

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

All audits shall be carried out applying the International Standards on Auditing (ISA) as adopted and issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).

Every report made by an auditor under the Companies Act of Bhutan 2016 and other relevant Acts and regulatory norms in examining the accounts of the corporations, financial institutions, authority and bodies subject to such statutory audits shall contain, *inter alia*, the following:

General:

- a) Whether or not the Companies and other bodies/authorities audited adhere to the Corporate Governance Guidelines and Regulations as applicable to them.
- b) Whether the governing board/authority pursue a prudent and sound financial management practice in managing the affairs of the company.
- c) The financial statements are prepared applying the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).
- d) Whether proper books of accounts have been maintained and financial statements are in agreement with the underlying accounting records.
- e) Whether adequate records as specified under Section 228 of the Companies Act of Bhutan 2016 have been maintained.
- f) Whether mandatory obligations social or otherwise, if any, entrusted are being fulfilled.
- g) Whether the amount of tax is computed correctly and reflected in the financial statements.

In the case of a manufacturing, mining or processing company:

1. Whether the company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets; whether any material discrepancies were noticed on physical verification and, if so, whether the same have been properly dealt with in the books of accounts.
2. Whether any of the fixed assets were being revalued during the year; if so, the basis of revaluation should be indicated. The treatment for profit/loss on revaluation should be clearly indicated.
3. Whether physical verifications were conducted at reasonable intervals in respect of finished goods, stores, spares parts and raw materials.
4. Whether the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported.
5. Whether any material discrepancies were noticed on physical verification of stocks as compared to the book records, and if so, whether the same have been properly dealt with in the books of accounts.
6. Whether the company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.

7. Whether quantitative reconciliation is carried out at least at the end of accounting year in respect of all major items of inventories i.e. finished goods and raw materials.
8. Whether the obsolete, damaged, slow moving and surplus goods/inventories has been determined and if the value is significant, adequate provisions are made.
9. Whether the obsolete and surplus inventories are disposed off and proceeds from such disposals are accounted for appropriately.
10. Whether approval of Board/appropriate authority is obtained for writing off amounts due to material loss/discrepancies in physical/book balances of inventories including finished goods, raw materials, stores and spares.
11. Whether the Auditors, on the basis of their examination of stocks, are satisfied that such valuation is fair and proper in accordance with the applicable Accounting Standards issued by the Accounting and Auditing Standard Board of Bhutan (AASBB). Whether the basis of valuation of stocks is the same as in the preceding year or if there is any deviation in the basis of valuation, the effect of such deviation.
12. Whether the rate of interest and the other terms and conditions of loans availed, if any, by the company secured or unsecured are *prima facie* not prejudicial to the interest of the company.
13. Whether the companies have refrained from granting loans to other parties which are *ultra-vires* to the Articles of Incorporation and other relevant Acts and regulations.
14. Whether the loans/advances granted to officers/staff are in keeping with the provisions of service rules and no excessive/frequent advances are granted and accumulation of large advances against particular individual is avoided.
15. Whether the company has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the company as well as to ensure adherence to the rules/regulations and system and procedures.
16. Whether there is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of the company and nature of its business, on issue of stores and allocation of materials and labour to jobs.
17. Whether there is system of competitive biddings, commensurate with the size of the company and the nature of its business, for the purchase of goods and services including stores, raw materials, plant and machinery, equipment and other assets, and for the sale of goods and services.
- 18(a) Whether the transactions for purchases and sales of goods and services made in pursuance of contracts or arrangement entered into with the director(s) or any other party/parties related to the director(s) or with company or firms in which the director(s) are directly or indirectly interested have been made at prices, which are reasonable having regard to the prevailing market prices for such goods or services or at prices at which the transactions for similar goods or services have been made with other parties. It should also be ensured that details of such transactions and amounts thereof are adequately disclosed in the financial statements.
- 18(b) If the Auditors' examination reveals that the transactions entered into by the company wherein the directors are directly or indirectly interested are prejudicial to the interest of the other shareholders and the company, the details thereof together with the likely financial impact thereof should be reported.
19. Whether the expenses charged to the company accounts represent legitimate business expenses and no personal expenses are charged to the company.

20. Whether any unserviceable or damaged stores, raw materials or finished goods are determined, and whether provisions for loss, if any, have been made in the accounts.
21. Whether there is a reasonable system of ascertaining and identifying point of occurrence of breakage/damages raw materials, packaging materials and finished products i.e. while in transit, during processing, during loading/ unloading, in storage and during handling etc. so that responsibility could be fixed and compensation sought from those responsible.
22. Whether the company is maintaining reasonable records for production of finished goods, by-products and whether adequate physical safeguards exist to prevent unauthorized or irregular movement of goods from the company.
23. Whether the company is maintaining reasonable records for sales and disposal of realizable by-products and scraps where applicable.
24. Whether the company is regular in depositing rates and taxes, duties, royalties, provident funds, and other statutory dues with the appropriate authority and if not, the extent of arrears should be disclosed. Whether the provision for corporate tax is adequate and that necessary adjustments have been made to compute amount of tax as per the prevailing tax laws, rules and regulations of Bhutan
25. Whether any undisputed amounts payable in respect of rates, taxes, duties, royalties, provident funds and other statutory deductions were outstanding, as per the last day of the financial year concerned, if so, the amounts of such outstanding dues.
26. Whether the company has a reasonable system of allocating man-hours utilized to the respective jobs, commensurate with the size and nature of its business, if applicable.
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28. Whether there is a reasonable system of price fixation taking into account the cost of production and market conditions.
29. Whether the credit sales policy is reasonable and proper credit rating of customers are carried out.
30. Whether the system of screening commission agents is adequate where sales are made through commission agents and that the agency commission structure is in keeping with the industry norms/market conditions. Whether the company has a system of evaluating performance of each agent on a periodic basis.
31. Whether there is a reasonable system for continuous follow-up with debtors and other parties for recovery of outstanding amounts. Also whether age-wise analysis of outstanding amounts is carried out for management information and follow-up action.
32. Whether the management of liquid resources particularly cash/bank and short term deposits etc. are adequate and that excessive amount are not lying idle in non-interest bearing accounts, and whether withdrawals of loan amounts are made after assessing the requirements of funds from time to time and no excess amounts are withdrawn leading to avoidable interest burden on the company.
33. Whether the activities carried out by the company are lawful and intra-vires to the Articles of Incorporation of the company.
34. Whether the investment decisions are made subject to prior approval of the Board and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
35. Whether the company has established an effective budgetary control system.

36. Whether in the case of manufacturing companies, where input-output relationship can be established, standard costing system is established and the variance analysis carried out on periodic intervals and corrective action taken if warranted.
37. The details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Chief Executive Officer or any of their relatives (including spouse(s) and child/children) by the company directly or indirectly are disclosed in the accounts.
38. Whether the directives of the Boards have been complied with and if not, list the instances of non-compliance.
39. Whether the officials of the company have transmitted any price sensitive information, which are not made publicly available, to their relatives/friends/associates or close persons.
40. Whether proper records are kept for inter unit transactions/services and arrangements for services made with other agencies engaged in similar activities.
41. Whether proper agreements are executed and that the terms and conditions of leases are reasonable and the same are applied if machinery/equipments are acquired on lease or leased out to others.

In the case of a Trading Company

1. All matters specified above as may be relevant and applicable shall apply to a Trading Company.
2. Whether the sourcing of products for retailing has been done rightly from manufacturers and authorized dealers at most advantageous terms and prices.
3. Whether appropriate inventory levels are determined and maintained to avoid stock-out and overstocking situations.

In the case of Finance and Investment Company

1. All matters specified above as may be relevant and applicable shall apply to financing and Investment Company.
2. Whether adequate documents and records are maintained in case, where the company has granted loans and advances and that agreement have been drawn up.
3. Whether proper records of the transactions and contracts have been maintained and whether timely entries have been made therein if the company is dealing or trading in shares, securities and other investments.
4. Whether reasonable records have been maintained for deposits of customers and interest payment thereof.
5. Whether the provisions are made for permanent diminution, if any, in the value of investment (shares).
6. Whether or not the financial institutions have complied with the requirements of Financial Services Act of Bhutan 2011 and any other applicable laws, rules and regulations and guidelines including prudential regulations issued by the Royal Monetary Authority of Bhutan (RMAB).

7. Whether or not the requirements relating to provisioning for the non-performing assets including loans and advances have been complied with.
9. Whether assets hypothecated against loans and advances have been physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or charges.
10. Whether or not the financial institutions have a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and project activities are progressing satisfactorily.
11. Whether or not the disposal of assets taken over for repayment defaults etc. are made through open/sealed bids.
12. Whether the rescheduling of loans is carried out in accordance with the provisions of Prudential Regulations 2016.
13. Whether or not there is a system to ensure that additional loans are not granted to those who have defaulted payments of previous loans.
14. Whether proper procedures including Board's approval have been followed/obtained for write-off of loans during the year as maybe applicable (details of total amounts of loan written off during the year to be reported).

In Case of Other Service Sector Companies

1. All matters specified above as may be relevant and applicable shall apply to a Service Sector Company.
2. Whether the Company maintains a reasonable system of costing to ascertain the cost of its services and enable it to make proper pricing decisions for its services.
3. Whether proper records are kept for inter unit transactions/services and arrangements for services made with other agencies engaged in similar activities.
4. Whether proper agreements are executed and that the terms and conditions of leases are reasonable and the same are applied if machinery/equipments are acquired on lease or leased out to others.

Computerized Accounting Environment

1. Whether the organizational and system development controls and other internal controls are adequate relative to size and nature of computer installations.
2. Whether adequate safeguard measures and back up facilities exist.
3. Whether back up facilities and disaster recovery measures include keeping files in different locations.
4. Whether the operational controls are adequate to ensure correctness and validity of input data and output information.
5. Whether the measures to prevent unauthorized access over the computer installation and files are adequate.
6. Whether the data migration during change over to new system are effectively managed to ensure completeness and integrity of data as well as smooth operation of the system.

Facts to be stated for unfavorable/qualified answers:

If conclusions to any of the matters referred to in the above paragraphs are unfavorable /qualified or where the auditors are unable to assess/comment the auditors should state the facts for such unfavorable or qualified answers as the case may be along with reasons where practicable.

Other requirements:

1. Going concern problems

In all the above cases, in addition to the various matters to be checked and reported, the Auditor's Report shall specify whether the company is healthy or is likely to become sick in the near future. Potential going concern problems shall be highlighted.

2. Ratio Analysis

Auditors should carry out such analysis including ratio analysis so as to determine the financial health and profitability of the enterprise. Ratio analysis should also ascertain the impact of Government subsidy (in cash or in kind) or any other forms of benefits extended by the Government on the profitability of the company. Where appropriate, comparison of the ratios with the industry norms should also be carried out. A separate chapter should be devoted, under the head financial and operational resume in respect of each audited entity. Graphic presentation of the important performance indicators and financial highlights maybe made wherever considered appropriate.

3. Compliance with the Companies Act of Bhutan 2016

Auditors should in their report clearly indicate as to whether the companies have complied with the various provisions of the Companies Act of Bhutan 2016 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares, raising of loans and all other matters specified in the said Act. The auditors are required to carry out complete audit of the Compliance to all items listed in the compliance Checklist and Compliance Calendar issued by the Registrar of the Companies.

4. Adherence to Laws, Rules and Regulations

Auditors should also report as to whether the companies have been complying with the applicable laws, rules and regulations, systems, procedures and practices of the sector to which the company belongs to or under which the business of the company is governed.