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| **Date:** | 05/06/2022 |
| **To:** | EQCR/Consultation Team |
| **From:** | Audit Engagement Team (ET) |
| **Subject:** | Rebuttal of Risk of Fraud on Related Party Transactions |

**Objective**

Rebuttal of risk of fraud in identification of related party relationship, transactions, and disclosures as per Audit Alert 1 of 2021. As per the Alert 1 of 2021, for engagements with year ending on or after March 31, 2021, ET to mandatorily consult EQCR where fraud risk relating to related parties has been rebutted.

**Requirement**

International Standard on Auditing (ISA) 550 which deals with the auditor’s responsibilities regarding related party relationships and transactions when performing an audit of financial statements, *inter alia,* states:

1. Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

i. To recognize fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and

ii. To conclude whether the financial statements, insofar as they are affected by those relationships and transactions:

a. Achieve a true and fair presentation (for fair presentation frameworks); or

b. Are not misleading (for compliance frameworks);

1. In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework.

Considering the requirements of ISA 550 stated in paragraph (a)(i) above, engagement team should assess the risk of fraud in identification of related party relationships, transactions and disclosures and rebut the same with reasons if related party matters are not considered as a fraud risk. To achieve this objective, mere XYZ on the entity’s governance framework will not be sufficient. It would be pertinent to understand how robust the entity’s related party framework is and also how those charged with governance have ensured adherence to the related party framework established in the entity.

Accordingly, Audit Alert 01 of 2021 states that for engagement with year ending on or after 31 March 2021, engagement teams must mandatorily consult with EQCR where fraud risk relating to related parties has been rebutted. This rebuttal will need to be documented robustly in a Memo, which needs to be reviewed and signed off by the engagement partner and EQCR Partner / reviewer.

**Engagement Information**

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| Entity | Cosmopolitan Industries Private Limited |
| Industry (*please select*) | Manufacturing |
| Listed or Unlisted | Unlisted |
| Engagement Partner | Faruk Uddin Ahammed, FCA |
| Engagement Manager | Salauddin Morshed |
| EQCR | Shamsur Rahman |
| Basis of Financial Statements | IFRS |

**Brief overview of the entity**

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.

**Summary of Historical Financial Highlights**

***Operational results in 2021 and 2020:***

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| **Key Operating Data** | | |
| *All figures in BDT* | | |
| **Particular’s** | **2021** | **2020** |
| Operating profit | **(219,768,818)** | **(46,012,874)** |
| Profit before tax | **(227,281,497)** | **(37,891,697)** |
| Tax expenses | (42,699,018) | (45,526,883) |
| Net profit after tax | **(269,768,818)** | **(46,012,874)** |

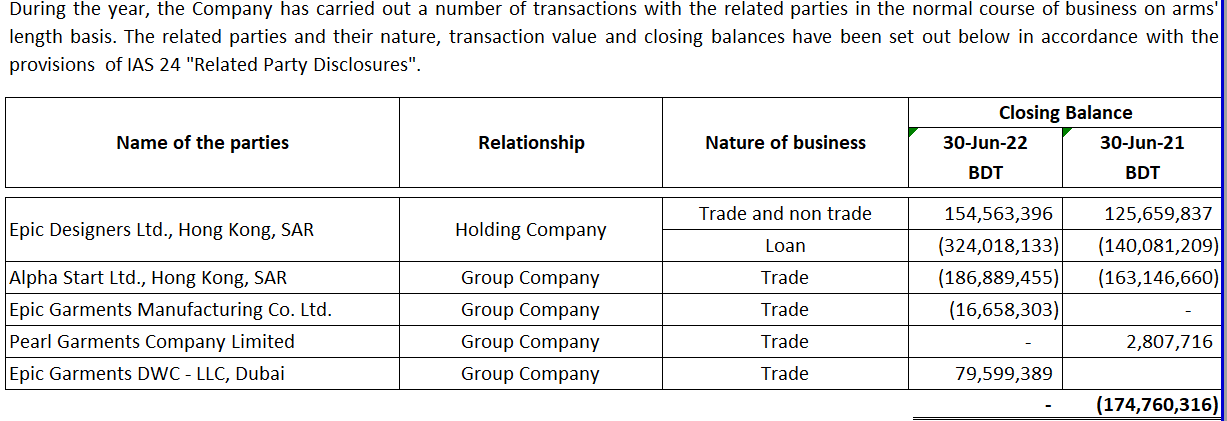
***Financial position in 2021 and 2020:***

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| **Key Financial Position Data** | | |
| *All figures in BDT* | | |
| **Assets:** | **2021** | **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:** |  |  |
| Share Capital | 870,384,000 | 399,985,200 |
| Revaluation reserve | 676,656,399 | 675,766,775 |
| Share money deposit | - | 470,398,805 |
| Capital Reserve | 142,640,200 | 142,640,200 |
| Retained Earnings (loss) | (184,129,052) | 81,268,265 |
| Current Liabilities | 1,958,892,090 | 1,617,631,691 |
| Non-Current Liabilities | 199,021,467 | 153,266,893 |
| **Total Equity & Liabilities** | **1,958,892,090** | **1,433,944,405** |

**Related party policy of the Company**

Engagement Team (ET) has made collaborative inquiries with Mr. Golam Mowla (Deputy General Manager-Finance & Accounts) and Mr. Golam Mowla (Deputy General Manager-Finance) with respect to identification of related parties and disclosure of related party transactions for the Company.The Company has a guiding policy for related party transactions in order to align it with the requirements of International Financial Reporting Standards (IFRS) and other applicable laws. This policy identifies related parties, and guides on the recognition, measurement, and disclosure of related party transactions.

**Details of key transactions with the Related Party**



**CONTROLS MANAGEMENT HAS ESTABLISHED TO ADDRESS RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

**To identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework**

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| Significant transaction with related party is in the nature of expenses on Purchase and expense reimbursement with Associates (Enterprises over which Cosmopolitan Industries (Pvt.) Limited can exercise significant influence).  Controls established by management for identification of related parties and disclosure of related party transactions and balances are as follows:   1. Related part transactions of the company are mainly guided with Agreement. During each related party transaction, Corporation Tax Team validates the transactions with related parties to ensure these are at arm's length. 2. At year-end (June) the entire list of related party transactions are compiled by Finance Team. Finance Team reviews and identifies related parties on an annual basis to evaluate whether any changes are required or not as per the requirements of the Companies Act, 1994 and IAS-24. The Finance team is headed by Mr. Golam Mowla having experience of more than 4 years with the Company. 3. Related party transaction disclosures are prepared during statutory audit for reporting and disclosures. The RP notes are prepared by Mr. Golam Mowla (Deputy General Manager-Finance & Accounts) and before the same is placed for approval by Board. |

**Audit Procedures as planned by ET for testing of above Controls**

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| 1. Obtain list of related party from Finance Team and cross verify all information considering group structure and list of fellow subsidiaries received from the client. Ensure list of related party is reviewed by Finance Team for completeness. 2. Verify transactions, on a test check basis, with underlying documents like agreement, terms of appointment, calculation of amount determined, etc. to ensure accuracy. |
| 1. Verify master records/ trial balance to ensure all identified party transactions are captured and reported. |

**ET’s assessment and conclusion**

The disclosure w.r.t the Related Party Transactions of Novo Nordisk Pharma (Private) Limited are governed by IAS 24.

**Definitions of Related Parties as per IAS 24**

As per para 9 –

A related party is a person or entity that is related to the entity that is preparing its

financial statements (in this Standard referred to as the ‘reporting entity’).

(a) A person or a close member of that person’s family is related to a reporting

entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

As per para 11 -

In the context of this Standard, the following are not related parties:

1. two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
2. two joint venture simply because they share joint control of a joint venture.

(c) (i) providers of finance,

(ii) trade unions,

(iii) public utilities, and

(iv) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity,

simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).

(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

**Listed below are factors that have been gathered during the audit that could indicate that related parties or relationships previously undisclosed to the auditor might exist:**

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| **Factors** | **ET Evaluation** |
| Borrowing or lending on an interest-free basis or with low interest rates or on no fixed repayment terms; | Loan from Director is supported by loan contract. Loan has been obtained with 3.00% which is justifiable considering average interest rate of Hong Kong. |
| Engaging in a non-monetary transaction that lacks commercial substance; | No such instance noted. |
| Loans and advances to parties that, at the time of transaction, do not have the ability to repay and possess insufficient collateral and where the end use is not ascertainable; | In the course of Audit Procedures, we have not noted any such instance. |
| Rollover of loans and advances without penalty or commercial substance; | In the course of Audit Procedures, we have not noted any such instance. |
| Payment for professional services without receiving reports or where the purpose is not ascertainable. A subsequent repurchase of goods that indicates that at the time of sale an implicit obligation to repurchase may have existed that would have precluded revenue recognition or sales treatment; | All service procurement is based on business rationale which can be easily identified and corelated as the same is backed with underlying agreement. |
| Discussions at board or management meetings include references to unknown parties. Sales at below market rates to an intermediary whose involvement serves no apparent business purpose and who, in turn, sells to the ultimate customer at a higher price, with the intermediary (and ultimately its principals) retaining the difference; | Based on verification of minutes of Board for the current year, we have not come across any such instance. |
| Guarantees and guarantor relationships outside the normal course of business; | In the course of Audit Procedures, we have not noted any such instance. |
| License agreements including transactions of registration and transfer of trademark, R&D etc; | No such case. |
| Transactions between two or more entities in which each party provides and receives the same or similar amounts of consideration (e.g., round-trip transactions). | There is no such transaction. |

**Further assessment of Risk Factor for classification of ROMM as Lower/ Higher/ Significant**

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| **Ref: DAAM 13150 – Identify and assess the risk of material misstatement:**  ***46******As part of the risk assessment as described in*** [*paragraph 3*](https://techlib.deloitteresources.com?link=content/0901ff81813a6037%23policy_7227D3BFE8B14890A9D3FC3CD54ADAA1)***, the auditor shall determine whether any of the risks identified are, in the auditor’s judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.*** *[*[*ISA 315.27*](https://techlib.deloitteresources.com?link=content/0901ff81804473d6%23para_9123BAF1398D4E9780135127E5B8CD8A)*]*  Based on: |
| 1. Reviewing group structure and list of RP transaction, we have not identified any party with which company has done any transactions which are one off/ unusual nature, no change or new party with which the company has entered into any exceptional nature transaction; 2. List of fellow subsidiaries of parent is received from parent company which is being followed. Any observations are directly reached to Group for its resolution; 3. Transactions with related parties are entered into are in ordinary course of business. On review of sampled related party transactions for the year ended 30 June 2022, we have noted no spark/ high volume/ value of transaction with any related party; 4. June year-end review of related party transactions and disclosures by Finance Team process have been observed and no deviation/ exception have been noted.   Considering above, ET has not identified any quantitative and qualitative risk factors on likelihood and potential magnitude of misstatement. We have assessed the risk as “**Higher Risk**” “**with no fraud risk**” |
| ***47******In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:***   1. **The effect of the quantitative and qualitative risk factors discussed in** [paragraph 3](https://techlib.deloitteresources.com?link=content/0901ff81813a6038%23guidance_78946FFD3B884E70BB08B373AC08B5C3) **of Section 13200 on the likelihood and potential magnitude of misstatements;**   *<As detailed above>*   1. ***Whether the risk is a risk of fraud (a fraud risk is a significant risk);***   Based on the above assessment, the engagement team has assessed that related party transactions do not constitute fraud risk   1. ***Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;***   No   1. ***The complexity of transactions;***   Based on review of related party transactions for the year ended June 30, 2022 prepared for Transfer Pricing Report u/s 107F (Statutory accounts), the transactions are not complex and entered in ordinary course of business. The transactions are backed by approved agreements, PO, contract, invoice, etc. and are reviewed and approved by appropriate authorities.   1. ***Whether the risk involves significant transactions with related parties;***   No. Transactions with related parties are in the normal course of business and there are no unusual significant transaction noted in the past. The transactions are entered in its normal course of business. Appropriate policy and procedures are in place of periodical review, confirmation and reconciliation and approval process.  Further **as per Para 48 of DAAM 13150** – “Significant risks often relate to significant non-routine transactions or judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty. Routine, non-complex transactions that are subject to systematic processing are less likely to give rise to significant risks. [[ISA 315.A141](https://techlib.deloitteresources.com?link=content/0901ff81804473d6%23para_BEE2C34F2DBB419BA3EF72F6EEA318FD)]”  No such nature of transaction.   1. ***The degree of complexity or judgment in the recognition or measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty;***   The significant related party transactions are backed by agreement, PO, contract, invoices, etc. and entered in normal course of business. These transaction does not involve complexity or judgement in the recognition or measurement of underlying financial information or any measurement uncertainty.   1. ***Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.***   No, the related party transactions are entered in ordinary course of business which are routine and recurring in nature.  Based on the above assessment, the ET has assessed that the risk of material misstatement with regards to identification of related parties, related party transactions and the disclosures thereof in the financial statements is not a fraud risk and not a significant risk. |

**Guidance on Related Party Transactions & Disclosures**

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