic Zones Act, 2010
- Privileged Persons (Customs Procedure) Rules, 2003
- Related SROs, Orders and Tariff schedule

9.1.6 Bonded Warehouses classified into two categories on the basis of types of raw materials, objectives of utilization and nature of export, are as follows-

Special Bonded Warehouse is basically a facility for 100% export oriented Garments Industry like Oven garments, Nit and sweater factories, etc. On the other hand, General Bonded Warehouse is also a facility for 100% export oriented industries other than Garments. General Bonded Warehouse is divided into seven categories, like-

- a. 100% deemed export oriented industries (Manufacturer of packing/carton, leveling, poly bag, hanger, zipper, button, padding etc. or accessories industries);
- b. 100% export oriented tannery and manufacturer of leather goods;
- c. 100% export oriented ship industry;
- d. Home consumption Bonded Warehouse;
- e. Diplomatic Bond and duty free shop;
- f. Bonded industry of Export Processing Zone;
- g. 100% export between deemed to deemed industries.

9.1.7 As per Bonded Warehouse Licensing Rule, 2008 section 86 (3) general bond is actually the combination of Duty and Risk Bond which is a contract between the government and the licensee. Under this provision licensee is providing assurance about the releasing of goods that imported under this provision, storing the imported goods at approved bonded warehouse and to make occupancy payment at certain rate which is fixed by the authority. After signing the bond and having the license, a licensee can import, store, utilize and export without payment of customs duty. As per section 12, the bond limit as determined is as follows-

- For deemed exporter limit is up to one crore;
- For dual role: direct exporter and deemed exporter limit is up to two crore;
- For direct exporter limit up to three crore;
- For diplomatic, duty free and duty paid limit up to three crore; and
- For garments factory this bond is issued for three years and for others is one year.

9.1.8 Diplomatic Bonded Warehouse

The licensee of diplomatic bond can sell goods which are imported under this bond for diplomats and privileged foreigners in exchange of foreign currency. There are eight 'Diplomatic & Privileged persons' bonded warehouses in Bangladesh. The diplomats residing

in Bangladesh can purchase duty free articles from these bonded warehouses on the basis of Tax Exemption Certificate issued from Foreign Ministry as per their circular no. Pro-(ms) 9/circular/2004, dated 21.08.2008.

The privileged persons can purchase duty free articles from diplomatic bonded warehouses. To be eligible, the privileged person has to have collected a Customs Passbook from Customs Bond Commissionerate issued on the basis of recommendation of NBR. Section 10 of Privileged Persons (Customs Procedure) Rules, 2003, set the limit of privilege as below-

Particular of Goods	Monthly entitlement per Privileged Persons (Customs Procedure) Rules, 2003	Conditions of Import and Purchase
Articles of foodstuff, medicine and other consumable stores.	Up to a CIF value of [US \$ 60.00]	The total value of goods either imported on duty-free basis or purchased from the diplomatic bonded warehouse of Bangladesh Parjatan Corporation by a privileged person shall not exceed the value mentioned in column 2 accordingly.
Alcoholic Beverage, Liquor and Tobacco.	Up to a CIF value of [US \$ 100.00]	The total value of goods either imported on duty-free basis or purchased from any type of diplomatic bonded warehouse by a privileged person shall not exceed the value mentioned in column 2.

As per SRO no. Custom-4/85/1146 dated 7/9/2000, Diplomatic Bonded Warehouse can also sell to the foreigners who are not under privileged person provision but in this case duty has to be paid before selling. The limit which is set as follows-

Particular of Goods	Monthly entitlement of an individual foreigners	Conditions of Purchase
Articles of foodstuff, medicine and other consumable stores.	Up to C&F value Taka 600 per month	The purchase has to be made in foreign currency.
Alcoholic Beverage, Liquor and Tobacco.	Up to C&F value Taka 720 per month	The purchase has to be made in foreign currency.

9.1.9 Bonded Warehouse of Duty Free Shop

SRO 23/2011 dated 16/10/2011 describes the guidelines of establishing of duty free shop in international air/land/sea port. The bonded warehouse of duty free shop type was designed to promote tourism by allowing tourists/travellers to buy merchandise displayed in duty free shops free of import/export taxes and duties in exchange of foreign currency. The goods imported from abroad or those entitled for tax and duty refund upon exportation can be stored in this type of bonded warehouse for two years. Local goods are also allowed to be removed to the bonded warehouse for display and sale.

9.1.10 EPZ (Export Processing Zone) Bonded Warehouse

This bonded warehouse facility is available for three types of industry on the basis of their investment pattern, like- (a) 100% foreign investment, (b) Joint investment, and (c) 100% local investment.

9.1.11 Bonded Warehouse of Home Consumption

This bond facility has been introduced to promote import substitute industries. The goods stored in the bonded warehouse shall be exempted from import taxes and duties upon exportation and the imported goods of each shipment may be partially removed from the bonded warehouse for domestic consumption provided taxes and duties applicable on the goods removed from the warehouse are paid. The applicable taxes and duties shall be calculated based on the nature and value of goods at the time of importation but classified in accordance to the Customs Tariff Decree at the time of removing the goods from the bonded warehouse.

In this case, a separate form of Bill of Entry is used for clearance of goods for warehousing. All documents, as are required to be attached with a Bill of Entry for home consumption are also required with the Bill of Entry for warehousing which is assessed in the same manner and duty payable is determined. However, since duty is not required to be paid at the time of warehousing, the purpose of assessing the duty at this stage is only to secure the duty in case the goods do not reach the warehouse. The duty is paid at the time of ex-bond clearance of goods for which an ex-bond Bill of Entry is filed. The rate of duty applicable to imported goods cleared from a warehouse is the rate in force on the date of filing of ex-bond Bill of Entry.

9.2 Administration of Bonded Warehouse

9.2.1 Presently two independent Bond Commissionarate are working under NBR. One is Dhaka Bond Commissionarate and other one is Chittagong Bond Commissionarate. Main functions of Bond Commissionarate are as follows-

- Issuing bond licence towards 100% export oriented direct and deemed exporters,
- Promoting export by duty free import under bond facility,
- Issuing bond licence in favour of industries of different EPZ's,

- Import raw material under bond provision and monitoring of storage and export of relates raw materials,
- Monitoring the Diplomatic Bonded Warehouses to facilitate the management of consumable goods for diplomats and privileged persons,
- To facilitate export trade,
- Management of home consumption bond.

9.2.2 Jurisdiction of Dhaka and Chittagong Bond Commissionarate is given below:

Dhaka Bond Commissionarate		
Dhaka Divisions	Circles	Area coverage
Division 1	Circle 1	Mymensing, Tangail, Netrokona, Kishorgonj, Jamalpur and Sherpur districts.
	Circle 2	Shreepur Thana and Kapashia Thana.
Division 2	Circle 3	Gazipur (Sadar) Thana, Kaliakoir Thana.
	Circle 4	Tongi Thana, Kaligonj Thana.
Division 3	Circle 5	Savar Thana, Dhamrai Thana and Manikgonj district.
	Circle 6	Uttara Thana, Uttarkhan Thana, Daskhinkhan Thana, Turag Thana, Ashulia Thana.
Division 4	Circle 7	Mirpur Thana, Pallabi Thana, Cantonment Thana, Kafrul Thana.
	Circle 8	Dhanmondi Thana, Kolabagan Thana, Mohammadpur Thana, Adabor Thana, Lalbag Thana, Keranigonj Thana, Nonabgonj Thana, Dohar Thana.
Division 5	Circle 9	Tejgaon Thana, Khilgaon Thana, Rampura Thana, Ramna Thana, Badda Thana, Gulshan Thana, Motijheel Thana, Palton Thana.
	Circle 10	Shampur Thana, Kadomtali Thana, Sutrapur Thana, Bongshal Thana, Kotwali Thana, Gendaria Thana, Chakbazar Thana, Sabujbagh Thana, Munshigonj district.
Division 6	Circle 11	Fatulla Thana, Narayangonj (Sadar) Thana, Siddirgonj Thana, Demra Thana, Jatrabari Thana, Sonargaon Thana.
	Circle 12	Rupgonj Thana, Bandar Thana, Araihasar Thana, Narsingdi district.
Supervised Bond Division	Circle 13	Gazipur Dist., Kisoregonj Dist., Mymensingh Dist, Tangail Dist, Netrokona Dist, Jamalpur Dist, Sherepur Dist.
	Circle 14	All supervised bond licenses except bond licenses under Circle - 13

		Export Processing Zone (EPZ), DEPZ (West), Whole area of Dhaka EPZ excluding extension DEPZ (East), Whole area of Dhaka EPZ extension AEPZ, Whole area of Adamjee EPZ.
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Chittagong Bond Commissionerate	
Zones	Area coverage
Zone 1	Pahartoli, Seetakunda, Mirsarai Thana along with greater Noakhali and Comilla District
Zone 2	Patenga, Haliashahar (including Sagarica area), Bandar Thana and Doublemuring Thana (West side of Agrabad road to south side of D.T. road)
Zone 3	Kotowali
Zone 4	Hathajari, Byejid bostami, Fatikshari, Doublemuring Thana (East side of Agrabad road), Kharashari and Rangamati hill trucks area
Zone 5	Chandgao, Baklia, Roujan, Kaptai and Rangunia thana
Zone 6	Khulshi Pahlise Thana (including west side of Byejid Bostami road) and Doublemuring Thana (North side of D.T. road)
Zone 7	Karnaphuli, Patia, Anwara, Chandnaise, Boalkhali, Satkania thana, Coxbazar district and Bandarban district

9.3 Matters of Audit Consideration

9.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to Customs and Excise Duties and bond operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Revenue Authority, as these controls are in place to ensure compliance with procedures and guidelines relating to bonded warehouse operations.

9.3.2 Auditors are also required to be aware of other activities that indirectly impact bonded warehouse operations. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protection of revenue.

9.3.3 Auditors also need to assess the risk of fraudulent practices. In this regard, the auditors are required to consider implications on their audits of the following:

- The consignment which is imported under bond facility may not be recorded in bond register.
- False presentation of export documents, utility declaration and utility permission.
- False sales shown against different pass books in case of diplomatic bond facility.
- The goods which are imported under home consumption bond facility may be diverted to the market.

9.3.4 Matters to consider for Bonded Warehouse also include the following:

- **Into Bond**

Into bond issued when raw materials are entered into bonded warehouse and recorded in Bond Register after assessment and released from the port. Into bond issued sequentially on the basis of entering date of raw materials into the warehouse. During assessment auditors should confirm that raw materials imported are as per import permission/utility permission issued by authorized institutions such as BGMEA, BEPZA and also confirm that recording in the records agree with import documents.

- **Ex Bond**

The auditor also need to confirm the correctness of ex-bonds (materials released from bonded warehouse in production for exports) taking into account underlying records such as the export invoice.

9.3.6 The generic Revenue Audit Test plan has been adapted for the Bonded Warehouse audit as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
Bonded Ware house			
ASSESSMENT	<ul style="list-style-type: none"> • The values of goods are incorrectly assessed due to incorrect declaration, resulting in underpayment of taxes. 	Physical inspection by customs officer to compare details on the declaration with the goods and independent reconciliations between the details of the goods	Test of controls: For a selected transaction : <ul style="list-style-type: none"> • Inspect the signature of the customs officer as proof of the physical inspection of the goods. • Inspect proof of regular independent reconciliations between the details of the

		<p>included on the declaration and the insurance documents, utility permission, bond license and also need to see that bank guarantee is obtained.</p> <p>Also need to mark in bill of entry that related duties are not collected and the consignment has released against bonded warehouse facility.</p>	<p>goods included on the declarations and the insurance documents.</p> <p>Substantive test:</p> <p>For selected declarations:</p> <ul style="list-style-type: none"> • Match details to goods invoices (and insurance documents, utility permission) • Confirm the taxable amount includes necessary expenses (freight, insurance etc.) • Confirm the bond license is not expired • Confirm that import balance is within the limit of utility permission.
	<ul style="list-style-type: none"> • Wrong tax tariff is applied during ex-bond resulting in underpayment of tax. 	<p>An adequate system of testing application of rates.</p>	<p>Test of controls:</p> <ul style="list-style-type: none"> • Inspect evidence to support regular review of tariffs to ensure correct application of applicable tariffs. <p>Substantive tests:</p> <p>Select a sample of tariffs applied during the period and match to the prescribed tariffs for the period.</p>
	<ul style="list-style-type: none"> • Excess deduction is made during ex bond causing loss of tax. 	<p>An adequate system of testing application of co-efficient of production and utility permission.</p>	<p>Test of Controls:</p> <ul style="list-style-type: none"> • Inspect evidence to support regular review of utilization to ensure correct application of applicable co-efficient of production issued by DEDO. <p>Substantive tests:</p> <p>Select a sample of Ex bond applied during the period and match to the prescribed Co-efficient of Production.</p>
	<ul style="list-style-type: none"> • Collusion between Bond 	<p>An independent review of</p>	<p>Test of controls:</p> <ul style="list-style-type: none"> • Inspect evidence of review of

	<p>Commissioner rate Staff and assessed importers/exporters results in less duty being collected.</p>	<p>assessments by authorised revenue authority staff not involved in the initial assessment process.</p>	<p>assessments by authorised staff not involved in the initial assessment process.</p> <p>Substantive tests:</p> <p>Make a selection of assessments which have been independently reviewed and by reference to supporting evidence, confirm:</p> <ul style="list-style-type: none"> • The value of goods is correct, • Correct tariff rate has been applied, • Customs duty calculated is correct, • Deduction is made by following co-efficient of utilization.
	<ul style="list-style-type: none"> • Theft or loss of goods may occur in Customs warehouses. 	<p>All goods are recorded and the warehouse properly secured.</p>	<p>Test of Control:</p> <p>Inspect evidence that:</p> <ul style="list-style-type: none"> • Stock book is updated on daily basis. • Regular stock counts are performed. • Regular reconciliations are performed between physical items according to the stock-counts and the entries in the stock lists. • Lost / damaged goods are identified and accounted for. • Items long outstanding for collections are identified and demurrage is charged. • Proper insurance coverage is made. <p>Substantive Test:</p> <ul style="list-style-type: none"> • For selected items listed in the stock lists confirm: <ul style="list-style-type: none"> ○ The date of entry; ○ The duration taken in ware house;

			<ul style="list-style-type: none"> ○ The adequacy of notices issued; ○ Recalculate duties charged; and confirm that duties have been recovered. ● Where item on the stock list remains un-cleared, confirm item physically exists in the warehouse. Obtain appropriate explanation for the missing item from the warehouse. ● Identify goods which have not been collected for a long period and confirm that they were followed- up.
COLLECTION/ Deduction	<ul style="list-style-type: none"> ● Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.	<p>Tests of controls:</p> <p>For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests:</p> <p>For selected assessments confirm that payments have been recorded:</p> <ul style="list-style-type: none"> At the correct amounts, In the correct account, In the correct period.
	<ul style="list-style-type: none"> ● Cash receipts are not banked on a timely basis. 	Regular daily / weekly deposit of cash received. Independent reconciliations between receipts issued and amounts deposited in the bank.	<p>Tests of controls:</p> <p>Inspect proof of:</p> <ul style="list-style-type: none"> Regular banking of cash received, Independent reconciliation of cash received and deposit slips, Daily cash ups for all cashiers, Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank. <p>Substantive tests:</p> <ul style="list-style-type: none"> ● For a selected sample of

			<p>receipts issued confirm that cash was banked timely.</p> <ul style="list-style-type: none"> • For selected days confirm that all cash received have been adequately accounted for and banked timely.
	<ul style="list-style-type: none"> • Amount assessed as due is not paid. 	<p>Good procedures in place to ensure unpaid liabilities are pursued.</p>	<p>Tests of Controls: Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests: For a sample of outstanding amount and confirm follow – up action has taken.</p>
	<ul style="list-style-type: none"> • Non recording of completion of utilization permission and wrong balance brought forward. 	<p>Good procedure in place to ensure that balance is deducted against each UP and also deduction made against unpaid liabilities are pursued during into bond.</p>	<p>Tests of Controls: Inspect evidence of review of any non deduction report by a higher authority.</p> <p>Substantive tests: For a sample of non- (or excess) deduction of ex bond and confirm follow-up action has been taken.</p>
ALLOCATION	<ul style="list-style-type: none"> • Amount is incorrectly classified into head of duty or accounts. 	<p>Independent checking of classification of revenue.</p>	<p>Tests of Controls: Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests: Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
	<ul style="list-style-type: none"> • Sales recorded against expired pass book or domestic sales recorded in duty free sales book in case of 	<p>Good procedure in place to ensure that proper recording is made in proper book and also the respective foreign currency regulations</p>	<p>Tests of Controls: Inspect proof of regular review of sales revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests: Select a sample of sales revenue</p>

	diplomatic and duty free bonded facility accordingly.	is followed.	receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.
REFUNDS	<ul style="list-style-type: none"> Refunds of Customs Duties are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls:</p> <p>Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test:</p> <p>Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>
WRITE OFFS	<ul style="list-style-type: none"> Customs duty due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls:</p> <p>Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test:</p> <p>Select a sample of Customs Duties Tax write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

9.4 List of Records and Documents on Bonded Warehouse

Example of some major records and documents that need to be considered while doing an audit of Bonded Warehouse are given below-

- Shipping Documents
- Utility Declaration
- Utility permission
- In bond and ex-bond documents
- Coefficient of utilization
- Bond license
- Warehouse insurance
- Export Documents
- Passbook of privilege person
- Sales ledger of duty free shop
- Reconciliation between customs and bonded warehouse.

CHAPTER 10 – AUDIT OF DUTY EXEMPTION AND DRAWBACK

10.1 Introduction to DEDO

DEDO means Duty Exemption and Drawback Office i.e. the office which is entrusted with the task of exemption and drawback of duty levied and collected from the exporters. In practice, this office does not exempt any duty but they allow drawback to the exporters and the exporter cum manufacturers on the duty and taxes they pay on exported commodity and its inputs at the time of procurement. This provision is made in the Value Added Tax Act, 1991 to the effect that the drawback shall be dealt with centrally and by the DEDO and a comprehensive procedure has been described in the VAT Rules. This office was established in the year 1987.

10.1.2 Exemption is total or partial relief from payment of duty and taxes by the provision made in the Act or by notification or order by the government as per policy or for special purpose or to facilitate some process of production, etc.

10.1.3 Drawback is a special arrangement that encourages export, which is like a special type of refund. The DEDO refunds duty and taxes realised on inputs procured [imported or purchased from local production] for export commodities. The DEDO allows drawback when an export must have been completed; its inputs must have been procured on payment of duty and taxes, provided that has been claimed in proper manner within a prescribed time (six months from the date export).

10.1.4 Therefore, before allowing drawback, the DEDO must be satisfied, by documents submitted by the claimant of the drawback, that concerned goods have been exported; its inputs were procured, imported or purchased from local production and that taxes were paid when the materials were procured.

Main Activities of the DEDO:

- Duty drawback in actual/flat rate to direct/deemed exporters.
- Duty drawback in actual rate against Domestic/International Tender.
- Duty drawback in actual/flat rate to the direct exporters of fish/fish products for machinery/fuel used against particular export.
- 80% duty drawback in actual rate to the direct exporters for the using of electricity/gas in particular exports.
- Duty drawback in actual/flat rate to the Diplomatic Mission for the consumption of fuel and procurement of goods and services.
- Fixation of flat rate and co-efficient utilization (input-output coefficient).

10.1.5 The main legislations relating to DEDO are:

- Value Added Tax and Supplementary Duty Act, 2012
- Value Added Tax Act, 1991
- Import Export (Control) Act, 1950
- Export Policy 2012-15

- Related SROs, Orders and Tariff schedule.

10.1.6 Procedure followed by DEDO

Usually DEDO meets the drawback claim monthly on the basis of monthly return or after export when formal claim has been made by the exporter. It may pay drawback against monthly returns submitted by the registered persons, however, monthly returns claims are discouraged as the procedure is cumbersome and time consuming.

10.1.7 Payment of drawback claim

Flat Rate: For some goods, the DEDO determines a **flat rate** of drawback per unit of export. This rate is determined by the DEDO considering co-efficient of utilization or 'Sohog' of that particular product and duties and taxes relates to input. Therefore, at the time of payment of drawback, proof of payment of duty and taxes on inputs is not required. They need only proof of export of certain unit of commodity. Usually this rate is applicable for those goods which are regularly exported and used almost the same production method and raw materials.

Actual Rate: For other goods, drawback is paid on **actual** duty and taxes paid on inputs. For this purpose, DEDO has to determine co-efficient of utilization or input-output ratio or 'Sohog'. Then they determine the amount of duty and taxes actually paid on the used amount of inputs. To determine this, they verify/examine the documents of payment of duty and taxes e.g. Bills of Entry, and / or Musak -11 Chalanpatra.

Co-efficient of utilization or input output co-efficient: On request of exporters, the DEDO office inspect the production process and by considering raw material utilization and wastage determines the input/output coefficient or co-efficient of utilization of the particular export product.

10.2 Administration of Bonded Warehouse

10.2.1 The DEDO has a single office in Dhaka having jurisdiction all over the country, but is at liberty to establish offices in any other place given the territorial jurisdiction. The current office has six sections:

- Administration and computer section
- Law, Inspection and Audit Section
- Drawback Section 1
- Drawback Section 2
- Drawback Section 3
- Co-efficient and flat rate section

10.3 Matters of Audit Consideration

10.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to Customs and Excise Duties and DEDO operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the

Revenue Authority, as these controls are in place to ensure that all returns are received; correctly assessed and applicable drawbacks correctly claimed.

10.3.2 Auditors are also required to be aware of other activities that indirectly impact on duty drawback operations. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protection of revenue.

10.3.3 Auditors also need to assess the risk of fraudulent practices by giving regard to the following:

- Drawback has been allowed at different actual rate to different exporters of same goods or service without any valid reasons.
 - Excess drawback has been allowed by assigning undue higher rate or showing excess quantity / weight of exported commodity.
 - Drawback has been paid before receiving of export proceeds.
 - Possibility of exporters making multiple claims in respect of the same activity.
- Flat rate drawback has been allowed though flat rate is not applicable for that goods or service as per relevant notification.

10.3.4 The generic Revenue Audit Test plan has been adapted for the DEDO audit as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud, etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
DEDO			
ASSESSMENT	<ul style="list-style-type: none"> • Application not made properly without enclosed related documents. 	Physical inspection by DEDO officer to compare details on the total set of application between the details of the required documents mentioned for different export items.	<p>Test of controls: For selected transactions: Establish that formal flagging system is available if application is not made properly.</p> <p>Substantive test: For selected declarations: <ul style="list-style-type: none"> • Match details to required documents mentioned in different DEDO's SRO for different goods and services. </p>

	Risk	Controls	Audit programmes
	<ul style="list-style-type: none"> • Duty drawback is claimed for non allowable goods, not within time limit and before repatriation of foreign currency. 	An adequate system of testing application to identify the mentioned risks.	<p>Test of controls:</p> <ul style="list-style-type: none"> • Inspect evidence to support regular review of drawback to ensure correct application of duty drawback. <p>Substantive tests: Select a sample of duty drawback in order to see that the entire sample drawback within stipulated time mentioned in Citizen Charter and provide on valid good/service and after repatriation of foreign currency.</p>
	<ul style="list-style-type: none"> • Excess drawback is made 	An adequate system of testing application of co-efficient of production and rate.	<p>Test of Controls:</p> <ul style="list-style-type: none"> • Inspect evidence to support regular review of ensuring correct application of applicable co-efficient of production issued by DEDO and rate. <p>Substantive tests: Select a sample of drawback applied during the period and match to the prescribed co-efficient of production and rate and also need to see-</p> <ul style="list-style-type: none"> • An excess payment may result in, if export goods are short-shipped by any reason. • Raw materials procured are partially used for the exported commodity but drawback has been claimed for whole of the raw materials procured.
	Collusion between DEDO staff and assessed importers/	An independent review of assessments by authorised DEDO	<p>Test of controls:</p> <p>Inspect evidence of review of assessments by authorised staff not involved in the initial</p>

	Risk	Controls	Audit programmes
	exporters results in less duty being collected.	staff not involved in the initial assessment process.	<p>assessment process.</p> <p>Substantive tests: Make a selection of assessments which have been independently reviewed and by reference to supporting evidence, confirm:</p> <ul style="list-style-type: none"> • Whether determination of actual rate has been proper; • whether different co-efficient of utilization or input output coefficient is determined to different exporters on same goods; <p>if so, whether there is a valid reason for that;</p> <ul style="list-style-type: none"> • Are the determination and approval procedures followed properly?
	<ul style="list-style-type: none"> • Duty drawback is claimed against inputs not used for export or duplicate claims have been made. 	Good control procedure is available to detect the bill of entry/Mushok 11 which is used before claiming drawback.	<p>Tests of controls: Inspect evidence of review that control ledger is verified and reconciled with Customs Department.</p> <p>Substantive tests: For a sample drawback claims:</p> <ul style="list-style-type: none"> • Vouch to see that bill of entries used for drawback claims fall within the logical time period for the procurement of materials included in the goods subsequently exported. • Agree the specific bill of entry to Mushok 20.
ALLOCATION	<ul style="list-style-type: none"> • Amount is incorrectly 	Independent checking of	<p>Tests of Controls: Inspect proof of regular review of</p>

	Risk	Controls	Audit programmes
	classified into head of duty or accounts.	classification of revenue drawback.	drawback allocation by an official other than the preparer. Substantive tests: Select a sample of drawback payments and agree to supporting evidence to confirm correct and appropriate classification of transaction.
	<ul style="list-style-type: none"> Total drawback balance may not agree with CGA balance. 	Proper reconciliation is taking place in CGA/CAO IRD.	Tests of controls: selected periods inspect proof of correct reconciliations. Substantive test: Select a sample period of drawback: Check to confirm that DEDO drawback balance is agreed with the accounts balance prepared by CAO IRD.

10.4 Illustration: Claiming Duty Drawback

Claiming duty drawback on direct exporting of Juice, drinks, confectionary etc. Items	
Required Documents	Need to see
<ul style="list-style-type: none"> • Application in prescribed form • Taka 300 non judicial Stamp for promissory Note • Copy of Letter of credit authenticated by exporter's bank • Copy of Proforma/Sales Contract (if necessary) authenticated by exporter's bank • Third copy of Bill of Export • Custom certified copy of export invoice and packing list • Copy of bill of lading/truck receipt/Airway bill/ Railway Receipt authenticated by exporter's bank • EXP form authenticated by exporter's bank • Main copy of PRC Certificate (Certificate on foreign currency repatriation) • Custom attested main and also one set photocopies of invoice and packing list regarding imported raw materials • Main copy of Musuk-11, if raw material purchased locally • Custom attested Musuk-20 • Copy of approved co-efficient • Copy of VAT registration, IRC and ERC if application made first time. 	<ul style="list-style-type: none"> • That all required documents have been submitted with applications, • Correct and proper attestations are on the applications, • Application is made within six month of export, • Evidence of expiry of ERC, IRC and trade licence etc. –to confirm the claimants are duly licensed and the licences remain valid during the relevant period.

10.5 List of Records and Documents on DEDO

- Attested Import and Export Documents;
- 3rd copy or customs-examination copy of bill of export;
- Bank authenticated copy of export L/C;
- EXP form, signed by negotiating bank;
- Proceed Realisation Certificate (PRC) in the form prescribed by Bangladesh Bank;
- Musak-11 and Musak-20 Challanpatra in case of procurement of inputs from local source;

- Approved *Sohog* or input-output coefficient;
- Copy of tender notice;
- Original tender documents / photocopy of the financial part of the bidding documents; (attested by the officer giving work order or any officer nominated by him);
- Copy of work order (attested by the officer giving work order or any officer nominated by him);
- Copy of contract (attested by the officer giving work order or any officer nominated by him);
- Utilisation declaration copy authenticated by the concerned bank; or
- Utilisation permission copy authenticated by the concerned bank;
- Copy of bond license;
- Copy of VAT Registration Certificate;
- Attested copy of IRC and ERC;
- Cheque disbursement ledger;
- Firm wise control ledger;
- Reconciliation file;
- Cash book;
- Co-efficient issue register.

CHAPTER 11 – AUDIT OF CASH INCENTIVE

11.1 Introduction to Cash Incentive

11.1.1 Cash incentive is the assistance/subsidy in the form of “cash” given to an Exporter upon the fulfilment of certain conditions. Cash incentive scheme was first introduced in 1986. Initially it was for export of jute goods produced by government and nongovernment mills, and also for export-oriented local textiles. Since then, the scope and extent of the cash incentive programme have expanded. For example, a cash incentive for leather goods (a 100 percent export-oriented industry) was introduced in April 2000 and for agricultural products, a cash incentive was introduced in 2002.

11.1.2 Cash incentive is given as a repayment of part of exporter’s costs (incentive receiver) subject to the exporter complying with all requirements of the Government (mentioned in the Bangladesh Bank Circulars). In most of the cases, there are special motives behind giving cash incentive. It might be given to nurture a budding industry or for an industry to be more competitive in the local and foreign market, etc. Cash incentive is also used as a counter weapon against the undesirable practice of dumping by foreign countries. In Bangladesh, cash incentive is mainly given to export oriented sectors to boost the export thereby earning foreign exchange.

11.1.3 Under section 4.3 of the Export Policy of Bangladesh 2012-15, cash incentives may be provided in accordance with the provisions of the World Trade Organization (WTO) to potential export-oriented emerging sectors i.e. the sectors which are capable of making products having demand in international market.

The Foreign Exchange Policy Department (FEPD) of Bangladesh Bank (BB) has announced the cash incentive rate ranging between 5 percent and 20 percent for more than 150 products covered under the 14 categories of readymade garments. The cash incentive is determined on net repatriation of the Free on Board (FOB) prices of export goods. Presently cash subsidy/incentive is provided on 197 export products from 19 sectors.

11.1.4 According to Bangladesh Bank circular no. F.E. Circular no. 8 dated 13.07.2015, Cash Incentive/Export Subsidy for the FY 2015-16 is as follows-

Section No.	Particular Product	Percentage
1	Export Oriented national textile cash incentive in lieu of DEDO and custom bond	4%
2	Additional Benefit for Small & Medium Textile Industry (Conventional)	4%
3	New Product/New Market (Textile) extension incentive	3%

Section No.	Particular Product	Percentage
4	Cash incentive for handicrafts made with Hogla, Straw, Sugarcane fibre, etc.	15 to 20%
5	Subsidy for export of Agro Product (Greens Vegetables) and agro processing products	20%
6	Cash incentive for export of Bone Powder	5%
7	Subsidy for export of Light Engineering Products	15%
8	Subsidy for export of 100% Halal Meat	20%
9	Cash incentive for export of frozen shrimp & other type of fish a) Rate of Lair of ice in exporting frozen shrimp: Up to 20% Above 20% to 30% Above 30% to 40% Above 40% b) Rate of Lair of ice in case of other fish Up to 20% Above 20% to 30% Above 30% to 40% Above 40%	10% 9% 8% 7% 5% 4% 3% 2%
10	Cash incentive for leather goods	12.50%
11	Subsidy for export of ship	5%
12	Cash incentive for export of potato	20%
13	Subsidy for export of pet bottle- Flakes	10%
14	Cash subsidy for export of Jute products: Diversified Jute Products Finished Jute Products Jute Thread	10% 7.5% 5%

11.1.4 Cash incentive is provided on the net FOB export proceeds. FOB or Free on Board price means a price which includes goods plus the services of loading those goods onto some vehicle or vessel at a named location. Under the Incoterms (International Commercial terms) 2010 standard published by the International Chamber of Commerce, FOB is only used in non-containerized Sea Freight, and also defines ownership transfer. FOB price does not include shipping freight and Insurance charges.

11.1.5 The main legislations relating to cash incentive are:

- Value Added Tax and Supplementary Duty Act, 2012
- Value Added Tax Act, 1991
- Import Export (Control) Act, 1950
- Export Policy 2012-15
- Related Circulars, SROs and orders issued by Bangladesh Bank and Ministry of Finance.

11.2 Administration of Cash Incentive

11.2.1 In order to promote export, Bangladesh Bank in consultation with Ministry of Finance and other related ministry like, Ministry of Commerce and Ministry of Industry issue different circulars regarding incentive rate, payment procedure and sectors where it is applicable.

11.2.2 Payment Procedure:

Cash incentive is paid to the exporters through different scheduled commercial banks. Exporters are required to apply through these commercial bank. Broadly the following apply to cash incentives:

- Application should be made within 180 days after repatriation of export value to the NOSTRO account of the scheduled bank. Exporters claiming against advance receipt of export value are required to provide details of importers and related information regarding the importations.

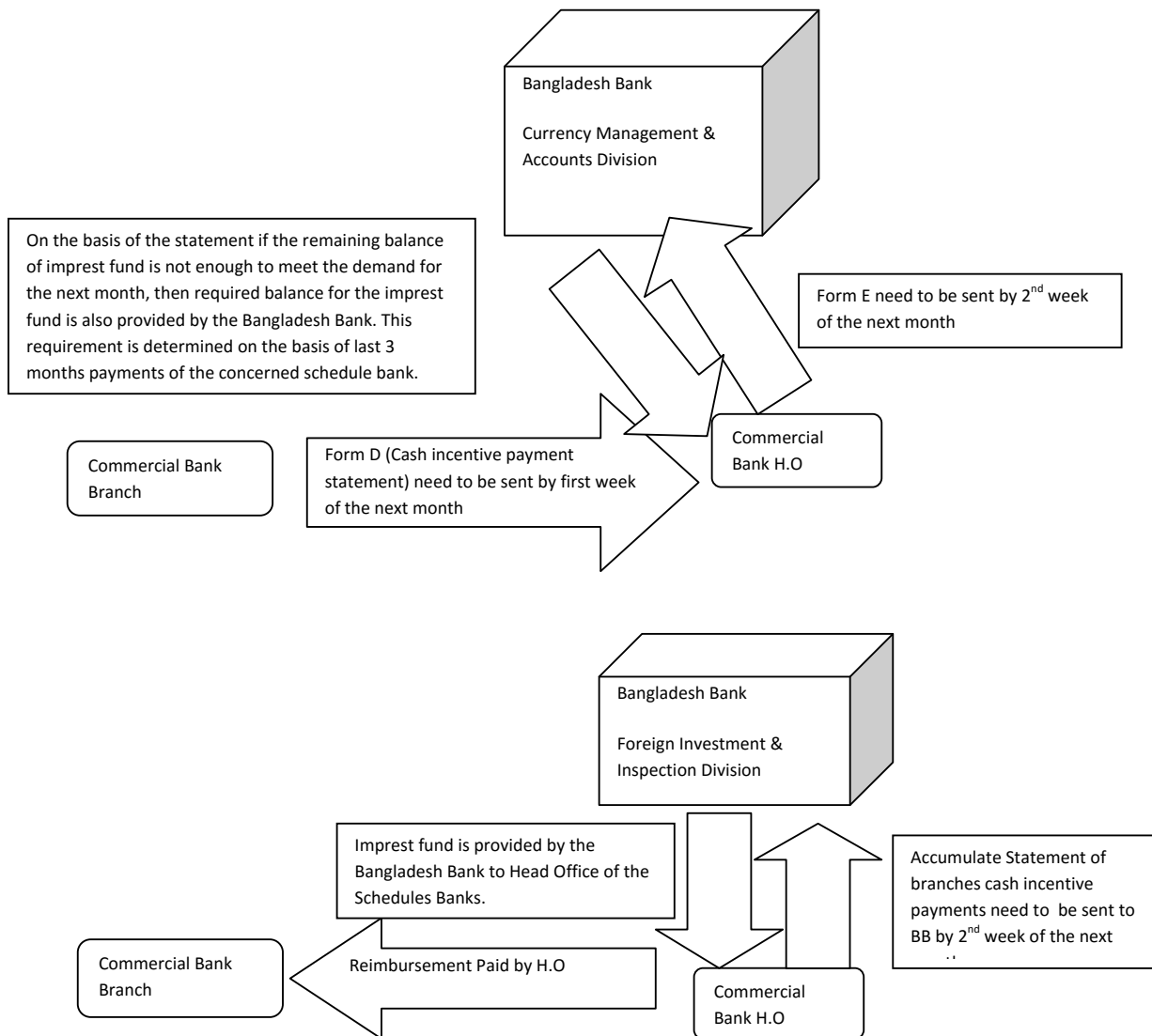
The terms **Nostro** (Italian; English, 'ours') is used, mainly by banks, when one bank keeps money at another bank. Both banks need to keep records of how much money is being kept by one bank on behalf of the other. A **Nostro** is our (domestic bank) account of *our* money, held by the other (abroad bank) bank. In other words, this bank account is held in a foreign country by a domestic bank, denominated in the currency of that country. **Nostro accounts** are used to facilitate settlement of import bills.

- All applications for alternate cash incentive must show evidence of having been audited by CA (Chartered Accountant) firms enlisted with Central Bank.

Per Bangladesh Bank FE circular no. 15 dated September 08, 2009, Scheduled Bank can provide 70% cash incentive to the applicants before audit if upon primary scrutiny the supporting documents are satisfactory.

11.2.3 Funding Procedure:

Imprest fund (Advance fund) for disposal of cash incentive applications is provided by the Bangladesh Bank on behalf of the Government to the different scheduled Bank Head Offices. This imprest fund is determined on the basis cash incentives paid in the preceding year and at a minimum, the imprest balance must not fall below amount sufficient to meet cash incentive obligations for two months.



11.2.4 No objection certificates and other related certificates:

Different enlisted Chartered Accountant firms with Bangladesh Bank audit the applications of exporters and provide no objection certificate. On the basis of that schedule banks provide the cash incentives. In addition, other certificates are also required to support applications. These include the certificate of origin provided by different business associations; co-efficient of production provided by DEDO; the certificate regarding production capacity and unit cost by Institute of Appropriate Technology of BUET and information on export price and quantity etc. by Export Promotion Bureau.

11.2.5 Monitoring and audit of cash incentive management:

Bangladesh Bank Inspection Section and the Government auditors carry out the inspection and audit of cash incentives. Participating commercial banks are required to preserve the documents for three years after payments of cash incentives for inspection and audit.

11.3 Matters of Audit Consideration

11.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to export policy, export products and cash incentive operations. In particular, the auditors should assess the adequacy and implementation of Internal Controls put in place by the management of the Central Bank and the respective scheduled commercial banks, as these controls are in place to ensure appropriate compliance with the provisions of the cash incentive scheme.

11.3.2 Auditors are also required to be aware of other activities that indirectly impact on the assessment, payment and allocation of cash incentives. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective operation of scheme.

11.3.3 Auditors are also needed to assess the risk of fraudulent practices by giving regard to the following:

- Excess rate is provided in collusion with bank officials.
- Excess amount of cash incentive is provided by showing excess weight and quantity in export documents.
- Excess amount of cash incentive is provided by charging excess conversion rate of foreign currency.

11.3.4 The generic Revenue Audit Test plan has been adapted for the cash incentive audit as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning

stage and will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud, etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

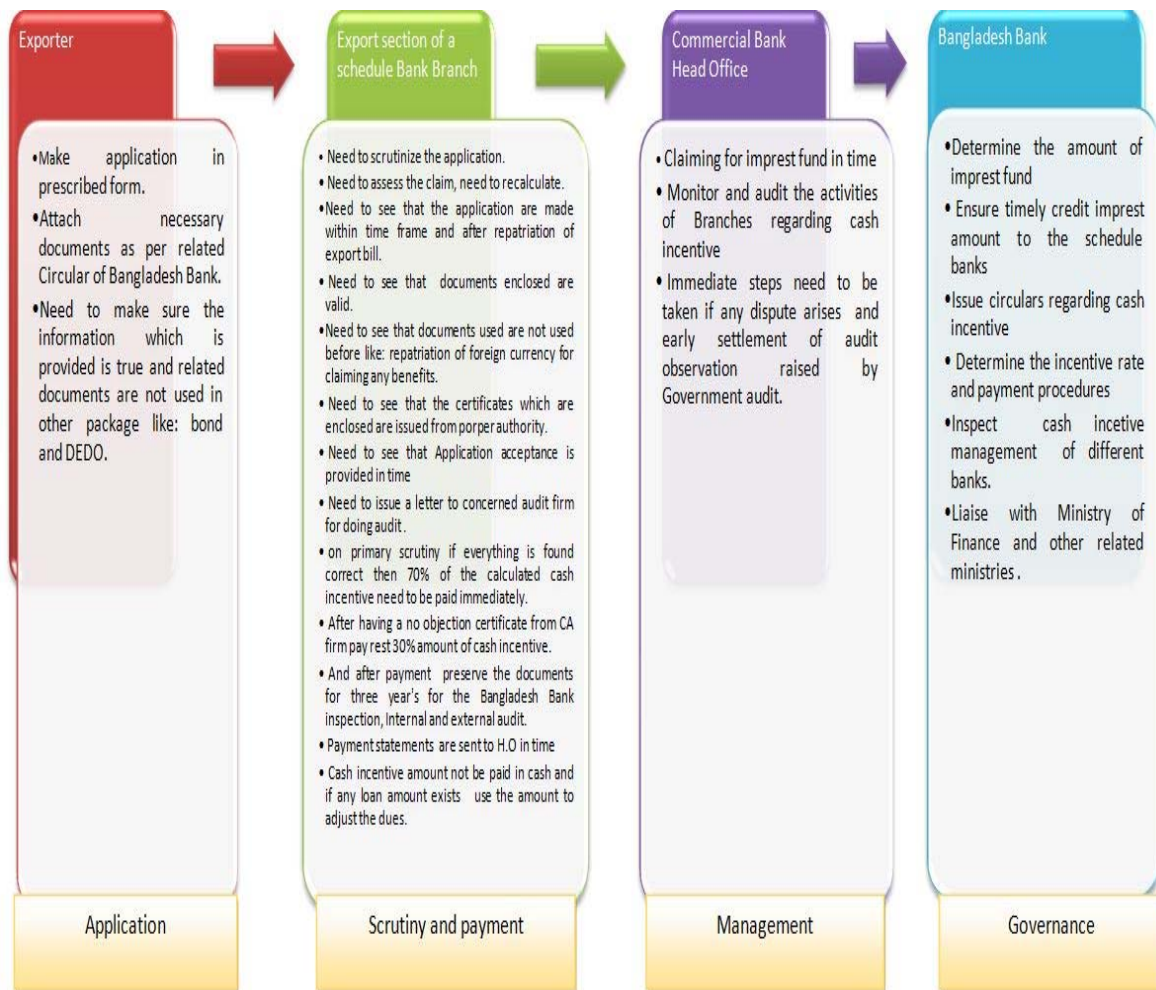
	Risk	Controls	Audit programmes
Cash Incentive			
Application	<ul style="list-style-type: none"> Application not made properly without enclosing related documents. 	Physical inspection by Bank Officer to compare details on the total set of application between the details of the required documents mentioned for different export items as per relevant Bangladesh Bank circulars.	<p>Test of controls:</p> <p>For a selected transaction:</p> <p>Formal Flagging system is available if application not made properly.</p> <p>Substantive test:</p> <p>For selected declarations:</p> <ul style="list-style-type: none"> Match details to required documents mentioned in different Bangladesh Bank's circulars for different goods and products, like- Illustration given in 11.5.
Assessment	<ul style="list-style-type: none"> Cash incentive is claimed for non allowable goods, not within time limit and before repatriation of foreign currency. 	An adequate system of testing application to identify the mentioned risks	<p>Test of controls:</p> <ul style="list-style-type: none"> Inspect evidence to support regular review of cash incentive payment to ensure correct application of incentive payment. <p>Substantive tests:</p> <p>Select a sample of incentive payment in order to see that the entire sample payment made within stipulated time and provided on allowable goods and after repatriation of foreign currency.</p>

	Risk	Controls	Audit programmes
	<ul style="list-style-type: none"> Excess payment is made. 	An adequate system of testing application of co-efficient of production and rate.	<p>Test of Controls:</p> <ul style="list-style-type: none"> Inspect evidence to support regular review of ensuring correct application of applicable co-efficient of production issued by DEDO and rate. <p>Substantive tests:</p> <p>Select a sample of drawback applied during the period and match to the prescribed co-efficient of Production and rate and also need to see-</p> <ul style="list-style-type: none"> An excess payment may result in, if export goods are short-shipped by any reason. <p>Raw materials procured are partially used for the exported commodity but incentive has been claimed for whole of the raw materials procured.</p>
	Collusion between bank/other staff and assessed exporters results in excess incentive is paid.	independent review of assessments by authorised Bank Staff not involved in the initial assessment process.	<p>Test of controls:</p> <ul style="list-style-type: none"> Inspect evidence of review of assessments by authorised staff not involved in the initial assessment process. <p>Substantive tests:</p> <p>Make a selection of assessments which have been independently reviewed and by reference to supporting evidence, confirm:</p> <ul style="list-style-type: none"> Whether determination of incentive rate is proper; whether different co-efficient of utilization or input output coefficient is determined to

	Risk	Controls	Audit programmes
			<p>different exporters on same goods; if so, whether there is a valid reason for that;</p> <ul style="list-style-type: none"> • Are the determination and approval procedures followed properly?
	<ul style="list-style-type: none"> • Cash incentive is provided against the inputs not used in particular export or duplicate payment. 	<p>Good control procedure is available to detect the bill of entry/ Mushok 11 which is used before claiming incentive or against the input which is approved in coefficient and also a presence of good system to visible mark “Cash Incentive” is paid, so that related documents could not be used again.</p>	<p>Tests of controls: Inspect evidence of review that control ledger in this regard is verified and reconciled with Customs Department.</p> <p>Substantive tests: For a sample payment to see that-</p> <ul style="list-style-type: none"> • Bill of entries used for cash incentive claiming are imported within logical period of time before export. • Also need to compare between Mushok 20 and specific bill of entry.
Payment	<ul style="list-style-type: none"> • Incentive paid in cash, tax not deducted at source and not utilized for loan adjustment. 	<p>Independent checking of payment of incentive.</p>	<p>Tests of Controls: Inspect proof of regular review of payment by an official other than the preparer.</p> <p>Substantive tests: Select a sample of payments and see if it agree to supporting evidence to confirm correct and appropriate transaction.</p>
Reconciliation	<ul style="list-style-type: none"> • Total payment balance may not agree with Bangladesh Bank 	<p>Proper reconciliation is taken place with Bangladesh Bank</p>	<p>Tests of controls: For selected periods inspect proof of correct reconciliations.</p> <p>Substantive test: Select a sample period of payments</p>

	Risk	Controls	Audit programmes
	balance.	/CGA.	and check that the bank's payment balances agree with the Bangladesh Bank balance.

11.4 Cash Incentive System and Activities



11.5 Illustration - Cash Incentive of Direct Exporting of Jute and Jute Items

Required Documents	Need to see
<ul style="list-style-type: none"> • Application in prescribed form • Taka 300 non judicial stamp for Promissory Note • Copy of Letter of Credit authenticated by Exporter's bank • Proforma invoice/Sales Contract authenticated by Exporter's Bank (if necessary) • Third copy of Bill of Export • Certified copy of export invoice and packing list by customs authority • Copy of Bill of Lading/Truck Receipt/Airway Bill/ Railway Receipt authenticated by Exporter's Bank • Bank attested EXP form • PRC Register • Main copy of PRC certificate (Certificate on foreign currency repatriation) after export or TT received in advance • Certification of Jute Mills Association regarding pricing, authenticity of importer and product origin. • Custom attested main and also one set photocopies of invoice and packing list regarding imported raw materials. • No objection certificate from Audit Firm • Main copy of Musuk-11, if raw material purchased locally. • Musuk-20 attested by Customs Authority • Copy of approved coefficient • Copy of VAT registration, IRC and ERC if application made first time. 	<ul style="list-style-type: none"> • That all required documents have been submitted with application, • Correct and proper attestations are on the application, • Application is made within six month of export, • Evidence of expiry of (Export Registration Certificate (ERC), Import Registration Certificate (IRC) and trade licence, etc. –to confirm the claimants are duly licensed and the licences remain valid during the relevant period, • If the payment received by Telegraphic Transfer (TT) from India, Pakistan, Hong-Kong and Singapore then cash incentive is not allowable and except that details of importer and reference of import should be mentioned in TT.

Calculation of Cash Incentive	
An exporter exported jute thread to Spain of USD 5,000 (includes Freights etc. of say USD 750 and USD 1 – TK 77.50). If all the above mentioned documents are satisfactory, then cash incentive amount is:	
Export proceeds – (Freight+ Commission paid in abroad)= Net FOB export proceeds i.e. USD 5,000 –USD 750 = USD 4,250	TK
Cash Incentive = Net FOB x Cash Incentive rate x Exchange Rate (4,250 x 5% x 77.50)	16,468.75

11. 6 List of Records and Documents on Cash Incentives

- Application in prescribed form with required information;
- Attested Import and Export Documents;
- 3rd copy or customs-examination copy of bill of export;
- Bank authenticated copy of export L/C;
- EXP form, signed by negotiating bank;
- Proceed Realization Certificate (PRC) in the form prescribed by Bangladesh Bank;
- Musak-11 and Musak -20 Challan patra in case of procurement of inputs from local source;
- Approved *Sohog* or Input-output coefficient;
- Utilisation Declaration copy authenticated by the concerned bank; or
- Utilisation Permission copy authenticated by the concerned bank;
- Copy of Bond license;
- Copy of VAT Registration Certificate;
- Attested copy of IRC and ERC;
- Cheque disbursement ledger;
- Firm wise control ledger;
- Reconciliation file;
- Cash book;
- Co-efficient issue register;
- Different certificates issued by different associations;
- No objection certificate of audit firm.

CHAPTER 12 – AUDIT OF LAND TAXES AND REVENUES

12.1 Introduction to Land Taxes and Revenues

12.1.1 The Ministry of Land is responsible for assessment and collection of land taxes and other land revenues.

12.1.2 In Bangladesh, Land is classified into two main groups – Agricultural Land and Non-Agricultural Land (i.e. commercial, industrial and residential). Land includes land covered by water at any time of year.

12.1.3 Other land related revenues include income from survey fees, licences and leases including the lease of hats and bazars (Market places), Ferryghats, Jalmahal, etc.

12.1.4 The main legislations relating to land taxes and revenues include:

- The Land Development Tax Ordinance, 1976
- State Acquisition and Tenancy Act, 1951
- Land Management Manual, 1991
- Non-Agricultural Tenancy Act, 1949
- Related SROs

12.1.5 Land Revenue can be classified into the following heads:

- Land development tax
- Survey fees
- Income from various leases
- License fee from quarries and mines

12.2 Administration of Land Taxes and Revenue

12.2.1 The Land Reforms Boards under the Ministry of Land performs the functions of:

- Assessing and collecting Land Development Tax;
- Settling Khas Land (i.e. State land under administration of MOL arising either from new formation or seizures in excess of 33.3 acres ceiling under land reform legislation);
- Managing abandoned and vested property plus fishing rights; and
- Protecting tenants' rights.

Directorate of Land Record and Survey, Land Appeal Board, Land Reforms Board and Controller of Accounts (Revenue) with 7 divisional offices of Assistant Controller of Accounts and 68 Offices of the Superintendents are the revenue administration offices of Land Ministry.

12.2.2 Roles and Responsibilities of staff involved in land administration at different levels of hierarchy include the following:

Role	Level	Responsibilities
Commissioner (Co-ordinating Officer of all Govt. Activities)	Division	<ul style="list-style-type: none"> • Reports to the Director of Land Records (Ministry of Land) and Land Reform Board (Ministry of Land), • Hears appeals against Deputy Commissioner's decisions on behalf of the Land Reform Board, • Sets district Land Development Tax (LDT) collection targets, • Manages vested and abandoned properties, • Manages Khas land including fisheries.
Assistant Commissioner		<ul style="list-style-type: none"> • Assists commissioner.
Deputy Commissioner (co-ordinating officer of all government activities)	District	<ul style="list-style-type: none"> • Executes the provisions of various Acts, • Manages govt. land acquisition, • Oversees Upazilla and Union land offices.
Additional Deputy Commissioner (Revenue)		<ul style="list-style-type: none"> • Hears appeals, • Inspects offices/records of AC (Land), • Revenue collection and monitoring of amount collected.
Revenue Deputy Collector		<ul style="list-style-type: none"> • Assists ADC(R)
Assistant Commissioner (Land) – AC (Land)	Upazilla (Sub-district)	<ul style="list-style-type: none"> • Keeps land records up to date, • Determines LDT to be demanded of each landowner, • Dispatches Local Revenue Collectors (Tahsildars) to collect LDT, supervising their work and inspecting their records,

Role	Level	Responsibilities
		<ul style="list-style-type: none"> Administers Khas land and vested or abandoned properties.
Sub-assistant Officer		<ul style="list-style-type: none"> Attestation of Khatians (see below). Reports on tax collection to AC (Land), Assists magistrate in investigation and preparation of files on land disputes.
Local Revenue Collector	Union [Revenue unit comprising several Mouza (or Revenue Villages)]	<ul style="list-style-type: none"> Gathers taxes, files certificates for arrears, Updates records of ownership (Khatian), On instruction of AC (Land) conducts preliminary enquiries regarding petitions to update land records, Maintains list of Khas lands, Inspect incidence of alluvium and diluvium, making related map corrections and rent adjustments.

12.2.3 Any taxpayer aggrieved by the classification and assessment has various rights of appeal. After the disposal of any appeals, a final land tax roll is published and sent to the Government for publication in the Official Gazette.

12.3 Matters of Audit Consideration

12.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to land taxes and revenue operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Revenue Authority as these controls are in place to ensure that all returns are received; correctly assessed and amounts outstanding are collected.

12.3.2 Auditors are also required to be aware of other activities that indirectly impact on the assessment, collection and allocation of revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems

and provide appropriate audit response which provides assurance over the effective protection of revenue.

12.3.3 Other matters to consider for land taxes and revenue also include the following:

- Land usage and classification - There are different rates of tax depending on factors such as usage and size. In general terms, land taxes are higher for non-agricultural land, particularly the industrial and commercial lands. Auditors are, therefore, required to be aware of the impact of these factors in the assessment of land taxes due.
- The administration of land taxes and revenues is complex and can result in frequent land disputes, which often lead to litigations. This may have implications for revenue recognition. Auditors should, therefore, consider testing to ensure that there are processes and procedures in place that provide assurance over completeness and accurate recognition of revenues.

12.3.4 The generic Revenue Audit Test plan has been adapted for the audit of land taxes and revenue as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
ASSESSMENT	<ul style="list-style-type: none"> • Not all land eligible for LDT have been identified. 	<p>A regular review and monitoring of Land register by an independent authorised official to identify land on which LDT are yet to be raised.</p>	<p>Test of Controls:</p> <ul style="list-style-type: none"> • Inspect proof that the land register is regularly and promptly updated. <p>Inspect evidence supporting regular independent review and monitoring of the land register to identify land on which LDT is yet to be raised.</p> <p>Substantive test:</p> <p>Select a sample from the land register:</p> <ul style="list-style-type: none"> • Vouch to confirm that LDT have been raised. Obtain valid explanations where LDT has not been raised.

	Risk	Controls	Audit programmes
	<ul style="list-style-type: none"> Incorrect assessment of liability. 	Independent of review of tax assessment to confirm that it is in accordance with correct rates, rules and procedures.	<p>Test of Controls:</p> <ul style="list-style-type: none"> Inspect proof of independent review of LDT assessment that provides assurance over the correct application of rates, rules and procedures. <p>Substantive Test: Select a sample of LDT assessment and by reference to the supporting evidence, confirm:</p> <ul style="list-style-type: none"> The ownership of the land was established; The land was correctly classified; The plot size used for the LDT calculation agreed with supporting evidence; Appropriate rate was used The LDT was correctly calculated.
	<ul style="list-style-type: none"> Possible collusion between the Landowners and the local revenue collector reducing the amount of LDT payable. 	<ul style="list-style-type: none"> An independent official reviews supporting evidence against other independent sources to validate the assessment's supporting evidence. 	<p>Test of Controls: Inspect proof of review by an independent official of the supporting evidence to external sources.</p> <p>Substantive Test:</p> <ul style="list-style-type: none"> For a sample of LDT assessments, establish the basis of the land valuation used and confirm consistency of valuation with land of comparable size and other characteristics.
COLLECTION	<ul style="list-style-type: none"> Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect 	Regular independent reconciliations between assessments, revenue recorded in the	<p>Tests of controls: For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests: For selected assessments confirm</p>

	Risk	Controls	Audit programmes
	period.	ledger and amounts deposited in the bank.	that payments have been recorded: At the correct amounts, In the correct account, In the correct period.
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the bank.</p>	<p>Tests of controls:</p> <p>Inspect proof of:</p> <ul style="list-style-type: none"> -Regular banking of cash received, -Independent reconciliation of cash received and deposit slips, -Daily cash ups for all cashiers, -Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank. <p>Substantive tests:</p> <p>For a selected sample of receipts issued confirm that cash was banked timely.</p> <p>For selected days confirm that all cash received have been adequately accounted for and banked timely.</p>
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	Good procedures in place to ensure unpaid liabilities are pursued.	<p>Tests of Controls:</p> <p>Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests:</p> <p>For a sample of outstanding amount, confirm follow – up action has been effected in accordance with the organisation’s debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in to head of duty or accounts. 	Independent checking of classification of revenue.	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p>

	Risk	Controls	Audit programmes
			<p>Substantive tests:</p> <p>Select a sample of revenue receipts and verify with supporting evidence to confirm correct and appropriate classification of transaction.</p>
REFUNDS	<ul style="list-style-type: none"> • Refunds of LDT are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls:</p> <p>Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test:</p> <p>Select a sample of refunds and confirm the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>
WRITE OFFS	<ul style="list-style-type: none"> • LDT due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls:</p> <p>Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test:</p> <p>Select a sample of LDT write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

CHAPTER 13 – AUDIT OF STAMP DUTY

13.1 Introduction to Stamp Duty

13.1.1 Stamp duty is a tax on various legal documents or transactions including agreements and contracts, Notes, Certified copies, Documents, Land registration etc. Unless exempt, these documents would not be treated as legal unless the appropriate stamp duty has been paid. Conveyance of land and building remains the main source of revenue arising from stamp duty.

13.1.2 The Internal Resources Division (IRD) of the Ministry of Finance is responsible for policy in respect of stamp duty. All matters relating to stamps are regulated through The Stamp Act, 1899 (Act II of 1899) and Stamp Manual, 1931. The current rates of stamp duty are set out in various Finance Acts.

13.2 Administration of Stamp Duty

13.2.1 The stamps are printed by the Security Printing Corporation of Bangladesh and can be purchased from the following sources:

- All Treasury's at District Collectorate Office
- All post offices at Upazilla and District Level
- Vendor license holders

13.2.2 The stamps are available in various denominations upto TK 3,000.00. Taxpayers who are due to pay stamp duty exceeding TK 3,000.00 can use one stamp of TK 3,000.00 and pay the balance into the treasury.

13.2.3 On 20 January 2010, Provision of Pay Order (SRO #-21 Law) was passed under The Stamp Duty (Additional Mode of Payment) Act, 1974. Under the provision, applicants do not need any more to buy special adhesive stamps. Payments can be made to the designated bank account of the treasury.

13.2.4 Various government authorities (government offices, autonomous bodies and corporations) have the responsibilities for ensuring that chargeable instruments are duly charged with the correct duty and that the tax is accounted for and banked promptly.

13.3 Matters of Audit Consideration

13.3.1 As there are so many chargeable activities spreading across a wide range of government establishments, it is inefficient to perform audit of stamp duties in all these various offices. Audit will, therefore, have to focus on those government offices serving as the main sources of stamp duty revenue. The focus of the audit will primarily be to establish that chargeable instruments have been appropriately identified and charged at the correct and prevailing rate of stamp duty.

13.3.2 In addition to the above consideration of the assessment of stamp duty, the audit should also give consideration to the collection of stamp duty to provide assurance that amount collected has been correctly and completely recorded and reflected in the government account. Whilst for stamps purchased from post offices would be accounted for and subjected to audit within the post office control environment, as part of the post offices revenue, it is essential to establish a central control point that reconciles expected stamp duty revenue and amount collected by bank in respect thereof.

13.3.3 Given the various sources of stamp duty revenue, auditors should also perform tests to confirm that revenue collected from stamp duty is appropriately and correctly allocated to stamp duty head of duty.

13.3.4 Due to the fragmented sources of stamp duty revenue, the auditor should explore the possibility of identifying sources within the government establishment that can provide data for high level analytical review (especially by sources) This is a powerful tool in trend analysis and to identify areas where movements appear unusual, which may require further audit attention.

13.3.5 The generic Revenue Audit Test plan has been adapted for the audit of stamp duty as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud, etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
ASSESSMENT	<ul style="list-style-type: none"> Stamp duty is not paid on non-exempt transactions. 	independent officer performs regular reviews of stamp duty records.	<p>Test of Controls: Inspect proof that authorised and independent officials review the stamp duty transactions.</p> <p>Substantive tests: For a sample of stamp duty transactions, confirm:</p> <ul style="list-style-type: none"> An amount has been paid as stamp duty; Amount paid agrees with the authorised list of stamp duty; By reference to the nature and level of transactions on

	Risk	Controls	Audit programmes
			which the stamp duty arose, the correct amount has been paid.
	<ul style="list-style-type: none"> Changes in authorised stamp duty list are not communicated to the affected offices resulting in revenue loss. 	<ul style="list-style-type: none"> The list of the authorised stamp duty is publicly available and designated officers at the relevant government offices perform regular reconciliation of the amount charged to customers to the publicly available stamp duty authorised list. 	<p>Test of controls: Inspect evidence supporting that the prevailing list of stamp duty is publicly available; and rates used at the relevant government offices are regularly confirmed to the publicly available prevailing stamp duty list.</p> <p>Substantive tests: For a sample of stamp duty transactions, agree rates applied to the publicly available prevailing registration fees list.</p>
COLLECTION	<ul style="list-style-type: none"> Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.	<p>Tests of controls: For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests: selected assessments confirm that payments have been recorded: At the correct amounts, In the correct account, In the correct period.</p>
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the bank.</p>	<p>Tests of controls: Inspect proof of: Regular banking of cash received, Independent reconciliation of cash received and deposit slips, Daily cash ups for all cashiers, Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p>

	Risk	Controls	Audit programmes
			<p>Substantive tests:</p> <p>For a selected sample of receipts issued confirm that cash was banked timely.</p> <p>For selected days confirm that all cash received have adequately accounted for and banked timely.</p>
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	Good procedures in place to ensure unpaid liabilities are pursued.	<p>Tests of Controls:</p> <p>Inspect evidence of review of a arrears report by a higher authority.</p> <p>Substantive tests:</p> <p>For a sample of outstanding amount, confirm follow – up action has been effected in accordance with the organisation’s debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in to head of duty or accounts. 	Independent checking of classification of revenue.	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests:</p> <p>Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
REFUNDS	<ul style="list-style-type: none"> Refunds of stamp duty are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls:</p> <p>Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test:</p> <p>Select a sample of refunds and confirm that the claim to</p>

	Risk	Controls	Audit programmes
			supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.
WRITE OFFS	<ul style="list-style-type: none"> Stamp duty due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls: Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test: Select a sample of stamp duty write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

CHAPTER 14 – AUDIT OF NARCOTICS DUTY

14.1 Introduction to Narcotics Duty

14.1.1 The narcotics duty is administered by the Department of Narcotics Control (DNC) which is under the administrative control of the Ministry of Home Affairs. The Department, established in January, 1990 is charged with the responsibility of implementing the policies formulated by the National Narcotics Control Board (NNCB). As the designated Nodal Agency of the Government, the DNC is to deal with all aspects relating to drug problem in the country. It has a network of 155 field level offices across the country with its headquarters in Dhaka. The Director General is the head of the Department and he is also the ex-officio Member-Secretary to the NNCB.

14.1.2 The following functions are carried out by Department:

- Administration of the laws relating to Narcotics Drugs and Psychotropic Substances.
- Regulation of the production of the sale of liquors and alcoholic preparations including collection of the duties on these accounts.
- Prevention and control of drug trafficking.
- Prevention of drug abuse through research, education and training.
- Running process for treatment and rehabilitation of drug abuse.
- Co-ordination of the activities of various departments and NGOs involved in treatment and rehabilitation of drug abuse.
- Maintain liaison with similar agencies in other countries and with the concerned international and regional organizations.
- To act as the secretariat of the Narcotics Control Board.

14.1.3 Relevant Acts and Rules include:

- The Narcotics Control Act, 1990 (Amendment up to 2004)
- The Narcotics Control Rules, 1999
- The National Narcotics Control Board Fund Rules, 2001
- Alcohol Control (License Fee) Rules, 2002
- The Private Sector Drug Addiction Counselling, Treatment & Rehabilitation Centre Control Rules, 2005.

14.1.4 The Narcotics Control Act, 1990 was passed in 1990 by repealing all previous laws for control of narcotics, treatment and rehabilitation of drug addicts. The government has enacted the Narcotics Control Act, 1990 as amended in 2000, 2002 and 2004 in order to update the law.

14.2 Administration of Narcotics Duty

14.2.1 The Department of Narcotics Control has four functional wings. These are:

- Administration, Training, Finance and Common Service (ATCS),

- Operation, Traffic and Intelligence (OTI),
- Preventive Education, Research and Publication, and
- Treatment and Rehabilitation.

There 4 Zonal Offices, 4 Zonal Intelligence Offices, 25 Regional Offices, 25 Range Offices, 108 Circle Offices, 1 Chemical Laboratory, 4 Treatment Centre, 4 Distillery, 13 Ware House throughout the country.

14.2.2 The principal tasks of the **ATCS** include among others, staff and resource management, operation and control of the Licensing System and Revenue Collection. The **OTI** team, gather intelligence, conduct raids, conduct seizures and arrests, investigate and prosecute drug offences, and inspect, supervise and monitor the operation of licenses

14.3 Matters of Audit Consideration

14.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to narcotics duty operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Narcotics Authority, as these controls are in place to ensure that all returns are received; correctly assessed and amount outstanding are collected.

14.3.2 Auditors are also required to be aware of other activities that indirectly impact on the assessment, collection and allocation of the revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protecting of revenue.

14.3.3 The generic Revenue Audit Test plan has been adapted for the audit of narcotics duty as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
ASSESSMENT	<ul style="list-style-type: none"> • Narcotics duty assessments are not raised on eligible transactions. 	Management review of narcotics duty activities.	<p>Test of Controls: Inspect proof of the operation of management assurance over narcotics duty activities to provide assurance that duty is raised on eligible transactions.</p> <p>Substantive test: For a sample of dutiable narcotics</p>

	Risk	Controls	Audit programmes
			activities: <ul style="list-style-type: none"> • Vouch to confirm assessment was raised. • Inspect evidence that the assessment was reviewed by an independent higher officer.
	<ul style="list-style-type: none"> • Possible collusion with narcotics duty officers may lead to reduction in the amount of narcotics duty payable. 	An independent official reviews supporting evidence against other independent sources to validate the assessment's supporting evidence.	Test of Controls: Inspect proof of review by an independent official of the supporting evidence to external sources. Substantive Test: For a sample of narcotics duty assessments and by reference to supporting evidence, including the prevailing narcotics duty rates, perform test to establish that the assessment is correct.
COLLECTION	<ul style="list-style-type: none"> • Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.	Tests of controls: For selected periods inspect proof of reconciliations between assessments and receipts. Substantive tests: For selected assessments confirm that payments have been recorded: <ul style="list-style-type: none"> At the correct amounts, In the correct account, In the correct period.

	Risk	Controls	Audit programmes
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the bank.</p>	<p>Tests of controls:</p> <p>Inspect proof of:</p> <p>Regular banking of cash received, Independent reconciliation of cash received and deposit slips, Daily cash ups for all cashiers,</p> <p>Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p> <p>Substantive tests:</p> <p>For a selected sample of receipts issued confirm that cash has been banked timely.</p> <p>For selected days confirm that all cash received have been adequately accounted for and banked timely.</p>
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	<p>Good procedures in place to ensure unpaid liabilities are pursued.</p>	<p>Tests of Controls:</p> <p>Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests:</p> <p>For a sample of outstanding amount, confirm follow -up action has been effected in accordance with the organisation's debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in to head of duty or accounts. 	<p>Independent checking of classification of revenue.</p>	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests:</p> <p>Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of</p>

	Risk	Controls	Audit programmes
			transaction.
REFUNDS	<ul style="list-style-type: none"> Refunds of narcotics duty are incorrectly made in wrong amount or to wrong person. 	Independent verification and authorisation of refunds prior to payment.	<p>Test of controls: Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds.</p> <p>Substantive test: Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.</p>
WRITE OFFS	<ul style="list-style-type: none"> Narcotics duty due is written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls: Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test: Select a sample of narcotics duty write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

CHAPTER 15 – AUDIT OF NATIONAL SAVINGS

15.1 Introduction to National Savings

- 15.1.1 The Directorate of National Savings (DNS) is an attached department of Internal Resources Division (IRD), which works under the control and supervision of the Ministry of Finance (MOF). A director, who is usually a deputy secretary level government official heads the DNS. Although attached to the Internal Resources Division, the director is vested with reasonable authority. Policy decisions regarding administration, procurement and setting of targets are taken at the MOF level.
- 15.1.2 The DNS was formed under the provision of Public Debt Act, 1944 with the main objective of motivating people to invest in different savings instruments.
- 15.1.3 Bangladesh Bank (BB) plays a vital role in implementation the functions of National Savings Schemes. It maintains the central accounts for National Savings Schemes on behalf of the government. Sale proceeds of all savings instruments are accumulated in Bangladesh Bank and the same is reimbursed at the time of encashment. Bangladesh Bank has no direct involvement other than being responsible for ensuring that internal resources are mobilized by the DNS according to targets set. It performs only a monitoring function.
- 15.1.4 National savings are governed by the Securities Act, 1920. There are a variety of different saving schemes issued from time to time. Rates of interest paid are set out in various Finance Acts. The following are the main schemes currently available:
- 5 Year Family Savings Certificates – 1997
 - 5 Year Savings Certificates – 1997
 - 8 Year Defence Savings Certificates – 1976
 - 5 Year Bangladesh Savings Certificates – 1977
 - 3 Year Savings Certificates – 1998
 - 5 Year Wage Earners Development Bonds – 1981
 - 3 Year National Investment Bond – 1992
- 15.1.5 Each of these schemes is designed to meet different needs of different investors, e.g. different interest rates, periods of savings, payment of interest, and limits on investment levels.

15.2 Administration of the National Savings

- 15.2.1 9,000 branches of post offices & 3,300 branches of commercial banks function as a commission agents of DNS to sell savings instruments all over the country.
- 15.2.2 Investors complete an application form setting out details of the amount to be invested and including the amount to invest. The relevant savings officers, Banks or Post offices perform checks to confirm that the applications are in line with the applicable rules before issuing certificate or bond for the sum invested. They also record all investments in the stock

register detailing key information such as the investors' identification reference, address, rates of interest, date of repayment etc.

15.3 Matters of Audit Consideration

15.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to national savings operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Savings Authority, as these controls are in place to ensure that investments in saving products are in line with the rules governing the respective savings products, appropriate mechanism exists to account for and protect investors' funds and redemption of investments are correct and to the right beneficiaries.

15.3.2 Auditors are also required to be aware of other activities that indirectly impact on the generation of savings investment, calculation of interest due and the redemption of investments. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protection of revenue.

15.3.3 The generic Revenue Audit Test plan has been adapted for the audit of national savings as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud, etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
ASSESSMENT	<ul style="list-style-type: none"> Savings applications are incorrectly processed or have not been made in accordance with the investment rules. 	Managerial review of investment applications and provides evidence of review on each application.	<p>Test of Controls: Inspect evidence of review of investment applications by a manager not involved in the processing of the application.</p> <p>Substantive test: For a sample of investment applications:</p> <ul style="list-style-type: none"> Confirm savings product invested in agrees with the product specified on the application. By reference to the product

	Risk	Controls	Audit programmes
			<p>rules and information supplied on the application, the investor has eligibility to the savings product.</p> <ul style="list-style-type: none"> • Agree details on the application to the national savings records (including the savings certificate issued).
	<ul style="list-style-type: none"> • Incorrect calculation on savings interest resulting in under or over payment of interests. 	<p>Management assurance programme exists over monthly savings interest calculation.</p>	<p>Test of controls: Inspect proof of management review of monthly savings interest calculation.</p> <p>Substantive test:</p> <p>(1) For a sample of investments selected across savings products over a selected period:</p> <ul style="list-style-type: none"> • By reference to the savings product's coupon rate, establish that interest calculated for the period is correct, • The interest calculated correctly reflects in the investor's account and the appropriate interest expense account. <p>(2) Select a sample from interest expense account:</p> <ul style="list-style-type: none"> • Confirm a valid investment account exists for the interest charge and the correct account has been credited with the interest charge. <p>By reference to the supporting investment</p>

	Risk	Controls	Audit programmes
			information, perform test to confirm the interest charge is correct.
COLLECTION	<ul style="list-style-type: none"> Savings receipts not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between amount due from investments in a particular period and amounts deposited in the bank in respect to the investments during the same period.	<p>Tests of controls: For selected periods inspect proof of reconciliations between amount due from savings investments and receipts.</p> <p>Substantive tests: For selected new investments in a particular period, confirm that payments have been recorded:</p> <p style="padding-left: 40px;">At the correct amounts, In the correct account, In the correct period.</p>
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the bank.</p>	<p>Tests of controls: Inspect proof of:</p> <p>Regular banking of cash received, Independent reconciliation of cash received and deposit slips, Daily cash ups for all cashiers, Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p> <p>Substantive tests: For a selected sample of receipts issued confirm that cash has been banked timely. For selected days confirm that all cash received have been adequately accounted for and</p>

	Risk	Controls	Audit programmes
			banked timely.
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in the accounts. 	Independent checking of classification of savings receipts.	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests:</p> <p>Select a sample of savings receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>
REPAYMENTS	<ul style="list-style-type: none"> Repayment are incorrectly made – wrong amount or to wrong person. 	Independent verification and authorisation of matured investments prior to payment.	<p>Test of controls:</p> <p>Confirm appropriate segregation of duties exists between the preparers and authorisers of investment repayments.</p> <p>Substantive test:</p> <p>Select a sample of investment repayments:</p> <ul style="list-style-type: none"> Confirm to supporting evidence establishing that the repayment has been reviewed and authorised by an appropriate official other than the preparer. Amount paid are agreed to the amount authorised. Confirm that the corrected amount has been authorised for payment taking into account the principal invested, the coupon rate and the length of investment.

	Risk	Controls	Audit programmes
			<p>Obtain valid explanation where expected payment differs from amount paid.</p> <ul style="list-style-type: none"> Establish that payment has been validly paid to the right investment holders.
WRITE OFFS	<ul style="list-style-type: none"> Unclaimed Investments are written off incorrectly or prematurely. 	Write-offs are authorised independently by higher authority.	<p>Test of controls: Inspect proof supporting that write-offs can only be effected at the authorised level.</p> <p>Substantive test: Select a sample of investment write-offs and confirm that proper laid down procedures have been followed, in particular ensure that the write offs were authorised at the appropriate level and that the amount paid agreed with the amount authorised.</p>

CHAPTER 16 – AUDIT OF REGISTRATION FEES

16.1 Introduction to Registration Fees

16.1.1 The registration process of documents is controlled by the Registration Directorate under the Ministry of Law, Justice and Parliamentary Affairs.

16.1.2 Registration fees are administered under the Registration Act, 1908, the Registration Rules, 1973 and the Finance Acts made by Parliament.

16.1.3 The registration system is established to achieve the following objectives:

- To provide conclusive guarantee of the genuineness of document;
- To afford publicity to transactions of property;
- To prevent frauds;
- To afford facility of ascertaining whether a property has already been dealt with; and
- To afford security of title-deeds and facility of providing titles in case the original deeds are lost or destroyed.

16.1.4 To achieve the above objectives, each registration office works to the following citizen charter of service:

- Registration of documents of transfer of movable or immovable properties.
- Permanent preservation of records of registration.
- Supply of any certified copy in case of any loss or destruction of original document.
- Intending party can collect any kind of information regarding transfer of property.
- Intending party can collect Non-Encumbrance Certificate through Deed - writers or Searchers.

16.2 Administration of Registration Fees

16.2.1 The main function and responsibility of the Registration Directorate is to make an easy access for the people to the registration system. This is achieved through 12 City Sub-Register Offices, 63 district and 471 sub-registry offices situated all over the country except 3 Hill Tract Districts.

16.2.2 The Registration Act, 1908 makes it the responsibility of the Registering officers to perform the following functions:

- To register a document when it is presented before him in the office or at his residence,
- To refuse to register a document presented before him but which has not complied with the relevant sections of the registration Act,

- To assess Stamp Duty, Registration Fees, Gains Tax, District Council Tax, Union Parishad Tax, Cantonment Board Tax, etc.,
- To take oath, affirm affidavits and perform quasi-judicial functions.

16.3 Matters of Audit Consideration

16.3.1 Auditors are required to identify key processes, risks and mitigating controls relating to registration operations. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Registration Authority, as these controls are in place to ensure that all returns are received; correctly assessed and related amounts collected.

16.3.2 Auditors are also required to be aware of other activities that indirectly impact on the assessment, collection and allocation of the revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protection of revenue.

16.3.3 The generic Revenue Audit Test plan has been adapted for the audit of registration fees as per the table below. The schedule is by no means exhaustive and auditors are required to take account of the specific circumstances of the audit in applying the audit programme. The auditors should also be aware that the risk assessment process expected at the planning stage will also identify other risk areas (e.g. due to IT system, process or structural re-organisation and consideration of fraud etc.); additional audit programmes should be added to cover all risks and processes to provide adequate coverage for the audit.

	Risk	Controls	Audit programmes
ASSESSMENT	<ul style="list-style-type: none"> • Documents are registered for free or at an unauthorised discount. 	An independent officer reviews the records of the registrar to establish that appropriate registration fees have been paid prior to the documents being registered.	<p>Test of Controls: Inspect proof that authorised and independent officials review the work of registrars.</p> <p>Substantive tests: For a sample of registrations processed, confirm:</p> <ul style="list-style-type: none"> • an amount has been paid as registration fees, • amount paid to the authorised list of registration fees; and establishes that the correct amount has been

	Risk	Controls	Audit programmes
			paid.
	<ul style="list-style-type: none"> Changes in authorised registration fees list are not communicated to the affected registrar offices resulting in revenue loss. 	<ul style="list-style-type: none"> The list of the authorised registration fee is publicly available and designated officers at the registrar offices perform regular reconciliation of the amount charged to customers to the publicly available registration fees authorised list. 	<p>Test of controls:</p> <p>Inspect evidence supporting that the prevailing list of registration fees is publicly available; and rates used at the registrar offices are regularly confirmed to the publicly available prevailing registration fees list.</p> <p>Substantive tests:</p> <p>For a sample of registrations, agree rates applied to the publicly available prevailing registration fees list.</p>
COLLECTION	<ul style="list-style-type: none"> Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period. 	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank.	<p>Tests of controls:</p> <p>For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests:</p> <p>For selected assessments confirm that payments have been recorded:</p> <p style="padding-left: 40px;">At the correct amounts, In the correct account, In the correct period.</p>
	<ul style="list-style-type: none"> Cash receipts are not banked on a timely basis. 	<p>Regular daily / weekly deposit of cash received.</p> <p>Independent reconciliations between receipts issued and amounts deposited in the</p>	<p>Tests of controls:</p> <p>Inspect proof of:</p> <ul style="list-style-type: none"> - Regular banking of cash received, - Independent reconciliation of cash received and deposit slips, - Daily cash ups for all cashiers,

	Risk	Controls	Audit programmes
		bank.	<p>- Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.</p> <p>Substantive tests:</p> <p>For a selected sample of receipts issued confirm that cash has been banked timely.</p> <p>For selected days confirm that all cash received have been adequately accounted for and banked timely.</p>
	<ul style="list-style-type: none"> Amount assessed as due is not paid. 	Good procedures in place to ensure unpaid liabilities are pursued.	<p>Tests of Controls:</p> <p>Inspect evidence of review of arrears report by a higher authority.</p> <p>Substantive tests:</p> <p>For a sample of outstanding amount, confirm follow-up action has been effected in accordance with the organisation's debt management policy.</p>
ALLOCATION	<ul style="list-style-type: none"> Amount is incorrectly classified in to head of duty or accounts. 	Independent checking of classification of revenue.	<p>Tests of Controls:</p> <p>Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule.</p> <p>Substantive tests:</p> <p>Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.</p>

Annexures

OVERALL AUDIT STRATEGY

This document is intended as a stand-alone document which sets our overarching audit strategy for each tax stream. It can be used to frame an agenda of questions for the initial planning meeting between the Engagement Director and Engagement Manager to set the high level strategy. It can also be used to record the decisions reached about the **scope, timing and direction** of the audit and how the more detailed audit plan should be developed.¹

The overall audit strategy should identify from our existing understanding the significant risks for the audit, and the risk assessment procedures required to refresh, extend or confirm our existing understanding and identify any further risks for our audit. For the purposes of our Revenue audit, a **Significant Risk** is considered to be an identified and assessed risk around the revenue departments' regulation and procedure for revenue streams that, in the auditor's judgment, requires special audit consideration.

The form should not be used to replicate information from detailed planning documentation – it should be focused on only the key information and issues for the audit.

A. What do we understand about the Revenue stream?

1. What is the nature of the revenue stream?
2. What are the key elements of the general framework of authorities for the revenue stream? Is there a risk of irregular or novel and contentious activities?
3. Have there been any significant changes in the period, including new statutory requirements that impact the tax stream?
4. What are the key performance measures around the tax stream that might indicate a risk to the effective operation of the tax stream?

¹ Considerations for establishing the Overall Audit Strategy are included in the [Appendix to ISA 300](#), and examples of fraud risk factors which may be relevant to consider are included in the [Appendices to ISA 240](#).

5. What issues were identified in the prior year management letter, and are we aware of any progress in resolving these issues?

6. What else do we understand from other audit work relevant to the entity?

B. What do we understand about the Revenue stream internal controls?

1. What are the key features of our understanding of the revenue stream's Internal Control?

(This may cover: the "tone from the top" and quality of the overall control environment; the Line of Business risk assessment processes and the output of these processes; the Line of Business information systems and processes; and how the Line of Business monitors its internal control systems)

2. Are there any concerns about the processes and controls in place to ensure the regularity of activities? Are there are concerns about propriety of activities?

3. Do the revenue stream's internal controls support the reliable processing of financial information?

4. Do we plan to rely on tests of controls as part of our audit approach?

5. If we are planning on relying on high level controls for assurance, what procedures will we perform to evidence that the controls are sufficiently precise to mitigate the risk of material misstatement in each area we plan to rely upon them?

6. Are we planning to rely on controls which are dependent upon the IT systems? If so, how will we gain assurance over the design, implementation and operation of IT controls?

7. What is our understanding about internal audit's role in the revenue stream and its relevance to the Revenue Audit?

8. Do we plan to rely on the work of internal audit? What procedures do we need to perform to earn the right to rely on their work?

C. What is material for our Revenue audit?

1. What do we consider as material in the context of our audit?

2. How will issues arising during our revenue audit be evaluated and fed into our overall revenue audit conclusion?

D. Other issues

1. Do we plan to rely on the work of management's experts? What procedures do we need to perform to earn the right to rely on their work?
2. Do we plan to rely on the work of experts? What procedures do we need to perform to earn the right to rely on their work?
3. Are there any concerns with respect to laws and regulations? What procedures do we need to perform in respect of this?
4. Are there any issues around our independence which should be considered in planning the engagement?
(e.g. safeguards we should have in place due to specific independence threats, instances of self-review threats)
5. Are there any other issues which should be considered in planning or performing the engagement?
(e.g. security clearances, audit protocols, client liaison contacts, etc.)

E. What are the key issues for the Revenue stream from the Client's perspective?

Understanding the Department's key concerns for the revenue stream can assist in identifying significant risks to the audit which we were otherwise unaware of. It may also identify ways, in the context of an efficient audit approach, of adding value by providing more detailed reporting of our findings or through reasonable extensions of our procedures to address their concerns.

1. Who are the key Departmental personnel, and what relationship do we have with them?

Name	Role	Comments

2. What concerns Departmental Senior Management about the revenue stream?

3. What concerns have third party stakeholders raised about the revenue stream?

4. What are the expectations of key client personnel from the audit and the Local and Revenue Audit Directorate generally?

5. What actions, if any, in our audit approach would address client or stakeholder concerns and expectations, or otherwise add value? How can we promote beneficial change in the entity's administration of the revenue stream?

F. What are the areas of Audit Emphasis for our audit?

1. What are Significant Risks, including risks of fraud that affects our approach at the overall tax stream level? (e.g. implementation of a new system). What are our planned responses?

Risk	Controls which address the risk and planned extent of controls work (at minimum D&I)	Planned Overall Responses

2. What are the Specific Risks, including risks of fraud, affecting specific stages in the tax stream end-to-end process? What is our planned response?

Specific Risk	Audit area(s) affected	Assertion(s) affected	Controls which address the risk and planned extent of controls work (at minimum D&I)	Planned audit response

3. If we have not identified a specific risk of fraud in revenue recognition, how will we rebut the presumption of this risk in ISA 240?

- There is a presumed risk of fraud in revenue recognition but rebuttable as we are not aware of any pressure on the management to perform or any other incentives or triggers to manipulate revenue. This is also true for the audit of Excise Duties we have carried out in the past and from our cumulative audit knowledge and experience of this tax stream, we are content that it is appropriate to rebut the presumed risk of fraud in income recognition for the tax stream.

The engagement team should transfer the significant risks identified to the audit emphasis testing plan. This list should be updated if any additional significant risks are identified, and the approach agreed with the Director General and Director.

G. What other risk factors have we identified?

(Risk Factors are either:

- *risks of material issues which are addressed through standard planned testing and so do not require any additional specific audit response; or*
- *potential risks which have been assessed as not representing a significant issue and so do not require an audit response.*

What other risk factors have we identified that the engagement team should consider as the audit progresses?

This consideration will normally not involve additional procedures, but represents part of maintaining an attitude of professional scepticism. The list should include fraud risk factors (ISA 240.11 “events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.”) – however, any risks of significant fraud should be treated as significant risks...

Risk Factor	Pervasive / Assertions affected	Comments on why considered only a Risk Factor	Additional Procedures required (if any beyond consideration by the team of its potential impact as the audit progresses)

The engagement team should transfer the other risk factors identified to the audit area testing plan. This list should be updated if any additional risk factors are identified during the audit, and their assessment as a risk factor rather than significant risk agreed with the director general and director.

H. What risk assessment procedures are required?

This section would be expected to be completed on a “by exception” basis

We will perform risk assessment procedures to identify and assess the risks of significant issues. Where we are familiar with the entity, we may be able to use information obtained from our previous experience with the entity and from previous audits, subject to the requirement in ISA 315.9 to “determine whether changes have occurred since the previous audit that may affect its relevance to the current audit.” This may be by inquiry alone, or, where appropriate, by performance of other appropriate audit procedures.

Step in the Risk Assessment Procedures	Planned approach
Preliminary Analytical Procedures	
Preliminary AP – Revenue	
Understanding the Revenue Stream	
Legislation & Regulations	
Key Information	
Governance and Risk Management	
Monitoring and Performance	
Information Systems	

Step in the Risk Assessment Procedures	Planned approach
Required planning inquiries	
Management	
Those Charged with Governance	
Internal Audit	
Others	
Fraud Risk assessment	
Identify any fraud risk from our planning not already identified	
Other risk assessment procedures	
Give details	

I. What else should we consider in planning our audit approach?

(excluding our response to Significant Risks, which are discussed above)

This section would be expected to be completed on a “by exception” basis

Are there other aspects to our approach to testing the revenue stream that should be specified as part of the Overall Audit Strategy?

(comment by exception where the Director wishes to specify an approach – e.g. specific tests over an aspect of the tax stream end to end process not already identified in this form.

J. What engagement team do we need?

Do we need to involve specialists in any areas of the engagement?

Name	Role	Relevant skills knowledge and experience	Years on engagement

k. What is the reporting timetable?

Date	Key stage of the audit

**AUDIT PLAN
FOR
XXXXXXXXXXXXXXXXXXXX**

Financial Year:



**Prepared by:
XXXXXXXXXXXX
XXXXXXXXX Audit Directorate**

Office of the Comptroller & Auditor General of Bangladesh

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Introduction

The Comptroller and Auditor General (C&AG) of Bangladesh as part of his responsibility may direct that audit tests be conducted to ascertain that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue in order to satisfy himself that any such regulations and procedures are being duly carried out.

Our approach to the audit of revenue systems uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the revenue stream. This understanding allows us to develop an audit strategy which focuses on key controls, particularly around ‘areas of audit emphasis’ where we consider there to be an increased risk to the assessment, collection or allocation of revenues.

The purpose of this document is to provide the [audited entity] with a clear understanding of how xxxxxxxx Audit directorate, on behalf of the C&AG, plans to carry out the revenue audit for the financial year XX XXXXX XXXX.

[edit as appropriate]

ISSAI COMPLIANT COMPLIANCE AUDIT

1. Following ISSAI 4100 – Compliance Audit Guidelines – For the audits performed separately from the audit of financial statements
2. Referring to other relevant ISSAI Guidelines including :
 - a) ISSAI 1200: Overall Objectives of the Independent auditor and the conduct of an audit in accordance with International Standards on Auditing
 - b) ISSAI 1210: Agreeing the terms of audit engagements
 - c) ISSAI-1230: Audit documentation
 - d) ISSAI-1260: Communication with those charged with governance
 - e) ISSAI-1265: Communicating Deficiencies in internal control to those charged with governance and management
 - f) ISSAI- 1315: Identifying and assessing the risks of material misstatement through understanding the entity and its environment
 - g) ISSAI- 1320: Materiality in planning and performing an audit

- h) ISSAI- 1330: The auditor’s responses to assessed risks (Paras 8 to 17 and A 20 to 24)
 - i) ISSAI- 1500: Audit evidence
 - j) ISSAI- 1520: Analytical procedures
 - k) ISSAI- 1530: Audit sampling
 - l) ISSAI-1700: Forming an opinion and reporting
 - m) ISSAI -1705: Modifications to the opinion in the independent auditor’s report
 - n) ISSAI -1706: Emphasis of matter paragraphs and other matter paragraphs in the Independent Auditor’s report
- 3 Gathering and examining sufficient evidence and concluding as to whether the entity has in material respects followed rules, laws and regulation, policy, established codes, or agreed upon terms relating to the assessment, collection and allocation of revenue.
 - 4 Maintaining appropriate working papers sufficient to enable an experienced auditor not previously involved with the audit to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
 - 5 Producing an audit report using the prescribed format.

[edit as appropriate]

Audit Team

SL	Name	Designation	Status in Team

Audit Objectives

ISSAI: 4100
ISSAI 4100.3: Section –“ Objectives to be achieved” Para 24

ISSAI 1200
“The overall objectives of the independent auditor and the conduct of an audit”

The objectives of the Compliance Audit on revenue of selected sub-registry offices are:

[edit as appropriate]

Audit Scope

ISSAI: 4100
ISSAI 4100: Section –“Scope and Nature of a compliance audit” Para 12

The audit will be conducted in accordance with International Standards of Supreme Audit Institutions on Auditing (ISSAIs). These standards represent best practice in public institution auditing, thereby increasing public confidence in the audit process.

[edit as appropriate]

Overall Audit strategy

ISSAI: 4100
ISSAI 4100: Section 6 –“Planning and Designing a Compliance Audit” para 60

ISSAI 1300
Planning an Audit of Financial Statements

[Use information collected using the Overall Audit Strategy Template (Annex 1)]

AUDIT APPROACH

The audit will be conducted under International Standards of Supreme Audit Institutions (ISSAI) and the audit code set by the Supreme Audit Institution of Bangladesh.

The audit plan will address significant risks of material non-compliance with relevant rules and regulations. The approach uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the entity and its internal controls. This enables the team to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the compliance audit subject-matter.

The risk based audit approach allows for greater audit effort and resources to be spent on high risk or significant area. The audit approach will use both controls and substantive procedures to support the compliance audit conclusion and report as appropriate the findings and conclusions of the audit.

[edit as appropriate]

Respective Responsibilities

ISSAI: 4100
ISSAI 4100: Section –“Identification of the parties involved/Legal basis” *Para 34*

ISSAI 1210
“Agreeing the terms of Engagement”

In line with ISSAIs we are required to agree the respective responsibilities of the C&AG, Principal Accounting Officer, and the OCAg. These responsibilities are set out in the Letter of Engagement dated xx/xx/xxxx.

[edit as appropriate]

Understanding the entity

ISSAI 4100: Section: “Understanding the Entity and Its “Environment” para 58-59

ISSAI 1315
“Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment”

[To document the understanding of the entity and the environment based of information gathered using the Overall audit strategy (Annex 1) and Understanding the Revenue Stream (Annex 3) templates]

AUDIT MATERIALITY

ISSAI 4100
Materiality in Planning and Performing an Audit
ISSAI 4100: Section "Materiality" para 68-77
ISSAI 1320
ISA 320, Para 10

The concept of materiality recognizes that an audit is designed to provide reasonable, rather than absolute assurance. A matter is material, if its omission or misstatement would reasonably influence the decisions of users of audit subject matter. Materiality consists of both quantitative and qualitative factors. In performing compliance audits, materiality is determined for:

- Planning purposes
- Purposes of evaluating the evidence obtained and the effects of identified instances of non-compliance, and
- Purposes of reporting the results of the audit work.

The assessment of what is material is a matter of the auditor's professional judgment. Materiality may be determined using a range of percentages from between 0.5% to 2%. The percentage chosen reflects the sensitivity of the audit. The audit of Directorate of Registration is not considered to be highly sensitive and therefore, the materiality will be calculated using **1% of total Revenue**.

[edit as appropriate]

Risk Assessment

ISSAI 4100
ISSAI 4100: Section "Risk Assessment" para 79

ISSAI 1330:
The Auditor's Responses to Assessed Risks
(Paras 8 to 17 and A20 to 24)

Risk assessment is an essential part of performing a reasonable assurance audit. Due to the inherent limitations of an audit, a compliance audit does not provide a guarantee or absolute assurance that all instances of non-compliance will be detected.

Inherent limitations in a compliance audit may include factors such as:

- a) Judgement may be applied by management in interpreting laws and regulations
- b) Human errors occur
- c) Systems may be improperly designed or function ineffectively
- d) Controls may be circumvented
- e) Evidence may be concealed or withheld

Fraud risks and assessments of materiality in relation to fraud are considered in the context of the broader scope of public sector auditing.

In general, public sector auditors consider the three elements of audit risk - inherent risk, control risk and detection risk in relation to the subject matter and the particular situation. In addition, the probability that the matter will occur, and the possible consequences arising if the matter should occur, are also taken into account in assessing risk. Audit resources will be allocated to the functions with the highest risk. The assessment will directly affect the nature, timing and extent of audit resources allocated.

Based on our understanding of the entity and taking into account the likelihood and impacts, we have identified below risks and risks factors for our audit and provided our audit approach to addressing these risks:

Risk assessments and Response to Risks		
Significant Risk		
Risk	Key Areas	Audit Response

[edit as appropriate]

SAMPLING

Audit Sampling
ISSAI 1530

Our approach is to do more work on significant areas and we have used materiality threshold to determine these significant areas especially for revenues streams as these are generated from different sources.

[edit as appropriate to document the sampling approach for the audit]

AUDIT TIMTABLE

	Timing	Responsibility

[edit as appropriate]

AUDIT DOCUMENTATION AND EVIDENCE

ISSAI 1230 & 1500
Audit Documentation &
Audit Evidence

The audit team will document their work in a manner prescribed by ISSAI 1230 and in sufficient detail to provide a clear understanding of the work performed, the evidence obtained and the conclusions reached. Working papers will be referenced and cross referenced, as appropriate. The value of the samples selected for detailed testing will be reconciled to the populations from which they were sampled. Detailed testing matrices will show the percentage of the total audit population that has been tested through the sample.

Audit evidence we will follow the requirements of ISSAI 1500 and may be obtained through any of the following; observations, confirmations, recalculations, re-performance and analytical procedures. Audit conclusions will be supported with sufficient, relevant and reliable evidence.

[edit as appropriate]

USE OF INFORMATION TECHNOLOGY

There is a scope to use IT in the planning, execution and reporting of the audit. It is assumed that Audit Teams have been provided with official laptops which have been used in planning, data analysis and in the sharing of data and documents. The audit team has received Audit Monitoring and Management System 'AMMS' training and this software has been installed to their laptops. AMMS is the database to which all audit working papers will be stored.

[edit as appropriate]

AUDIT REPORT

ISSAI 4100
ISSAI 4100 Section: "Reporting" para 149

The Audit Report will be prepared in line with International Standards of Supreme Audit Institutions and the format prescribed in the Revenue Audit Manual. Quality assurance procedures will be performed on the draft report to ensure it is complete and accurate. Once the audit team is satisfied that the draft report is complete and accurate and reflects all the issues identified during the audit, they will discuss the report with the management. These discussions will take place at the Exit Meeting. The audit team will then reflect any comments and responses arising from the exit meeting to the draft report.

[edit as appropriate]

AUDIT PROGRAMMES

The main objective of revenue audit is provide assurance that adequate regulations and procedures have been formulated by the Revenue Departments to secure an effective check on Assessment, Collection and proper allocation of revenue.

Assertion	Explanation
Assessment	To provide assurance adequate controls are in place to ensure appropriate and correct assessment of revenue.
Collection	That assurance exists for the correct and timely collecting and accounting for revenue due.
Allocation	That assurance exists to controls are in place to ensure correct allocation of revenue collected to heads of duty.

In addressing the above, other assertions will also be taken into account, in particular:

Occurrence	Transactions and events that have been recorded have occurred and pertain to the entity.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately.
Regularity	Transactions and events are in conformity with relevant rules and regulations.

Auditee:	Name of Auditee	WP Ref			
Period Under Review:	Year ending 30 June 2015	Prepared by		Date	
		Reviewed by		Date	

Audit Test	Audit assertions	Signed/date	WP Ref

[edit as appropriate]

UNDERSTANDING THE REVENUE STREAM

The purpose of this form is to document our understanding of the revenue stream (**both its environment and internal control**). Where appropriate, we should reference to supporting documents included in standing information or elsewhere in the file.

The questions within the form cover the areas where we typically need an understanding to be able to identify and assess risks of significant weaknesses in control at the revenue stream level, and so plan and perform an effective audit.

This understanding is part of the standing information on the file. Each year we should perform appropriate Risk Assessment Procedures, as set out in the Overall Tax Stream Audit Strategy, to confirm or update our understanding. Where the director or Director General expects the standing information will remain current, we will perform procedures to determine that this information remains relevant. These procedures should consist of inquiry and, where appropriate, observation and inspection.

Where changes are needed to the standing information, we should obtain appropriate evidence for the changes and document what that evidence is – depending upon what the update is, this may be through inquiry, examination of documentation, observation, or other means.

If, having confirmed/updated our understanding of the tax stream, we have identified a potential risk of significant weaknesses in control, this should be discussed with the Engagement Director & Engagement Director General and clearly concluded upon.

(1) Legislation and Regulations

<u>Legislation and Regulations</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
1.1 What is the Authorising Legislation for the entity? What activities does it authorise?		
1.2 What are the Regulations issued under Authorising Legislation? How do they affect the entity's operations?		
1.3 Are there specific authorising Legislation for the revenue stream and what are the Regulations issued under Authorising Legislation?		
1.4 What significant changes have taken place in Authorising Legislation & Regulations since the prior year?		
1.4 Are any significant changes to Legislation & Regulations anticipated during the current year?		
1.5 What does the client need the Ministry of Finance approval for? What does the client have delegated authority from Ministry of Finance for?		
1.6 Are there other elements of the legal and regulatory framework applicable to the entity, which affect its operations? How does it comply with that framework?		
1.7 What is the nature of the entity's relationship with its sponsoring		

<u>Legislation and Regulations</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
(where applicable) Department?		
1.8 What aspects of the Political Environment affect the entity's operations?		
1.9 What aspects of the Business Environment affect the entity's operations?		
1.10 How might future events affect the entity?		
1.11 Are there any other factors to consider? Consider any other external factors that may influence the business, operations or financial reporting of the client.		

(2) Key Information & understanding the nature of the entity and its operations

<u>Key Information</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>2.1 What is the nature of the entity’s operations? (To understand the context within which the entity generates revenue.)</p>		
<p>2.2 What are the entity’s ownership and governance structures? (To understand the overall governance arrangement for the entity.)</p>		
<p>2.3 What is the nature of the Revenue Stream?</p> <p>Provide a summary of the key characteristics of the revenue, supported by details of the end to end ‘whole of revenue’ processes (Provide links to relevant supporting documentation e.g. revenue stream briefing document & revenue stream process maps).</p> <p>Very Important – Where different discrete activities are involved in the end to end revenue process, the documentation here must clearly show end to end process for the discrete activities.</p>		

<u>Key Information</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>2.4 Quantitative data</p> <p>Provide a summary of key quantitative data for the revenue stream (e.g. amounts collected, number of traders etc.) Link to relevant working papers as appropriate – over time, this information should provide us with details of movements in key data for each revenue stream.</p>		
<p>2.5 Future developments</p> <p>Provide details of any known future developments relating to the revenue stream. Ensure that the impact of developments on our revenue audit is considered and agreed as part of the audit planning process.</p>		

(2) **Governance and Risk Management**

<u>Governance and Risk Management</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>3.1 What governance arrangements are in place at the revenue stream level?</p> <p>Map the Client level governance arrangements for the revenue stream (include details of the management structure, committee structure, key responsibilities, etc.).</p> <p>Assess the design and implementation of governance arrangements and conclude whether there are any issues identified that need to be addressed in the Areas of Audit Emphasis Testing Plan and/or raised with the Client.</p>		
<p>3.2 What risk management arrangements are in place at the revenue stream level?</p> <p>(Enquire of the leadership of Revenue generation team).</p> <p>Consider whether there are any issues identified that need to be addressed in the Audit Emphasis Testing plan and/or raised with the entity.</p>		
<p>3.3 What is the Entity's view on the key risks facing the revenue stream?</p> <p>Enquire of the Entity's</p>		

<u>Governance and Risk Management</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>management team as the management will be aware of the big issues facing the revenue section of their organisation.</p> <p>Consider the Client's assessment of risks facing the revenue stream. Are additional risks raised that need to be addressed in the Areas of Audit Emphasis Testing Plan? Have we identified risks in our own planning work the Client has not considered and need to be raised them?</p>		

(3) Monitoring and Performance

<u>Monitoring and Performance</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>4.1 How does management monitor the performance of the revenue stream?</p> <p>What management information provided to revenue stream managers? What are the key factors that management monitor?</p>		
<p>4.2 How does management monitor the effectiveness of the entity's internal control on revenue activities?</p> <p>What sources of information about the operation of controls are used in monitoring and how reliable are they?</p>		
<p>4.3 What are the key messages arising from management's monitoring of the revenue stream?</p> <p>Conclude whether the entity's monitoring of the revenue stream reveals any risks that need to be addressed in the Areas of Audit Emphasis Testing Plan and/or raised with the Client.</p>		
<p>4.4 What assurance does management have over the accuracy of management information provided?</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Areas of Audit Emphasis Testing Plan and/or raised with the Client.</p>		
<p>4.5 What impact do any other relevant factors have upon the entity's monitoring of controls?</p>		

(5) Information Systems

Information Systems		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>5.1 What IT systems are used in the administration of the Revenue Stream?</p> <p>Prepare diagram showing the different IT systems and the interfaces between them. Include key details e.g. functions, when introduced, developers, operating system, support arrangements.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Tax Stream Significant Risks Testing Plan and/or raised with the Department.</p>		
5.2 To what extent does the entity use the automated controls and checks within the IT system?		
<p>5.3 How is the entity's IT system managed?</p> <p>What is the in-house IT team's structure/what is the structure of the relationship with outsourced suppliers?</p>		
5.4 Is there any internal or external assurance over the operation of the IT system (e.g. internal audit, or attack and penetration testing)?		
5.5 Is an IT Risk Assessment performed? What are the findings of the risk assessment?		

Information Systems		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
5.6 Access Security: What is the high level approach to systems security, including physical security of servers?		
5.7 Change management: How does the entity manage changes to IT systems involved in revenue generating activities?		
5.8 Have there been significant changes to the information systems environment, as relating to revenue activities during the year?		
5.9 Other general aspects of the IT environment relevant to the audit.		

(6) Revenue Gap

<u>Tax Gap</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>6.1 What are the known vulnerabilities of the revenue stream to evasion?</p> <p>Provide summary details.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Audit Emphasis Testing Plan and/or raised with the client.</p>		
<p>6.2 To what extent is avoidance an issue in respect of the revenue stream?</p> <p>Provide summary details.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Audit Emphasis Testing Plan and/or raised with the client.</p>		
<p>6.3 What are the main components of the client's response to evasion and avoidance for the revenue stream? (e.g. compliance, campaigns, anti-avoidance processes)</p> <p>Provide summary details (and link to supporting documentation as necessary).</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Tax Stream Significant Risks Testing Plan and/or raised with the client.</p>		

(7) The Directorate’s Coverage/Third Party Scrutiny

<u>Audit Coverage/Third Party Scrutiny</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>7.1 What work has the Local and Revenue Audit Directorate done on this revenue stream in recent years?</p> <p>Refer to key outputs (e.g. Revenue Audit or special report) and their main findings.</p> <p>Conclude whether our review has revealed any additional issues that need to be addressed through this year’s audit (e.g. included in the Tax Stream Audit Emphasis Testing Plan and/or raised with the client.</p>		
<p>7.2 What work has Internal Audit performed/planned for the revenue stream?</p> <p>Summarise significant issues that have arisen and consider the impact on our audit.</p> <p>Identify any areas where scope for audit efficiencies exists e.g. reliance or co-ordinated visits.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Tax Stream Audit Emphasis Testing Plan and/or raised with the Client.</p>		
<p>7.3 What significant issues have been raised by third parties in respect of</p>		

<u>Audit Coverage/Third Party Scrutiny</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>the revenue stream?</p> <p>Summarise significant issues that have achieved public prominence in recent years e.g. through the Public Account Committee hearings, independent reports, press coverage.</p> <p>Conclude whether our review has revealed any additional issues that need to be addressed through this year's Revenue Audit (e.g. included in the areas of audit emphasis testing Plan and/or raised with the Client).</p>		

Introduction

The Fraud Risk Assessment form is designed to assist auditors in the evaluation of the potential risks of fraud in arriving at an assessment of the risk of material misstatement due to fraud.

The Engagement Team should evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more factors indicating potential risks are present. Whilst these factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore, may indicate risks of material misstatement due to fraud. (ISA 240 para 24).

The Engagement Team should identify and assess the risk of material misstatement due to fraud at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures. (ISA 240 para 25).

Identification of potential risks of fraud

Three conditions are generally present when fraud exists:

- an incentive or pressure to commit fraud;
- a perceived opportunity to commit fraud; and
- an ability to rationalise the fraudulent actions.

In assessing potential risks of fraud, the Engagement Team should have mind to the existence of these conditions.

ISA 240 provides examples of factors to consider in assessing the risk of material misstatement due to fraud. Although these cover a broad range of circumstances, they are only examples and other indicators may exist.

Use of this form

This form consists of four tabs:

- "Financial Reporting" which considers the factors listed in the ISA which may give rise to a significant risk of material misstatement arising from fraudulent financial reporting;
- "Misappropriation" which considers the factors listed in the ISA which may give rise to a significant risk of material misstatement arising from misappropriation of assets;
- "Misappropriation External" which considers possible indicators of risks of misappropriation by individuals not employed by the entity which may give rise to a risk of irregularity (while not being a fraud risk under ISA 240) arising from misappropriation of assets; and
- "Summary of assessment" which draws together the results of our consideration of potential risks and documents our conclusion as to whether the results of that consideration indicate a risk of material misstatement arising from fraud (which would be a Significant Risk) or are otherwise indicative of a risk of material irregularity.

Each tab contains a series of high level questions addressing the presence of indicators of a risk of material misstatement due to fraud. Where relevant, detailed indicators to consider when assessing whether the factor is present are listed. The questions and indicators are drawn from the annexes to ISA 240. Whilst these cover a broad range of circumstances they are only examples and teams should consider whether other potential risks exist as indicated by the risk assessment procedures performed.

Engagement Teams should consider whether, as a result of the evidence obtained from the performance of risk assessment procedures, they have any evidence to indicate that there are indications of a risk of material misstatement.

In assessing the indicators identified, the Engagement Team should consider whether individually or in aggregate they indicate a risk of material misstatement due to fraud, taking account of existence of the conditions generally present when fraud exists.

If any risks of material misstatement are identified, they should be classified as a Pervasive or Specific Risk in accordance with ISA 240 (para 27), and the engagement teams should plan and perform appropriate responses as per any other Significant Risk.

If any risks of material irregularity are identified, we should consider whether they represent a Significant Risk. We should plan and perform responses as per a Significant Risk or other risk of material misstatement as appropriate.

Fraud Risk Assessment

Summarise below the considerations of potential risks identified through our risk assessment procedures.

Consider both impact and likelihood in considering whether there are risks of material misstatement or irregularity.

Summary Questions	Potential risks identified for the entity	Do these individually or in aggregate indicate - a risk of material misstatement (which, as a fraud risk, is a Significant Risk); or - or a risk of material irregularity (including Significant Risks)?	Is this a Pervasive or a Specific Risk?	Response	Comments (including any explanation required of why we consider potential risks identified do not give rise to risks of material misstatement)
Fraudulent financial reporting					
Do incentives or pressures exist which increase the risk of fraudulent financial reporting?					
Does the existence of opportunity indicate an increased risk of fraudulent financial reporting?					
Do the attitudes of staff, or other conditions, exist which would enable staff to rationalize their actions, indicate an increase risk of fraudulent financial reporting?					
Is there a risk of material misstatement relating to fraudulent financial reporting?					

<u>Misappropriation of assets by employees or management²</u>					
Do incentives or pressures exist which increase the risk of fraudulent misappropriation of assets?					
Does the existence of opportunity indicate an increased risk of fraudulent misappropriation of assets?					
Do the attitudes of staff, or do conditions exist which would enable staff to rationalize their actions, indicate an increase risk of fraudulent misappropriation of assets?					
Is there a risk of material misstatement relating to misappropriation of assets?					
As a result of the work performed considering potential risks relating to fraudulent financial reporting or misappropriation of assets by employees or management, have we identified any risks of material irregularity, including Significant Risks, to be addressed through the audit?					
<u>Misappropriation of assets by individuals or groups external to the organisation</u>					
Does the existence of opportunity indicate an increased risk of misappropriation of assets by individuals or groups external to the entity?					

² Misappropriation of assets is irregular and risk of material misappropriation of assets due to fraud is considered, which places an emphasis on misappropriation by management or employees.

Do incentives exist which increase the risk of misappropriation of assets by individuals or groups external to the entity?					
Is there a history or expectation of misappropriation of assets by individuals or groups external to the entity?					
As a result of the work performed considering potential risk relating to misappropriation of assets by individuals or groups external to the entity, have we identified any risks of material irregularity, including Significant Risks, to be addressed through the audit?					

Consider potential risks relating to misstatements arising from fraudulent financial reporting.

Question (expand grouped cells for examples)	Indicators	Answer	Potential risk(s) identified
Do incentives or pressures exist which increase the risk of fraudulent financial reporting?			
Is financial stability or profitability threatened by economic, industry, or entity operating conditions?	<ul style="list-style-type: none"> - High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates. - New accounting, statutory, or regulatory requirements. - High degree of competition or market saturation, accompanied by declining margins. - Significant declines in customer demand and increasing business failures in either the industry or overall economy. - Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent. - Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth. 		

	<ul style="list-style-type: none"> - Rapid growth or unusual profitability especially compared to that of other companies in the same industry. 		
<p>Does excessive pressure exists for management to meet the requirements or expectations of third parties?</p>	<ul style="list-style-type: none"> - Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages. - Need to obtain additional debt or equity financing to stay competitive – including financing of major research and development or capital expenditures. - Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements. - Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards. 		

<p>Does the information available indicate that the personal financial situation of management is threatened by the entity's financial performance?</p>	<ul style="list-style-type: none"> - Significant financial interests in the entity. - Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow. - Personal guarantees of debts of the entity. 		
<p>Is there excessive pressure on management or operating personnel to meet financial targets established (by sponsors), including sales or profitability incentive goals?</p>			
<p>Do other incentives or pressures exist?</p>			
<p>Does the existence of opportunity indicate an increased risk of fraudulent financial reporting?</p>			
<p>Do the attitudes of staff, or other conditions, exist which would enable staff to rationalize their actions, indicate an increase risk of fraudulent financial reporting?</p>			

Consider potential risks relating to misstatements arising from misappropriation of assets by employees or management.

Question (expand grouped cells for examples)	Answer	Potential risk(s) identified
Do incentives or pressures exist which increase the risk of fraudulent misappropriation of assets?		
Does the existence of opportunity indicate an increased risk of fraudulent misappropriation of assets?		
Do the attitudes of staff, or do conditions exist which would enable staff to rationalize their actions, indicate an increase risk of fraudulent misappropriation of assets?		

Consider potential risks of irregularities arising from misappropriation of assets by individuals or groups external to the entity.

Question (expand grouped cells for examples)	Indicators	Answer	Potential risk(s) identified
Does the existence of opportunity indicate an increased risk of misappropriation of assets by individuals or groups external to the entity?			
Are we aware of any characteristics or circumstances that may increase the susceptibility of assets to misappropriation?	<ul style="list-style-type: none"> - Complex legislative framework or requirements including those covering taxes and benefits. - The entity administer a complex series of schemes or processes which could be subject to manipulation or 		

	misunderstanding.		
Is the internal control over designed to prevent or detect the misappropriation of assets inadequate?	<ul style="list-style-type: none"> - The entity's processing caseload due to significant increases in the levels of business. - As part of the controls system the entity is required to operate a pre-screening or eligibility checks, e.g. credit referencing, companies house checks, financial standing / track record enquiries. - Service delivery systems have been changed to facilitate improved service delivery speeds. - Functions performing control activities have been cut back, e.g. due to budget constraints. 		
Are there other factors indicating that opportunities exist?			
Do incentives exist which increase the risk of misappropriation of assets by individuals or groups external to the entity?	<ul style="list-style-type: none"> - The entity is involved in delivering services or benefits directly to individuals who derive a personal benefit from it. - Entitlement to a benefit or credit scheme also provide the individual with passported entitlements to other benefits. 		

Is there a history or expectation of misappropriation of assets by individuals or groups external to the entity?

- The entity's estimates of losses arising from external fraud are high or have increased.
- The C&AG's audit opinion on regularity has been qualified in the past in respect of external fraud and misappropriations.
- There has been a substantial increase in caseload services or benefits delivered by the entity which is not consistent with changes in the external environment.

Revenue Stream

Audit Emphasis Testing Plan

Explanatory Notes

1. **Purpose of template:** This template supports our revenue audit of the key processes in place to secure an effective check on the assessment, collection and proper allocation of revenue. The purpose of the template is to articulate clearly for each tax stream the identified significant risks, audit response and audit results.
2. **Scope:** The template is divided into five sections:
 - (i) Risks - identifies the significant risks associated with the tax stream,
 - (ii) Controls - identifies the control objective, the control itself and any associated supporting information,
 - (iii) Audit Response - specifies the work we will do to evaluate the design and assess the operation of the control and who will undertake it,
 - (iv) Audit Results - highlights the conclusions of controls audit work,
 - (v) Specifies substantive work to perform to support audit conclusions.

Areas of Audit Emphasis Testing Plan

Significant Risk	Mitigating Controls					Audit Results			Substantive Procedure
	Control Objective	Description	Design Evaluation	Control Operation	File Ref	Design Effective?	Operation Effective?	File Ref	
								-	

Revenue Stream Process - Testing Plan

Revenue Stream:

Explanatory Notes

1. **Purpose of template:** This template supports our revenue audit of the key processes in place to secure an effective check on the assessment, collection and proper allocation of revenue. The purpose of the template is to articulate clearly for each key revenue stream process, our risk assessment, identified controls and our audit response to the observed risks.
2. **Scope:** The template is divided into 3 sections:
 - (i) Risks - sets out the main risks associated with the process;
 - (ii) Controls - identifies the control objective, the control itself and associated key information relevant to the identified control;
 - (iii) Audit Response - specifies the work we will do to gain assurance over the audit area.

1. Registrations

Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation Evaluation	D&I adequate?	Control Operation	Control effective?	Substantive Procedure

2. Returns and Assessments

Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation Evaluation	D&I adequate?	Control Operation	Control effective?	Substantive Procedure

3. Receipts and Allocations

Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation Evaluation	D&I adequate?	Control Operation	Control effective?	Substantive Procedure

4. Repayments

Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation Evaluation	D&I adequate?	Control Operation	Control effective?	Substantive Procedure

REVENUE AUDIT PLANNING CHECKLIST

Instructions

This checklist is for recording the progress and completion of the audit plan.

In the table below, document the date each planning activity task has been completed, who has completed it, any relevant notes (including conclusions) and attach any relevant papers which are necessary.

Activity	Initials	Date completed or N/A	Notes	Link/attachment
A1: Preliminary Engagement Activities Perform procedures to ensure that we can perform the audit.				
1) Engagement Activities: New clients	For all new audits, ensure that: <ul style="list-style-type: none"> • the Director General's consideration of whether the audit should be accepted is documented; and/or • the C&AG has approved acceptance of the engagement. 			
2) Delegated Authority	Consider whether delegated signature of the certificate/audit report is appropriate for the audit, and if so consider whether the relevant C&AG approval has been granted, if necessary.			
3) Engagement Activities: Continuing clients	For all continuing clients update the Engagement Risk Management Checklist.			
4) Letter of Engagement/ Understanding	Issue a revised letter of engagement / understanding. Ensure a signed copy of the letter of engagement / understanding is held on file.			

<p>5) EQCR</p>	<p>Consider whether the audit requires an External Quality Control Review and request that one is appointed if necessary.</p>			<p>EQCR required where:</p> <ul style="list-style-type: none"> • the Director General expects at the planning stage that there will be a qualification to the opinion; • the Director General expects to remove a long standing qualification, i.e. where the accounts have been qualified in respect of more than one period for a recurring reason; • the largest and most complex accounts; or • where there are unusual circumstances or risks in an audit. 	
	<p>A2: Overall Audit Strategy</p> <p>The Engagement Director General must establish an Overall Audit Strategy</p>				
<p>6) Client Planning Enquiries</p>	<p>Make enquiries of the key client contact(s) relevant to the forthcoming audit.</p>				

7) Materiality	Determine materiality and performance materiality.				Materiality Determination MANDATORY
8) Overall Audit Strategy	<p>Hold an overall audit strategy meeting, which must be attended by the Director General and Director (others at the invitation of the Director General). This meeting may be led by a facilitator but if not, will be led by the Director General.</p> <p>Record the Overall Audit Strategy and record here the Director General's approval of the Overall Audit Strategy.</p>				OAS MANDATORY
9) Risk Assessment Procedures	As part of the Overall Audit Strategy, determine and document what further Risk Assessment Procedures are required.				OAS MANDATORY
A3: Risk Assessment Procedures					
10) Inquiries	<p>Perform required inquiries of:</p> <ol style="list-style-type: none"> 1. Management; 2. Internal audit; and 3. Others as appropriate. 				

11) Evaluate the work of IA	<p>Understand the work that Internal Audit plans to perform, and any findings to date, to identify whether there are opportunities to use their work, or whether they are indicative of further significant risks</p> <ol style="list-style-type: none"> 1. Review the Internal Audit Plan for the year and any relevant reports currently available. 2. Document our consideration of the plan and the reports issued so far. 				
12) Understanding the Entity and its Environment	<p>Update our understanding of the entity and its environment, sufficiently to inform our risk assessment.</p>				MANDATORY
13) Understanding the Entity's Internal Control	<p>Update our understanding of the entity's internal control, sufficiently to inform our risk assessment.</p> <p>This may include updating the system notes of the client's <u>key</u> financial reporting and related systems.</p>				MANDATORY
14) Fraud Risks	<p>Consider whether there are any further indications of significant risks of fraud.</p>				MANDATORY
15) Conclude on new risks	<p>Conclude as to whether our risk assessment procedures have identified any further significant risks or changed our assessment of risks identified in the Overall Audit Strategy.</p> <p>If any changes are required to the Overall Audit</p>				

	Strategy, these should be included and a revised version filed following discussion and approval by the Director General. This may be done by updating the original form and highlighting changes on that document. However, if there are many changes, a separate document may be required to log each amendment to the Overall Audit Strategy and ensure it is approved by the Director General.				
A4: The Audit Plan					
Document and agree the planned responses to significant risks and the planned responses to areas not affected by significant risks.					
16) Audit Plan	Produce an audit plan to respond to the significant risks (in the Area of Audit Emphasis Test Plan) and the audit areas not affected by significant risks the Revenue Audit Test Plan.				MANDATORY
17) Director General's Approval of Plan	Confirm the Engagement Director General's approval of the planned procedures which are included in the Area of audit emphasis and Revenue Audit test plans.				
18) EQCR Review of the Audit Plan	Confirm External Quality Control Review of the audit plan, attach a copy of the EQCR's comments and their approval of the plan.				

A5: Administrative Matters					
19) Admin	<p>Complete the following administrative tasks:</p> <ul style="list-style-type: none"> • Establish a budget, • Where relevant, agree a fee with the client, • Complete the planning section of a personal data processing form, • Ensure that the client is aware of the OCAG policy on personal data handling, • A privacy impact assessment has been completed where appropriate, • Document the declarations of team members' independence. 				
20) Team Briefing	<p>Hold a team briefing for all team members who did not attend the Overall Audit Strategy meeting. The briefing should include discussion of the risk of material misstatement including those due to fraud.</p> <p>If not all team members are able to attend (including specialists in the engagement team), document how the Director General has determined the matters discussed should be communicated to those not attending.</p>				

ISSUES LOG AS AT [Date]

No	Date Raised	Audit Area / Subject	Issue / Recommendation	Latest Action Taken / Actions proposed	LRAD contact	Audited Entity Contact	Status

EXECUTIVE SUMMARY
AUDIT REPORT

Annex 9



Comptroller and
Auditor General
of Bangladesh

Audit of **[insert details of activities being audited]** for the year **[insert year]**

[INSERT NAME OF RELEVANT DIRECTORATE]

EXECUTIVE SUMMARY

Handling






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<p>Audit Timetable</p> <p>Field audit [insert date] to [insert date]</p> <p>Draft report issued [insert date]</p> <p>Management response [insert date]</p> <p>Final report issued [insert date]</p>	<p>Audit carried out by:</p> <p>[insert name]</p> <p>(Deputy Director and Team Leader, [insert name] audit directorate)</p> <p>Team members:</p> <ul style="list-style-type: none"> 1 [Insert name] Assistant Director 3 [Insert name] Audit & Accounts Officer 4 [Insert name] S A S Superintendent 5 [Insert name] Auditor <p>[Job titles are examples only]</p> <p>Work supervised by:</p> <p>[insert name], Director General. [insert name]</p> <p>Audit Directorate</p>	<p>Distribution:</p> <p>Secretary,</p> <p>[insert name] Division Ministry of [insert name]</p> <p>Deputy Controller and Auditor General, Audit and reporting</p>
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EXECUTIVE SUMMARY

Purpose & Background	Audit Scope
<p>Purpose</p> <p>The C&AG conducts audits under Article 128(1) of the Constitution of Bangladesh which states 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 on by the Auditor-General and for that purpose he or any person authorized by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the Republic.</p> <p>Additionally, section 5(1) the C&AG (Additional Functions) Act, 1974 empowers the C&AG to audit the revenue and expenditure of statutory public authorities, public enterprises and local authorities</p> <p>Consequently, the C&AG is responsible for reporting whether in his opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the relevant regulations.</p> <p>Background</p> <p>[Insert brief details of organisation, activities and legislative details being audited.]</p>	<p>The objective of this audit was to form an opinion on the [insert name of entity and activities being audited]’s compliance with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit] for the [insert period covered] and conclude if:</p> <ul style="list-style-type: none"> • in all material respects, [insert name of entity being audited] complies with applicable laws, rules and regulations. <p>*INSERT IF RELEVANT The scope of the audit did not include [insert details, for example, review of controls relevant to IT systems.]</p>

EXECUTIVE SUMMARY

Overall Conclusion - COMPLIANCE		Meaning of Overall Conclusion
	Green : Unqualified opinion	[Insert details of activities being audited, for example, use of project -funds by an entity] is in compliance, in all material respects, with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit, for example : the terms of the funding agreement dated xx.xx.20XX].
	Amber : Qualified opinion - Disagreement	Except for the instance of non-compliance noted in the Basis for the Qualified Conclusion paragraph above, [insert name and activities of entity being audited] is in compliance, in all material respects, with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit].
	Amber : Qualified opinion - Scope limitation	Except for the possible effect of the instance of non-compliance noted in the Basis for the Qualified Conclusion paragraph above, [insert name of entity and activities being audited] is in compliance, in all material respects, with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit].
	Red : Adverse opinion	Because of the significance of the matter noted in the Basis for the Adverse Conclusion paragraph above, [insert name and activities of entity being audited] is not in compliance, in all material respects, with the terms of [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit].
	Red : Disclaimer of opinion	Because of the significance of the matter noted in the basis for the Disclaimer paragraph above, I am unable to, and therefore, do not express a conclusion on [insert name and activities of entity being audited] 's compliance with of [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit].

EXECUTIVE SUMMARY

The People's Republic of Bangladesh

[Insert name of entity being audited]

Audit Certificate [insert period end date]

REPORT ON [INSERT DETAILS OF ENTITY BEING AUDITED]'s COMPLIANCE WITH THE TERMS OF [INSERT DETAILS OF UNDERLYING RULES, LAWS AND REGULATIONS APPLICABLE TO THE SCOPE OF THE COMPLIANCE AUDIT]

I have audited [insert name of entity being audited]'s compliance with the [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit] as set out in the [insert details of any accounting framework, for example project accounts, and period end date only if applicable.] under Article 128(1) of the constitution of Bangladesh, and section 5(1) of the Comptroller and Auditor General (Additional Functions Act), 1974.

Management's responsibility

According to [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit], the management of [insert name of entity being audited] is responsible for [insert details of management responsibilities, for example, maintaining internal controls that are adequate to ensure compliance with underlying rules, laws and regulations].

Auditor's Responsibility

My responsibility is to express a conclusion on [insert name of entity being audited]'s compliance with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit] based on my audit. My work was conducted in accordance with International Standards of the Supreme Audit Institutions (ISSAIs). Those standards require that I comply with ethical requirements and plan and perform the audit so as to obtain reasonable assurance as to whether [insert name of entity being audited] is in compliance with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit].

Scope of the audit

An audit involves performing procedures to obtain sufficient appropriate evidence to support my conclusion. The procedures performed depend on the auditor's professional judgement, including assessing the risk of material non-compliance, whether due to fraud or error. The audit procedures performed are those I believe are appropriate in the circumstances. I believe that the audit evidence gathered is sufficient and appropriate to provide the basis for my conclusion.

INSERT NAME OF DIRECTORATE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL

EXECUTIVE SUMMARY

Basis for opinion

Qualified opinion –Disagreement [Include description and quantification of the disagreement for example not being in compliance with terms of a rental agreement – effect of this for example, fines and penalties arising, can be quantified but are not material]

Qualified opinion -Scope limitation [Include description and quantification of the disagreement for example making grants to bodies outside the entities remit – amounts cannot be quantified]

Adverse opinion [Include description and quantification of the matter that led to the adverse opinion for example, not being in compliance with terms of a rental agreement – effect of this for example, fines and penalties arising, can be quantified but are material]

Disclaimer of opinion [Include description and quantification of the matter that led to the disclaimer of opinion for example, for example, inability to obtain any evidence regarding compliance with a building code to not being able to enter unsafe buildings for a material proportion of buildings in the scope.]

Opinion

Based on the audit work performed, I found that [insert name of entity being audited] is in compliance, in all material respects, with [insert details of the underlying rules, laws and regulations applicable to the scope of the compliance audit].

[See narrative in the traffic light table above for opinions to be included when the report is modified.]

[Insert name of Director General]

Director General, [Insert name of Audit Directorate]

[Insert date]

DETAILED FINDINGS AND RECOMMENDATIONS

FINDING 1.

Observation:

Cause:

Effect:

Recommendation 1:

Client response to Recommendation 1:

EXAMPLES ON THE USE OF REVENUE AUDIT MANUAL TEMPLATES

Annex 1 of Report

Example1 – Using Overall Audit Strategy Template (Audit of Registration Agency)

This document is intended as a stand-alone document which sets our overarching audit strategy for each tax stream. It can be used to frame an agenda of questions for the initial planning meeting between the Engagement Director and Engagement Manager to set the high level strategy. It can also be used to record the decisions reached about the **scope, timing and direction** of the audit and how the more detailed audit plan should be developed.³

The Overall Audit Strategy should identify from our existing understanding the significant risks for the audit, and the risk assessment procedures required refreshing, extending or confirming our existing understanding and identifying any further risks for our audit. For the purposes of our Revenue audit, a Significant Risk is considered to be an identified and assessed risk around the revenue departments' regulation and procedure for revenue streams that, in the auditor's judgment, requires special audit consideration.

The form should not be used to replicate information from detailed planning documentation – it should be focused on only the key information and issues for the audit.

A. What do we understand about the tax stream?

1. What is the nature of the revenue stream?

The agency has responsibility for registering properties across the country and has established sub-registry offices across the country for this purpose. Each sub-registry office has responsibility for assessing and collecting applicable fees and taxes on properties registered. Applicable fees and taxes include the Registration fees, Stamp Duty, VAT, etc.

2. What are the key elements of the general framework of authorities for the revenue stream?
Is there a risk of irregular or novel and contentious activities?

³ Considerations for establishing the Overall Audit Strategy are included in the [Appendix to ISA 300](#), and examples of fraud risk factors which may be relevant to consider are included in the [Appendices to ISA 240](#).

Fees and taxes (including rates) to be collected by the sub-registry offices are prescribed by law. Associated rates of fees and taxes (stamp duty, VAT, etc.) are also prescribed by law, therefore, fees and taxes collected outside those authorised for the agency or outside the rates prescribed will be irregular.

From previous engagements, the risk of engaging in activities outside those authorised or the use of non-approved rates is low.

3. Have there been any significant changes in the period, including new statutory requirements that impact the tax stream?

Applicable rates are revised yearly and the rates applicable to the current audit is contained in SRO No. 216-Law/Income Tax/2014 Date: 18/08/2014 (Amendment of change in Income Tax Rate)

4. What are the key performance measures around the tax stream that might indicate a risk to the effective operation of the tax stream?

5. What issues were identified in the prior year management letter, and are we aware of any progress in resolving these issues?

In May 2015, the compliance audit team found in some sub-registry offices undervaluation due to wrong (which may be deliberate) categorisation of Land resulting in loss of revenue to government. (SIGNIFICANT RISK)

6. What else do we understand from other audit work relevant to the entity?

See response in (5) above)

B. What do we understand about the tax stream's internal controls?

7. What are the key features of our understanding of the revenue stream's internal control?

(This may cover: the "tone from the top" and quality of the overall control environment; the Line of Business risk assessment processes and the output of these processes; the Line of Business information systems and processes; and how the Line of Business monitors its internal control systems)

There are 494 sub-registry offices across the country and each headed by a sub-registrar. Each sub-registry is responsible for processing property registration applications and assessing and collecting applicable revenue within its jurisdiction. The sub-registrars report to the District registrars having responsibility for their respective sub-registry offices. There are 61 sub-registry offices, which are further grouped under 7 divisions, with oversight functions carried out by 6 Inspectorate Offices. The Inspectorate Offices and the District Registrars report to the Inspector General of Registration (IGR) – The head of the Agency.

8. Are there any concerns about the processes and controls in place to ensure the regularity of activities? Are there are concerns about propriety of activities?

No – The district Registrars and the Inspectorate offices are required to pay regular visits to the sub-registry offices under their jurisdictions. At the end of each visit the District registrar or the Inspector is required to produce a report of the visit and forwarded to the head-office. The multiple layers of controls ensure that the activities of the sub-registry offices are monitored sufficiently by the head office.

9. Do the revenue stream's internal controls support the reliable processing of financial information?

Yes – The sub-registrar is required to confirm that appropriate fees and taxes have been paid before the property is registered. The district registrar or the inspectorate office during their visit is required to perform tests to confirm that this key task is being correctly performed by the respective sub-registrars.

10. Do we plan to rely on tests of controls as part of our audit approach?

Yes – where we have identified controls that will make the audit efficient.

11. If we are planning on relying on high level controls for assurance, what procedures will we perform to evidence that the controls are sufficiently precise to mitigate the risk of material misstatement in each area we plan to rely upon them?

We will evaluate the design and implementation of controls in place at the sub-registry office that over processing of registration applications, including the assessment and collection of applicable fees and taxes. Where adequate we perform test of operating effectiveness of these controls before placing reliance on them.

12. Are we planning to rely on controls which are dependent upon the IT systems? If so, how will we gain assurance over the design, implementation and operation of IT controls?

No – Currently systems at the Agency (Head office, Inspectorates, District and Sub-registry offices are manual. Transactions are recorded using manual registers and other manual books of record keeping.

13. What is our understanding about internal audit’s role in the revenue stream and its relevance to the Revenue Audit?

The internal audit of the revenue stream is performed by the ‘Inspection Unit’ of the Directorate. According to the Operating Manual of the Directorate, the Inspection Unit are required to visit sub-registry offices at regular intervals and report findings to the head office.

Revenue audit will check to confirm these visits are carried out as required and also review the inspection reports to inform our audit.

14. Do we plan to rely on the work of internal audit? What procedures do we need to perform to earn the right to rely on their work?

We will review the reports of the Inspection Unit to inform our audit.

C. What is material for our Revenue audit?

15. What do we consider as material in the context of our Revenue Audit?

Quantitatively and per our Revenue Audit Manual, we will set materiality at 1% of the total revenue of the directorate. Based on our knowledge and experience of the revenue stream, materiality threshold of 1% of revenue appears appropriate

However, given that the audit of revenue is more of process audit, we will also give regard to materiality from qualitative stand point – i.e. instances of non-compliance which may have no direct quantitative impact but may result in failure of the directorate to achieve its objectives.

16. How will issues arising during our revenue audit be evaluated and fed into our overall revenue audit conclusion?

All issues identified during each audit visit will be recorded in the 'issues log' and discussed with the client during and at the end of each visit.

All unresolved issues will feed our overall audit conclusion.

D. Other issues

17. Do we plan to rely on the work of management's experts? What procedures do we need to perform to earn the right to rely on their work?

Currently we have not identified any area in our audit that may require placing reliance on the work of management's experts. If, however, such situation should arise, our audit approach will be updated to ensure our work for this area complies with the requirement of ISSAI 1620 – "Using the work of an auditor's expert".

18. Do we plan to rely on the work of experts? What procedures do we need to perform to earn the right to rely on their work?

Currently we have not identified any area in our audit that may require placing reliance on the work of management experts. If, however, such situation should arise, our audit approach will be updated to ensure our work for this area complies with the requirement of ISSAI 1620 – “Using the work of an auditor’s expert”.

19. Are there any concerns with respect to laws and regulations? What procedures do we need to perform in respect of this?

No – The applicable laws are very clear as to the responsibilities of the Directorate regarding the revenue streams.

20. Are there any issues around our independence which should be considered in planning the engagement?

(e.g. safeguards we should have in place due to specific independence threats, instances of self-review threats)

No – we have consulted and confirmed that no members of the audit team have dealings with the directorate that may affect our independence on this audit.

21. Are there any other issues which should be considered in planning or performing the engagement?

(e.g. security clearances, audit protocols, client liaison contacts, etc.)

The Secretary, Ministry of Law, Justice and Parliamentary affairs is the Principal Accounting Officer of the Ministry. The letter of engagement should, therefore, be directed to the Secretary. Subsequently, meeting should be arranged with Inspector General of Registration (IGR), the head of the directorate for the commencement of the audit.

E. What are the key issues for the Revenue Stream from the Client’s perspective?

Understanding the Department’s key concerns for the tax stream can assist in identifying significant risks to the audit which we were otherwise unaware of. It may also, identify ways, in the context of an efficient audit approach, of adding value by providing more detailed reporting of our findings or through reasonable extensions of our procedures to address their concerns.

22. Who are the key Departmental personnel, and what relationship do we have with them?

Name	Role	Comments
Mr. ABC	Secretary, Ministry of Law, Justice and Parliamentary affairs – Principal Accounting officer for the Registry Directorate	The Secretary has recently assumed office and we have had no previous engagements with the new secretary (NB – Remember this just an example) To arrange meeting with the Secretary.
Mr. DEF	Inspector General of Registration	The Inspector General of Registration has been in post for over 5 years and over the years we had the opportunity of engaging with him on a number of audits conducted in his Agency. In all our previous dealings, we have always sought for and received his co-operation for the smooth conduct of our audits. To arrange meeting with the IGR as part of pre-planning activities.
Mr. GHI	Head of Sub-registry Inspection Unit	No previous engagements, however, for the current audit, we will meet with Mr GHI to further understand the work of the Inspection Unit.

23. What concerns Departmental Senior Management about the Revenue Stream?

To be confirmed at the meeting with the Senior Management of the Agency.

24. What concerns have third party stakeholders raised about the Revenue Stream?

No concerns by 3rd party stakeholders have come to our notice. We will, however, continue to on the look-out and if any concerns should be raised, we will take into account for our audit.

25. What are the expectations of key client personnel from the audit and the Local and Revenue Audit Directorate generally?

To confirm with the client at meetings with client personnel.

The LRAD expects the audit to be efficient without compromising on assurances. It also expects findings and recommendations are robustly supported for smooth clearance and acceptance by the client.

26. What actions, if any, in our audit approach would address client or stakeholder concerns and expectations, or otherwise add value? How can we promote beneficial change in the entity's administration of the revenue stream?

F. What are the areas of audit emphasis for our audit?

27. What are significant risks, including risks of fraud that affects our approach at the Overall Tax Stream level? (e.g. implementation of a new system). What are our planned responses?

Risk	Controls which address the risk and planned extent of controls work (at minimum D&I)	Planned Overall Responses
<p>Wrong categorisation of Land resulting in undervaluation of land:</p> <p>The Ministry of land holds records for determining the property valuation and valuation in the title deed submitted for property registration should have been based on the details held by the ministry of Land. Our preliminary findings indicate that the valuation in the title deeds are usually lower than as prescribed by the Ministry of land resulting in lower fees and taxes (loss of Revenue). We also established that this anomaly is not spotted at the sub-registry offices because the sub-registry offices do not have access to the of records pf the Ministry of land (The law requires the Ministry of Land to send particulars of land to the sub-registry offices but this is currently not done) .</p>	<p>Monitoring of assessment by a higher ranking officer to establish and confirm that correct valuation has been applied in arriving at applicable fees and taxes.</p>	<p>For a sample of valuation used in arriving at registration, perform test, by comparison with categorisation issued by the Ministry of Land, to establish that correct valuation has been used in the deed submitted for the registration of the property.</p>

28. What are the specific risks, including risks of fraud, affecting specific stages in the tax stream end-to-end process? What is our planned response?

Specific Risk	Audit area(s) affected	Assertion(s) affected	Controls which address the risk and planned extent of controls work (at minimum D&I)	Planned audit response

29. If we have not identified a specific risk of fraud in revenue recognition, how will we rebut the presumption of this risk in ISA 240?

There is a presumed risk of fraud in revenue recognition but rebuttable as we are not aware of any pressure on the management to perform or any other incentives or triggers to manipulate revenue. We are content that it is appropriate to rebut the presumed risk of fraud in income recognition for the revenue stream.

The engagement team should transfer the significant risks identified to the significant risks testing plan. This list should be updated if any additional significant risks are identified, and the approach agreed with the director and director general.

G. What other risk factors have we identified?

(Risk Factors are either:

- *risks of material issues which are addressed through standard planned testing and so do not require any additional specific audit response; or*
- *potential risks which have been assessed as not representing a significant issue and so do not require an audit response.*

30. What other risk factors have we identified that the engagement team should consider as the audit progresses?

This consideration will normally not involve additional procedures, but represents part of maintaining an attitude of professional scepticism. The list should include fraud risk factors (ISA 240.11 "events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.") – However, any risks of significant fraud should be treated as significant risks...

Risk Factor	Pervasive / Assertions affected	Comments on why considered only a Risk Factor	Additional Procedures required (if any beyond consideration by the team of its potential impact as the audit progresses)
Documents are registered for free or at an unauthorised discount.	Assessment	Currently no indication so suggest that this is a risk hence no additional audit response other than the standard audit procedure required.	Additional tests will be developed should this progress from risk factor to risk.
Changes in authorised registration fees and other applicable fees and taxes are not effectively communicated resulting in revenue loss.	Assessment	Currently no indication so suggest that this is a risk hence no additional audit response other than the standard audit procedure required.	Additional tests will be developed should this progress from risk factor to risk.
Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period and cash receipts are not banked on a timely basis or amount in bank different from cashbook balance.	Receipt and allocation	Currently no indication so suggest that this is a risk hence no additional audit response other than the standard audit procedure required.	Additional tests will be developed should this progress from risk factor to risk.

The engagement team should transfer the other risk factors identified to the audit area testing plan. This list should be updated if any additional risk factors are identified during the audit, and their assessment as a risk factor rather than significant risk agreed with the director and manager.

H. What risk assessment procedures are required?

This section would be expected to be completed on a “by exception” basis

We will perform risk assessment procedures to identify and assess the risks of significant issues. Where we are familiar with the entity, we may be able to use information obtained from our previous experience with the entity and from previous audits, subject to the

requirement in ISA 315.9 to, “determine whether changes have occurred since the previous audit that may affect its relevance to the current audit.” This may be by inquiry alone, or, where appropriate, by performance of other appropriate audit procedures.

Step in the Risk Assessment Procedures	Planned approach
Preliminary Analytical Procedures	
Preliminary AP – Revenue	<p>Audit team to obtain financial data by sub-registry offices for the current and the preceding years and discuss significant movements with client.</p> <p>Data analysis to be performed and results to be discussed at a subsequent meeting with the client.</p>
Understanding the Tax Stream	
Legislation & Regulations	The template to be completed by audit team through searches – internet, applicable government records and engagement with key staff of the directorate.
Key Information	To be completed by audit team through searches– internet, applicable government records and engagement with key staff of the directorate.
Governance and Risk Management	To be completed by audit team through searches– internet, applicable government records and engagement with key staff of the directorate.
Monitoring and Performance	To be completed by audit team through searches– internet, applicable government records and engagement with key staff of the directorate.
Information Systems	To be completed by audit team through engagement with key staff of the directorate.
<u>Required planning inquiries</u>	
Management	<i>Meeting arranged with Inspector General for Registration (IGR) on xx xx xxxx.</i>

Step in the Risk Assessment Procedures	Planned approach
Those charged with Governance	<i>Meeting arranged with the Secretary on xx xx xxxx</i>
Internal Audit	<i>Meeting arranged with Head of Inspection Unit on xx xx xxx</i>
Others	
<u>Fraud Risk assessment</u>	
Identify any fraud risk from our planning not already identified	<p><i>Audit team to identify the appropriate person within the Directorate to engage within the completion of the Fraud Risk assessment template.</i></p> <p><i>The template will be completed as early as possible in the planning process.</i></p>
<u>Other risk assessment procedures</u>	
Give details	

I. What else should we consider in planning our audit approach?

(excluding our response to Significant Risks, which are discussed above)

This section would be expected to be completed on a “by exception” basis

Are there other aspects to our approach to testing the tax stream that should be specified as part of the Overall Audit Strategy?

(comment by exception where the Director wishes to specify an approach – e.g. specific tests over an aspect of the tax stream end to end process not already identified in this form.

J. What engagement team do we need?

Do we need to involve specialists in any areas of the engagement?

Name	Role	Relevant skills knowledge and experience	Years on engagement
Mr. Azad Dhaka Deputy Director, Local & Revenue Audit Directorate	Team Leader	Experienced Auditor – 5 years at LRAD	3 years
Mr. Hossain Chittagong AAO, Local & Revenue Audit Directorate	Member	Experienced Auditor – 3 years at LRAD	1 year
Mr. Jay Cox-Bazar, AAO, Local & Revenue Audit Directorate	Member	Experienced Auditor – 10 years at LRAD	4 Years
Mr. Golam Bogra Super-in-Charge, Local & Revenue Audit Directorate	Member	Experienced Auditor – recently moved to LRAD from Mission Audit Directorate after 10 years.	0 Years
Mr. Kazi Shyllet Auditor, Local & Revenue Audit Directorate	Member	Experienced Auditor – 2 years at LRAD	2 Years

K. What is the reporting timetable?

Date	Key stage of the audit
June-Jul	Planning
Aug- Sept	Fieldwork
November	Finalisation and reporting

Annex 2 of the Report

Example 2– USING UNDERSTANDING THE REVENUE STREAM TEMPLATE

(AUDIT OF REGISTRATION AGENCY)

The purpose of this form is to document our understanding of the Revenue stream (**both its environment and internal control**). Where appropriate, we should reference to supporting documents included in standing information or elsewhere in the file.

The questions within the form cover the areas where we typically need an understanding to be able to identify and assess risks of significant weaknesses in control at the revenue stream level, and so plan and perform an effective audit.

This understanding is part of the standing information on the file. Each year we should perform appropriate Risk Assessment Procedures, as set out in the Overall Tax Stream Audit Strategy, to confirm or update our understanding. Where the director or Director General expects the standing information will remain current, we will perform procedures to determine that this information remains relevant. These procedures should consist of inquiry and, where appropriate, observation and inspection.

Where changes are needed to the standing information, we should obtain appropriate evidence for the changes and document what that evidence is – depending upon what the update is, this may be through inquiry, examination of documentation, observation, or other means.

If, having confirmed/updated our understanding of the tax stream, we have identified a potential risk of significant weaknesses in control, this should be discussed with the Engagement Director & Engagement Director General and clearly concluded upon.

(1) Legislation and Regulations

<u>Legislation and Regulations</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>1.1 What is the authorising legislation for the entity? What activities does it authorise?</p>	<p>The Registration Act, 1908 & time to time its amendments is the authorising legislation for this organisation</p> <p>The authorise activities are:-</p> <ol style="list-style-type: none"> 1. Prevention and control of registration is the main activity of Directorate of Registration (DR) & other activities are: 2. Registration of immovable properties; 3. Licensing; 4. Monitoring and inspection of District & Thana level sub-registry offices 5. Collection of revenue. 	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>
<p>1.2 What are the regulations issued under authorising legislation? How do they affect the entity's operations?</p>	<ol style="list-style-type: none"> 1. The Registration Act, 1908 2. The Stamp Act, 1899 3. The Transfer of Property Act, 1882 4. The State Acquisition & Tenancy Act, 1950 5. The Income Tax Ordinance, 1984 	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>

<u>Legislation and Regulations</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
	<p>6. Value Added Tax Act,1991 7. The Contract Act, 1872 8. The Basic Democracy Order, 1959 9. The Powers-of-Attorney Act, 1882.</p> <p>Under these rules/regulations IGR provides Registration, License, Inspection, Monitoring etc. These are issued after scrutinizing the completed applications and investigating detailed related matters.</p>	
1.3 Are there specific authorising legislation for the revenue stream and what are the regulations issued under authorising legislation?	The Registration Act, 1908 imposes responsibility on the directorate for the imposition of applicable fees and taxes on registration applications.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.
1.4 What significant changes have taken place in authorising legislation & regulations since the prior year?	SRO No. 216-Law/Income Tax/2014 Date:18/08/2014 (Amendment of Change in Income Tax Rate)	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.

Legislation and Regulations

	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
1.5 Are any significant changes to legislation & regulations anticipated during the current year?	None anticipated.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.
1.6 What does the client need the Ministry of Finance approval for? What does the client have delegated authority from Ministry of Finance for?	The Inspector General of Registration (IGR), Directorate of Registration (DR) is authorized by the Registration Act, 1908 to incur expenditure from his budgeted amount which relates to his entity. According to the Act 1908, & Delegation of Financial Power, 2010 the Inspector General of Registration may, by regulation or by general or special order, whether absolutely or conditionally, delegate any of its power to subordinate officials.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.
1.7 Are there other elements of the legal and regulatory framework applicable to the entity, which affect its operations? How does it comply with that framework?	<p>All Acts, Rules, Regulations, Polices etc. in relation to immovable properties registration there have affect on the activities of the entity.</p> <ul style="list-style-type: none"> • S R O (Statutory Regulatory Order) of NBR, Ministry of Finance & other instructions issued by the relevant ministry time to time; • Miscellaneous 	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.

Legislation and Regulations

	<p align="center">Standing Information</p>	<p align="center">Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant</p>
<p>1.8 What is the nature of the entity's relationship with its sponsoring (where applicable) Department?</p>	<p>The nature of the entity's relationship with the sponsoring Department (Ministry of Law, Justice and Parliamentary affairs) is:</p> <p>Ministry of Law, Justice and Parliamentary Affairs is the controlling Ministry of Directorate of Registration (DR). Various legitimate operations are decided in consultation with the Ministry.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>
<p>1.9 What aspects of the political environment affect the entity's operations?</p>	<p>Except the changes in the government policies there is no affect there for political environment.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>
<p>1.10 What aspects of the business environment affect the entity's operations?</p>	<p>None identified.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>

Legislation and Regulations

	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
1.11 How might future events affect the entity?	Currently no future events having effect on the entity identified.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.
1.12 Are there any other factors to consider? Consider any other external factors that may influence the business, operations or financial reporting of the client.	None identified.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.

(2) Key Information & understanding the nature of the entity and its operations

<u>Key Information</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>2.1 What is the nature of the entity's operations? To understand the context within which the entity generates revenue.</p>	<p>The nature of the entity's operations are:</p> <ul style="list-style-type: none"> I. Registration of immovable properties under the registration Act, 1908 & it's amendments time to time; II. Collection of Revenue. 	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>
<p>2.2 What are the entity's ownership and governance structures? (To understand the overall governance arrangement for the entity.)</p>	<p>The Entity is owned by the government under the Ministry of Law, Justice and Parliamentary Affairs. Inspector General of Registration (IGR) of Directorate of Registration (DR) performs his duties as per rules & regulations formulated by the govt.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>

<u>Key Information</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>2.3 What is the nature of the Revenue Stream?</p> <p>Provide a summary of the key characteristics of the revenue, supported by details of the end to end 'whole of revenue' processes (Provide links to relevant supporting documentation e.g. revenue stream briefing document & revenue stream process maps.)</p> <p>Very Important – Where different discrete activities are involved in the end to end</p>	<p>During registration all kinds of fees, Duty & Taxes are collected and deposited to Treasury by Sub- Registrar. Sub- Registrar provides monthly return to District Registrar and compilation of returns send by District Registrar to Inspector General of Registration (IGR).</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>

<u>Key Information</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>revenue process, the documentation here must clearly show end to end process for the discrete activities.</p>		
<p>2.4 Quantitative data</p> <p>Provide a summary of key quantitative data for the revenue stream (e.g. amounts collected, number of traders etc.) Link to relevant working papers as appropriate – over time, this information should provide us with details of movements in key data for each revenue stream.</p>	<p>Total revenue collected in 2014 amounted to TK 74 Bn (2013 TK 66 Bn). Breakdown by division is shown below:</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>

Key Information

Standing Information						Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
Division	Sum of Revenue 2013-14 TK	Sum of Revenue 2012-13 TK	Variance TK	% increase (Decrease)		
Borisa	2,747,282,080.00	2,146,531,449.00	600,750,631.00	28.00%		
Chittagong	17,825,196,544.00	13,022,476,903.00	4,802,719,641.00	37.00%		
Dhaka	36,047,466,013.67	27,103,966,575.00	8,943,499,438.67	33.00%		
Khulna	4,982,821,616.16	16,085,433,792.00	-11,102,612,175.84	-69.00%		
Rajshahi	9,907,847,826.36	6,505,119,041.00	3,402,728,785.36	52.00%		
Sylhet	2,593,228,364.00	2,131,679,999.00	461,548,365.00	22.00%		
Grand Total	74,103,842,444.19	66,995,207,759.00	7,108,634,685.19	11.00%		

<u>Key Information</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
	Per the summary, there is a significant drop in revenue in Khulna division. Our audit plan will be developed to further explore reason for this significant drop in revenue.	
<p>2.5 Future developments</p> <p>Provide details of any known future developments relating to the revenue stream. Ensure that the impact of developments on our revenue audit is considered and agreed as part of the audit planning process.</p>	None identified	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.

(2) Governance and Risk Management

<u>Governance and Risk Management</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>3.1 What governance arrangements are in place at the revenue stream level?</p> <p>Map the Client level governance arrangements for the revenue stream (include details of the management structure, committee structure, key responsibilities, etc.)</p> <p>Assess the design and implementation of governance arrangements and conclude whether there are any issues identified that need to be addressed in the Areas of Audit Emphasis Testing Plan and/or raised with the Client.</p>	<pre> graph TD SO[Sub Registrar] --> DR[District Registrar] DR --> IGR[IGR] IGR --> AO[Accounts Office] IGR --> ML[Ministry of Law] </pre> <p>There are 494 sub-registry offices across the country and each headed by a sub-registrar. Each sub-registry office is responsible for processing property registration applications and assessing and collecting applicable revenue within its jurisdiction. The sub-registrars report to the District registrars having responsibility for their</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>

<u>Governance and Risk Management</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
	<p>respective sub-registry offices. There are 61 sub-registry offices, which are further grouped under 7 divisions, with oversight functions carried out by 6 Inspectorate offices. The Inspectorate offices and the District Registrars report to the Inspector General of Registration (IGR) – The head of the Agency.</p> <p>The IGR reports to the Secretary, Ministry of Justice, Law and Parliamentary Affairs.</p>	
<p>3.2 What risk management arrangements are in place at the revenue stream level?</p> <p>(Enquire of the leadership of revenue generation team)</p> <p>Consider whether there are any issues identified that need to be addressed in the Audit Emphasis Testing Plan and/or raised with the entity.</p>	<p>Each sub-registrar has responsibility for his/her respective sub-registry office but accountable to the District registrar under whose jurisdiction the sub-registry office is located. As part of the oversight functions of the District registrars, regular visits are made to sub-registry offices with a view to identifying and addressing issues affecting or that may affect the sub-registry office – All district registrars perform this risk assessment across the sub-registry offices under their respective control.</p> <p>The district registrars after visiting sub-registry offices send reports to the head-office so that findings and recommendations can be followed up with the concerned sub-registry offices.</p> <p>Audit team was unable to obtain a sample of reports sent to the head office</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>

<u>Governance and Risk Management</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
	but will include an audit procedure step in the audit plan to review a sample of Reports sent by the District Registrars to the head-office.	
<p>3.3 What is the Entity's view on the key risks facing the Revenue Stream?</p> <p>Enquire of the Entity's management team as the management will be aware of the big issues facing the revenue section of their organisation.</p> <p>Consider the Client's assessment of risks facing the revenue stream. Are additional risks raised that need to be addressed in the Areas of Audit Emphasis Testing Plan? Have we identified risks in our own planning work the client has not considered and need to be raised them?</p>	<p>According to Mr. XXXX, the failure of the Ministry of Land to forward to the respective sub-registry offices monthly records of land valuation has made it difficult for the sub-registry offices to confirm the accuracy of property valuations in the title deeds that are submitted for property registration.</p> <p>He further stated that after several requests have been made by the Directorate and which have not been honoured by the Ministry of Land, the Directorate is currently unable to mitigate this risk –</p> <p>The risk of loss of revenue due to property undervaluation already identified as an AREA OF AUDIT EMPHASIS.</p>	<p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>

(4) Monitoring and Performance

<u>Monitoring and Performance</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>4.1 How do management monitor the performance of the revenue stream?</p> <p>What management information provided to revenue stream managers? What are the key factors that management monitor?</p>	<p>All revenue generation activities are carried out at the sub-registry offices. In addition to the activities of the respective sub-registrar, the district registrar having responsibility for the respective –sub-registry office is also charged with the responsibility of monitoring performance of the sub-registry office.</p> <p>The Inspectorate division also visits the sub-registry offices to monitor performance of the revenue stream.</p> <p>The head –office makes use of the activities of the District Registrars and the Inspectorate offices to monitor the activities of the sub-registry offices.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>
<p>4.2 How does management monitor the effectiveness of the entity’s internal control on revenue activities?</p> <p>What sources of information about the operation of controls are used in</p>	<p>Tests carried out by the District Registrars and the inspectorate office are used by the management to monitor the effectiveness of the internal control on the revenue activities. Reports, which include findings and recommendations are sent to the head office (office of the Inspector general of Registration) for follow up and other necessary action.</p>	<p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>

<u>Monitoring and Performance</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
monitoring and how reliable are they?	An audit procedure step will be included in the audit plan to review a sample of the reports with a view to establishing the effectiveness of these monitoring activities.	
4.3 What are the key messages arising from management’s monitoring of the Revenue Stream? Conclude whether the entity’s monitoring of the revenue stream reveals any risks that need to be addressed in the Areas of Audit Emphasis Testing Plan and/or raised with the Client.	The monitoring is robust as the district registrars and the inspectorate section maintain oversight over the activities at the sub-registry offices. The control would, however, be more robust if the Ministry of Land would make available, as required by Law, records that will enable the sub-registry offices to effectively challenge valuations contained in the title deeds submitted for property registration.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.
4.4 What assurance does management have over the accuracy of management information provided? Conclude whether our work has	The District Registrars maintain an oversight over management information at the sub-registry offices and send same to the head office after carrying out the necessary quality assurance.	Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.

Monitoring and Performance

	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>identified any risks that need to be addressed in the Areas of Audit Emphasis Testing Plan and/or raised with the Client.</p>	<p>No risk identified in respect of the accuracy of the management information.</p>	
<p>4.5 What impact do any other relevant factors have upon the entity's monitoring of controls.</p>	<p>Other than as noted above, no other impact on the entity's monitoring of controls.</p>	<p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>

(5) Information Systems

<u>Information Systems</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>5.1 What IT systems are used in the administration of the Revenue Stream?</p> <p>Prepare diagram showing the different IT systems and the interfaces between them. Include key details e.g. functions, when introduced, developers, operating system, support arrangements.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Tax Stream Significant Risks Testing Plan and/or raised with the Department.</p>	<p>At present there is no IT system within the organisation</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>
<p>5.2 To what extent does the entity use the automated controls and checks within</p>	<p>N/A</p>	<p>N/A</p>

<u>Information Systems</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
the IT system?		
5.3 How is the entity's IT system managed? What is the in-house IT team's structure/what is the structure of the relationship with outsourced suppliers?	N/A	N/A
5.4 Is there any internal or external assurance over the operation of the IT system (e.g. internal audit, or attack and penetration testing)?	N/A	N/A
5.5 Is an IT Risk Assessment performed? What are the findings of the risk assessment?	N/A	N/A

<u>Information Systems</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
5.6 Access Security: What is the high level approach to systems security, including physical security of servers?	N/A	N/A
5.7 Change management: How does the entity manage changes to IT systems involved in revenue generating activities?	N/A	N/A
5.8 Have there been significant changes to the information systems environment, as relating to revenue activities during the year?	N/A	N/A
5.9 Other general aspects of the IT environment relevant to the audit.	N/A	N/A

(6) Revenue Gap

<u>Tax Gap</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>6.1 What are the known vulnerabilities of the revenue stream to evasion?</p> <p>Provide summary details:</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Audit Emphasis Testing Plan and/or raised with the client.</p>	<p>Wrong categorisation of Land resulting in under valuation of land:</p> <p>The Ministry of Land holds records for determining the property valuation and valuation in the title deed submitted for property registration should have been based on the details held by the Ministry of Land. Our preliminary findings indicate that the valuation in the title deeds are usually lower than as prescribed by the Ministry of Land resulting in lower fees and taxes (loss of revenue). We also established that this anomaly is not spotted at the sub-registry offices because the sub-registry offices do not have access to the Ministry of Land’s records (The law requires the Ministry of Land to send particulars of land to the sub-registry offices but this is currently not done)</p> <p>This is to be addressed in the Audit Emphasis Testing Plan.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>
<p>6.2 To what extent is avoidance an issue in respect of the revenue stream?</p>	<p>Avoidance is not an issue for this revenue stream as the rules pertaining to the revenue stream are straight forward and unambiguous, hence little room</p>	<p>Updated by the audit team using existing cumulative</p>

<u>Tax Gap</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>Provide summary details.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Audit Emphasis Testing Plan and/or raised with the client.</p>	<p>for the use of interpretations of laws/rules to legally avoid or reduce revenue.</p>	<p>knowledge and experience of the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>
<p>6.3 What are the main components of the client's response to evasion and avoidance for the Revenue Stream? (e.g. compliance, campaigns, anti-avoidance processes)</p> <p>Provide summary details (and link to supporting documentation as necessary)</p> <p>Conclude whether our work has identified any</p>	<p>The Client is aware that the valuation used in the deed document does not always agree with the records held by the Ministry of Land and understands implications on the amount of revenue assessed. The client insisted that on many occasions requests have been made to the Ministry of Land to supply monthly, records of land valuation to the sub-registry offices as required by law but the Ministry of Land has consistently failed to do this. Unfortunately the Directorate has not put in place any measures to address and plug this gap.</p> <p>The absence of procedure by the Directorate to ensure that correct valuation is used in arriving at applicable fees and taxes further increases the likelihood</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx</p>

<u>Tax Gap</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
risks that need to be addressed in the Tax Stream Significant Risks Testing Plan and/or raised with the client.	<p>that undervaluation of properties will not be identified and challenged by the sub-registry offices.</p> <p>This further supports the need to address it in our Audit Emphasis Testing Plan.</p>	

(7) The Directorate's Coverage/Third Party Scrutiny

<u>NAO Coverage/Third Party Scrutiny</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>7.1 What work has the Local and Revenue Audit Directorate done on this revenue stream in recent years?</p> <p>Refer to key outputs (e.g. Revenue Audit or Special Report) and their main findings.</p> <p>Conclude whether our review has revealed any additional issues that need to be addressed through this year's audit (e.g. included in the Tax Stream Audit Emphasis Testing Plan and/or raised with the client.</p>	<p>In the preceding year, Teams from LRAD visited 2 sub-registry offices (auditable units).</p> <p>The key finding was the difference in property valuation contained in titled deeds filed for registration and the records maintained by the Ministry of Land – Already identified as an AREA OF AUDIT EMPHASIS.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p>
<p>7.2 What work has Internal Audit performed/planned for the revenue stream?</p>	<p>There is no separate/dedicated internal audit department at the Directorate. The inspectorate division performs functions similar to those expected of a dedicated internal audit. The inspectorate section visits the sub-registry offices to examine and confirm that the sub-registry offices</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of</p>

<u>NAO Coverage/Third Party Scrutiny</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
<p>Summarise significant issues that have arisen and consider the impact on our audit.</p> <p>Identify any areas where scope for audit efficiencies exists e.g. reliance or co-ordinated visits.</p> <p>Conclude whether our work has identified any risks that need to be addressed in the Tax Stream Audit Emphasis Testing Plan and/or raised with the client.</p>	<p>operate in accordance with laws, rules, regulations and other laid down procedures.</p> <p>The inspectorate section after each visit reports findings (Inspection Report) to the Head office. For this audit we have not been able to have sight of any of the inspection reports, we have however included an audit procedure step to request and review a sample of the inspection reports at the Directorate's head office.</p>	<p>the client on xx xx xxxx.</p> <p>Confirmed with Mr XXXX, the Inspector of Registration for XXX division on xx xx xxxx.</p>
<p>7.3 What significant issues have been raised by third parties in respect of the revenue stream?</p> <p>Summarise significant issues that have achieved public prominence in recent years e.g. through the Public Account Committee hearings, independent reports, press coverage.</p> <p>Conclude whether our review has revealed any</p>	<p>No other significant issues by 3rd parties in respect of the revenue stream have come to our notice.</p>	<p>Updated by the audit team using existing cumulative knowledge and experience of the client on xx xx xxxx.</p> <p>Audit team carried out a review of the Press and other news/information sources on</p>

<u>NAO Coverage/Third Party Scrutiny</u>		
	Standing Information	Description of Risk Assessment Procedures performed in current year to determine whether Standing Information remains relevant
additional issues that need to be addressed through this year's Revenue Audit (e.g. included in the areas of audit emphasis testing Plan and/or raised with the Client).		matters relating to the Directorate on xx xx xxxx .

Example 3 – Using Fraud Risk Assessment template

Fraud Risk Assessment- Example

Summarise below the considerations of potential risks identified through our risk assessment procedures.

Consider both impact and likelihood in considering whether there are risks of material misstatement or irregularity

Summary Questions	Potential Risks identified for the entity	Response	Comments (including any explanation required of why we consider potential risks identified do not give rise to risks of material misstatement)
<u>Fraudulent financial reporting</u>			
Do incentives or pressures exist which increase the risk of fraudulent financial reporting?	No		
Does the existence of opportunity indicate an increased risk of fraudulent financial reporting?	No		
Do the attitudes of staff, or other conditions, exist which would enable staff to rationalize their actions indicate an increase risk of fraudulent financial reporting?	No		
IS there a risk of material misstatement relating to fraudulent financial reporting?		No	We did not come across evidence of pressure to report fraudulently.
<u>Misappropriation of assets by employees or management⁴</u>			
Do incentives or pressures exist which increase the risk of fraudulent misappropriation	No		

⁴ Misappropriation of assets is irregular and risk of material misappropriation of assets due to fraud is considered, which places an emphasis on misappropriation by management or employees.

Summary Questions	Potential Risks identified for the entity	Response	Comments (including any explanation required of why we consider potential risks identified do not give rise to risks of material misstatement)
of assets?			
Does the existence of opportunity indicate an increased risk of fraudulent misappropriation of assets?	No		
Do the attitudes of staff, or do conditions, exist which would enable staff to rationalise their actions, indicate an increase risk of fraudulent Misappropriation of assets?	No		
IS there a risk of material misstatement relating to misappropriation of assets?		No	The sub- registry officers in addition to their respective internal control arrangements are also monitored by the District registrars and audited by the inspectorate section.
As a result of the work performed considering potential risks relating to fraudulent financial reporting or misappropriation of assets by employees or management, have we identified any risks of material irregularity, including significant risks, to be addressed through the audit?		No	
<u>Misappropriation of assets by individuals or groups external to the organisation</u>			
Does the existence of opportunity indicate an increased risk of misappropriation of assets by individuals or groups external to the entity?	yes- See Misappropriation - External below		
Do incentives exist which increase the risk of misappropriation of assets by individuals or groups external to the entity?	yes- See Misappropriation - External below		

Summary Questions	Potential Risks identified for the entity	Response	Comments (including any explanation required of why we consider potential risks identified do not give rise to risks of material misstatement)
Is there a history or expectation of misappropriation of assets by individuals or groups external to the entity?	yes- See Misappropriation - External below		
As a result of the work performed considering potential risk relating to misappropriation of assets by individuals or groups external to the entity, have we identified any risks of material irregularity, including significant risks, to be addressed through the audit?		yes-see Area of Audit Emphasis testing Plan	

Consider potential risks relating to misstatements arising from fraudulent financial reporting.

Question(expand grouped cells for examples)	Answer	Potential risk(s) identified
Do incentives or pressures exist which increase the risk of fraudulent financial reporting?	No	
Does the existence of opportunity indicate an increased risk of fraudulent financial reporting?	No	
Do the attitudes of staff, or other conditions, exist which would enable staff to rationalize actions indicate an increase risk of fraudulent financial reporting?	No	

Consider potential risks relating to misstatements arising from misappropriation of assets by employees or management.

Question(expand grouped cells for examples)	Answer	Potential risk(s) identified
Do incentives or pressures exist which increase the risk of fraudulent misappropriation of assets?	No	
Does the existence of opportunity indicate an increased risk of fraudulent misappropriation of assets?	No	
Do the attitudes of staff, or do conditions, exist which would enable staff to rationalize their actions indicate an increase risk of fraudulent Misappropriation of assets?	No	

Consider potential risks of irregularities arising from misappropriation of assets by individuals or groups external to the entity.

Question(expand grouped cells for examples)	Answer	Potential risk(s) identified
Does the existence of opportunity indicate an increased risk of misappropriation of assets by individuals or groups external to the entity?	Yes	The deed writers have become aware that the sub-registry offices do not have access to the records maintained by the Ministry of Land and as a result, the sub-registry officers are unable to challenge robustly the property valuation included in the title deeds.
Do incentives exist which increase the risk of misappropriation of assets by individuals or groups external to the entity?	Yes	There is increased risk that the deed writers will exploit this to use lower property valuations in order to pay reduced fees and taxes for property registration.
Is there a history or expectation of misappropriation of assets by individuals or groups external to the entity?	Yes	Audit conducted last year at some selected sub-registry offices found that the

		government lost revenue due to the use of lower valuations by the deed writers than as recommended by the Ministry of Land.
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Example 4 – Using Audit Emphasis Testing Plan Template

Revenue Steam

Audit Emphasis Testing Plan- Example

Explanatory Notes

1. **Purpose of Template:** This template supports our revenue audit of the key processes in place to secure an effective check on the assessment, collection and proper allocation of revenue. The purpose of the template is to articulate clearly for each tax stream the identified significant risks, audit response and audit results.
2. **Scope:** the template is divided into five sections:
 - (i) **Risks:** Identifies the significant risks associated with the tax steam.
 - (ii) **Controls:** identifies the control objective, the control itself and any associated supporting information.
 - (iii) **Audit Response:** Specifies the work we will do to evaluate the design and assess the operation of the control and who will undertake it.
 - (iv) **Audit results:** highlight the conclusions of controls audit work.
 - (v) Specifies substantive work to perform to support audit conclusions.

Areas of Audit Emphasis Testing Plan									
Significant Risk	Mitigating Controls					Audit Results			Substantive Procedure
	Control Objectives	Description	Design Evaluation	Control Operation	File Ref	Design Effective?	Operation Effective?	File Ref	
<p>Under-valuation of property as a result of sub-registry offices not having access to the record of rights maintained by the land Ministry</p> <p>The Ministry of Land maintains records to land across the country- the Record of rights, which contains accurate categorisation of land and by law, the Ministry of Land is required to send this record of rights to the sub-registry offices so that registration applications can be checked against these record by the sub-registry offices, however, the Ministry of Land</p>	<p>No other control identified.</p> <p>Already established the non-implementation of the main</p>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	<p>For a sample of valuation used in arriving at registration and as contained in the title deed submitted with registration application, vouch to the records of Rights maintained by the Ministry of Land and confirm, by</p>

<p>has consistently failed to send this information to the sub-registry offices and as a result, the sub-registry offices could not confirm the details of property in the deed to another independent source and the deed writer being aware of this, have continued to capitalise on the loop-hole by wrong categorisation that would result in lower valuation of property included in the deed.</p>	<p>control designed to mitigate this risk.</p>								<p>reference to the records of rights that the valuation in the title deed is appropriate and correct.</p>
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Example 5 - Using Revenue Audit Testing Plan

Revenue Steam Process: Testing Plan-Example

Revenue Steam:

Explanatory Notes

1. **Purpose of Template:** This template supports our Revenue audit of the key processes in place to secure an effective check on the assessment, collection and proper allocation of revenue. The purpose of the template is to articulate clearly for each key revenue steam process, our risk assessments, identified controls and our audit response to the observed risks.
2. **Scope:** the template is divided into five sections:
 - (i) **Risks:** sets out the main risks associated with the process.
 - (ii) **Controls:** identifies the control objective, the control itself and associated key information relevant to the identified control.
 - (iii) **Audit Response:** Specifies the work we will do to gain assurance over the audit areas.

1. Returns and Assessments											
Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation	D&I adequate?	Control Operation	Control effectiveness	Substantive Procedure
Sub- Registry Offices											
	Documents are registered for free or at an unauthorised discount.	To ensure no documents are registered without evidence of payment.	An independent officer reviews the records of the registrar to establish that appropriate registration fees have been paid prior to the documents being registered.	Manual	Preventive	Daily	Using a sample of application, confirm the file has been reviewed by the sub-registrar to confirm all necessary processes have been completed before the file is passed for approval. Ensure evidence of review is retained.		Using a sample for control performed daily, test to confirm that the supporting evidence has been reviewed and confirmed appropriate by the sub-registrar before approving the registration application.		For a sample of registrations processed confirm evidence of payment either by cash (for valuation up to TK.24,000) or to bank <ul style="list-style-type: none"> an amount has been paid as registration fees amount paid to the authorised list of registration fees; and establishes that the correct amount has been paid.
	Changes in authorised registration fees and other applicable fees and taxes are not effectively communicated resulting in revenue loss.	To ensure correct rates of fees and taxes have been applied in arriving at applicable fees and taxes.	The list of the authorised fees and taxes is publicly available and designated officers at the sub- registry offices perform regular reconciliation of the amount charged to customers to the publicly available rate of.	Manual	Preventive	Monthly	Perform a walkthrough with the sub-registrar of sample sub-registry offices, checks performed to monitor and track changes in the rate of applicable fees and taxes.		Inspect evidence supporting that the prevailing list of registration fees is publicly available; and rates used at the registrar offices are regularly confirmed to the publicly available prevailing registration fees list.		For a sample of registrations, agree rates applied to the publicly available prevailing registration fees list.

	The assessment is wrong.	To ensure by reference to supporting evidence that the assessed fees and taxes are correct.	An independent officer reviews the records of the registrar to establish that appropriate registration fees have been paid prior to the documents being registered.	Manual	Preventative	Daily	Using a sample of application, confirm the file has been reviewed by the sub-registrar to confirm all necessary processes have been completed before the file is passed for approval. Ensure evidence of review is retained on file.		Using a sample for control performed daily, test to confirm that the supporting evidence has been reviewed and confirmed appropriate by the sub-registrar before approving the registration application.		For a sample of registration applications, vouch to establish that the registration fees and other related fees and taxes (stamp duty, local government fees etc.) have been identified and recorded as collectable in respect of the application. Recalculate registration fees and other fees and rates due, using the latest applicable rates and property valuations in the applicable property documents; and confirm amounts recorded as collectable are correct.
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2. Receipts and Allocations											
Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation Evaluation	D&I adequate?	Control Operation	Control effective ?	Substantive Procedure
Sub - registry											
	Revenue received is not recorded, misallocated, recorded at Incorrect amounts or in the incorrect period.	To ensure amounts received in respect of fees and taxes have been correctly recorded and accounted for in the records of the sub- registry offices.	The sub-registry offices maintain registers of fees and taxes. A higher officer performs regular review of entries against customers' applications and cashbook.	Manual	Preventative	Monthly	Perform a walkthrough of checks performed by a higher officer of the sub-registry office to ensure applicable fees and taxes have been correctly recorded and accounted for by the sub- registry.		For selected periods inspect proof of reconciliations between assessments and receipts.		For selected assessments confirm that payments have been recorded: At the correct amounts, In the correct account, In the correct period.
	Cash receipts are not banked on a timely basis or amount in bank different from c cashbook balance.	To ensure cash receipts are promptly banked and that amount in the bank agrees with the records maintained at the sub-registry.	Regular daily / weekly deposit of cash received. Independent reconciliations between receipts issued and amounts deposited in the bank.	Manual	Preventative	Daily	Perform a walkthrough to conform that cash takings are correctly recorded and banked promptly.		(1) Inspect proof of: Regular banking of cash received Independent reconciliation of cash received and deposit slips. (2) Establish adequate segregation of duties exist between cashiers and person depositing in the bank.		For a selected sample of receipts issued confirm that cash had been banked timely. For selected days confirm that all cash received have been adequately accounted for and banked timely.

			<p>Monthly reconciliation of Cash book and bank and a review by a higher ranking officer of the reconciliation with evidence that unreconciled items are followed up and resolved.</p>	Manual	Preventative	Monthly	<p>Perform a walkthrough of the monthly reconciliation including evidence of timely review of the reconciliation by a higher ranking officer.</p>		<p>Select a sample of control performed monthly and confirm the reconciliations and review were prepared and performed promptly and unusual items were followed up and resolved.</p>		<p>For a sample of reconciliations, check for accuracy and confirm reconciling items were valid and that unusual items have been followed up and resolved.</p>
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3. Compliance											
Risks		Process Controls					Audit Response				
Process Level	Activity Level	Control Objective	Description	Category	Type	Frequency	Design & Implementation	D&I Adequate?	Control Operation	Control	Substantive Procedure
Sub- Registry Offices											
	Issues raised during visits by the district registrars and Inspectorate divisions are not followed up and resolved.	To ensure that issues raised for concerned sub-registry offices are followed up and resolved promptly.	<p>Every sub-registry office is required to maintain a 'Defect register' which is a register that logs all issues raised by the distinct registrar and the inspectorate division when visiting the sub-registry.</p> <p>The sub-registrar, who heads the sub-registry office, reviews the defect register regularly to monitor progress on issues raised and provides appropriate comments to explain implementation delays and when matters have been fully resolved.</p>	Manual	Corrective	Monthly.	Review an entity in the 'defect register' with the sub-registrar to establish the level of awareness of the sub-registrar with regards to the issue and actions taken or not taken to resolve or correct the issue.		Review the defect register for a simple period across the year and seek evidence to support that the sub-registrar has reviewed the register during the relevant period and included appropriate comments especially where actions appear slow or non-existent.		From the Defect register, select a sample of issues and follow through to confirm appropriate actions have been taken to resolve the issue and where no actions taken, obtain explanations for the delay in taking the necessary actions.

Distinct Registrar Offices

<p>The work plan of the distinct registrars have not been designed and their activities not performed to ensure effective oversight of all sub-registry offices within their respective districts.</p>	<p>To ensure no sub-registry offices are overlooked for by the district registrars in the exercise of their oversight functions.</p>	<p>The inspector General of Registration (IGR) or his deputy reviews and agrees the work plan of the District Registrar to ensure appropriate coverage of all the sub-registry offices within the District Registrar's jurisdiction and confirms report submitted by the District Registrar against the agreed work plan.</p>	<p>Manual</p>	<p>Preventative</p>	<p>Monthly</p>	<p>Request for a work plan for one of the District registrars and ensure the work plan has been agreed with IGR (or his deputy) and that the work plan demonstrates that all the sub-registry offices within the concerned district will be visited at least once during the year.</p>		<p>Using a sample of work plans by other District Registrar, confirm the work plans were agreed with IGR (or his deputy) and demonstrate that all the sub-registry offices within the concerned district will be visited at least once during the year.</p>		<p>From the work plan select a sample of scheduled visits to sub-registry offices and confirm that the visits were made as planned. Where visit could not be made, ensure appropriate explanations were given.</p>
<p>Issues raised in the reports of visits by District registrars are not followed up for corrective actions.</p>	<p>To ensure issues raised by District Registrars are followed up promptly and tracked.</p>	<p>The Support Team in the IGR office monitors the progress of issues raised in the reports submitted to the IGR by the District Registrars.</p>	<p>Manual</p>	<p>corrective</p>	<p>Monthly</p>	<p>By walkthrough establish the monitoring of progress on issues raised by the support team in the IGR office.</p>		<p>Perform test to confirm that tracking and monitoring by the support team in particular, establish that the monitoring registers are updated regularly and cases of delayed actions are promptly brought to the attention of the IGR.</p>		<p>Obtain and review a sample of reports by District Registrars. Follow up to ensure that the issues raised have been registered by the support team in the IGR office and followed up to resolution.</p>

Inspectorate Division

	Issues raised in the reports of visits by the Inspectors not followed up for corrective actions	To ensure issues raised by Inspectors are followed up promptly and tracked	The office of the Assistant Inspector of Registration (AIGR) monitors the progress of issues raised by divisional inspectorates.	Manual	Preventative	Monthly	By walkthrough establish the monitoring of progress on issues raised		Perform test to confirm that tracking and monitoring of issues. In particular, establish that the monitoring registers are updated regularly and cases of delayed actions are promptly flagged and escalated.		Obtain and review a sample of reports by Divisional Inspectors. Ensure that the issues raised have been followed up to resolution.
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