

An Analysis of Audit Reports: A Study of Eighteen Listed Food Companies in Bangladesh

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***Abstract:** This study attempts to present different aspects of audit reports of the food industry in Bangladesh. The paper contains the empirical observations based on the audit opinions of eighteen listed food companies in Bangladesh. There are significant variations among the opinions of the auditors in case of unqualified reports. But in case of qualified reports, the auditors identified the material misstatements in the audit reports regarding the financial statements of the respective companies adding the word “except for” in the opinion paragraph.*

1. Introduction

Assurance services are independent professional services that aim to ensure the quality of information available for decision makers. Chartered Accountants in Bangladesh (CAs) provides assurances about financial and non-financial statements information, which is often called audit of historical financial statements. An audit of historical financial statement is a form of attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are in conformity with Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRSs). Financial reports are essential to audit and assurance engagements because they communicate the auditors' (assuror) findings. Users of financial statements rely on the auditor's report to get assurance on the company's financial statements (Arens et al., 2009-2010). Assurance services are valued because the assurance provider (auditor) is independent and perceived as being unbiased with respect to the information examined. Auditors often make suggestions that improve profitability by reducing costs, including the reduction of errors and fraud and by improving operational efficiency (Arens et al., 2009-2010). The written report of an auditor, which is called audit report, falls into five categories as per Bangladesh Standards on Auditing (BSA). The study is concentrated on the eighteen listed food companies in Bangladesh (Appendix-A) where the nature and the structure of audit reports, provided by the independent auditors to the existing and potential report users regarding the financial statements prepared by the respective companies, are reviewed.

2. Literature Review

The International Auditing Practices Committee (IAPC) of International Federation of Accountants (IFAC) defined an audit as:

The independent examination of the financial information of any entity, whether profit oriented or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon. The term financial information encompasses financial statements.

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There are three primary types of audit: financial statements audit, operational audit, and compliance audit. The later two services are often called audit activities, even though they are most similar to assurance and attestation services (ICAB, 1999).

The objective of an audit of historical financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. So, compliance with the requirements of framework for preparing the audit report is an important issue. One study on “Quality of Audit Report of the Listed Companies in Bangladesh: A Compliance Study” (Das & Das, 2008), compliance of auditing standards and other prescribed regulations in expressing the audit opinions has been highlighted which are the important aspects of preparing audit reports in Bangladesh

Another study regarding the importance and quality of audit committee for an organization of the listed Public Limited Companies (PLCs) in Bangladesh, retrieved from Scribd.com, shows that the PLCs are focusing more on composition of audit committee and chairman of audit committee where little focus is placed on suspected infringement of laws, reporting to the authorities and report of conflict of interest.

But none of the above mentioned papers attempted to examine the categories of audit reports of listed companies. The present study attempts to reveal the scenario of audit reports of the listed food companies in Bangladesh. This study mainly focuses on how the auditors prepare the audit reports by giving their opinions based on the companies’ financial statements and consigns the auditors’ opinions in the appropriate categories.

3. Objectives of the Study

The main objective of the study is to analyze the structure and different opinions of the audit reports of the food companies issued by the independent auditor(s) to the shareholders of the concerned companies.

The specific objectives of the study are:

1. To review different aspects of audit reports of listed Food Companies in Bangladesh regarding the opinions provided by the auditors to the shareholders;
2. To give an overview of the audit report including its importance in listed food companies;
3. To highlight the area of regulatory framework and elements of reporting in Bangladesh;
4. To know the actual scenario of audit report categories of food industry;
5. To analyze the audit report disclosure practice in Bangladesh; and
6. To identify limitations of the audit reports issued to shareholders.

4. Methodology of the Study

Type of Research

The research is empirical in nature.

Data Sources

Required data to conduct the study have been collected from secondary sources. Data have been collected through studying the financial statements and audit reports of the food companies, several relevant Acts (e.g. Company Act 1994), ICMAB and ICAB handbook, Bangladesh Standards on Auditing (BSA), articles and other printed material of Securities and Exchange Commission (SEC).

Target Population

For this study, the target population is the total number of companies in food industry who are known as PLCs in Bangladesh. The number is found to be 23 as on December 31, 2009 (listed on DSE). Since the complete list of company is not available, the non-probability sampling technique is applied while selecting samples. For this study, 18 (78%) companies audit reports have been selected from annual reports of 2009 for data collection purpose from the library of the DSE. A list of sample companies and their respective audit firms is given in the appendix-A. The sample audit reports have been reviewed extensively for identifying the categories of audit opinions as well as their structure of presentation.

Data Analysis

The data collected from the selected reports have been analyzed under selected categories by using simple statistical techniques, like frequency, percentage, diagram etc.

5. Theoretical Aspects of Auditing

Audit in Bangladesh

The Companies Act 1994 makes it compulsory for every company to have its accounts audited by qualified auditors. The desirability of this provision can be based on the fact that shareholders who contribute the capital for the company leave company's management and control in the hands of directors. Auditors are there to safeguard the interest of shareholders.

The Institute of Chartered Accountants of Bangladesh (ICAB), being the only institute in Bangladesh for providing CA education, combines a high value qualification with a reputation as the country's best institution for training and supports the chartered accountants. The qualified chartered accountants from ICAB are eligible for auditing practices after getting sufficient experience in this field through a firm established by the approval of ICAB.

Scope of An Audit

The term "scope of an audit" refers to the audit procedures deemed necessary in the circumstances to achieve the objective of the audit. The procedures required to conduct an audit in accordance with BSAs should be determined by the auditor having regard to the requirements of BSAs, relevant professional bodies, legislation, regulations and, where appropriate, the terms of the audit engagement and reporting requirements by the approval of ICAB.

Reasonable Assurance

An audit in accordance with BSAs is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement. Reasonable

assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole. Reasonable assurance relates to the whole audit process.

An auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the auditor's ability to detect material misstatements. These limitations result from factors such as:

- The use of testing.
- The inherent limitations of any accounting and internal control system (for example, the possibility of management override or collusion).
- The fact that most audit evidence is persuasive rather than conclusive.

Also, the work undertaken by the auditor to form an opinion is permitted by judgment, in particular regarding:

- (a) The gathering of audit evidence, for example, in deciding the nature, timing and extent of audit procedures; and
- (b) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

Basic Elements of the Auditor's Report According to BSA 700

As per Bangladesh Standard on Auditing-700, audit report should maintain some elements:

Title: The auditor's report should have a title that indicates that it is the report of an independent auditor, for example, "Independent Auditor's Report," affirms that the auditor has met the entire relevant ethical requirement regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

Addressee: The auditor's report should be addressed as required by the circumstances of the engagement.

Introductory paragraph: The introductory paragraph in the auditors report should identify the entity whose financial statements have been audited and state the statements that have been audited.

Scope paragraph: It includes management's as well as auditor's responsibility for the financial statements. The auditor's report should state that management is responsible for the preparation and the fair presentation of financial statements in accordance with the applicable financial reporting framework. Auditor's responsibility means auditor should express the opinion of the financial statement based on audit and it was conducted in accordance with BSA.

Opinion paragraph: Opinion paragraph in an auditor's report comprises:

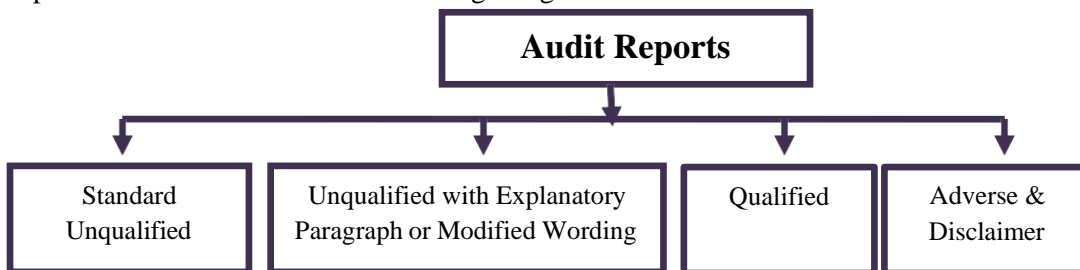
- a conclusion that gives a true and fair view in all material respect, in accordance with applicable financial reporting framework,

- an unqualified opinion if the reported financial statements give a true and fair view or present fairly in all material respect.
- the jurisdiction or country of origin of the financial reporting framework, if the auditor doesn't follow the IFRSs.

Auditors Signature, Date and Address: The auditor who audits the firm should sign the audit report and the report should name the location in the country or jurisdiction where the auditor practices. The auditor should also date the report on the financial statements.

Classification of Audit Opinions

The standard of reporting requires that the audit report should contain a clear-cut indication of the character of the auditor's work and the degree of responsibility taken for the financial statements (Arens, 2009-2010). To enable the understandability of the users of audit report, professional standards provide uniform wording for the auditor's report. Different auditors may vary the wording or presentation slightly, but the meaning is the same. Based on the standards of the report writing and capability of the auditors, the audit reports can be classified in the following categories:



Standard Unqualified Audit Report: The Standard unqualified audit report is issued when the following conditions have been met –

- All statements – balance sheet, income statement, statement of retained earnings and statement of cash flows – are included in the financial statements.
- The three general standards have been followed in all respects on the engagement.
- Sufficient evidence has been accumulated and the auditor has conducted the engagement in a manner that enables him or her to conclude that the three standards of fieldwork have been met.
- The financial statements are presented in accordance with GAAP. This also means that adequate disclosures have been included in the footnotes and other parts of the financial statements.
- There are no circumstances requiring the addition of an explanatory paragraph or modification of the wording of the report.

Unqualified Audit Report with Explanatory Paragraph or Modified Wording: The unqualified audit report with explanatory paragraph or modified wording meets the criteria of a complete audit with satisfactory results and financial statements that are fairly presented, but the auditor believes it is important or is required to provide additional information (Davis. R, 2005).

The following are the most important causes of the addition of an explanatory paragraph or a modification in the wording of the standard unqualified report –

- Lack of consistent application of Generally GAAP.
- Substantial doubt about going concern.
- Auditor agrees with a departure from promulgated accounting principles.
- Emphasis of a matter.
- Reports involving other auditors.

Qualified Audit Report: A qualified audit report can result from a limitation on the scope of the audit or failure to follow GAAP. When an auditor issues a qualified report, he or she must use the term “except for” or “subject to” in the opinion paragraph. The implication is that the auditor is satisfied that the overall financial statements are correctly stated “except for” a specific aspect of them.

In the study of audit reports that depart from an unqualified report and being qualified report, there are three closely related reasons –

- The scope of the audit has been restricted (scope limitation).
- The financial statements have not been prepared in accordance with GAAP
- The auditor is not independent.

Adverse Audit Report: An adverse opinion is used only when the auditor believes that the overall financial statements are so materially misstated or misleading that they do not present fairly the financial position or results of operations and cash flows in conformity with GAAP.

Disclaimer Audit Report: A disclaimer of opinion is issued when the auditor has been unable to satisfy himself/herself that the overall financial statements are fairly presented. The necessity for disclaiming an opinion may arise because of a severe limitation on the scope of the audit or a non-independent relationship under the code of professional conduct between the auditor and the client.

In practice, issues that could result in misstatements are often cleared up between the auditors and management before the financial statements are published, with any appropriate adjustments being made. This ultimately gives birth to unqualified opinion most of the time.

6. Data Analysis and Findings of the Study

From the study of the audit reports of eighteen listed food companies of Bangladesh, 61% of the overall audit reports of the listed food company’s fall in standard unqualified category. Here, the auditors express their opinion that all are related to the characteristics of an unqualified audit report. For an instance, auditors’ opinions affirm the proper application of GAAP by the companies’ management. Here, the auditors also opine that sufficient audit evidence has been collected and the general audit engagement standards have been followed in all respects on the audit engagement. These unqualified audit reports (61%) also reveal that adequate disclosures have been included in the footnotes

and other parts of the financial statements. There are no circumstances requiring the addition of an explanatory paragraph or modification of the wording of these reports. The study reveals that 39% of the sample audit reports are found as qualified audit's reports. Here the auditors start the opinion paragraph with the word "except for" which indicates that the reports are qualified. Material misstatements of these qualified reports are disclosed in the notes section of these financial statements, which is discussed in the findings of the study. The study also reveals that there is no adverse or disclaimer type of audit report among the 18 companies. A list of audit reports category of these eighteen companies is given in the appendix-B.

6.1 Analysis of the Nature of the Audit Reports

The findings in relation to the nature of the audit report are presented in the following table:

Table-1: Nature of the audit report issued for the listed companies studied

Categories of Audit Reports	Number of companies	Percentage of Audit Opinion
Standard Unqualified	11	61%
Unqualified with Explanatory Paragraph	0	0%
Qualified	7	39%
Adverse	0	0%
Disclaimer	0	0%
Total	18	100%

From the above analysis of the eighteen listed food companies in Bangladesh, the study claims that substantial part (61% of the sample) of the audit reports studied have been issued as 'Unqualified'. These companies are Agricultural Marketing Company Limited (PRAN), Apex Foods Limited, Bengal Biscuits Limited, Bangas Limited, Rahima Food Corporation Limited, Chittagong Vegetable Oil Industries Limited, Shyampur Sugar Mills Limited, Meghna Pet industries Limited, Meghna Condensed Milk Limited, Tulip Dairy & Food Products Limited and Yusuf Flour Limited. Bengal Biscuits Limited comprises a short summary about the companies overall financial performance in the scope paragraph of the audit report which becomes quite different from other companies' audit reports but it is not necessarily needed. A small portion of the audit reports studied has been issued as 'Qualified' mentioning the standard indications of qualified audit report of 'Except for' and 'Subject to' in the opinion paragraph of the audit report. Olympic Industries Limited, National Tea Company Limited, Fu-Wang Foods Limited, Tripti Industries Limited, Zeal Bangla Sugar Mills Limited, Mona Food industry limited and Fine Foods Limited - the audit reports of those companies are qualified category. Auditors identified the material uncertainty in the reference notes stated with the financial statements. In Olympic Industries Limited, auditors identify the material misstatement in the reference note no -10(b) regarding the investment in the share of Tripti Industries Limited. In Mona Foods Limited auditors identified the material misstatement in the company's depreciation and amortization charges. In National Tea Company Limited,

auditors identified the material uncertainty in realizing the debtors' amount in scope paragraph. They had taken the company's pre-tax profit into consideration, as they would have been Tk.31699189 instead of Tk. 81993398, thereby, overstating the pre-tax profit to the extent of Tk. 50294209. In Fu-Wang Food Limited, auditors identified the material misstatement in the ref.no. -10 that the company does not follow BAS-12 for computation of the deferred tax liabilities or assets. In Meghna Cond.Milk, auditors identified the material misstatement that cannot maintain proper books of account. In Tripti Industries Limited, auditors discover the material misstatement in the reference note no – 9.01 and 9.02 regarding the company's depreciation and amortization charges. In Zeal Bangla Sugar Mills- auditors make out the material misstatement in the reference note no – 11 of the financial statements where the outstanding loans and advances on account of cane grower's TK. 56368837 included TK. 23214014 as unrealized for more than three years. In Fine Foods Limited, an auditor attains the material misstatement in the reference note no – 12.00 that the company also did not follow the provision of BSA-12 for computation of the deferred tax liabilities or assets. The overall report writing patterns by the auditors are very much monotonous and there are a few variations of presentations of their different categories of opinion. Most of the reports do not maintain the elements of audit report. In case of qualified opinion, auditors describe the material misstatements in a very short form that sometimes causes confusion among the users of financial statements. However, the main purpose of preparation of audit reports is to confirm the accuracy of the financial statements that is why investors could rely and easily take their investment and credit decisions on the basis of these statements.

6.2 Analysis of the Standard Structure of Audit Reports:

Table 2 describes the extent of compliance of auditing standards followed by the auditors of the sample companies:

Table-2: Extent of compliance as to the standard structure of the audit report:

SL No.	Structure Component	Description	No. of audit report complied (N=18)	%
1	Title	Mentioning of "Independent Auditor" in the title	0	0.0
2	Addressee	Mentioning like "Shareholders of the XYZ Company (Full name)"	17	95.0
3	Opening or Introductory Paragraph	Identification of Financial Statements	18	100
		A statement of the responsibility, of the management regarding the financial statements and of the auditor(s) regarding opinion.	18	100
4	Scope Paragraph (Describing the nature of	Reference to the BSA or relevant national standards or practices	18	100
		Requirement of planning and performance	18	100

	an audit)	A description of the work the auditor(s) performed	18	100
		Reasonable basis of opinion	18	100
5	Opinion Paragraph	Reference to the financial reporting framework used to prepare the financial statements	18	100
6	Date of the report	Mentioning the date of completion	18	100
7	Auditors' address	Full address with holding number	6	33.33
		City where the audit firm located	18	100
		No address at all	0	0
8	Auditors' signature	Signature in the name of the firm	17	95.0
		Signature in the name of partner	1	5.0
		Signature as 'S/d'	3	16.67
		No signature at all	1	5.0
9	Heading of the paragraph	Mentioning the head of the paragraph before starting the paragraph	8	45.0

From the above analysis, the study infers that introductory paragraph, scope paragraph and opinion paragraph are complied fully with the standard practice as guided. But in case of title, addressee, date of the report, auditors' address, auditors' signature, heading of the paragraph component of the audit report are not complied with the fullest extent. The great deviations from standard practice have been identified in the 'title' component. There are no audit reports titled as 'Independent auditors' report'. But this compliance should be 100 percent. 'Auditors' addresses are given in the audit reports almost all cases but only 33.33 percent audit reports have inserted the addresses of the firms with holding number, which is directed as standard practice. Auditors' signatures are found in almost all cases but 5 percent of these have been issued with the signature in the name of partner concerned where 95 percent have come with the signature in the name of audit firm that should be the standard practice. It is observed that 16.67 percent of the audit reports are issued with the signature as 'S/d' which may occur due to technical problems (scanning of the original report) at the time of preparing and publishing the annual reports of the companies. But the standard required that signed audit report should be included in the annual report. It is worth meaning that one audit report has been issued without using S/d i.e. signed by the auditor, which is a major violation of the prescribed standard for the structure of the audit report. It is found that 95% of the audit reports have been properly addressed to the shareholders of the concerned company with the full name of the company, but 5% of the audit reports have been complied with this rule which is a strict violation of the standard practice. It is a good practice to mention the name of the paragraph before starting each paragraph in the audit report to indicate specific segment of the audit report for the good understandability of the message of the report to the users. But only 45 percent of the audit reports studied mentioned the name of the paragraph before starting each paragraph.

7. Concluding Remarks and Recommendations

The study reveals that most of the auditors do not take into account mentioning the proper title of the report (independent auditors' report) in issuance of audit reports. But auditing is the process that evaluates evidence about quantifiable information for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. In this study, the five categories of audit reports and the auditor's decision process relating to the eighteen-listed food companies in Bangladesh have been described. Throughout the study it is found that eleven companies' audit reports fall into Standard Unqualified category and rest of the seven reports fall into qualified category. There are no circumstances where an explanatory paragraph or modification of the unqualified report is required. When there is a material departure from GAAP or a material limitation on the scope of the audit, an unqualified report cannot be issued, but any of the analyzed audit reports does not meet those criteria. The appropriate report to issue in these circumstances depends on whether the situation involves a GAAP departure or a scope limitation as well as the level of materiality. However, most of the reports do not properly maintain the presentation elements of audit report as per Bangladesh Standard on Auditing –700, which is the main limitation of audit report preparation practice in Bangladesh and identification of this limitation is one of the main objectives of the present study. Since variation of presentation of audit reports may affect the decisions of different financial statements users such as investors and creditors, it is recommended that the audit firms follow the audit report preparation practice in Bangladesh as per Bangladesh Standard on Auditing properly.

8. Scope for Further Research

This study spawns a number of limitations and potential specific directions for future research. After careful analysis and consideration of audit reports' categories of listed food companies in Bangladesh, various scopes for further research are prescribed, e.g. comparative performance analysis of audit reports among the listed companies in Bangladesh, auditor's selection procedure of different companies in Bangladesh etc. Additionally, clients' as well as users' perceptions about the different audit reports may be considered to assess the effectiveness of audit reports preparation practice in Bangladesh.

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APPENDICES:

Appendix-A: Company and Audit firm

SI No.	Company Name	Audit Firm
1	Agricultural Marketing Company Limited (PRAN)	M.J. Abedin & Co.
2	Olympic Industries Limited	Howladar Yunus & Co.
3	Apex Foods Limited	Howladar Yunus & Co.
4	Bengal Biscuits Limited	Haque Shahalam Mansur & Co.
5	Bangas Limited	K. M. Alam & Co.
6	Rahima Food Corporation Limited	Atikur Rahman & Co.
7	National Tea Company Limited	Khan Wahab Shafique Rahman & Co. Hoda Vasi Chowdhury & Co.
8	Chittagong Vegetable Oil Industries Limited	Nasir Mohammad & Co.
9	Fu-Wang Foods Limited	Zahir Ahmed & Co.
10	Shyampur Sugar Mills Limited	Akhter Amir & Co.
11	Meghna Pet Industries Limited	Shafiq Mizan Rahman & Co.
12	Meghna Condensed Milk Limited	Shafiq Mizan Rahman & Co.
13	Tripti Industries Limited	M. J. Abedin & Co.
14	Tulip Dairy and Food Products Limited	Shafiq Basak & Co.
15	Mona Food Industry Limited	Atikur Rahman & Co.
16	Fine Foods Limited	M. J. Abedin & Co.
17	Yousuf Flour Limited	Howladar Yunus & Co.
18	Zeal Bangla Sugar Mills Limited	Syful Shamsul Alam & Co.

Appendix-B: Category Table

Sl No.	Name of the Companies	Categories of Audit Reports				
		Standard Unqualified	Unqualified with Explanatory Paragraph	Qualified	Adverse	Disclaimer
1	Agricultural Marketing Company Limited (PRAN)	√	×	×	×	×
2	Olympic Industries Limited	×	×	√	×	×
3	Apex Foods Limited	√	×	×	×	×
4	Bengal Biscuits Limited	√	×	×	×	×
5	Bangas Limited	√	×	×	×	×
6	Rahima Food Corporation Limited	√	×	×	×	×
7	National Tea Company Limited	×	×	√	×	×
8	Chittagong Vegetable Oil Industries Limited	√	×	×	×	×
9	Fu-Wang Foods Limited	×	×	√	×	×
10	Shyampur Sugar Mills Limited	√	×	×	×	×
11	Meghna Pet Industries Limited	√	×	×	×	×
12	Meghna Condensed Milk Limited	√	×	×	×	×
13	Tripti Industries Limited	×	×	√	×	×
14	Tulip Dairy and Food Products Limited	√	×	×	×	×
15	Mona Food Industry Limited	×	×	√	×	×
16	Fine Foods Limited	×	×	√	×	×
17	Yousuf Flour Limited	√	×	×	×	×
18	Zeal Bangla Sugar Mills Limited	×	×	√	×	×