**DRMS MEMO**

Date : 31 January 2022

Client : Cosmopolitan Industries (Pvt.) Limited (CIPL)

Subject : Classification of Engagement Risk for the audit of financial statements for the year ended 30 June 2022

Prepared by: Salauddin Morshed

Reviewed by: Faruk Uddin Ahammed

**About the Company:**

Cosmopolitan Industries (Pvt.) Limited (here-in-after referred to as the "Company" or "CIPL") was incorporated in Dhaka, Bangladesh on 26 June 2005 as a private limited company under the Companies Act, 1994. The registered office of the Company is situated at House # 17, Road # 15, Sector # 03, Rabindra Swarani, Uttara, Dhaka. The Company is a subsidiary of Epic Designers Ltd., Hong Kong.

CIPL is a 100% export-oriented garments manufacturing company engaged in the production and export of its products to the international markets. The Company is in operation with two units namely Washing and Garments unit. The Washing unit commenced its commercial operations from 31 August 2006 for automatic washing of all kinds of garments and the Garments unit commenced its commercial operation from 01 November 2006 for the production of ready-made garments.

**Representative Office of the Company:**

The Company has corporate office located at House 17, Road 15, Sector 3, Rabindra Swarani, Uttara, Dhaka-1230, Bangladesh.

**Engagement:**

We have been proposed to be appointed for conducting statutory audit of the CIPL for the year ended 30 June 2022.

**Consideration/Analysis of Engagement Risk:**

Reference of the Deloitte Policy Manual (DPM)

As per Para 38 of Deloitte Policy Manual (‘DPM’) states,

*“For all Engagements, the Member Firm should establish that the Engagement Risk is classified in one of the following categories:*

* *Normal risk*
* *Greater-than-normal risk*
* *Much-greater-than-normal risk.”*

Further Para 39 of DPM states that

*“The assessment of Client Risk and the classification of the particular Professional Service are combined, and professional judgment needs to be exercised in reaching a conclusion regarding the acceptability of the risk associated with accepting such Engagement. The judgment needs to be based not only on the evaluation of the Client Risk and the classification of the particular Professional Service but also on the recognition that some risk factors exist in virtually all Engagements and that the combination of all elements of risk can add up to an unacceptable degree of Engagement Risk..”*

Per para 10 of DPM 3210 Engagement Acceptance and Risk Classification (DPM India), the engagement team should consider the following factors, in assessing the engagement risk:

* Management characteristics and integrity
* Organization and management structure
* Nature of the business
* Business environment
* Financial results
* Business relationships and related parties
* Prior knowledge and experience

We have analyzed the above said factors in the following paragraphs:

* **Management characteristics and integrity**

Based on the discussion with the management, research performed by the engagement team and background check (First Pass Check) performed as part of the engagement acceptance process, we have not identified any concerns on the characteristics and integrity of the Management. Refer to the attachment below about the entity for brief background of the Management team of the Entity.

Whether we perceive a higher risk in the form:

Client Risk: **No**

Professional Service Risk: **No**

Overall Engagement Risk: **No**



* **Organization and management structure**

Cosmopolitan Industries (Pvt.) Limited (CIPL) was incorporated in Bangladesh as a private limited company under registration from RJSC.

Management of the Company is shown as follows:

|  |  |
| --- | --- |
| **Name** | **Position** |
| Ranjan Tikam Mahtani | Chairman |
| Dinesh Gope Virwani | Managing Director |
| Sunil Daulatram Daryanani | Director |
| Tanvir Ahmed | Non-executive Director |

Detailed management information can be accessed through the following link:

[www.epicgroup.global](http://www.epicgroup.global)

Based on discussion with the management we have noted the following:

* The entity has a defined management structure and properly defined allocation of responsibility and accountability.
* Entity and the reporting structure does not prima facie appear to be unduly complex.
* Management capability and style is consistent with the size and growth of the business

Considering the size of the Entity, the capability and functionality of the management is adequate and the same is under the supervision of the senior management/person in charge of governance. Further, as explained, there are monitoring mechanisms including periodic review of MIS/Financials.

Whether we perceive a higher risk in the form:

Client Risk: **No**

Professional Service Risk: **No**

Overall Engagement Risk: **No**

* **Nature of the business including the business environment**

Cosmopolitan Industries (Pvt.) Limited (CIPL) (here-in-after referred to as "the Company” or "CIPL") was incorporated in Dhaka, Bangladesh on 26 June 2005 as a private limited company under the Companies Act, 1994. Currently, the Company is engaged in the production and export of readymade garments. The commercial operations started from 1 November 2006. The Company is a subsidiary of Epic Designers Ltd., Hong Kong.

The applicable Industry and regulatory framework are as follows:

**Industry:** Readymade garments

**Regulator:**

* Registrar of Joint Stock Companies and Firms (RJSC)
* National Board of Revenue (NBR)

Considering the Industry and regulatory environment, the following factors have been considered in determination of our Engagement Risk:

* The Entity is in business of garments sector.
* Governmental and statutory regulations may adversely affect operating results and financial position.
* Entity is subject to annual inspection by the regulator i.e. Bangladesh Entity.
* Risk of Corruption, Bribery and Corporate Fraud risk (including cyber frauds)
* Increasing competitive Industry Scenario in the Sector.
* Evolutions of the regulatory policies, guidance and Framework
* Fraud risk involves in the portfolio lending including diversion of funds
* Terrorist attacks, civil disturbances or social unrest could adversely affect the garments markets and consequentially the Entity’s operations.

Whether we perceive a higher risk in the form:

Client Risk: **No**

Professional Service Risk: **No**

Overall Engagement Risk: **No**

* **Financial results**

Analysis of Company’s financial result is as below:

**Operating results in 2021 and 2020:**

|  |  |  |
| --- | --- | --- |
| **Key Operating Data** | | |
| *All figures in BDT* | | |
| **Particular’s** | **June, 2021** | **June, 2020** |
| Revenue | 5,315,157,766 | 6,001,464,377 |
| Net operating Income/(Loss) | (219,768,818) | (46,012,874) |
| Profit/(Loss) after tax | (269,980,515) | (83,418,580) |

The entity earned BDT 5,315,157,766 revenue the last year, i.e. for the year 2021. As compared to earlier year, revenue of the company declined in 2021 due to COVID-19. Operating income and net income of the company as well adversely affected by COVID-19 impact. But, overall financial performance of the Company was good and its prospect is good considering current condition of ready-made garments industry of Bangladesh.

**Financial position for the years 2021 and 2020:**

|  |  |  |
| --- | --- | --- |
| **Key Financial Position Data** | | |
| *All figures in BDT* | | |
| **Assets:** | **30 June, 2021** | **30 June, 2020** |
| Non-Current Assets | 1,900,042,478 | 1,923,558,329 |
| Current Assets | 1,763,422,626 | 1,433,712,215 |
| **Total Assets** | **3,663,465,104** | **3,357,270,544** |
| **Equity & Liabilities:** |  |  |
| Total Shareholders’ Equity | 1,505,551,547 | 1,770,059,246 |
| Total Liabilities | 2,157,913,557 | 1,587,211,298 |
| **Total Equity & Liabilities** | **3,663,465,104** | **3,357,270,544** |

We can see that the company’s Total Asset increased but total shareholders’ equity decreased from June 2020 to June 2021. Total shareholders’ equity of the company has been decreased due to net loss incurred attributed by COVID-19 impact. Still, considering large base of non-current assets, overall financial position of the company is very strong.

Whether we perceive a higher risk in the form:

Client Risk: **No**

Professional Service Risk: **No**

Overall Engagement Risk: **No**

* **Business relationships and related parties**

We have reviewed the audited financial statements and also the disclosure of related parties as per IAS-24 and noted that the Entity has related party transactions. The Entity carries out business with related parties in the ordinary course of business on an arm's length basis at commercial rates except for those transactions that the key management personnel have availed at concessionary rates which is applicable to all the eligible staffs. The Entity did not have any related party transaction exceeding this threshold as at the end of 2021. Transactions between the Entity and its subsidiaries and outstanding amount within the group have been disclosed in the audited financial statements.

Whether we perceive a higher risk in the form:

Client Risk: **No**

Professional Service Risk: **No**

Overall Engagement Risk: **No**

* **Prior knowledge and experience**

This is our third-year audit. We have necessary resources and expertise to perform audit of garments sector company.

* **Other factors**

We have also evaluated the following additional factors:

| **Factors** | **Evaluation** |
| --- | --- |
| History of fraud or allegations of fraud | No allegations of material fraud noted in recent years against the entity. |
| Nature of the business (audit & accounting complexity; emerging or new business) | The entity is in the business of readymade garments. This is duly considered as part of the engagement risk, which is classified as Normal. |
| Regulatory or criminal investigations | None noted and no fines and penalties have been levied by any regulator. |
| Regular or frequent change in auditor (prior auditor resignation), outside of normal auditor rotation rules; prior auditor declined to stand for re-election | No such case. |
| Restatements of prior financial statements | None noted. |
| Unusually aggressive time constraints to complete the audit | Nothing is noted from the management end.  In view of this requirement, we plan the following actions:   * Experienced Engagement team with relevant entity audit experience. |
| Association risk with an industry or business practice(s) that could potentially damage the Deloitte brand | Consistent with auditing any garments in Bangladesh |
| High adverse media/publicity | None noted |
| Part of an interrelated family of affiliated entities with related party transactions & Deloitte MFs do not audit these entities | * Epic Apparels Limited * Epic Garments Manufacturing Co. Limited * Pearl Garments Company Private Limited   Deloitte Bangladesh is the auditors of the entities. |
| Planned Initial Public Offering | No |
| Other factors | * There have been no major non-compliances noted in the past. * In the previous year, no significant material weakness or significant deficiencies were noted by the previous auditor. * There have been no material penalties levied by regulators for any non-compliances. |

**Assessing engagement risk of CIPL:**

Considering the factors discussed above, engagement risk has been classified as **‘Normal”.**

As well, the client risk has been concluded as **“Normal”.**

**Basis of conclusion of our assessment as Client Risk is Normal Risk:**

We noted that no major findings were available and hence, no Management Letter was issued by the last year’s auditor.

Considering the above, we can conclude that the client risk on the statutory audit of the CIPL for the year from 01 July 2021 to 30 June 2022 is **Normal.**

**Risk Management Action Plan**

This is our third year of audit and considering the inherent risk of ready-made garments sector in Bangladesh, following risk management action plan has been prepared for the purpose of audit.

* Significant involvement of Partner at every step of audit.
* Enhanced level of professional skepticism and questioning mind set throughout the engagement at all levels.
* EQCR Partner will be involved at an early stage of audit, and engagement team will ensure EQCR involvement in all significant engagement matters and issues. We arrange periodic meeting with the EQCR at different stages of the engagement.
* Detailed review of IFRS and Company Act 1994 and other applicable laws and regulations.
* Focused review of Entity level controls and internal control environment to address individual risks.
* Risk assessment process to consider the Industry specific risk.
* Regular and meaningful conversations with the client personnel – not restricted to the accounts team.
* ROMM – Specifically Significant Risks to have Industry and Entity Specific Risk and Tailor-made approach to address the risk.

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