

**Independent Auditor's Report  
to the shareholders of  
XYZ Limited**

**Opinion**

Ref

We have audited the financial statements of XYZ Limited hereinafter referred to as "the company" which comprise the Statement of Financial Position as at 31 December 20XX, Statement of Profit and Loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 20XX, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), the Companies Act 1994 and other applicable laws and regulations.

**Basis for Opinion**

We conducted our audit in accordance with International Standard on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence and Other Ethical Responsibilities**

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and ICAB by laws.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements for 20XX. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

**Appropriateness of revenue recognition and disclosures.**

At year end the Company reported total revenue of BDT XXX million. Revenue is measured net of discounts, incentives and rebates earned by customers on the Company's sales. Within a number of the Company's markets, the estimation of discounts, incentives and rebates recognised based on sales made during the year is material and considered to be complex and judgmental. Therefore, there is a risk of revenue being misstated as a result of faulty estimations over discounts, incentives, rebates. There is also a risk that revenue may be overstated due to fraud through manipulation of the discounts, incentives and rebates recognised resulting from the pressure local management may feel to achieve performance

### How our audit address the key audit matter

We have tested the design and operating effectiveness of key controls focusing on the following:

- Segregation of duties in invoice creation and modification TOE 11 R3
- Authorization of credit terms and credit limits to customers TOE 11 R4
- Approval of Price list TOE 11 R6
- Calculation of discounts, incentives and rebates; TOE 11 R 8
- Timing of revenue TOE 11 R 9

Our substantive procedures in relation to the revenue recognition comprises the following:

- Performed substantive analytical procedure to calculate expected revenue booked. SAP 1.1.01
- Obtaining supporting documentation for sales transactions recorded either side of year end as well as credit notes issued after the year end date to determine whether revenue was recognised in the correct period; AP 11-1.2.06
- Examine the sample sales transaction with source documents including the credit limit, VAT, Credit notes etc. AP 11-1.2.02
- Performed cut off test to assure the completeness and accuracy of booking revenue in the reporting period and revenue has been recognised as per policy. AP 11-1.2.03
- Critically assessing manual journals posted to revenue to identify unusual or irregular items; and AP 11-1.2.01
- Finally assessed the appropriateness and presentation of disclosures against relevant accounting standards. AP 11-1.2.03

### Inventory Valuation

The company had inventory of BDT XXX million at 31 December 20XX, held in distribution centres, warehouses and numerous branches, and across multiple product lines. Inventories are carried at the lower of cost and net realisable value. As a result, the Directors apply judgement in determining the appropriate values for slow-moving or obsolete items. Inventory is net of a provision of BDT XXX million which is primarily driven by comparing the level of inventory held to future projected sales.

### How our audit address the key audit matter

We challenged the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by:

- Evaluating the design and implementation of key inventory controls operating across the company, including those at a sample of distribution centres, warehouses and branches; TOE Inventor
- Attending inventory counts and reconciling the count results to the inventory listings to test the completeness of data; AP- I 2,3
- comparing the net realizable value, obtained through a detailed review of sales subsequent to the year-end, to the cost price of a sample of inventories and comparison to the associated provision to assess whether inventory provisions are complete; AP- I 2,5
- Reviewing the historical accuracy of inventory provisioning, and the level of inventory write-offs during the year; and AP- I 2,6

### Short-term loan and Bank overdraft ("Loan")

At reporting date, the position of Short term Loan and Bank overdraft outstanding was BDT XXX and Tk. XXX Million for the Company respectively. In other words, approximately 50% of total liabilities are represented by loans for the Company. Evidently, the Company is using loan to operate the business and also, to acquire non-current assets. Loan, therefore, has been considered as key audit area.

### **How our audit address the key audit matter**

We obtained an understanding, evaluated the design and tested the operational effectiveness of the Company's key controls over the loans. Our audit procedures included, among others, the followings:

- Understanding and reviewing the nature or types of loans; AP-CB 06
- Reviewing the board meeting minutes on arrangements of the loans; AP-CB 06
- Obtaining the repayment schedules, loan statements and facility offer letters to review terms, debt covenants, interest rates and other conditions associated with the loans; AP-CB 08
- Recalculating the interest related to loans; AP-CB 08
- Finally, assessing the appropriateness and presentation of disclosures against relevant accounting standards. AP-CB 09

Our procedures above did not identify any issues with regard to loans.

### **Information Other than the Financial Statements and Auditors Report Thereon**

The Directors of the Company are responsible for other information. The other information comprise the information included in the Directors Report, but does not include the financial statements of the Company and our auditors' report thereon

Our opinion on the financial statements of the Company does not cover the Directors Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' Report and in doing so, consider whether the directors report is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements and Internal Controls**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the Companies Act 1994 and other applicable laws and regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objective are to obtain reasonable assurance about whether the financial statements of the Company are free from material misstatement. As a part of audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements of the company. We are responsible for the direction, supervision and performance of the audit . We remain solely responsible for our audit opinion.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable , related safeguards.

From the matters communicates with those charged with governess, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances , we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the pubic interest benefits of such communication.

#### **Report on other Legal and Regulatory Requirements**

In accordance with Companies Act 1994, and the Securities and Exchange Rules 1987, we also report the following:

- a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof.
- b) in our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of those books; and
- c) the company's financial position and statement of comprehensive income dealt with by the report are in agreement with the books of account.
- d) the expenditure incurred was for the purpose of the Company's business.

**Dated,  
Dhaka**

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**X Rahman  
Partner**