



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন, ই-৬/সি আগারগাঁও, শের-ই-বাংলা নগর প্রশাসনিক এলাকা, ঢাকা-১২০৭, বাংলাদেশ।

নং বিএসইসি/এনফোর্সমেন্ট/২৪২৮/২০১৭/৩৬১০

তারিখঃ ১৭ নভেম্বর, ২০১৯ ইং

আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section 2(g) মোতাবেক জেনারেশন নেক্সট ফ্যাশনস লিমিটেড 'issuer' হিসাবে অভিহিত (অতঃপর 'ইস্যুয়ার' বলে উল্লিখিত);

যেহেতু, For the interest of general investors/public M/s. A. Qasem & Co., Chartered Accountants was appointed as special auditors' for auditing of financial statements of Generation Next Fashions Limited (GNFL) for the years ended on December 31, 2014 and December 31, 2015 and also special audit of utilization of rights issue proceeds along with physical verification.

Whereas, the special auditors- M/s. A. Qasem & Co., Chartered Accountants has submitted their special audit report along with a summary statement on special audit report.

Summary of special audit report on Generation Next Fashions Limited (GNFL) for the years ended on December 31, 2014 and December 31, 2015 and also special audit of utilization of rights issue proceeds along with physical verification submitted by M/s. A. Qasem & Co., Chartered Accountants are as follows:

## **Observation 1: Property, Plant and Equipment were kept under Capital Work in Progress (CWIP) for long period and were not capitalized.**

During the course of our audit, we have noted that some line items under property, plant and equipment were presented in the financial statement as Capital Work in Progress since 2012 for which no movements in the carrying value since 2012 to 2015. While verifying those assets physically and verifying the underlying facts, we have noted that those assets were being used in operation during the period of special audit. Subsequently these assets were capitalized during the year 2016 without any further cost. It can be assumed that these assets were completed at that point of time. According to accounting principles, these assets should be capitalized in the financial statements and be depreciated from 2012.

If these assets were being capitalized and charged depreciation in the financial statements accordingly, net profit and corresponding EPS should have been negatively affected for the particular years. Details are shown below.

Particulars	2015	2014
Net profit after tax (As per audited financial statements)	340,042,273	497,770,969
Less: Depreciation on capital work in progress (not charged in FS)	(15,088,611)	(15,635,460)
<b>Adjusted net profit after charging depreciation</b>	<b>32,49,53,662</b>	<b>48,21,35,509</b>
Weighted average number of share outstanding	371,881,710	283,006,440
Basic EPS as per audited financial statements	0.91	1.76
<b>Basic EPS after charging depreciation on CWIP</b>	<b>0.87</b>	<b>0.17</b>
EPS from recurring income as per audited financial statements	0.78	1.63
<b>EPS from recurring income after charging depreciation on</b>	<b>0.74</b>	<b>1.57</b>



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## Implication and CFD's Comments:

- Noncompliance with the provision of para 7 and 55 of Bangladesh Accounting Standard (BAS) 16: Property, Plant and Equipment.
- Depreciation expenses were understated and Net Profits were overstated by 15,088,611 in 2015 and 15,635,460 in 2014.
- Earnings Per Share (EPS) were overstated.

## Observation 2: Inadequate disclosure regarding Capital Work in Progress (CWIP) presented in financial statements.

While checking the balances in the audited financial statements, we have noted that huge amount of CWIP are remained unchanged in the financial statements from the year 2012 to 2015. For justifying the balances of CWIP, we have checked the source documents, collected background information and finally visited the factory premises for two times. We have found that the building under construction is a 4 storied factory building of 40,000 square feet per floor, started construction works on December, 2011. As per engineer's certification (third party confirmation) ground floor and 1<sup>st</sup> floor were completed and subsequently transferred to PPE (Building account), depreciation were charged on additional amount as per companies prescribed rate @ 2%. 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> floor's construction works were at final stage and waiting for engineer's certification. As a huge amount of Capital Work in Progress (CWIP) is remained unchanged in the financial statements for a longer period without transferring to Fixed Assets, the management of the company should disclose the fact and reason for delay in completion of the work in detail for the users of the financial statements for their better understanding.

Details of the movement of CWIP are presented below:

Year	Opening Balance	Addition	Total	Transfer red to Fixed Assets	Balance	Remarks
2013	95,13,64,652	33,25,98,012	1,28,39,62,664	29,71,58,260	98,68,04,404	Civil construction of ground floor of four storied building completed on May 2013 and was ready for production
2014	98,68,04,404	14,57,65,933	1,13,25,70,337	7,92,84,652	1,05,32,85,685	1 <sup>st</sup> Floor completed on February 2014 and was partially ready for production
2015	1,05,32,85,685	11,01,13,188	1,16,33,98,873	8,02,95,870	1,08,31,03,003	1 <sup>st</sup> Floor was fully completed on April 2014. Construction works of 2 <sup>nd</sup> and 3 <sup>rd</sup> floor was under process with retrofitting works.

## Implication and CFD's Comments:

- Non-compliance with para 7, 15 & 16 of Bangladesh Accounting Standard 1: Presentation of Financial Statements.
- Investors may be misguided to take prudent investment decision.
- Non-compliance with Rule 12 (2) of the Security & Exchange Rules, 1987.
- Hinder for 'Fair Presentation' of GNF's financial statements as required by IAS-1.



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## **Observation 3: Right share issue proceeds were not utilized within the specified period.**

While performing audit on GNF's right fund utilization it was noted by us that the whole proceeds of the fund utilization was not performed within the stipulated time mentioned in the RoD. As the Right Share Issue Proceeds received were by Bank on 20 April 2014, the whole proceeds must be used within 1 year time period as per the provisions of ROD. The Table below shows the status of the utilization of right issue proceeds within the stipulated time period:

Designated project work	Details cost item	Amount in detail BDT	Total BDT	Projected date of completion	Utilised within the time period for BMRE BDT	Unutilised within the time period for BMRE BDT	% of Unutilized amount
Building & Civil construction	Building & Other Civil Construction (35000 sft 3+ 28500 sft 3)=146,100 sft @ Tk. 2053 approx)	30,00,00,000	30,00,00,000	Within 01 year of receipt of Right Issue fund	10,90,19,302	19,09,80,698	64%
Imported Machinery	Dyeing machines (Brand new) 7 nos	10,00,00,000	30,50,00,000	Within 01 year of receipt of Right Issue fund	75,63,969	29,74,36,031	98%
	Circular Knitting Machines (Brand new) 11 nos.	10,50,00,000					
	Flat Knit Machine (Brand new) 14 nos.	82,00,000					
	Gas generator 1020 KW	2,81,00,000					
	Boiler	1,00,00,000					
	Central Air Conditioner	57,00,000					
	Lift 3 nos.	1,00,00,000					
	Sewing Machine	2,80,00,000					
	Contingencies	50,00,000					
		Sub-total					
Machinery Installation		50,00,000					
Office Equipment & Other Assets	Details NA		1,00,00,000	Within 01 year of receipt of Right Issue fund	-	1,00,00,000	100%
Vehicles	Details NA		2,50,00,000	Within 01 year of receipt of Right Issue fund	10,00,000	2,40,00,000	96%
Repayment of Loan	Term Loan	25,08,13,042		Within 01 Month of	43,30,67,559	2,67,16,441	06%
	Over Draft	4,70,80,863					



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	Time Loan	16,18,90,095		receipt of Right Issue fund			
	Sub-total		45,97,84,000				
Rights Issue expense	Details NA		2,50,00,000	Within 04 Months of receipt of Right Issue fund	1,48,62,126	1,01,37,874	41%
<b>Total</b>			<b>1,12,47,84,000</b>		<b>56,55,12,956</b>	<b>55,92,71,044</b>	<b>50%</b>

## Utilization status of Right Issue Proceeds as of December 31, 2016

Designated project work	Details cost item	Amount in detail	Total BDT	Projected date of completion	Utilized up to December 31, 2016	Unutilized up to December 31, 2016	% of Unutilized amount up to December 31, 2016
Building & Civil construction	Building & Other Civil Construction (35000 sft 3+ 28500 sft 3)=146,100 sft @ Tk. 2053 approx)	30,00,00,000	30,00,00,000	19-Apr-15	30,03,85,054	(3,85,054)	0%
Imported Machinery	Dyeing machines (Brand new) 7 nos	10,00,00,000	30,00,00,000	19-Apr-15	7,79,75,075	22,20,24,925	74%
	Circular Knitting Machines (Brand new) 11 nos.	10,50,00,000					
	Flat Knit Machine (Brand new) 14 nos.	82,00,000					
	Gas generator 1020 KW	2,81,00,000					
	Boiler	1,00,00,000					
	Central Air Conditioner	57,00,000					
	Lift 3 nos.	1,00,00,000					
	Sewing Machine	2,80,00,000					
	Contingencies	50,00,000					
		Sub-total					
Machinery Installation		50,00,000	50,00,000	19 April 2015	18,80,696	31,19,304	62%
Office Equipment & Other Assets			1,00,00,000	19-Apr-15	2,46,000	97,54,000	98%
Vehicles			2,50,00,000	19-Apr-15	2,31,55,250	18,44,750	7%
Repayment of Loan	Term Loan	25,08,13,042	45,97,84,000	19-May-15	43,30,67,559	2,67,16,441	6%
	Over Draft	4,70,80,863					
	Time Loan	16,18,90,095					
	Sub-total	45,97,84,000					
Rights Issue expense			2,50,00,000	19-Aug-15	1,65,26,111	84,73,889	34%
<b>Total</b>			<b>1,12,47,84,000</b>		<b>853,235,745</b>	<b>271,548,255</b>	<b>24%</b>



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## Implication and CFD's Comments:

- Non-compliance with Right Share Offer Document (ROD), Rule-8(k) of Implementation Schedule.
- Huge idle fund in Bank as a Fixed Deposit Receipts (FDR) which implies delay in utilization of public money.

## Observation 4: Anomalies in right share issue expenses.

We have noted some documentation lapses wherein sufficient supporting documents were not found with vouchers in relation to the right issue expenses which are cited below:

Payment Date	Particulars	Name of the beneficiary	Amount in BDT.	Remarks
January 20 , 2014	Registration expense	Mr. Shamsur Rahman	15,285	<ul style="list-style-type: none"><li>• Conveyance treated as registration expenses.</li><li>• No TA/DA policy</li></ul>
February 12, 2014	Right issue management fees	ICB Capital Management Ltd.	500,000	<ul style="list-style-type: none"><li>• Sufficient documents not found such as invoice, bill, money receipt etc.</li></ul>
February 27 , 2014	Right share expense	Adobe Printing & Packaging	100,000	<ul style="list-style-type: none"><li>• Significant amount of cash transaction.</li><li>• No quotation, comparative analysis, work order, voucher, etc., are not made available except money receipt.</li><li>• Revenue stamp not affixed.</li></ul>
March 05 , 2014	Right share expense	Adobe Printing & Packaging	100,000	<ul style="list-style-type: none"><li>• Significant amount of cash transaction.</li><li>• No quotation, comparative analysis, work order, voucher, etc., are not made available except money receipt.</li><li>• Revenue stamp not affixed.</li></ul>
March 20 , 2014	Right share expense	Adobe Printing & Packaging	100,000	<ul style="list-style-type: none"><li>• Significant amount of cash transaction.</li><li>• No quotation, comparative analysis, work order, voucher, etc., are not made available except money receipt.</li><li>• Revenue stamp not affixed.</li></ul>
April 29 , 2014	Professional fees	Mr. Shahabul Alam	700,000	<ul style="list-style-type: none"><li>• Significant amount of cash transaction.</li><li>• No detailed supporting document was found except cash cheque copy.</li><li>• Revenue stamp not affixed.</li></ul>
June 04 , 2014	Right share expense	Satcom IT Ltd.	650,000	<ul style="list-style-type: none"><li>• No quotation, comparative analysis, work order, voucher, etc., are not made available except money receipt.</li><li>• Revenue stamp not affixed.</li></ul>
June 10 , 2014	Right share issue expense	Alpha Capital Management Ltd.	450,000	<ul style="list-style-type: none"><li>• No quotation, comparative analysis, work order, voucher, etc., are not made available except money receipt.</li><li>• Revenue stamp not affixed.</li></ul>
June 10 , 2014	Right share issue expense	Banco Finance & Investment Ltd.	1,350,000	<ul style="list-style-type: none"><li>• No quotation, comparative analysis, work order, voucher, etc., are not made available except money receipt.</li><li>• Revenue stamp not affixed.</li></ul>
June 10 , 2014	Right share issue expense	AFC Capital Ltd.	675,000	<ul style="list-style-type: none"><li>• No documents made available except debit voucher.</li></ul>

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Payment Date	Particulars	Name of the beneficiary	Amount in BDT.	Remarks
June 10, 2014	Right share issue expense	Prime Finance Capital Ltd.	450,000	• No documents made available except debit voucher.
June 10, 2014	Not Available	Not Available	617,727	• No documents made available.
June 11, 2014	Right share issue expense	PLFS Investment Limited	675,000	• No documents made available except debit voucher.
June 11, 2014	Right share issue expense	ICB Capital Management Ltd.	786,528	• No documents made available except debit voucher.
June 12, 2014	Not Available	Not Available	675,000	• No documents made available.

### Implication and CFD's Comments:

- Indicates weakness in internal control system.
- May create scope for financial irregularities and misappropriation.
- Reduce the credibility and reliability of the financial information.
- Implies poor stewardship of management over company's operation.

### Observation 5: No provision made for right share issue expense.

We have noted that Right Share Issue Proceeds were received by Bank on 20 April 2014. Some of the expenditure incurred before the receipt of Right Share Issue fund. The payments made at various date but no accounting entry was made to the books of accounts at that time. Later on after receiving Right Issue Proceeds, they have accounted for the transactions. Our Instances are as follows:

SL. No.	Payment date	Particulars	Name of the beneficiary	Amount
01.	January 20, 2014	Registration expense	Mr. Shamsur Rahman	15,285
02.	February 06, 2014	Listing fees	Bangladesh Securities & Exchange Commission (BSEC)	1,687,406
03.	February 12, 2014	Right issue manages fees	ICB Capital Management Ltd.	500,000
04.	February 25, 2014	Service charge	Central Depository Bangladesh Limited (CDBL)	219,903
05.	February 27, 2014	Right share expense	Adobe Printing & Packaging	100,000
06.	March 05, 2014	Right share expense	Adobe Printing & Packaging	100,000
07.	March 20, 2014	Right share expense	Adobe Printing & Packaging	100,000
<b>Total</b>				<b>2,722,594</b>

### Implications and CFD's Comments:

- Accrual/ Matching concept of accounting was not followed.
- Reduce the reliability of the financial information.
- Questionable recording process of transaction.
- Non-compliance with para 27 of Bangladesh Accounting Standard 1: Presentation of Financial statements.

### Observation 6: Inconsistent accounting policies applied in case of amortization of right share issue expenses.

As disclosed in note # 18 of financial statements for the year 2014, right share issue expenses amounted to BDT 3,305,222 were amortized (written off in the statement of comprehensive income) @ 20% (which is to be amortized 1/5<sup>th</sup> in each year over the five years period). However, in 2015

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entire remaining 80% of Right Issue Expensed were adjusted against share premium. In the year 2014, the amount were amortized and charged into the statement of comprehensive income and in 2015 the remaining amount were adjusted against share premium.

Details are presented in the below table:

As per audited financial statements	December 31, 2014	December 31, 2015
Right issue expenses during the year	16,526,111	
Less: Amortized during the year @ 20%	(3,305,222)	
	<u>13,220,889</u>	
Balance		13,220,889
Less: Adjustment with share premium		<u>13,220,889</u>

### Implication and CFD's Comments:

- Non-compliance of the para 13 of Bangladesh Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

### Observation 7: Unauthorized items under machineries were purchased by using right share proceeds.

We have noted that an instrument named Close Circuit Television Camera (CCTV) amounted to BDT. 400,000 were purchased by GNF which was not included in the Right Share Offer Document (ROD). Details are given below:

Date	Particular	Amount in BDT.
September 21, 2014	CCTV Camera (SAFE LIFE TECHNOLOGY)	200,000
November 16, 2014	CCTV Camera (SAFE LIFE TECHNOLOGY)	200,000
<b>Total</b>		<b>400,000</b>

### Implications and CFD's Comments:

- Non-compliance of Rights Share Offer Documents (ROD) Condition Requirement 18 of approval letter for issuance of Right Shares from BSEC ref. no. BSEC/CI/RI-90/2013/93 dated February 04, 2014.
- Implies improper concern of utilizing Right Issue fund.

### Observation 8: Non-compliance of Order No. SEC/CMRRCD/2009-193/104/Admin/26, dated: July 27, 2011 regarding audit of financial statements of any issuer company by the same audit firm.

During our audit, we have noted that Generation Next Fashions Limited appointed M/S. ATA KHAN & CO., Chartered Accountants as its statutory auditors for conducting the audit of financial statements for more than three years, started from 2012 to 2016. This is a non-compliance of the above mentioned order.

Details are given below:

SL.	Financial Year under	Engaged Firm	Signing Date
1.	As of December 31, 2012	ATA KHAN & CO.	February 24, 2013
2.	As of December 31, 2013	ATA KHAN & CO.	April 29, 2014
3.	As of December 31, 2014	ATA KHAN & CO.	April 27, 2015
4.	As of December 31, 2015	ATA KHAN & CO.	April 28, 2016
5.	As of June 30, 2016	ATA KHAN & CO.	November 28, 2016



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## Implications and CFD's Comments:

- Non-compliance with BSEC Order No. SEC/CMRRCD/2009-193/104/Admin/26 dated, July 27, 2011.

## **Observation 9: Noncompliance of Securities and Exchange Commission Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated: August 7, 2012 regarding appointment of Independent Directors and Head of Internal Audit.**

During the course of our audit we have noted that the position of Head of Internal Audit was vacant from the beginning of incorporation of the company and no appointments were made for any period. It was also noted that current Board of Directors (BoD) of Generation Next Fashions Limited (GNFL) contains 2 (two) independent directors among them 1 (one) Independent Director holding the office form more than 2 (two) terms. Details are tabled below:

Name of the post	Name of person Holding the Office	Joining date	Remarks
Head of Internal Audit	Vacant	N/A	The post remained vacant from the beginning of
Independent Directors	Mr. Md Artiar Rahaman	April 01, 2009	Holding the Office as an Independent Director for 7 years 10 months 14 days as on February 15, 2017

## Implications and CFD's Comments:

- Non-compliance of SEC Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated, 7 August 2012.

## **Observation 10: No policy was maintained to prevent insider trading.**

During our course of review, we found GNFL has developed no policy to prevent Insider Trading to be happened.

## Implications and CFD's Comments:

- Weakness control over the prevention of insider trading.
- Non-compliance with rule-5 of Securities and Exchange Commission (Prohibition of Insider Trading) Regulation, 1995.

## **Observation 11: Diluted EPS was disclosed despite of not having any dilution factor as per Bangladesh Accounting Standard 33: Earning Per Share.**

While auditing the GNFL's financial statements for the year ended 2014 and 2015, we have found that diluted earnings per share were calculated and presented in the financial statements. As per our observation, there were no such factors found which might create the basis for calculating and presenting diluted earnings per share as there was no conversion, option and warrant exercise during the financial periods.

## Implications and CFD's Comments:

- Non-compliance with para 31 of Bangladesh Accounting Standard 33:
- The user of the financial statement were misguided due to such wrong and unnecessary disclosure especially in case of financial decision making based on the report.
- The disclosure failed to provide a measure of the interest of each ordinary shareholders.

*VMR*





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## **Observation 12: Non-compliance of Bangladesh Accounting Standard 10: Events after the Reporting the Period.**

During our audit we have found that the Generation Next Fashions Limited (GNFL) did not disclose the date of authorization of financial statements for the year 2014 and 2015. We have also not found the name of authorizer of the financial statements.

### **Implications and CFD's Comments:**

- It is a non-compliance of para 17 of Bangladesh Accounting Standard 10: Events after the Reporting Period.

## **Observation 13: Adequate disclosures in preparation of financial statements were not ensured.**

During our audit, we have reviewed the accounting policies and disclosures presented in the financial statements for the year ended 2014 and 2015 and noted that the GNFL did not provide disclosure relating to the accounting policies they adopted, though disclosure related to accounting policies is a significant factor required by BAS 1. Generation Next Fashions Limited did not disclose the following elements in the financial statements:

Particulars of Disclosure	Required BSA's Reference
Materiality and aggregation.	BAS 1: Presentation of Financial Statements, Para 9&Para125
Presentation of Deferred Tax	BAS 12: Income taxes, Para 81 (g)
Related Party Disclosures	BAS 24: Related Party Disclosures, Para 17

### **Implications and CFD's Comments:**

- Non-compliance of Rule 12 (2) of the Security & Exchange Rules, 1987.
- Non-compliance with para 15 of Bangladesh Accounting Standard 1: Presentation of Financial Statements.

## **Observation 14: Required information was not available for confirming of inventory valuation.**

During our audit we have found that, Generation Next Fashions Limited's (GNFL) audited financial statements for the year ended December 31, 2014 & 2015, note#14.7 mentioned that, Inventories comprises of raw materials, work-in-process, finished goods. Raw materials have been valued at cost. Work in process have been valued at prime cost basis as required by Bangladesh Accounting Standard 2: Inventories, with proportionate addition of factory overheads. Finished goods have been valued at the lower of cost and net realizable value basis. Cost is determined by weighted average method.

We were unable to authenticate whether the inventories actually valued as per requirements of Bangladesh Accounting Standard 2 or not. We were not provided with necessary documents and information like stock counting reports, inventory ledger and assessment regarding net realizable value etc.

### **Implications and CFD's Comments:**

- Valuation of inventories as per policy could not be ensured. Non-compliance of Para 9 of BAS 2.
- Profit for the year might be misstated.
- Current assets as of reporting date might be misstated.

*Mr.*



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন, ই-৬/সি আগারগাঁও, শের-ই-বাংলা নগর প্রশাসনিক এলাকা, ঢাকা-১২০৭, বাংলাদেশ।

## **Observation 15: Non-compliance noted with BAS 7: Cash Flow Statements.**

It was noted that the statement of cash flows of GNFL for the year ended 31 December 2015 showed a transaction related to deferred payment of machinery purchased amounting to BDT 70,753,323, though the item was a non-cash natured transaction.

### **Implications and CFD's Comments:**

- Non-compliance with para 1 of Bangladesh Accounting Standards (BAS) 7 Cash Flows Statements.
- Statements of cash flows were misstated.

## **Observation 16: Accrual concept was not followed properly in recognizing expenses.**

We have noted that the following expenses were not recognized based on accrual basis concept of accounting during relevant year 2014 & 2015. Since some of the expenses for the year 2013 & 2014 were recognized in the financial statements of 2014 & 2015 respectively. The below table summarizes the instances:

Voucher Date	Particular	Amount	Date of Bill/Invoice
February 20, 2014	Factory Maintenance	12,255	Bill date: December 19, 2013, Bill date: December 11, 2013, Bill date: December 23, 2013, Bill date: December 24, 2013, Bill date: December 21, 2013
January 04, 2014	Car Rental	128,000	Bill for the month of November, 2013 & Bill date: December 05, 2013
January 04, 2014	Car Rental	50,000	Bill for the month of November, 2013 & Bill date: December 05, 2013
January 04, 2014	Car Rental	51,200	For the month of November, 2013 & Bill date: December 08, 2013
February 17, 2014	Lab Test & Inspection Fee	24,810	Pro-forma invoice (PI) date: December 26, 2013
January 07, 2015	Professional fees (A.WAHAB & Co.)	40,000	Bill for the month of November, 2014. Bill date: November 30, 2014
February 01, 2015	Professional fees (A.WAHAB & Co.)	40,000	Bill for the month of December, 2014. Bill date: December 31, 2014

### **Implications and CFD's Comments:**

- Expenses were recorded inappropriately i.e. expenses of a particular period were recorded in another period.
- Non-compliance with para 27 of Bangladesh Accounting Standard 1: Presentation of Financial Statements
- The objective of financial statements i.e. 'True and Fair View' was not ensured.
- Matching principle of accounting was not followed.
- Implies significant weakness in internal control over financial reporting system.
- Non-compliance with Bangladesh Financial Reporting Standards (BFRS) Profit/ loss were misstated.



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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## **Observation 17: Agreement was not made against some significant transactions.**

During our course of audit, we could not confirm huge amount of money transacted under building & civil construction with various parties only based on work order. GNFL were unable to provide us details information regarding those parties. Details are given below:

Sl. No.	Vendor Name	Transaction up to 31 Dec: 2015	Remarks
1.	AJ Corporation Ltd	3,750,000	Agreement was not made available
2.	Real Properties	123,000,000	Agreement was not made available
3.	Azim Engineering workshop & Thai Aluminum	4,390,000	Agreement was not made available
4.	Brothers Builders	3,018,800	Agreement was not made available
5.	Amena Enterprise	2,500,000	Agreement was not made available
6.	Akij Cement Co Ltd	6,709,591	Agreement was not made available
7.	Bhuiyan Properties	4,000,000	Agreement was not made available
8.	RSRM Steel plant Limited	3,189,100	Agreement was not made available
9.	Hive Interiors	3,800,000	Agreement was not made available

### **Implications**

- Lack of transparency in selecting vendor/Procurement process.
- Significant control weakness over internal control.
- The objective of financial statements i.e. 'True and Fair View' was not ensured.

## **Observation 18: No deferred tax was calculated as per the requirements of BAS 12: Income Taxes.**

Generation Next Fashions Limited (GNFL) did not recognized deferred tax on the taxable temporary difference in both year 2014 & 2015 in their financial statements.

### **Implications and CFD's Comments:**

- Accounting profit were misstated.
- Investors might have been misled due to these anomalies in the financial statements.
- NAV of the company were misstated in the financial statement.
- Non-compliance with para 24 of BAS 12: Income Tax.

## **Observation 19: Non Submission of withholding tax return.**

During the course of our audit, we have noted that, Generation Next Fashions Limited did not submit withholding tax return for the year 2014 & 2015.

### **Implications and CFD's Comments:**

- Non-compliance of Income Tax ordinance 1984, Section 75A (1).

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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## **Observation 20: Irregularities in Tax and VAT deduction and deposit.**

Every entity should comply with the local rules and regulations of the country to continue their operations. Entity should deduct Tax and VAT on payment of taxable expenses and duly paid the deducted amount to the Govt. treasury within prescribed time limit in accordance with the Income Tax Ordinance 1984 and the VAT Act, 1991 respectively. If the entity does not comply with concerned Tax and VAT rules, they may be imposed fines and penalty by the Govt.

During the course of our audit we observed some irregularities that did not comply with the concerned Tax and VAT rules and regulation. Few instances are given below with their implications:

### **20.1 Value Added Tax (VAT) was not deducted at source in some cases.**

During the course of our special audit we have noted some irregularities in deducting VAT from some transactions, though it was required as per relevant act. Our instance where GNFL did not deduct VAT accordingly are given below:

Ledger Head	Year	Ledger amount	Applicable Rate	Amount	
Car Rent & Others	2014	2,360,032	2.25%	53,100	
Car Rent & Others	2015	4,928,956	2.25%	110,902	
Advertisement	2014	612,517	15%	91,888	
Advertisement	2015	747,773	15%	112,167	
Professional Fees	2014	920,000	15%	138,000	
Professional Fees	2015	1,020,000	15%	153,000	
ShimantoParibahan	2014	6,436,135	7.5%	482710	
ShimantoParibahan	2015	13,302,113	7.5%	997,658	
<b>Others</b>					
Date	Ledger Head	Particular	Amount	Applicable Rate	Amount
June 17, 2014	AGM & EGM Expenses	Printing expenses(Olympic Industries Ltd)	468,080	15%	70,212
July 24, 2014	AGM & EGM Expenses	Printing expenses( Colorz Ltd)	684,000	15%	102,600
June 15, 2014	Stationery	Printing expenses( ART,ND Ltd)	55,050	15%	8,258
November 26, 2014	Stationery	Printing expenses(Nokta Ltd)	25,000	15%	3,750

### **Implications & CFD's Comments:**

- Non-compliance of section-6(4kha), Rule-18 (kha) of value Added Tax Act 1991.

### **20.2 Tax Deducted at Source (TDS) were not deposited to the Government Exchequer within the stipulated time.**

#### **Observation**

During the course of our special audit we have found that, GNFL deducted tax at source which were not deposited to Government treasury on due time in some cases. Our instances are given below:

Deduction Date	Particular	TDS in BDT	Deposit Date	Delay in days
January 13, 2014	Office rent	6,750	No document available to confirm the deposit	Could not be confirmed either deposited or not

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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Deduction Date	Particular	TDS in BDT	Deposit Date	Delay in days
February 15, 2014	Office rent	6,750	No document available to confirm the deposit	Could not be confirmed either deposited or not
March 12, 2014	Office rent	6,750	No document available to confirm the deposit	Could not be confirmed either deposited or not
April 09, 2014	Office rent	6,750	No document available to confirm the deposit	Could not be confirmed either deposited or not
May 12, 2014	Office rent	6,750	No document available to confirm the deposit	Could not be confirmed either deposited or not
June 11, 2014	Office rent	6,750	No document available to confirm the deposit	Could not be confirmed either deposited or not
July 27, 2014	Office rent	6,750	27 Nov 14	104 days delay
August 24, 2014	Office rent	6,750	27 Nov 14	73 days delay
September 25, 2014	Office rent	6,750	27 Nov 14	43 days delay
October 20, 2014	Office rent	6,750	27 Nov 14	12 days delay
November 24, 2014	Office rent	6,750	24 Dec 2014	Not made available.
December 29, 2014	Office rent	6,750	18 March 15	62 days delay
January 26, 2015	Office rent	6,750	18 March 15	31 days Delay
February 26, 2015	Office rent	6,750	12 April 2016	387 days delay
March 23, 2015	Office rent	6,750	12 April 2016	356 days delay
April 25, 2015	Office rent	6,750	12 April 2016	325 days delay
May 31, 2015	Office rent	6,750	12 April 2016	294 days delay
June 24, 2015	Office rent	6,750	11 May 2016	296 days delay
July 26, 2015	Office rent	6,750	11 May 2016	265 days delay
August 19, 2015	Office rent	6,750	11 May 2016	234 days delay
September 21, 2015	Office rent	6,750	11 May 2016	203 days delay
October 24, 2015	Office rent	6,750	15 June 2016	210 days delay
November 21, 2015	Office rent	7,600	15 June 2016	179 days delay
December 21, 2015	Office rent	7,600	15 June 2016	148 days delay

## Implications & CFD's Comments:

- Non-compliance of section 59 of Income Tax Ordinance 1984.

## 20.3 VAT Deducted at Source (VDS) were not deposited within the stipulated time to the Government Exchequer.

### Observation

During the course of our special audit we have noted that GNFL deducted VAT at source which were not deposited to Government treasury within due time in some cases. Our instances are given below:

Deduction Date	Particular	Amount	Deposited Date	Delay in Days
January 13, 2014	Office rent	12,150	No document available to confirm the deposit	Could not be confirmed either deposited or not
February 15, 2014	Office rent	12,150	No document available to confirm the deposit	Could not be confirmed either deposited or not

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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March 12, 2014	Office rent	12,150	No document available to confirm the deposit	Could not be confirmed either deposited or not
April 09, 2014	Office rent	12,150	No document available to confirm the deposit	Could not be confirmed either deposited or not
May 12, 2014	Office rent	12,150	No document available to confirm the deposit	Could not be confirmed either deposited or not
June 11, 2014	Office rent	12,150	No document available to confirm the deposit	Could not be confirmed either deposited or not
July 27, 2014	Office rent	12,150	27 Nov 14	108 days delay
August 24, 2014	Office rent	12,150	27 Nov 14	80 days delay
September 25, 2014	Office rent	12,150	27 Nov 14	48 days delay
October 20, 2014	Office rent	12,150	27 Nov 14	23 days delay
November 24, 2014	Office rent	12,150	24 Dec 2014	15 days delay
December 29, 2014	Office rent	12,150	18 March 15	64 days delay
January 26, 2015	Office rent	12,150	18 March 15	36 days Delay
February 26, 2015	Office rent	12,150	12 April 2016	396 days delay
March 23, 2015	Office rent	12,150	12 April 2016	371 days delay
April 25, 2015	Office rent	12,150	12 April 2016	338 days delay
May 31, 2015	Office rent	12,150	12 April 2016	302 days delay
June 24, 2015	Office rent	12,150	11 May 2016	307 days delay
July 26, 2015	Office rent	12,150	11 May 2016	275 days delay
August 19, 2015	Office rent	12,150	11 May 2016	251 days delay
September 21, 2015	Office rent	12,150	11 May 2016	218 days delay
October 24, 2015	Office rent	12,150	15 June 2016	220 days delay
November 21, 2015	Office rent	13,680	15 June 2016	192 days delay
December 21, 2015	Office rent	13,680	15 June 2016	162 days delay

## Implications & CFD's Comments:

- Non-compliance of 18 (kha) of the Value Added Tax 1991.

**20.4 Prescribed particulars in respect of depreciation claim were notsubmitted to the appropriate authority.**

## Observation

During the course of our special audit, we have noted that no such particulars was submitted by GNI' to the appropriate authority.

## Implications & CFD's Comments:

- Non-compliance of rule 41 of Income Tax Ordinance 1984.
- DCT might disallow the depreciation expense.

*me*



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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## **Observation 21: Cash transaction crossed the limits.**

During the course of our special audit, we have noted that a large number of transactions were made breaching above mentioned threshold through cash though it was restricted according to the referred criteria. Our instances are given below:

Date	Particulars	Vendor Name	BDT
January 02, 2014	Construction expense	Brothers Builders	2,00,000
January 29,2014	Fire Hydrant System	Symantec Technology Limited	3,50,000
January 30,2014	Construction expense	Brothers Builders	1,34,000
January 30,2014	Building Construction expense	Mr. Monir (Factory)	4,95,720
January 29,2014	Construction expense	Brothers Builders (Mr. Adel)	2,00,000
February 24,2014	Construction expense	Brothers Builders (Mr. Adel)	2,00,000
February 23,2014	Building Construction	M/S .Azim Engineering	2,00,000
March 02, 2014	Construction expense	M/S .Azim Engineering Works	99,650
March 04, 2014	Building Construction	M/S .Azim Engineering	2,00,000
March 06, 2014	Electrical Good	Talash	70,273
March 06 , 2014	Construction expense	Brothers Builders (Mr. Adel)	1,00,000
March 09, 2014	Building Construction	M/S .Azim Engineering	3,00,000
March 10, 2014	Construction expense	Brothers Builders (Mr. Adel)	3,00,000
March 15, 2014	Electrical Good	Talash	3,00,000
March 15, 2014	Electrical Good	Talash	99,275
March 20,2014	Building Construction	M/S .Azim Engineering	2,00,000
January 30,2014	Building Construction	M/S .Azim Engineering	1,00,000
February 04,2014	Building Construction	M/S .Azim Engineering	67,000
February 15,2014	Fire Hydrant System	Symantec Technology Limited	3,50,000
February 17,2014	Electrical Good	Talash	55,361
January 02,2014	Building Construction	M/S .Azim Engineering	60,000
January 08,2014	Construction expense	Brothers Builders (Mr. Adel)	68,000
January 09,2014	Building Construction	M/S .Azim Engineering	1,00,000
August 28, 2014	Construction expense	Brothers Builders (Mr. Adel)	25,00,000
September 04,2014	Building Construction expense	M/S .Azim Engineering	1,22,365
September 07,2014	Building Construction expense	M/S .Azim Engineering	50,000
September 07,2014	Construction expense	Mr. Monir	1,29,800
May 11,2014	Electrical Good	Talash	2,00,000
May 08, 2014	Construction expense	M/S .Azim Engineering Workshop	1,71,000
May 11,2014	Electrical Good	Talash	1,56,000
May 11,2014	Construction expense	Brothers Builders (Mr. Adel)	2,06,300
May 29, 2014	Construction expense	M/S .Azim Engineering Workshop	1,06,880
May 29 ,2014	Construction expense	Brothers Builders (Mr. Adel)	1,00,000
May 20,2014	Construction expense	Brothers Builders (Mr. Adel)	50,000
May 27, 2014	Building Construction & Development expense	Talash	1,32,380



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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Date	Particulars	Vendor Name	BDT
May 31, 2014	Construction expense	Mr. Monir	1,87,800
May 06, 2014	Building Construction expense	M/S .Azim Engineering	5,00,000
March 22,2014	Air Cooler	General Trading & Electronics co.	80,000
June 15, 2014	Convertor	Badhan Electronics	58,000
July 14, 2014	Laptop Purchase	Computer sources	58,000
March 06, 2014	Computer Expense	Monarch IT ltd	76,100
March 13, 2014	Furniture & fixture	Woodland	50,000
April 05,2014	Furniture Expense	1st avenue	80,000
April 12,2014	Laptop Purchase	Executive Technologies ltd	58,400
April 30,2014	Air Cooler	General Trading & Electronics co.	129,000
June 15, 2014	Submersible pump	RupayanJantralayan	196,000
September 11, 2014	Laptop Purchase	Executive Machine ltd	276,800
August 06, 2014	Spare Parts	Fast Tech Engineering ltd	100,000
October 02, 2014	CCTV Expense	Safe Life Technology	50,000
October 23, 2014	Furniture & fixture	United Traders	50,000
January 17, 2015	Mobile set purchase	Executive Machines Ltd	88,600
August 01, 2015	Furniture & fixture	Ismat Ara enterprise Ltd	108,000
September 08, 2015	Brick purchases	M/S Sonali Enterprise	61,640
September 14, 2015	GAS Generator purchase	B-Trac Engineering Ltd	686,800
April 01, 2015	Installation & supply of CNG Kit	Super CNG	60,000
June 01, 2015	Vehicle Purchase	Lisa Trade	275,000
May 30, 2015	Professional & consultancy fees	Mr. Shambhu	200,000
November 08, 2015	Professional & consultancy fees	Advocate Manik Roy	60,000
January 12, 2015	Repair & Maintenance	Micro Engineering workshop	70,000
February 08,2015	Car Rent & other expenses	Akhter Sir	365,000
November 11 2015	Car Rent & other expense	Care lease rent	136,518
January 05, 2015	Advertisement expense	The daily Somokal	50,000
February 16, 2015	Advertisement expense	Sundial travels Ltd	200,000
January 07, 2015	Traveling & Conveyance	Mr. Lutfur Rahman	125,000
January 22, 2015	Traveling & Conveyance	Sundial travels Ltd	403,500
September 22, 2015	Traveling & Conveyance	HPS Travels & Tour	153,000
January 06, 2015	Insurance expense	Asia Insurance Ltd	112,500
January 11, 2015	Insurance expense	Standard Insurance Ltd	50,000

## Implications & CFD's Comments:

- Non-compliance of condition requirement 14 of approval letter for issuance of Right Shares from BSEC ref. no. BSEC/CI/RI-90/2013/93 dated February 04, 2014.
- Non-compliance of section 30(m) of Income Tax Ordinance 1984.
- Income tax Authority might disallow the expenses which ultimately will increase the amount of tax liability.

*[Signature]*





# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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## **Observation 22: Gratuity fund was not maintained by the entity.**

The entity has a policy of paying gratuity to all of the outgoing workers who have been working for more than 10 years in the company equivalent to one month's basic salary for each year of service. However the entity does not maintain or recognize any gratuity fund in the financial statements in favor of its employees.

### **Implications & CFD's Comments:**

- Non-compliance of section 2 910) of Labor Laws 2006 (as amended up to 2013).
- It indicates poor fund management of the company.

## **Observation 23: Books of Accounts were maintained manually.**

We have noted that the entity has not been using any automated accounting software to maintain the accounting records. They simply uses Microsoft Excel Spreadsheet (MS Excel) to record day to day transactions. They are maintaining journal entries, general ledger and other accounting records in MS Excel only. They are also not maintaining accounting records manually in hard copy format.

We further noted that the books of accounts (i.e. ledger) and recording of transactions (i.e. journal) are not properly maintained. No systematic debit and credit concept was applied both in journals and ledgers. Only the extract of transaction was recorded with date and amount without any detail particular. No Trial Balance was prepared by the entity.

### **Implications:**

- Books of accounts were not maintained systematically.
- It may create inconsistency in data entry, errors and omissions and miscopying information.
- Data security may not be ensured and disaster recovery plans harder to implement.
- Duplication of data entry and prone to human error.

## **Observation 24: Vouchers were not maintained with unique numbers.**

As per accounting practices, all types of journal and cash/bank voucher must have a unique number tagged with general ledgers. Those numbers must be consistent with date of transaction, recording date, journal reference, general ledger code reference, etc.

During the course of our special audit, we have found that the entity does not maintain a unique number series of any vouchers.

### **Implications:**

- It may not be possible to find out the missing voucher.
- Searching any particular voucher will be time consuming.
- It implies significant control weakness over recording process.

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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## **Observation 25: Irregularities noted in the procurement procedure of Generation Next Fashions Limited (GNFL).**

During the course of special audit we have found that GNF has procured some of the assets and goods where quotation was collected against the same procurement for the name of AJ Corporation (Related party of GNFL). As a result of the instances the transparency of some transactions are not ensured. Instances are given below:

Date	Particular	Ledger Head	Amount in BDT.	Remarks
Mar 19, 2014	Furniture Expense	Other assets	40,000	• Quotation was issued to AJ Corporation.
March 13, 2014	Furniture Expense	Other assets	50,000	• Quotation was issued to AJ Corporation.
March 16, 2014	Furniture Expense	Other assets	25,000	• Quotation was submitted to AJ Corporation from Ismat Ara regarding the procurement but payment related to the same expenditure/voucher was made to other vendor named Fully Furnished.
April 2, 2014	Furniture Expense	Other assets	27,000	• Money receipts from vendor implies the payment was made by AJ Corporation, even though the transaction was recorded in the ledger of Generation Next Fashions Limited.

### **Implications CFD's Comments:**

- It indicates weaknesses in the procurement /supply chain management of the company.
- It indicates deficiencies of internal control over financial reporting (ICFR).
- True and fair view is not reflecting.

## **Observation 26: Irregularities in other assets procurement.**

During our special audit we noted irregularities in the procurement procedure of other assets. Instances given following:

Date	Amount	Remarks
April 5, 2014	80,000	Payment was made through cash, Vendor was not selected in the way of comparative price analysis, moreover Work Order, challan, GRN were also not made available.
April 12, 2014	58,400	Payment was made through cash, Vendor was not selected in the way of comparative price analysis, moreover Work Order, challan, GRN were also not made available.
January 14, 2014	200,000	Vendor was not selected in the way of comparative price analysis, moreover Work Order, challan, GRN were also not made available.

*Wms*



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন, ই-৬/সি আগারগাঁও, শের-ই-বাংলা নগর প্রশাসনিক এলাকা, ঢাকা-১২০৭, বাংলাদেশ।

Date	Amount	Remarks
January 29, 2014	225,000	Vendor was not selected in the way of comparative price analysis, moreover Work Order, challan, GRN were also not made available.
April 13, 2014	200,000	No other document related payment was made available except a money receipt.
April 30, 2014	129,000	Payment was made through cash, Vendor was not selected in the way of comparative price analysis, moreover Work Order, GRN were also not made available.
June 15, 2014	196,000	Payment was made through cash, Vendor was not selected in the way of comparative price analysis, moreover Work Order, challan, GRN were also not made available.
June 21, 2014	99,000	Payment was made through cash, no other document related payment was made available except bill. Moreover Work Order, challan, money receipt, GRN were also not made available.
June 23, 2014	65,000	Vendor was not selected in the way of comparative price analysis, moreover Work Order, challan, Bill copy GRN were also not made available.
August 6, 2014	100,000	Payment was made through cash, no other document related payment was made available except quotation. Moreover Work Order, challan, GRN, Money receipts were also not made available.
September 11, 2014	276,800	Payment was made through cash, Vendor was not selected in the way of comparative price analysis, moreover Work Order, Bill copy, GRN were also not made available.
October 2, 2014	50,000	Payment was made through cash, no other document related payment was made available except a money receipt.
November 17, 2014	300,000	The original contract value is 26 lac and vendor was not selected in the way of comparative price analysis.

Some other instances are as:

Date	Amount	Ledger Head	Remarks
January 14, 2014	200,000	Other Assets	Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.
January 29, 2014	225,000		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.
April 13, 2014	200,000		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.
April 30, 2014	129,000		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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Date	Amount	Ledger Head	Remarks
June 15, 2014	196,000		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.
August 6, 2014	100,000		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.
September 11, 2014	276,800		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.
November 17, 2014	300,000		Vendor was not selected in the way of comparative price analysis, moreover Work Order was not made available.

## Implications & CFD's Comments:

- Significant internal control weakness in procurement management and True & Fairview was not presented in the financial statements.
- Lack of transparency of class of transaction.
- It might create scope for irregularities.
- True and fair view is not reflecting.

## **Observation 27: Fixed asset register was not maintained.**

During the course of our special audit we observed that GNFL does not maintain fixed assets register. Due to not maintaining fixed asset register (FAR) we couldn't confirm the existence of fixed assets.

## Implications and CFD's Comments:

- Physical existence of assets could not be confirmed.
- Safeguarding of fixed assets were not ensured.
- It might create scope for misuse of company resources.
- The possibility of fraud related to fixed assets might be increased for not having fixed assets register as the lost item might remain undetected. Compliance issues related to fixed assets might not be confirmed.
- True and fair view is not reflecting.

## **Observation 28: Authorization Matrix for expenditure approval was not made available.**

During the course of our special audit we observed that GNFL have no authorization matrix for the purpose of approval of expense limit and vouchers.

## Implications & CFD's Comments:

- It indicates lack of good governance.
- This practice implies lack of internal control.



# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন, ই-৬/সি আগারগাঁও, শের-ই-বাংলা নগর প্রশাসনিক এলাকা, ঢাকা-১২০৭, বাংলাদেশ।

## Observation 29: Adequate supporting documents not available with vouchers.

During the course of our audit, we observed weaknesses in documentation. Instances are given below

Date	Particular	Vendor Name	Amount	Remarks
October 02, 2014	Construction expenses	Mr. Adel - Brothers Builders	300,000	No supporting documents was made available with voucher.
October 02, 2014	Fire Fighting expenses	Mr. Belayet- New Tech Ltd	250,000	No supporting documents was made available with voucher.
March 12, 2014	Travelling Expenses	ShamoliPribahan	42,000	No supporting documents was made available with voucher.
April 08, 2014	Misc. Expenses	Mr. Sikder	200,000	No supporting documents was made available with voucher.
February 19, 2014	Misc. Expenses	Mr. Mahbub	25,000	No supporting documents was made available with voucher.
June 09, 2014	Donation	Mr. Azimir Sharif	158,000	No supporting documents was made available with voucher.
March 31, 2014	Lunch Expenses	For the month of March 2014	39,000	No supporting documents was made available with voucher.
May 31, 2014	Lunch Expenses	For the month of May 2014	40,000	No supporting documents was made available with voucher.
June 30, 2014	Lunch Expenses	For the month of June 2014	40,100	No supporting documents was made available with voucher.
January 23, 2014	Commercial expenses	WAC Logistics Limited	13,500	Challan copy missing Bill copy missing
March 05, 2014	Commercial expenses	WAC Logistics Limited	18,000	Challan copy missing Bill copy missing
October 14, 2014	Commercial expenses	WAC Logistics Limited	27,000	Challan copy missing Bill copy missing
May 30, 2015	Professional & consultancy fees	Mr. Shambhu	200,000	No supporting documents was made available with voucher.
December 10, 2015	Professional & consultancy fees	Mr. Monirruzzan Mukta	100,000	Challan copy missing Bill copy missing Money receipts not found
August 04, 2015	Courier & postage	Fedex Express	85,963	No supporting documents was made available with voucher.
October 31, 2015	Courier & postage	Fedex Express	120,780	No supporting documents was made available with voucher.
June 18, 2015	Donation	Misc. SGS	50,000	No supporting documents was made available with voucher.
January 05, 2015	Advertisement expense	The Daily Samakal	50,000	No supporting documents was made available with voucher.
January 07, 2015	Travelling expense	Mr. Lutfur Rahman	125,000	No supporting documents was made available with voucher.
January 18, 2015	Travelling expense	MD sir	122,000	No supporting documents was made available with voucher.
May 17, 2015	Travelling expense	MD sir/Akhter sir/ Lutfur Rahman	452,500	No supporting documents was made available with voucher.
January 22, 2015	Travelling	Mr. Mohd Akhter	403,500	Bill copy missing

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন, ই-৬/সি আগারগাঁও, শের-ই-বাংলা নগর প্রশাসনিক এলাকা, ঢাকা-১২০৭, বাংলাদেশ।

Date	Particular	Vendor Name	Amount	Remarks
2015	expense			Money receipts not found Air ticket missing
January 11, 2015	Insurance expense	Standard Insurance	50,000	No supporting documents was made available with voucher.

## Implications

- The original purpose of the expenditure were not revealed.
- It indicates lack of internal control & corporate governance practices.
- Expenses may be overstated or understated.
- Unnecessary expenditure may be incurred which is the ultimate destroying of shareholders money.
- True and fair view is not reflecting.

## **Observation 30: Unnecessary expenditure incurred by GNFL.**

During the course of our special audit we found that, tax deducted at source (TDS) expenses relating to rental receipts from GNFL which should be borne by Lessor was paid by Lessee (GNFL). Details are provided below:

Particulars	Year	Amount	TDS @ 5%	VAT @ 9%	Total Amount in GL
Head office rent Expense	2014	1,620,000	81,000	145,800	1,846,800
Head office rent Expense	2015	1,654,000	82,700	148,860	1,885,560
<b>Total</b>		<b>3,274,000</b>	<b>163,700</b>	<b>294,660</b>	<b>3,732,360</b>

## Implications & CFD's Comments:

- Expense was overstated and profit was understated by the amount of Tk. of 81,000 and Tk. 82,700 for the year ended December 31, 2014 & 2015 respectively.
- It indicates weaknesses in the internal control system.
- True and fair view is not reflecting.

## **Observation 31: No cost sharing policy was maintained for sharing of office space.**

During our special audit it was noted the office building is being shared by another company namely AJ Corporation. But agreement between AJ Corporation and GNFL was not made available and there is no cost sharing policy.

## Implications

- Significant internal control weakness.
- It might create scope of irregularities in cost sharing.

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন, ই-৬/সি আগারগাঁও, শের-ই-বাংলা নগর প্রশাসনিক এলাকা, ঢাকা-১২০৭, বাংলাদেশ।

## **Observation 32: Inadequate policies and procedures.**

The GNFL does not have any comprehensive formal following formal policies:

- Advance policy
- Asset recognition policy
- Procurement policy
- TA/DA policy

### **Implications CFD's Comments:**

- Company's fund might be misappropriated.
- It might create chances of embezzlement of fund.
- It might create chances of misuse of fixed assets.

## **Observation 33: Some vouchers were found missing.**

During the course of our audit, we have not been provided with the following vouchers:

Date	Head/Particular	Amount
March 13, 2014	Other assets	50,000
July 14, 2014	Other assets	18,500
August 30, 2014	Other assets	65,426
November 16, 2014	Other assets	200,000
June 10, 2014	Right Issue Expenses	617,727
June 12, 2014	Right Issue Expenses	675,000

### **Implications and CFD's Comments:**

- If any of the persons fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has, by his own willful act, been the cause of any default by the company there under, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months or with which may extend to five thousand taka or with both.
- The authenticity and accuracy of the transactions could not be confirmed.
- It represents significance weakness in internal control system.
- It might create scope for financial irregularities.
- True and fair view is not reflecting.

## **Observation 34: Competitive price analysis was not followed in case of major purchase.**

While auditing the procurement systems, we have noted that Generation Next Fashions Limited has no Standard Operating Procedure (SOP) for procurement. In absence of standard operating procedures, the company incurred significant amount of transactions for which no competitive price analysis has been done.

### **Implications and CFD's Comments:**

- It implies weak management stewardship, corporate governance and internal control over procurement procedure.
- Quality vs Cost approach of purchase were not ensured.

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# বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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- Maximization of Share holders' Wealth concept was distorted and questioned due to not maintenance of standard operating procedures (SOP) for procurement.
- True and fair view is not reflecting.

## **Observation 35: Direct confirmation could not be obtained.**

During the course of our audit, we requested GNFL management to provide us the required information and authorization for selected debtors, creditors and bank to obtain the direct confirmation. Details of our communication regarding the issues are as follows:

Date of Correspondence	Remarks
October 24, 2016	Bank Statements, Address of selected debtors, creditors requested through audit requisition by e- mail.
October 27, 2016	Submitted confirmation letter for management authorization
November 06, 2016	Reminder send to management through e-mail
November 22, 2016	Reminder send to management through e-mail
January 23, 2017	Reminder send to management through e-mail

Finally, the management of GNFL provided their authorization on our confirmation letters for bank balance only on February 14, 2017. We accordingly sent those letters to the concerned banks and yet to receive bank's reply.

We did not receive the address and other details of debtors and we were unable to prepare and sent confirmation letter to debtors.

## **Implication:**

- We could not confirm the bank balances, debtor and creditor balances directly.
- True and fair view is not reflecting.

## **CFD's Comments:**

- I. True and fair view is not reflecting.

যেহেতু, ইস্যুয়ার কর্তৃক উপরোক্ত ব্যর্থতার জন্য কমিশন কর্তৃক ফেব্রুয়ারি ১০, ২০১৯ ইং তারিখের নং বিএসইসি/এনফোর্সমেন্ট/২৪২৮/২০১৭/৬৬ নম্বর স্মারকমূলে ইস্যুয়ারের ব্যবস্থাপনা পরিচালক সহ অন্যান্য পরিচালকগণ এবং কোম্পানী সচিবকে নির্ধারিত তারিখে উক্ত ব্যর্থতার কারণ প্রদর্শন সহ শুনানীতে উপস্থিত হতে বলা হয়, সংশ্লিষ্টরা উক্ত শুনানীতে মার্চ ২৫, ২০১৯ ইং উপস্থিত হন;

যেহেতু, জেনারেশন নেস্ট ফ্যাশনস লিমিটেড একটি পাবলিক লিমিটেড কোম্পানী এবং উহার পরিচালকমন্ডলীর সদস্যরা কোম্পানীর প্রতিনিধিত্বকারী যাহারা সিকিউরিটিজ সংক্রান্ত আইন ও বিধিবিধান পরিপালনের ব্যর্থতার জন্য দায়ী;

যেহেতু, উক্ত ইস্যুয়ার কোম্পানীতে জনসাধারণের মালিকানার শেয়ার রয়েছে যা স্টক এক্সচেঞ্জে তালিকাভুক্ত, কিন্তু ইস্যুয়ার কর্তৃক সিকিউরিটিজ সংক্রান্ত আইন ও বিধিবিধান পরিপালন না করার ফলে বিনিয়োগকারীদের স্বার্থ ক্ষুণ্ণ হয়েছে ও হচ্ছে, যা পুঁজিবাজারের উন্নয়নেরও পরিপন্থী;

যেহেতু, উক্ত ইস্যুয়ার কোম্পানীতে বিনিয়োগকারীদের স্বার্থ রক্ষা সহ পুঁজিবাজারের উন্নয়ন ও শৃঙ্খলা রক্ষা করা কমিশনের অন্যতম উদ্দেশ্য তথা কর্তব্য;

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