



*“Audit Procedure & Risk  
in  
Bangladesh”*



**UNITED INTERNATIONAL UNIVERSITY**

Project Report

On

*“Audit Procedure & Risk in Bangladesh”*

(AIS 4441)

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Date of Submission: February 2, 2024

## Letter of Transmittal

February 2, 2024

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Subject: Submission of project on “**Audit Procedure & Risk in Bangladesh**”

Dear Sir,

I have completed my project work and would like to submit my report on "**Audit Procedure & Risk in Bangladesh**" in accordance with your instructions. When I finished the study, I tried to include almost all topic-related material and analysis in order to make the report comprehensive and relevant. If you require any additional information, I would be delighted to hear from you.

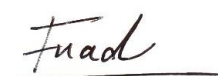
Therefore, I sincerely hope and wish that you will be so kind as to acknowledge my efforts and oblige thereby.

Sincerely,

Mohtasim Fuad Taky

ID: 114 192 001

BBA in AIS, United International University



**Signature**

## Letter of Endorsement

This is to confirm that Mohtasim Fuad Taky, ID: 114 192 001, successfully submitted the report on the topic "Audit Procedure & Risk in Bangladesh" as part of the BBA program, Department of Accounting Information System (AIS), United International University.

He seemed earnest and meticulous in the work I was supervising. I hope he achieves success in all areas.

-----  
James Bakul Sarkar, Ph.D.

Associate Professor & Coordinator

BBA in AIS Program, School of Business

United International University

## Declaration of The Student

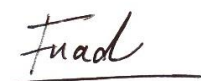
I, Mohtasim Fuad Taky, a BBA student enrolled at United International University, bearing the ID: 114 192 001, would like to publicly state that the project titled "Audit Procedure & Risk in Bangladesh" is my genuine and independent effort. I worked on this project under James Bakul Sarkar as my mentor. This submission meets the requirements for completing my BBA degree in AIS.

The report preparation process has broadened my professional knowledge and enabled me to connect theoretical concepts to real-world implementations. I would like to convey my profound appreciation for the chance to write this report, which I had great fun writing.

Furthermore, I take full responsibility for any copyright infringement or other harm caused to third parties.

Mohtasim Fuad Taky

ID: 114 192 001

A handwritten signature in cursive script that reads "Fuad". The signature is written in black ink and is positioned above a horizontal line.

**Signature**

## Acknowledgment

I want to express my gratitude to Allah for giving me the ability and commitment to complete this paper "**Audit Procedure & Risk in Bangladesh**" on time.

I am grateful to Mr. James Bakul Sarkar for his helpful advice, continuous support, and insightful feedback during the course of my project. His advice and support have helped shape the path of my work, and I sincerely appreciate everything he has done to help me succeed.

Finally, I like to express my gratitude to my parents for their unwavering love, support, and sacrifices, without which I could not have accomplished so much.

## Abstract

In Bangladesh, the dependability of financial statements necessitates a customized approach to audit processes. This study examines the intricacies of this rapidly changing country, where distinct business contexts, complicated legal frameworks, and developing corporate governance standards impact audit risk. The importance of internal controls, the involvement of the ICAB and Bangladesh Bank, and the prevalence of fraud and mistake risks are just a few of the important variables we examine when it comes to audit procedures. We also investigate the efficiency of customized processes such as risk assessments and analytical reviews in reducing these risks in the Bangladeshi setting. In the world of financial reporting, audit risk—the potential for providing an incorrect opinion as a result of substantial misstatements in financial statements—presents a formidable obstacle. It is much more crucial to recognize and reduce audit risk in Bangladesh's changing environment. This paper explores the nuances of audit risk in the Bangladeshi setting, examining the major variables that affect its frequency, identifying the many kinds of risk that arise in local audits, and suggesting practical approaches to risk reduction. Finally, in light of Bangladesh's changing environment, this report suggests a framework for adaptable audit processes to protect the integrity of financial reporting.

## Table of Contents

Chapter 1: Introduction .....	2
1.1 Background of the Study .....	2
1.2 Origin of the Report .....	2
1.3 Objectives of the Study .....	3
1.4 Scope of the Study.....	3
1.5 Significance of the Study .....	4
1.6 Methodology of the Study.....	4
1.7 Limitations of the Study .....	5
Chapter 2: Literature Review .....	7
Chapter 3: Theoretical Framework .....	11
3.1 Introduction .....	11
3.2 Theoretical Discussion .....	11
3.3 Auditing and Accounting Differences.....	12
3.4 Requirements of an Effective Audit.....	13
3.5 Types of Audits .....	14
3.6 Generally Accepted Auditing Standards (GAAS) .....	16
3.6.1 General standards .....	16
3.6.2 Standards of Field-Work .....	18
3.6.3 Standards of Reporting .....	19
3.7 Audit Procedure.....	20
Chapter 4: Audit Procedure in Bangladesh.....	23
4.1 Regular Audit Practice in Bangladesh .....	23
4.2 Audit Process by ICAB .....	24
4.2.1 Planning .....	24
4.3 Collection of Audit Evidence .....	28
4.3.1 Audit Sampling.....	28
4.3.2 Controlling and Recording .....	29
4.3.3 Vouching the Total Population.....	29
4.3.4 Accountancy Work and Audit Testing .....	30
4.3.5 Review and Opinion .....	30
Chapter 5: Audit Procedure in Bangladesh.....	32
5.1 Factors Influencing Audit Risk in Bangladesh .....	32



5.2 Specific Types of Audit Risk in Bangladesh .....	33
5.3 Strategies for Mitigating Audit Risk in Bangladesh .....	33
Chapter 6: Findings, Recommendation and Conclusion.....	36
6.1 Findings.....	36
6.2 Recommendation.....	37
6.3 Conclusion.....	38
References.....	39

# **CHAPTER ONE**

## **Background of the Study**

## Chapter 1: Introduction

Bangladesh's rapid economic expansion offers auditors both opportunities and difficulties. Although transparent financial reporting serves as a foundation for investment and trust, complicated company contexts come with inherent risks. This project explores the complexities of Bangladeshi audit practices and evaluates how well they work to reduce these risks. We'll look at the legal environment, common risk categories, and how audit techniques are changing. This study intends to provide light on the existing state of audit practice and suggest possible improvements for navigating Bangladesh's distinct financial landscape through in-depth analysis and case studies. As we begin this vital investigation into audit practices and risk in the center of South Asia's emerging economic power, keep an eye out.

### 1.1 Background of the Study

Bangladesh's economy has taken off, putting it on the international map, drawing large investments, and supporting a variety of businesses. On the other hand, there are risks associated with this fast expansion, such as internal control weaknesses and fraud. Stakeholder interests are protected and financial transparency is ensured through strong audit procedures in this dynamic environment. Although they are successful, traditional audit techniques might not be able to completely handle the new risks that are specific to Bangladesh, like complicated corporate structures, changing regulatory environments, and increased cyber threats. This emphasizes the necessity of evaluating audit methods' effectiveness in reducing these complex risks and their current situation seriously.

Therefore, this report explores the audit environment in Bangladesh and evaluates the suitability of current practices in light of emerging threats. The objective of the findings is to support the ongoing enhancement of audit procedures, which would ultimately promote a more reliable and robust financial system for Bangladesh's sustained economic growth.

### 1.2 Origin of the Report

Students in the AIS Department at United International University must complete the project/internship program in order to graduate with a BBA. I searched for information and resources throughout the project program in order to finish this project report I work on. I now

understand how an audit is performed. I also learnt about the auditing methods in Bangladesh, as well as how engagements are managed during yearly audits.

### **1.3 Objectives of the Study**

Several objectives were taken into consideration when writing this paper in order to determine the conditions that must be fulfilled. The primary objective of this project report is to describe the steps involved in conducting an audit method and the risks that come with it. Also, some specific objectives are:

- Learn how chartered accountants do audits.
- Gain thorough knowledge of audit practices.
- Understand how audit procedures are developed and implemented.
- Increasing Flexibility.
- Determine how to obtain and process evidence for an audit report.
- Extensive knowledge of Bangladesh audit procedures.

### **1.4 Scope of the Study**

The aim of this research is to thoroughly examine how well audit processes reduce risks in Bangladesh's dynamic financial environment. The scope consists of the following important areas:

- Analyze the most common audit procedures used by Bangladeshi organizations, covering both classic and current approaches.
- Focus on both prevalent and contemporary audit methodologies.
- Analyze effectiveness of procedures against key risk areas in Bangladesh.
- Categorize predominant financial statement risks faced by Bangladeshi businesses.
- Utilize case studies to showcase practical application and limitations.
- Evaluate alignment of Bangladesh's regulatory framework with international standards.
- Propose recommendations for enhancing audit methodologies for the Bangladeshi context.
- Acknowledge potential limitations of data availability and study scope.
- Clearly define the overall aim and intended outcome of the study.

## 1.5 Significance of the Study

This project report explores decisive point in Bangladesh's economic development. While there are many benefits associated with rapid expansion, there are also unspoken hazards that put stakeholder confidence and financial stability at jeopardy. This study is valuable to a number of stakeholders because it carefully examines the effectiveness of current audit methods in mitigating these risks.

- Auditors: Acquiring vital information about hazards unique to Bangladesh and customizing protocols for improved mitigation.
- Regulators: Providing information on prospective changes to the regulatory structure for better risk mitigation and conformity to global norms.
- Companies: Recognizing the risks specific to them and implementing best practices for strong internal controls and financial reporting.
- Investors and stakeholders: Building trust among investors and stakeholders in the legitimacy and openness of financial data in the Bangladeshi market.

The ultimate goal of this study is to strengthen Bangladesh's financial ecosystem and make it more reliable and robust. This will open the door for long-term economic expansion and promote an environment of openness and responsibility.

## 1.6 Methodology of the Study

This study is done by mixed-methods approach to thoroughly investigate audit procedures and risks in Bangladesh by combining qualitative and quantitative data gathering and analysis methodologies:

- Literature Review: Delving into relevant studies, frameworks, and guidance.
- Interviews: Gathering insights from auditors, regulators, and businesses through semi-structured talks.
- Case Studies: Analyzing practical application and limitations of procedures.
- Survey: Quantifying risk prevalence and procedure effectiveness.

## 1.7 Limitations of the Study

There are obstacles in every task, and writing this report is no exception. The compilation of this report was a little difficult due to certain limitations. Those are mentioned as follows:

- Restrictions on access to private internal audit data or specifics of audit engagements may limit the understanding of how to apply procedures in real-world scenarios.
- Relying on survey participants' self-reported data may generate biases, necessitating careful interpretation of quantitative results.
- Interpretations may be influenced by the intrinsic subjectivity of qualitative data analysis, even in the presence of mitigating techniques like member verification and triangulation.
- Careful interpretation of quantitative data may be necessary due to potential limitations of selected statistical techniques or survey instrument design.

# CHAPTER TWO

## Literature Review

## Chapter 2: Literature Review

Bangladesh has become a worldwide player due to its quick economic growth, which has drawn substantial investment and supported a variety of businesses. This course, nevertheless, is fraught with dangers, such as the possibility of financial statement fraud, lax internal controls, and susceptibility to online attacks. In order to maintain financial transparency, protect stakeholder interests, and promote sustainable economic growth in this dynamic environment, strong audit processes are essential. In order to identify important themes, evaluate the efficacy of current processes, and suggest possible topics for further research, this review explores the corpus of information that currently exists regarding audit procedures and risks in Bangladesh.

By publishing the Audit Practice Manual (APM), the Institute of Chartered Accountants of Bangladesh (ICAB) significantly influences the audit environment (Institute of Chartered Accountants of Bangladesh, 2022). In order to ensure compliance with international best practices, this booklet outlined suggested methods for Bangladeshi auditors to follow while adhering to International Standards on Auditing (ISAs) (International Federation of Accountants, n.d.). However, further research is needed to determine how well these processes work to mitigate dangers unique to Bangladesh. In addition to highlighting the value of risk-based strategies and adherence to professional standards, Alam and Hossain's (2014) study on internal audit functions at public institutions raises the possibility of flaws in current audit processes when applied to various organizational contexts. Similar to this, in order to successfully identify and discourage fraudulent activity, strong and customized audit processes are required, as highlighted by Perry and Rahman's (2011) investigation of financial statement fraud in Bangladesh.

Risk assessment frameworks are essential for directing audit planning and resource allocation in addition to internal processes. The importance of this process is emphasized by the Bangladesh Bank's Internal Audit Process, which supports a thorough comprehension of organizational risks to guide the scope and character of audit engagements (Bangladesh Bank, n.d.). This idea is further supported by the World Bank's Bangladesh: Private Sector Assessment (2020), which identifies inadequate internal controls and governance as major risks for private enterprises and emphasizes the necessity of efficient audits to reduce these vulnerabilities (World Bank, 2020). Furthermore, highlighting the wider economic benefits of strong audit practices, the Asian Development Bank's Bangladesh: Private Sector Development



Strategy (2019) acknowledges the significance of improving audit quality and transparency to promote trust and draw investment (Asian Development Bank, 2019).

The efficacy of audit processes is also significantly shaped by the governance and regulatory frameworks. The Comptroller and Auditor General (CAG) of Bangladesh has released the Government Auditing Standards of Bangladesh, which provide the foundation for auditing government organizations and guaranteeing responsibility and compliance with pertinent laws (Comptroller and Auditor General of Bangladesh, n.d.). Additionally, the overall caliber and legitimacy of the audit profession in Bangladesh is enhanced by the ICAB's involvement in establishing professional standards and ethical principles for auditors (Institute of Chartered Accountants of Bangladesh, n.d.). The International Federation of Accountants (IFAC) has released pronouncements, such as the International Auditing and Assurance Standards Board (IAASB), that serve as a global standard for auditing practices and further facilitate alignment with international best practices (International Federation of Accountants, n.d.).

The efficacy of audit processes in minimizing contemporary risks is nevertheless hampered by a number of issues, notwithstanding the infrastructure that is in place. There are new problems for auditors in identifying and evaluating related risks as a result of the financial sector's rising embrace of technologies like blockchain and artificial intelligence (Kumar & Kar, 2022). Enhancing audit processes is necessary to identify and stop cyberattacks that might jeopardize financial information due to the growing sophistication of cyber security risks (KPMG, 2023). The Institute of Chartered Accountants of Bangladesh (2023) states that the constantly changing regulatory environment, including new rules pertaining to corporate governance and accounting standards, calls for ongoing modifications to audit procedures.

There are a number of important research gaps that require more study. First off, there aren't enough empirical studies looking at how well certain audit techniques work in Bangladesh to reduce risks that have been discovered. Second, there is still much to learn about how audit procedures and risk assessment are affected by new technologies and cyberthreats. Lastly, a thorough examination is warranted of industry-specific hazards and customized audit methodologies for various sectors of Bangladesh's heterogeneous economy.

By employing both quantitative and qualitative approaches in their empirical investigations, future research attempts might effectively address these gaps. Case studies that look at substantial risk identification or audit failures can provide light on real-world constraints and areas that could use improvement. Furthermore, surveys and interviews with regulators, firms,

and auditors may collect a range of viewpoints and help shape suggestions that are tailored to the unique setting. Through the resolution of these deficiencies and the ongoing adaptation to the dynamic risk environment, Bangladesh may fortify its audit procedures and cultivate a more robust and reliable financial system, therefore clearing the path for enduring economic expansion and well-being.

# **CHAPTER THREE**

## **Theoretical Framework**

## Chapter 3: Theoretical Framework

The report's primary concepts are explained in the theoretical framework. and explains how and why they are relevant to the necessary justifications for seeing and debating the perspective-based models based on the material.

### 3.1 Introduction

The Sarbanes Oxley Act of 2002 became more and more popular after many high-level financial scandals were made public. Involved in the controversies were several Fortune 500 businesses. Investor protection against false financial reporting by businesses is the goal of the Sarbanes Oxley Act of 2002, also known as SOX Act of 2002. Providing complete disclosure of information when and when necessary is the primary goal of the SOX Act, which aims to ensure that businesses operate transparently.

The audit processes and tasks carried out by chartered accountancy firms are often finished with the use of manual labor, Microsoft Excel, other software, or a mix of these. The companies carry out their work diligently and effectively, using both automated and manual methods. However, by increasing the value of the services they offer and utilizing audit software for auditing objectives, they may increase efficiency even more.

### 3.2 Theoretical Discussion

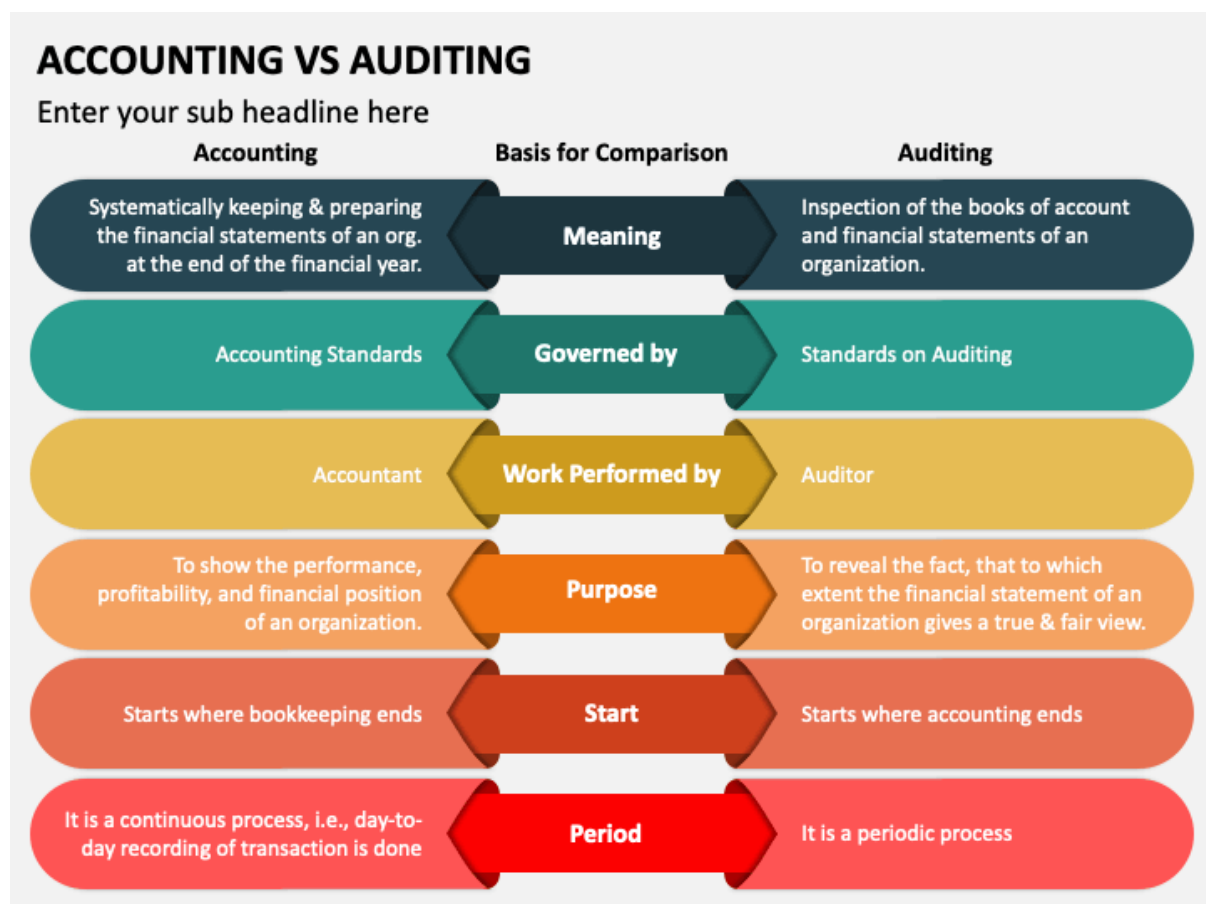
**Auditing:** According to AICPA (2023), auditing is the process of independently examining financial data to make sure it is accurate, full, and compliant with set standards. It serves as a bulwark of confidence, confirming resource stewardship and defending the interests of stakeholders (Deegan & Unerman, 2010). In order to find potential errors or misstatements, auditing goes beyond simple number-crunching and examines the procedures and controls that underlie financial information, as stressed by Gendron and Coram (2004). In the end, a thorough audit promotes responsibility, openness, and trust throughout the financial system.

**Evidence:** There are several ways to gather evidence; these include recorded transactions, internal controls, third-party confirmations, and analytical methods (PCAOB, 2022). Carefully selected and assessed, every component adds to the confidence mosaic. The auditor must evaluate the quality and quantity of evidence, much like an experienced investigator, making a

careful distinction between strong evidence and tenuous speculation (Messier, 2015). Finally, a thorough audit, supported by reliable and extensive data, promotes openness, responsibility, and unshakeable trust in the financial system.

### 3.3 Auditing and Accounting Differences

Accounting and auditing are two separate but related financial disciplines that play important but diverse functions, despite their frequent interchangeability. According to established accounting standards, accounting primarily focuses on the recording and categorizing of financial transactions in order to create financial statements that correctly represent the financial health of a business (Weygandt, Kimmel, & Kieso, 2020). Accounting professionals transcribe every transaction into a consistent narrative, serving as the chroniclers of a business's financial history.



Auditing, on the other hand, adopts a more investigative role and functions as an impartial verification of the data reported in financial statements (International Federation of Accountants, n.d.). Auditors examine internal controls, accounting records, and supporting

documents in more detail in order to evaluate the correctness, fairness, and compliance with pertinent criteria (AICPA, 2023). They serve as the accountants' watchdogs, making sure the financial narrative they give is truthful and devoid of misconceptions.

The characteristics of their different outputs serve as an example of this divergence. Financial statements are created by accountants and are the main source of financial data for both internal and external stakeholders. On the other hand, auditors provide audit opinions, which indicate their objective opinion of the correctness and dependability of the financial accounts prepared by the accountants (Carmichael, 2011).

Essentially, auditing expands upon the foundation set by accounting, which carefully documents and summarizes financial activities, by offering an unbiased guarantee that the data supplied is accurate and credible. Both fields are essential to preserving the openness and integrity of the financial system and building stakeholder and organizational confidence.

### 3.4 Requirements of an Effective Audit

A successful audit is necessary to guarantee the quality and dependability of financial data and to provide stakeholders faith in the openness and precision of an organization's activities. A few crucial conditions must be fulfilled in order to do this:

**Independence and Objectivity:** To prevent conflicts of interest, auditors need to uphold their independence and objectivity. Because of this, the audit process is trusted and impartial assessments are guaranteed.

**Professional Competence and Due Care:** Comprehending the intricacies of the business under audit requires auditors to have the requisite abilities, know-how, and proficiency. It is crucial to exercise diligence and carefully evaluate the pertinent audit criteria.

**Ethical Conduct:** For auditors, following a rigorous code of ethics is essential. Integrity, discretion, and professional conduct are all part of this, which raises the audit process's legitimacy.

**Audit Planning and Risk Assessment:** Auditors can identify areas where there is a higher chance of misrepresentation by using thorough planning and risk assessment. By doing this, it is ensured that audit efforts are focused on the highest risk regions.

**Understanding of Internal Controls:** Auditors need to understand internal controls inside a business and assess their efficacy. A thorough comprehension enables them to plan audit processes appropriately and depend on these controls when necessary.

**Sufficient and Appropriate Audit Evidence:** To make a judgment on financial statements, one must gather adequate, credible, and pertinent audit data. A variety of testing techniques, including as inspection, observation, questioning, and confirmation, must be used by auditors.

**Communication with Management and Those Charged with Governance:** Gaining an understanding of the organization's activities and obtaining the data required for a thorough audit is made possible by open and efficient communication between auditors and management and governance authorities.

**Timeliness:** Providing stakeholders with current information requires completing the audit on time. Being on time also enables problems and discoveries to be resolved quickly.

**Documentation:** It is essential to thoroughly document the audit process, results, and conclusions. Properly kept audit documentation offers transparency in the audit process and acts as a reference for upcoming audits.

**Continuous Professional Development:** For the purpose of keeping up with modifications to industry practices, laws, and accounting standards, auditors need to participate in continual professional development. This pledge guarantees the preservation of pertinent expertise and understanding.

**Quality Control:** Sustaining and improving the overall quality of audit engagements requires the auditing firm or department to have strong quality control systems in place. Reviewing, monitoring, and following company-wide rules and procedures are all included in this.

By fulfilling these criteria, auditors may improve the efficacy of their audit engagements, giving stakeholders confidence and promoting the accuracy of financial reporting in businesses.

### 3.5 Types of Audits

The field of audits is broad and includes several forms designed for certain goals and situations. The following is a summary of several important audit types:

#### **Financial Audits:**

- The most popular kind, which focuses on confirming that financial accounts are fair and accurate in compliance with accepted accounting rules.
- The audit opinion expresses whether the statements are presented fairly and free of material errors.
- Can be further categorized into:
  - **External Audits:** Independent auditors who are not employees of the organization conduct the audits.
  - **Internal Audits:** The internal audit team of a company conducts an assessment of internal controls and identifies possible risks.

#### **Operational Audits:**

- Evaluate the effectiveness and efficiency of a business's operations, policies, and procedures.
- Examine financial records together with production procedures, inventory control, and IT controls.
- Determine what needs to be improved in order to boost operational efficiency.

#### **Compliance Audits:**

- Assess if an organization's activities adhere to any laws, rules, or contractual requirements.
- Three such instances include audits related to taxes, the environment, and healthcare compliance.
- Compliance with relevant laws helps to manage legal and financial risks.

#### **Forensic Audits:**

- Examine any possible financial misbehavior, such as embezzlement and fraud.
- Gather evidence, examine financial records, and interview relevant parties in order to recreate events and identify culprits.
- Frequently used in court cases or insurance claims.

#### **Information Systems Audits:**

- Analyze the information systems and technological architecture of a company in terms of security, privacy, and controls.



- Evaluate system's susceptibility to system failures, data breaches, and cyberattacks.
- Assure the confidentiality and integrity of systems and data.

### 3.6 Generally Accepted Auditing Standards (GAAS)

Trust is very important in the fast-paced world of finance. A guarantee that their interests are safeguarded is what stakeholders and investors alike yearn for when making decisions based on reliable financial data. In cases such as these, auditors who are entrusted with verifying the accuracy of financial accounts rely on generally accepted auditing standards, or GAAS, as a reference.

Professional accounting organizations such as the American Institute of Certified Public Accountants (AICPA) have created a set of principles and procedures known as GAAS to ensure high-quality audits. They act as a guide for auditors, specifying the method they should use to review financial documents, get proof, and, in the end, provide a view on the correctness and fairness of the financial statements that have been submitted.

GAAS encompass three core pillars:

- General Standards
- Standards of Fieldwork
- Standards of Reporting

#### 3.6.1 General standards

Fundamental ideas that direct auditors in carrying out their duties are embodied in the auditing profession's General Standards. These requirements cover the auditor's professional background, exercise of necessary caution, and professional skepticism. Three primary categories comprise the General Standards:

**Education and Proficiency:** To carry out audits properly, auditors must hold the required training and credentials. This entails possessing a thorough awareness of applicable rules and regulations, auditing standards, and accounting concepts. Continuous professional education is another important way for the auditor to remain up to date on changes in the accounting and auditing industries.

**Independence:** An essential component of auditing is independence. Maintaining independence in appearance and truth is essential for auditors to provide a fair and impartial evaluation. This entails staying away from connections or circumstances that might jeopardize objectivity and impartiality. For users of financial statements to feel confident that the audit was carried out impartially, independence is essential.

**Due Professional Care:** It is important for auditors to utilize appropriate professional caution when organizing and carrying out their audits. This entails using professional skepticism with effort and carrying out the required research to be reasonably certain that there are no material misstatements in the financial statements. The documentation of audit work must also be done with due professional care, guaranteeing that it is adequate, relevant, and supports the auditor's findings.

**GAAS Emphasized Qualities that an auditor must possess:**

As highlighted by the Generally Accepted Auditing Standards (GAAS), auditors must possess specific qualities in order to maintain the integrity and credibility of the audit process. These attributes, which align with the General Standards, consist of:

**Independence and Objectivity:** In order to conduct an independent audit, auditors must approach their task with independence and impartiality, free from any financial or personal links that can influence their judgment. In the face of competing interests, objectivity guarantees that auditors can make fair decisions and remain unbiased.

**Professional Skepticism:** Keeping an open mind and evaluating audit findings critically are two aspects of professional skepticism. Auditors should aggressively look for evidence to support or refute claims made by management and not take information at face value. To spot possible fraud and misstatements, one must have a professional skepticism.

**Ethical Conduct:** Maintaining ethical conduct is a basic need for auditors. This covers decency, privacy, and conduct in a professional manner. To guarantee that their choices and behaviors uphold the greatest levels of professionalism and integrity, auditors should abide by a stringent code of ethics.

### 3.6.2 Standards of Field-Work

The Standards of Fieldwork direct the auditor's hands-on journey through the audit process within the complete framework of Generally Accepted Auditing Standards (GAAS). Unlike the fundamental General Standards, these essential principles go into the "how" of performing an audit, guaranteeing the caliber and efficacy of the methods used.

Three Key Categories:

The Standards of Fieldwork can be categorized into three essential stages:

#### **Planning the Audit:**

- It is imperative that the auditor first acquire a thorough understanding of the client's business, industry, and internal controls before examining the financial information. This entails determining the likelihood of substantial misstatements and adjusting the audit strategy accordingly.
- The efficacy of the client's internal control system must be assessed in order to decide how much the auditor may depend on them and to customize audit processes moving forward.

#### **Performing the Audit:**

- Main step in the audit process is gathering sufficient, appropriate audit evidence. To bolster their opinions regarding the fairness and accuracy of the financial accounts, the auditor must acquire evidence using a variety of techniques, such as reviews of supporting paperwork, analytical methods, and testing of controls and transactions.
- Conducting Analytical Procedures: By examining the connections and patterns among financial data, an auditor might identify possible areas of fraud or risk and launch a follow-up investigation.

#### **Completing the Audit:**

- Assessing the Audit's Outcomes: Following the collection and examination of data, the auditor must determine if it is sufficient and pertinent to make a conclusion about the financial statements. This entails resolving any disparities and addressing the hazards that have been discovered.
- Developing an Audit Opinion: Based on the information and analysis gathered, the auditor renders a determination about the fairness of the financial statements in

accordance with generally accepted accounting principles. For stakeholders, this view offers vital assurance.

**GAAS focused on the following actions that the auditor has to do both before to and throughout the audit process:**

It is vital to comprehend that GAAS places a strong emphasis on the value of proactive participation all through the audit process. Thus, this implies:

- **Planning:** In order to ensure a complete awareness of the client and any hazards before entering into processes, GAAS suggests beginning the audit with extensive preparation.
- **Continuous Evaluation:** The collection and assessment of evidence are not stand-alone processes; rather, GAAS mandates ongoing evaluations of the evidence's relevance and sufficiency throughout the audit.
- **Professional Skepticism:** Throughout the process, it's crucial to retain a healthy dose of skepticism, challenging presumptions and critically assessing the data to prevent missing any potential misstatements.

### 3.6.3 Standards of Reporting

How auditors present their findings and opinions is governed by the Standards of Reporting in auditing. These four essential criteria are as follows:

- The auditor must offer a definitive and unambiguous opinion about the financial statements. If all material components of the statements are presented truthfully and in accordance with the applicable financial reporting framework, the auditor expresses an unqualified opinion.
- The auditor's report should utilize consistent language to convey the degree of assurance provided. To keep communication clear, phrases like "material misstatement" and "reasonable assurance" should be used frequently.
- When required, the auditor adds paragraphs to highlight points or offer further details. While "other matter" paragraphs discuss topics unrelated to the decision, "emphasis of matter" paragraphs draw attention to important subjects without modifying the argument.

- The auditor's report makes it clear that their responsibility is to express an opinion on the financial statements based on their audit. It also highlights how management is responsible for the fair production and presentation of the financial accounts.

### 3.7 Audit Procedure

There are three main steps to the audit process:

- Planning the Audit
- Conducting the Audit
- Reporting the Results in the Audit Report

**Planning The Audit:** According to the GAAS "Standard of Field Work" norm, the auditor must adequately and meticulously design their audit program. The audit operations must be adequately planned and controlled in order to be carried out effectively and efficiently. This makes it possible for the auditor to collect relevant and adequate evidence while also being economical and avoiding misconceptions.

**Understanding the Client's Business:** With a deep understanding of the client's business and the sector in which it works, the auditor can pinpoint the primary areas of risk for the client and know where and how to focus resources. Additionally, it allows the auditor to assess whether the client can function as a going concern, identify complicated transactions that have a higher risk of mistake, and indicate important areas of possible misrepresentation.

**Developing the Audit Program:** The audit program is the primary control mechanism. A description of the procedures that must be followed during an audit may be found in the audit program.

**Gathering and Examining Audit Evidence:** Third-party validation and other data, along with all the accounting records that are part of the financial statements, make up the audit evidence.

**Assessing Inherent Risk:** The auditor determines if there is a possibility of significant misstatements in the account balances before assessing the effectiveness of the client's internal control. In the second "Standards of Field Work," it is stressed how important it is to understand the client's internal control. The risk can be increased or decreased depending on the auditor's ability to spot fraud as well as the specifics of the business and its industry.

**Evaluating Control Risk:** The chance that a significant falsehood, either by itself or in combination with additional misstatements, may go unnoticed or unabated by the client's internal controls. An in-depth knowledge of the client's internal control enables the auditor to identify potential areas of misstatement as well as the factors that might affect the risk of material misstatement.

**Conduct the Audit:** Two tests that follow are carried out as part of the audit, which is carried out based on the planning:

- Substantive Test
- Control Test

**Control Test:** Evidence related to policy and procedure implementation as well as control tests are used to determine the effectiveness of internal control systems. This test helps the auditor assess how well the control mechanisms are lowering the possibility of material misstatement.

In the test of control, the auditor is concerned with the following claims:

- Existence: Does the control genuinely exist?
- Effectiveness: Is it operating as intended?
- Continuity: Has the control run continuously for the allotted amount of time with little to no change in the outcomes?

# **CHAPTER FOUR**

## **Audit Procedure in Bangladesh**

## Chapter 4: Audit Procedure in Bangladesh

An audit, in the words of the AICPA, is "the highest level of assurance that a CPA performs and is designed to give a user comfort regarding the accuracy of financial statements." The CPA follows methods to determine if there are no substantial misstatements in the financial accounts, or to acquire "reasonable assurance," a high level of assurance that is not absolute.

### 4.1 Regular Audit Practice in Bangladesh

In Bangladesh, the auditing industry finds a balance between following global best practices and adjusting to a particular local setting. Frequent audit procedures are based on the International Standards on Auditing (ISA) and the Bangladesh Standards on Auditing (BdSA), which are carefully matched to provide uniform quality and conformity to international standards. (The Bangladesh Institute of Chartered Accountants, 2022). Verifying the accuracy and fairness of financial statements produced in compliance with Bangladesh Financial Reporting Standards (BFRS), the fundamental basis of financial reporting in the country, is the primary objective of these audits.

Due to the importance of upholding objectivity and moral behavior, audits are usually carried out by independent certified audit companies or individual chartered accountants who follow stringent moral guidelines. Establishing internal audit departments, which act as watchful stewards constantly checking internal controls and spotting possible risks, helps many firms further strengthen their financial supervision. Bangladesh Bank (undated) Additional power over the scene is exercised by the Institute of Chartered Accountants of Bangladesh (ICAB) and Bangladesh Bank, who regulate the auditing sector and ensure that rules are followed.

The core of regular audit processes in Bangladesh is defined by this combination of international rigorous methods, local legislation, and proactive internal practices, which ultimately build confidence and transparency within the country's financial ecosystem.



## 4.2 Audit Process by ICAB

In Bangladesh, the ICAB is in charge of monitoring professional accountants' operations and related issues. The Audit Practice Manual is the auditors' bible, and they must abide by all that is stated in it. The audit process is condensed and available in the AP There are four steps discussed:



### 4.2.1 Planning

Any desired objective may be attained with the aid of proper planning, which offers direction or a plan of action. The method often begins with the current operations and pinpoints the areas in need of development. Mapping the necessary steps to reach the intended destination and imagining the goals one wants to attain are prerequisites for creating an effective strategy. Planning offers the data required to make effective choices on the elements' priority and order depending on available resources. Planning well enables both resource conservation and productivity optimization. This also applies to audits, as improper planning might result in an audit taking longer than expected.

One of the numerous principles of the international principles on Auditing, ISA 300, specifies that an audit method must be appropriately prepared. It follows that the Bangladesh Standards on Auditing (BSA) are implied.

The standard recording of the client's planning memoranda is emphasized by BSA as being crucial. Based on the auditor's combined audit expertise and experience, The planning document is developed to comply with the audit method.. Documents used for planning include:

- The type of business that the entity is in.
- Method by which the firm is run.
- The risks involved and how they could affect the company.
- Actions made by the auditor during the company audit.

In order to comply with BSA and ensure a successful audit, planning is necessary. Planning elements include the following:

- Assessment of Risk and Materiality
- Analytical Review
- Test of Control

#### **4.2.1.1 Assessment of Risk and Materiality**

An audit's approach to ensuring a thorough and efficient review of financial statements is shaped by effective preparation, which is a crucial stage in the process. Risk and materiality assessments are two essential elements of audit preparation.

#### **Assessment of Risk:**

**Risk Identification:** The first step for auditors is to recognize and comprehend the different hazards that are present in the client's business environment. Risks unique to the sector, monetary variables, shifts in regulations, and internal elements like the competency and honesty of management are all included in this.

**Inherent Risk and Control Risk Assessment:** Auditors assess inherent risk by taking into account the financial statements' vulnerability to substantial misstatement without taking internal controls into account. By analyzing how well the client's internal controls stop or identify certain kinds of misstatements, control risk is determined.

**Risk of Fraud:** Auditors evaluate the risk of fraud in light of the possible impact on financial accounts, taking into account variables including managerial incentives, opportunities, and attitudes. This entails a careful assessment of the components and transactions in financial statements.

**Risk Assessment Procedures:** In order to get information and improve their comprehension of the company and its risks, auditors use risk assessment techniques, such as analytical processes, questions, and observation. This makes it easier to modify the auditing process to fit particular risk profiles.

**Documentation of Risk Assessment:** It is essential to thoroughly document the risk assessment procedure. Auditors record how well they understand the client's operations, the risks that have been identified, and the reasoning behind the evaluation. The audit methods that follow are built upon this material.

### **Materiality Assessment:**

**Quantitative and Qualitative Factors:** A quantitative and qualitative approach is taken to evaluate materiality. In qualitative factors, the influence on users' decision-making is taken into account, whereas quantitative factors require setting a standard, usually as a percentage of a pertinent financial statement statistic.

**Benchmark Selection:** For materiality, auditors select suitable benchmarks, such as total assets, revenues, or net income. The entity's size, the kind of financial information, and the industry all have an impact on the choice.

**Overall Materiality:** For the financial statements, auditors set an overall materiality requirement. This acts as a reference point for assessing falsehoods. It directs auditors to concentrate on areas that might have a big influence.

**Performance Materiality:** Auditors may establish performance materiality, a lower threshold than overall materiality, to handle certain account balances or transactions. In order to lower the possibility of missing individually insignificant but collectively significant misstatements, it offers a margin of safety.

**Documentation of Materiality:** Auditors record their materiality determinations, including the benchmarks selected, the reasoning behind the choices, and the overall impact on the financial statements, in a manner similar to risk assessment.

#### **Integration of Risk and Materiality in Planning:**

- Materiality and risk assessment are inextricably intertwined. A lower materiality requirement may be appropriate for high-risk areas because of the greater potential impact on financial statements.
- Based on the risk and materiality evaluations, auditors modify their audit strategy to better address areas with greater inherent and control risks.

To sum up, a thorough evaluation of risk and materiality in the planning stage is essential to a strong audit procedure. It helps auditors focus on important areas, adjust processes appropriately, and make sure the audit is carried out effectively and with due diligence.

#### **4.2.1.2 Analytical Review**

By examining potential connections between financial and non-financial facts, analytical review assesses financial information. As the audit process comes to a close, BSA 500 mandates that an auditor:

- Create and carry out an analytical method.
- Examine and assess the analytical procedure's outcomes.

Three distinct yet connected audit phases may be connected to the analytical review:

- Arranging
- Thorough analytical examination
- Examining the accounts

According to the APM, these phases shouldn't be seen as mutually exclusive but rather as an ongoing evaluation process.

#### **4.2.1.3 Test of Control**

The audit duties for internal control and client audits are specified by Bangladeshi standards. Creating a strategy requires control testing. APM states that the following are the justifications for testing controls: to assess implementation and design. every control pertaining to audits. Examine how successful and efficient internal control is.

#### **4.3 Collection of Audit Evidence**

Audit evidence refers to the information obtained to analyze the entity's financial statements. Audit evidence can be gathered in a variety of methods. What they are is:

1. Physical examination
2. Confirmation
3. Inspection
4. Analytical procedures
5. Inquiries
6. Recalculation
7. Performance
8. Observation

#### **4.3.1 Audit Sampling**

While it may seem difficult to delve into the vast quantity of financial data, audit sampling provides a tactical lifeline. Auditors use this approach to analyze a carefully selected representative sample and derive solid conclusions about the entire population, rather of investigating each and every transaction. In 2023, the AICPA See it like evaluating a book

based on its well selected chapters, which allows you to get a sense of the whole story without having to read every word.

Auditors choose samples, thoroughly evaluate them using statistical or non-statistical methods, and then extrapolate their results to the whole population. This effective method offers a decent level of assurance regarding the correctness of the data while saving significant time and money. But two critical elements are required for audit sampling to be successful: careful sample selection and expert interpretation of the data. Selecting the appropriate sample guarantees that the results are representative, and correctly interpreting the results necessitates taking into account possible sampling mistakes and how they may affect the final conclusions.

#### **4.3.1.1 Evaluation of Errors**

To ascertain the effect that errors have on the population as a whole, they must be appraised and reviewed when discovered during the audit. Since judgment is needed, which is influenced by experience, auditors find it challenging to evaluate mistakes.

#### **4.3.2 Controlling and Recording**

It is necessary to assess the audit's discovered shortcomings in order to ascertain how they may affect the broader public. Error scoring is a challenging task for reviewers as it involves making decisions based on past experiences.

It is only possible to conduct comprehensive testing, analytical evaluations, and/or certifications of conformance. The selection table outlines the parameters that determine the safety factor; the criteria in the balance sheet and income statement are different.

#### **4.3.3 Vouching the Total Population**

The APM states that the population's really small companies would be looked for. Small business-eligible corporations are also listed in the APM. This situation will result in the application of inherent risk. In order to reach a reasonable conclusion that all business financial gains and costs are documented correctly and precisely, To make sure that no small business bill will nonetheless give comfortable audit proof, the general risk assessment is still necessary.

#### 4.3.4 Accountancy Work and Audit Testing

As long as ethical issues have been effectively and consistently resolved, audit evidence gathered during account preparation may be used. Accountancy work of this kind can be planned appropriately with clear audit objectives, appropriate plan control, and sufficient review. There may not be a need for additional, in-depth testing in some situations due to the accumulation of sufficient data. Excellent auditing is still needed because these kinds of proof don't guarantee anything, including completeness or ongoing existence.

#### 4.3.5 Review and Opinion

The audit process ends with the review and opinion step. At this point, the audit results and report are discussed between the management and the auditors. On the basis of the management's input, some observations could be shared. Following the conversation, the firm's managing partner evaluates the audit as a whole and expresses an opinion. A checklist needs to be finished before an opinion is provided.

The checklist responses are initially examined by the auditor. How well the responses have satisfied the audit team will determine the final conclusion that is released. A non-qualified opinion is produced by the audit team if the responses are deemed adequate; otherwise, an opinion that is not qualified is formed. This report's "**Chapter 3: Theoretical Framework**" tackles the many forms of opinions that aren't unqualified.

Since it is important to do so, numerous conclusions are made from the corresponding multiple audit areas. The tests that have been conducted and the summary sheet should be used to determine the conclusion. For every major test in a given field, the pertinent working paper should contain the following:

- Objective of the tests
- Tasks performed
- Results obtained
- Conclusion drawn

# **CHAPTER FIVE**

## **Audit Risk in Bangladesh**



## Chapter 5: Audit Procedure in Bangladesh

The primary goal of financial statement audits is to provide stakeholders a reasonable level of assurance about the accuracy and integrity of the financial data that a firm presents. However, the concept of audit risk is fundamental to this procedure and is defined as "the risk that the auditor expresses an inappropriate audit opinion when in fact a material misstatement exists in the financial statements" (AICPA, 2023) to be precise. Effectively managing audit risk becomes crucial, especially in developing nations like Bangladesh where distinct legislative and environmental environments call for a sophisticated strategy.

### 5.1 Factors Influencing Audit Risk in Bangladesh

The distinct characteristics and high frequency of audit risk in Bangladesh are caused by a number of variables. The Institute of Chartered Accountants of Bangladesh (ICAB) and Bangladesh Bank, which set auditing standards and oversaw the industry, are two important regulatory bodies. Bangladesh follows the International Standards on Auditing (ISA); however, it might be difficult to apply these standards locally, especially for smaller businesses or sectors with less developed corporate governance procedures.

The intricacy is increased by Bangladesh's business climate. Financial statement manipulation and fraudulent actions can be encouraged by political instability, corruption, and lax legal protections. Furthermore, adherence to conventional accounting methods and a slow uptake of cutting-edge accounting technology can impede transparency and raise the risk of mistakes or deliberate misrepresentations.

In addition to the external environment, internal control systems in Bangladeshi companies frequently need more examination. There is considerable variation in the efficacy of internal controls in risk mitigation; smaller businesses or those operating in the unorganized sector may have less robust control frameworks. This means that independent auditors must rely more on substantive audit processes.

## 5.2 Specific Types of Audit Risk in Bangladesh

In Bangladeshi audits, a few forms of audit risk require special consideration in light of the above listed concerns. Fraud, including deliberate false assertions made for one's own benefit, is still a serious problem. There has been evidence of certain types of fraud in Bangladeshi enterprises, including asset misappropriation, revenue recognition manipulation, and phantom workers (World Bank, 2020). Inadvertent mistakes leading to misstatements can also occur. Inadequate internal controls or a disregard for accounting rules can make certain areas more prone to mistakes, such as payroll computations, receivables recognition, and inventory value.

It is crucial to comprehend how audit risk assessment is actually carried out in Bangladesh. This section outlines the methods that auditors employ, with a focus on identifying and evaluating inherent, control, and detection risks. Case studies and real-world examples can shed light on how these approaches are really used in practice.

Bangladesh's unstable economic climate further makes the going concern assumption—which denotes a company's capacity to continue functioning in the near future—a crucial factor to take into account. Certain factors, such a heavy reliance on outside funding, being near natural catastrophes, or experiencing political unrest, might give rise to going concern issues and require more audit processes.

## 5.3 Strategies for Mitigating Audit Risk in Bangladesh

There are a few tactics that may be used to successfully traverse Bangladesh's audit risk environment. The foundational element of risk management is still comprehensive risk assessment, which necessitates that auditors examine the client's internal controls, business environment, and particular financial statement issues in detail. The audit methods are then tailored in accordance with the results of this risk assessment, guaranteeing that high-risk areas receive enough attention.

Early on in the audit process, analytical techniques that examine linkages and patterns in financial data can be very useful in spotting any red flags. Auditors can streamline their audits and increase efficiency by identifying areas that require more examination by comparing current data with budgets, industry benchmarks, or historical patterns. Effective establishment and integration of internal audit activities with the external audit process may greatly improve risk mitigation. When internal auditing is done well, it may provide important information

about the control environment of the business and spot any problems before they become serious misstatements.

The competence and training of auditors themselves ultimately determines how well audit risk reduction works. To properly traverse the particular hurdles and carry out their professional obligations, auditors must possess a detailed awareness of the Bangladeshi environment, including pertinent rules, industry-specific hazards, and standard accounting standards.

# **CHAPTER SIX**

## **Findings, Recommendation and Conclusion**

### 6.1 Findings

- The regulatory framework, which is shaped by Bangladesh Bank and the ICAB, is essential in establishing norms and modifying global norms to fit regional circumstances.
- Risk assessment and audit processes need to be approached with sensitivity due to the complexity of the business environment, which includes political instability, poor legal frameworks, and emerging corporate governance norms.
- The internal control systems of organizations in Bangladesh exhibit notable variations, which in certain instances mandate a greater dependence on substantive audit processes.
- Fraud: Documented instances of intentional misstatements for personal advantage include asset misappropriation and revenue recognition manipulation.
- Inadequate controls or accounting procedures can lead to inadvertent mistakes in areas like as payroll computations, inventory value, and receivables recognition.
- Going Concern: The unstable state of the economy makes people wonder if businesses will be able to stay in business, which calls for more auditing processes.
- Extensive Risk Assessment: It's critical to customize audit processes based on a in-depth examination of the client's internal controls, business environment, and particular financial statement concerns.
- Analytical Procedures: Potential red flags can be successfully found early in the audit process by using methods like trend analysis and ratio analysis.
- Internal Audit: Combining the external audit with a strong internal audit function improves risk reduction and offers insightful information about the control environment.
- Auditor expertise: To effectively handle the particular hurdles, auditors must possess a thorough understanding of the Bangladeshi environment, including pertinent rules, industry-specific hazards, and standard accounting standards.
- Provide a risk-based auditing methodology that can be adjusted to each Bangladeshi company's unique needs.
- Promote ongoing training for auditors to improve their comprehension of Bangladeshi context and the changing risk landscape.

## 6.2 Recommendation

Here are some recommendations:

- Continuously refine auditing standards and guidelines to effectively address the evolving risk landscape in Bangladesh.
- Implement targeted training programs for auditors, focusing on Bangladesh-specific risks and best practices for mitigating them.
- Strengthen enforcement mechanisms to ensure adherence to auditing standards and ethical conduct.
- Risk assessment: Emphasize the importance of thorough and ongoing risk assessment throughout the audit engagement.
- Audit procedures: Tailor audit procedures to address the specific risks identified in the risk assessment, focusing on areas of high risk.
- Analytical procedures: Leverage analytical procedures to identify potential red flags and areas requiring further investigation.
- Internal audit: Encourage collaboration with internal audit functions to gain insights into the control environment and potential issues.
- Auditor expertise: Ensure auditors possess sufficient knowledge and experience in the Bangladeshi context and relevant industry sectors.
- Risk assessment: Emphasize the importance of thorough and ongoing risk assessment throughout the audit engagement.
- Audit procedures: Tailor audit procedures to address the specific risks identified in the risk assessment, focusing on areas of high risk.
- Analytical procedures: Leverage analytical procedures to identify potential red flags and areas requiring further investigation.
- Internal audit: Encourage collaboration with internal audit functions to gain insights into the control environment and potential issues.
- Auditor expertise: Ensure auditors possess sufficient knowledge and experience in the Bangladeshi context and relevant industry sectors.

## 6.3 Conclusion

The complexities of Bangladesh's corporate sector necessitate specialized audit processes to deal with its unique tapestry of risks and possibilities. Navigating this dynamic requires a comprehensive strategy that takes into account the complicated regulatory environment, developing corporate governance, and frequent fraud and mistake risks. My findings highlight the vital relevance of individualized risk assessments in directing audit procedures, the usefulness of analytical techniques in identifying red flags, and the need of strong internal controls in risk mitigation. Auditors who are well-versed in the Bangladeshi environment, rules, sector-specific hazards, and conventional accounting procedures may successfully manage these hurdles. To strengthen the audit landscape, we recommend continual refinement of auditing standards, targeted training programs, and stakeholder collaborations. Bangladesh can establish a strong auditing environment, promote financial reporting confidence, and eventually drive sustainable economic growth by embracing flexibility, innovation, and moral behavior. It is important to keep in mind that navigating this always changing terrain requires a commitment to ongoing growth.

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