

NATIONAL DEVELOPMENT PROGRAMME (NDP)



INTERNAL AUDIT MANUAL



FIRST EDITION-2018



INTERNAL AUDIT DEPARTMENT (AID)

This procedure manual has been written for the auditor. It is to be used as a training tool and as a reference guide for auditing for Internal Audit Department-IAD. This Internal Audit manual is designed to provide a comprehensive guidance for the development and operations of internal auditing. It is intended to be used as a source of reference and guidance for Internal Auditors in the daily performance of their duties.

Users of this manual are assumed to possess a basic knowledge and understanding of management framework with practical guidance, tools and information for managing the Internal Audit activity and for planning, coordinating and reporting to Management. This document aims to provide a standard set of guidelines regarding Internal Auditing. Internal Auditors must keep pace with current trends in their profession if they are to remain effective in assisting management in the proper discharge of their duties. The Executive Director believes that this manual will set the tone and will create the necessary impetus for a sustainable and effective Internal Auditing mechanism in Government.



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Executive Director

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CHAPTER-I

Introduction: NDP stands for National Development Programme. It is national a non-governmental voluntary development organization, called as NGO. It is a non- profit and non-political organization. NDP has established on 1st January, 1992. Its key objective is to strengthen capacities of the targeted beneficiaries and create opportunities to bring the poor into the mainstream of development. It always places an emphasis on human rights and gender equality and the empowerment of woman.

NDP is determined to ensure transparency, accountability and efficiency on financial records and proper execution of its program/projects. For this reason, NDP has established Internal Audit Department (IAD) and published Internal Audit Manual.

Internal Audit Department (IAD):

Internal Audit is a part of overall controlling system of the organization. It is recognized to execute the internal control system of the organization. Internal Audit is helpful to prevent error and financial corruption effectively. It is also helpful to establish organizational principle, legal basement, rule and conception. NDP is determined to implement smoothly its program/projects. It is also determined to insure accuracy and accountability of its financial transactions and accounting procedure. For this reason, Internal Audit Department (IAD) has established on June, 2005.

Internal Audit Department (IAD) is an independent Department headed by a Chief Internal Auditor (Assistant Director/Manager-Audit) and Audit team consists by Deputy Manager (Audit) and Assistant Manager (Audit). IAD is responsible for conducting internal in accordance with the Internal Audit Charter and in compliance with the Code of Ethics for Internal Auditors, Standards for Internal Auditing other guidelines issued by the NDP. IAD trusts to perform financial and management audit of its all Programs and projects. IAD is directly reportable to the Audit Committee.

Vision

Review the adequacy of the internal control and risk management system, its functioning and effectiveness, providing a reasonable assurance to corporate and control bodies and to top management.

Mission

The mission of the Internal Audit is to provide independent and objective reviews and assessments of the business activities, operations, financial systems and internal accounting controls of NDP. The Internal Audit accomplishes its mission through the conduct of operational, financial and performance audits, selected as the result of a risk identification and assessment process. It Raise awareness of the risks and controls throughout the organization and promote organization's values.

Definition of Internal Audit

The Institute of Internal Audit has defined Internal Audit as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its

objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” This definition recognizes two roles for internal audit:

- The role of internal audit is to provide independent assurance that an organization’s risk management, governance and internal control processes are operating effectively.
- To provide advice to management on governance risks and controls.

Objectives of Internal Audit

Internal Audit is to examine the financial statements for ensuring truthfulness, accuracy and reliability of the statement. The primary objective of Internal Audit Department (IAD) is to examine and evaluate whether NDP's design of risk management, internal control and governance processes, is adequate and functioning properly.

In addition, the objectives of IAD include advising and recommending to senior management for improvements in internal control system and risk management systems. Detail objectives of IAD are as follows:

1. To know the real status of the financial position with the THIRD EYE.
2. To examine truthfulness, correctness, and authenticity of financial statement.
3. To ensure that the standard accounting practices which have to be followed by the organization are strictly followed.
4. To check the books of accounts, detects errors and frauds and helps in its correction which makes the act of final auditor easier.
5. To check the actual truthfulness of financial transactions and find out unfairness of them.
6. To check the accuracy of MIS reports and Accounting, accuracy of records maintained through verification against evidences such as receipts, including records maintained at client level in the form of passbook.
7. To safeguard of Fixed Assets of the organization.
8. To detect the misuse of resources in time that helps to reduce unnecessary expenses.
9. To establish existing internal control system of the organization.
10. To assess organizational risk factor and management.
11. To identify errors and misappropriation or defraud in the Organization and inform to the management with necessary recommendation.
12. To facilitate the early detection and prevention of frauds.
13. To detect any malpractice, collusion or action on part of employees that is against the organizational policies/culture or can bring disrepute to the institution.
14. To see if operational policies/processes are being adhered to all levels and to detect deviations.
15. To provide feedback/opinion related to operational risks such as staff dissatisfaction, competition inappropriate policies or areas of potential conflict.
16. To assist management in achieving the most efficient administration of the operation by establishing procedures by complying with company's operating policies.
17. To check the efficiency of staffs that helps to increase the efficiency of them.
18. To find out any kind of negligence for doing obligation.
19. To do any kind of investigation according to the guidance of management.

Scope of Internal Audit

It is a common feeling that audit means just checking of books of accounts and vouchers. Rather, internal audit has a much larger scope that the function has to achieve. Internal audit should broadly cover the followings:

1. The auditor will have to examine the operational and financial transactions and proper accounting and other records have been kept, such as receipts, vouchers, cashbooks, ledgers, client passbook, Bank passbooks, cash balances, including allocation of expenses and records of all assets of the program/project.
2. The auditor examined mainly functional areas, such as Investigation, Physical Verification of Inventory, procurement, property, project activities and other related documents.
3. The auditor has also reviewed vehicles management, staff recruitment system and overall management (office and field) of the program/projects.
4. A comprehensive audit program ensures compliance with accounting standards, policies and procedures necessary to safeguard organization's resources.
5. Loan documents: Loan applications, loan agreement and other documents required as per policy related data entered software.
6. Client visits: check meeting discipline–timing, conduct, staff and client discipline, check passbooks interact with clients can also check loan or receiving grants utilization, check advance payments or payments big amount cash against loan or savings at a time with deposit date, check accuracy of seasonal loan receive and payment etc.
7. Other observation: staff discipline, hygiene, files arrangements.
8. Internal audit has a wide scope to cover and to cross-check various reports. The basic idea is to check any kind of policy deviation or identify any situation, which can be a risk for the organization.
9. Going concern issues.
10. Other matters arising from the audit.

Services Provided by Internal Audit

Internal Audit's primary activity is the implementation of a program of regular audits of the NDP business operations, as outlined below. However, the complete range of services provided by Internal Audit may also include special projects and consultations as directed by the Authority.

- a) **Operational Audits.** Operational audits consist of critical reviews of operating processes and procedures and internal controls that mitigate area specific risks. These audits examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the NDP's mission and objectives.
- b) **Compliance Audits.** These audits determine the degree to which areas within the NDP adhere to mandated Federal, State and NDP policies and practices. Recommendations usually require improvements in processes and controls used to ensure compliance with regulations.
- c) **Financial Audits.** These audits review accounting and financial transactions to determine if commitments, authorizations and the receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that there are adequate processes controls over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the financial statements fairness.
- d) **Investigative audits.** These audits are conducted to identify existing control weaknesses, assist in determining the amount of loss and recommending corrective measures to prevent additional losses. Internal Audit will also work with outside agencies to determine if misconduct occurred at NDP. These types of investigations can encompass misuse of NDP funds or assets, fraud or potential conflicts of interest.

- e) **Technology Audits.** Technology audits are usually comprised of control Technology audits are usually comprised of control reviews of disaster recovery plans, system back up procedures and the general security of data and of the physical plant. The purpose of these audits is to evaluate the accuracy, effectiveness and efficiency of the NDP's electronic and information processing systems.

The Code of Ethics for Internal Auditors

The Internal Audit staff shall subscribe to the Code of Ethics established by the Institute of Internal Auditors, as well as adhere to the policies set forth by the management of NDP. In addition, the Internal Audit staff will maintain the following:

- a) **Integrity.** Establish trust and thus provide the basis for reliance on the judgment of Internal Audit. Remain tactful, honest, objective and credible in all relationships as a representative of NDP.
- b) **Objectivity.** Exhibit the highest level of professional objectivity in gathering, evaluating and communications information about the area under examination. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others informing, judgments.
- c) **Confidentiality.** Respect the value and ownership of information received. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- d) **Competency.** Apply the knowledge, skills and experience required in the performance of internal auditing services and continually improve the proficiency, effectiveness and quality of the services provided.

Internal Auditing Standards

International Standards for the Professional Practice of Internal Auditing (Standards) provide a framework of principle focused criteria for performing and promoting internal auditing.

Standards	Focus Area	Description of Standard
1000	Purpose, Authority, and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
1200	Proficiency and Due Professional Care	Engagements must be performed with proficiency and due professional care.
1210	Fraud Management	Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

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1300	Proficiency and Due Professional Care	The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.
2000	Managing the Internal Audit Activity	The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization. (Planning, Resource Management, Policies and Procedures, Coordination, Communication and Reporting.)
2040	Policies and Procedures	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2100	Nature of Work	The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.
2130	Standard - Internal Control	The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
2200	Engagement Planning	Internal auditors must develop and document a plan for each engagement.
2240	Engagement Work Program	Internal auditors must develop and document work programs that achieve the engagement objectives.
2300	Performing the Engagement	Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating Results	Internal auditors must communicate the results of engagements.
2600	Communicating the Acceptance of Risks	When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Professional Standards of Internal Audit

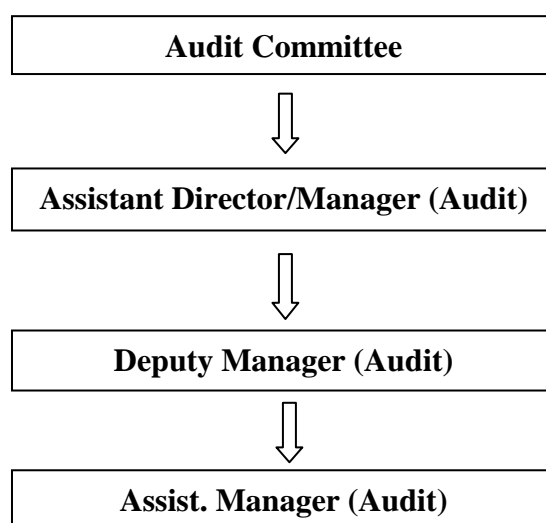
The Internal Audit Department shall comply with the Standard on International Audit Guidelines and Practices. Work of the Internal Audit Unit and results of each audit shall be confidential to NDP and will not be disclosed to third parties, except to the external auditors, unless by the permission of Executive Director. Internal Audit Department shall ensure:

1. That all internal audit assignments are undertaken with due professional care.
2. Audits are completed by suitably skilled, experienced and competent auditors, whether internal or external resources are used.
3. Audit Programs, Working papers, Audit evidence and reports are conducted and prepared in accordance with the required professional standards.
4. All staff undertakes training to maintain their professional development.

Stability and fairness of Internal Audit

1. Internal audit within NDP shall be a permanent function.
2. IAD shall be objective and impartial in performing its assignments.
3. Independence and fairness need that IAD itself seeks to avoid any conflict of interest. To this end, staff assignments within audit department shall be rotated periodically.
4. The internal auditor must be impartial in discharging all responsibilities; bias, prejudice or undue influence. If an issue arises with his/her professional behavior that is not in the spirit of the code of ethics or a conflict of interest should occur, he/she shall immediately report it to the Chief Auditor. (See Annexure “k”).

Staff Position of Internal Audit Department



AUDIT COMMITTEE (Structure)

2. The committee member is free of any relationship that would interfere with the exercise of his or her independent judgment as a member of the committee.
3. The Audit committee is made up of at least three/five members along with the members of organization's governing body.
4. The Audit Committee must be appointed by the Board.
5. There is at least one member possessing sufficient knowledge and experience to review the reliability of the budget and financial statement.
6. The committee shall meet quarterly to review the status of the compliance of the audit.
7. Review and revise the Audit Committee Charter at least once a year to ensure its efficiency and comply with the expectation of the EC.
8. Members of the committee have professional experience and expertise in different sectors.

The governing body of NDP forms the NDP Audit Committee with the following members:

SL	Name list of Audit Committee	Designation
01	General Secretary, NDP EC	Chair
02	Treasurer, NDP EC	Member

03	Member, NDP EC	''
04	Deputy director (MFP)	''
05	Deputy director (F&A)	''

Scope of authority, duties, and responsibilities

The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- Review the organization's financial reports to meet accounting standards with correctness and sufficiency.
- to monitor selecting of accounting policies and principles.
- Compliance with legal, ethics and regulatory requirements.
- System of internal controls and risk assessment.
- to monitor the internal control process.
- Opinion of any transactions which may have conflict of interest.
- to monitor and review the effectiveness of the organization's internal audit function;
- to supervise the performance of the internal audit function.
- to approve annual audit plans to be submitted by internal audit.
- Taking action, where appropriate, on significant control weaknesses reported by internal audit, the external auditors and others.
- Overseeing hiring, performance and independence of the external auditors.
- Approving an annual plan and budget submitted by the external auditor.
- Qualifications, independence and performance of the external and internal auditors.
- Audit Committee meeting will be held at least along with each scheduled Board meeting and at other times as required.
- The Audit Committee will meet privately with the outside auditor or the Chief Auditor.

Major Responsibilities of Head of Internal Audit/Assistant Director (Audit)/Manager (Audit)

The head of internal audit should establish the following arrangements:

1. To allocate internal audit assignments according to the level of and proficiency of internal audit staff;
2. To ensure that internal auditors clearly understand the responsibilities and internal audit objectives;
3. To communicate the scope of work to be performed and agree the programme of work with each internal auditor;
4. To provide and document evidence of adequate supervision, review and guidance during the internal audit assignment;
5. To ensure that adequate working papers are prepared to support internal audit findings and conclusions;
6. To make Annual/Monthly Audit Plan and take approval from the Executive Director/Audit Committee and implement the work as per Audit Plan.
7. To send engagement letter to the Auditee Branch or Program or Project with Audit program/schedule and TOR at least seven days ago by email and also communicate with them through mobile phone.
8. To ensure that internal audit's performance is in accordance with the internal audit plan or that any significant variations have been explained and report submits to Audit Committee.

9. To formulate policy, Internal Audit Charter, Audit Manual, Audit Technique, Audit Guideline, Audit Program to update the Internal Audit System and present to the Audit Committee.
10. Give advice on financial, operational, risk management, compliance, internal control matters as required and the evaluation of effectiveness of existing policies of the organization and give recommendation for improvement.
11. Prepare checklist based on program/project's activity and supply to the Deputy Manager (Audit)/other Auditors.
12. To comply the compliance issue of organization's/Donor's/MRA.
13. To see the overall administration of Internal Audit Department.
14. Give direct assistance (if it is possible) to the Audit team during the Audit period.
15. After completing the Audit work, arrange exit meeting for sharing the observations with Program/project management and invite necessary officers for presenting this meeting and always be presented in this meeting as a convener.
16. To review and finalize the report and submit to the Audit Committee
17. To send letter to management of Auditee Branch/Program/Project Manager/Coordinator with concern of Audit committee for providing feedback of the audit observations.
18. After receiving feedback against audit observations, it is to follow up the present situation of Auditee Branch/Program/Project as stated by the feedback and submitted to the Audit Committee.
19. Then, compliance report will be prepared and submitted to the Audit Committee.
20. To make schedule for following up the present situation of Auditee programs/projects.
21. After following up, report submit to the Audit Committee on time.
22. To arrange Audit Review Committee's Meeting as a member of the committee in two months next.
23. Presentation to the Audit Committee on core issues in time.
24. To arrange departmental Meeting to discuss the issues of Internal Audit Department in every month.
25. To advise and supervise the work of the Deputy Managers (Audit)/Assistant Managers (Audit).
26. Evaluate the performance of the Audit Officers and recommended for increment or confirmation or promotion.
27. To arrange training to Audit Officials and arrange other trainings for professional development.
28. Prepare audit compliance for quarterly and annually and submit to Audit Committee.
29. The review of the application and effectiveness of risk management procedure and risk assessment methodologies of various programs and activities of NDP.
30. To examine and evaluate of the adequacy and effectiveness of Internal Control Systems of Microfinance, Health, Education Program and other Programs and activities of NDP.
31. Finalize the necessary meeting minutes and preserve in the office file.
32. Work in coordination with the AD (Monitoring & Evaluation).
33. Carrying-out of special investigations and examination of important suspected fraudulent activities and inform to the Audit Committee.

The head of internal audit should establish arrangements to evaluate the performance of the internal audit unit. He may also prepare an annual report to management on the activities of the internal audit unit in which he gives an assessment of how effectively the objectives of the function have been met.

Major Role/Responsibilities of Deputy Manager (Audit)

1. Be familiar with organizational goals, objectives, activities & rules.
2. Prepare Yearly/Monthly Action plan for visiting all projects/programs and take approval from the Manager (Audit) and implement the work as per Audit Plan.
3. To attend in the introducing meeting as a team leader.
4. Supply TOR based on program/project's activity to Assistant Managers (Audit).
5. Supply checklist based on program/project's activity to the Assistant Manager (Audit).
6. To comply the compliance issue of organization's/Donor's/MRA.
7. To see the overall administration of Internal Audit team.
8. Provide direct assistance (At least three days) to the Audit team during the Audit period.
9. To advise and supervise the work of the Assistant Managers (Audit).
10. Evaluate the performance of the Audit Officials and recommended for increment or confirmation or promotion.
11. To make Monthly Audit Plan and take approval from Manager (Audit).
12. Audit plan/schedule with TOR will be sent to the Auditee.
13. Give direct assistance (if it is possible) to the Audit team during the Audit period.
14. To review and finalize the draft report and submit to the Manager (Audit).
15. Carrying-out of special investigations and examination of important suspected fraudulent activities and inform to the Manager (Audit).

Major Role/Responsibilities of Assistant Manager (Audit)

1. Be familiar with organizational goals, objectives, activities & rules.
2. To make Monthly Audit Plan for tour and take approval from Deputy Manager (Audit).
3. To receive Audit program/schedule, Audit checklist, TOR and another necessary from Deputy Manager (Audit) for performing tour.
4. To arrange entrance meeting with Auditee.
5. To comply the compliance issue of organization's/Donor's/MRA.
6. The examination and evaluation of the adequacy and effectiveness of Internal Control Systems of Microfinance program and other programs/projects activities of NDP.
7. Assist in investigation and examination of significant suspected fraudulent activities and notify to the Deputy Manager (Audit).
8. Examination and evaluation of the adequacy and effectiveness of Internal Control Systems of Microfinance, Health, Education Program and other Programs and activities of NDP.
9. To perform according to TOR, checklist and Audit schedule.
10. Observe and assess the implementation of organizational rules of groups in the field.
11. Analysis of information from Micro Finance Program (group member's personal records savings and loan information, collection sheets, weekly meeting regulation book, savings and loan realization and recovery rates, records of loan use, overdue loan classification, loan application form, loan agreement form and credit approval).

12. Client visits: Select sample groups for collection, check meeting discipline–timing, conduct, staff and client discipline, check passbooks interact with clients can also check loan or receiving grants utilization, check advance payments or payments big amount cash against loan or savings at a time with deposit date, check accuracy of seasonal loan receive and payment, off day group visit, home visit of default members and migrate members.
13. Compare field documents to office documents.
14. Interview manager, field staff and group members to collect opinion.
15. Observe overall branch management system including discipline, coordination meetings and reporting systems.
16. Share the findings time to time with program/project management.
17. Inform management at any problem or experience in the field to Deputy Manager/Manager (Audit).
18. Arrange exit meeting for sharing with Auditee management.
19. Provide audit reports to the authority based on all observations made with recommendation.
20. Follow-up on the findings against feedback of Auditee and report to the chief Auditor.
21. Attend weekly/monthly coordination meetings in order to share findings.
22. Auditors are responsible for completing all work according to professional standards and for communicating any critical or potentially significant findings to Team Leaders on a timely basis.

Major activities of the Team Leaders

Team leaders are assigned to supervise a team of auditors in the performance of the audit engagement in one or more locations, following the approved audit program. Team leaders may be involved in the planning phase and may be involved in developing the audit program. Team leaders are primarily responsible for ensuring the performance of the audit in accordance with the audit program and budget and professional standards. This includes the coordination of team member efforts and the assurance that audit files support the findings and conclusions. Team leaders may lead the debriefing of Auditee at the end of onsite fieldwork.

CAPTER II

Internal audit risk assessment

The auditor is to obtain an understanding of the project/program/organization and the environment in which it operates. This is the starting point, as this process should gather sufficient information that will enable identification of the various risks facing the organization.

The auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures. For this purpose, the auditor:

- identifies risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
- relates the identified risks to what can go wrong at the assertion level;

- considers whether the risks are of a magnitude that could result in a material misstatement of the financial statements, and
- considers the likelihood that the risks could result in a material misstatement of the financial statements.'

Internal audit risk assessment is an overview of how internal audit risk can be assessed and managed. There are four major steps involved in a risk assessment process and they include identify risk, measure risk, priority risk and develop the audit. The first step is to identify and list the possible risk then ensures each of these risk are measure and determine by some factors. Later on, we need to priority the risk and develop the audit. Besides, these are regarded as risks that occur within an organization. They comprises of;

- Lack of research and development
- Fraud
- Computer system malfunctioning.
- Inappropriate acquisitions
- Failure to modernize products, promotion strategy, processes, etc.
- Ignoring due process
- Internal control
- Cash flow issues
- Ignoring compliance with policies and procedures.

Benefits of internal audit risk assessment

It is necessary to mention some of the advantages of the internal audit risk assessment. Helps in conducting audit assignment effectively and efficiently:

- It saves audit cost.
- It helps in ensuring the use of sampling.
- It helps to ensure the internal auditor's attention is placed on items that might lead to misstatement.
- It helps to reduce danger during audit procedures.

Role of Internal Audit in Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Internal Control-meaning and purpose of Internal Control

Internal control, as defined in accounting and auditing is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency reliable financial reporting, and compliance with laws, regulations and policies. A broad concept, internal control involves everything that controls risks to an organization. It involves almost all operations of the entity. Internal controls help the organization manage its risks by:

- (i) Promoting orderly, economical, efficient and effective operations, and producing quality products and services consistent with the organization's mission.

- (ii) Safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud.
- (iii) Promoting adherence to laws, regulations, contracts and management directives.
- (iv) Developing and maintaining reliable financial and management data presenting accurate, reliable and timely information and reports.

Role of Internal Audit in Internal Control

The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. They may also review Information technology controls, which relate to the IT systems of the organization. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions. To provide reasonable assurance that internal controls involved in the financial reporting process are effective, they are tested by the external auditor (the organization's public accountants), who are required to speak out on the internal controls of the company and the reliability of its financial reporting.

Responsibility for detection of errors or irregularities

The management of the NDP is responsible for establishing and maintaining controls to discourage maintenance of fraud. Internal Audit is responsible for examining and evaluating the adequacy and effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud. An irregularity is an intentional misrepresentation of financial statements or other reported data or the misappropriation of assets. If the chief of Internal Audit believes that a material error or an irregularity exists in an area under review or in any other area of the NDP, the chief of Internal Audit will notify the management that an irregularity has been identified and the audit steps needed to determine the extent of the problem.

Internal audit versus fraud and corruption

The role of internal audit with regard to fraud shall be explained. Internal audit is never responsible for any type of fraud program (awareness, prevention, detection, investigation), but can play an important role in any of them. While it is obvious that internal audit's assurance role will have a serious impact on the prevention and detection of fraud, internal audit may also be asked to play a consulting role in fraud awareness exercises or can be asked for advice in a fraud investigation because of its expertise in the controls area. The role of internal audit with regard to corruption shall be explained. Internal audit is not responsible for any anti-corruption program, but can play an important role in it. It is a good practice to describe any existing responsibility with regard to anti-corruption (first or second line of defense) and to explain its relationship to internal audit (third line of defense).

Nature of Fraud

Fraud is generally used to describe such acts as deception, bribery, forgery, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion. Fraud deprives someone or an entity of something by deceit through blatant theft, misuse of funds or other resources, or through more complicated acts like false accounting and the supply of false information. These are generally considered as crime or illegal acts.

Frauds can be committed by an employee at any level within an organization, as well as by those outside the organization. There are three common characteristics of most frauds:

- Pressure or incentive — the need the fraudster is trying to satisfy by committing the fraud.

- Opportunity — the fraudster's ability to commit the fraud.
- Rationalization — the fraudster's ability to justify the fraud in his or her mind.

Factors underlying the occurrence of Fraud

The reason underlying most frauds is the existence of opportunities and the ability to commit fraud and not be immediately detected. Fraudsters do have an inherent belief that their activities will not be detected. Opportunities to perpetrate fraud are created by:

- (a) Weak management, inadequate risk assessment, poorly designed and implemented internal control systems and inadequate monitoring and oversight.
- (b) A process that is designed properly for typical conditions; however, a window of opportunity may arise creating circumstances for the control to fail.
- (c) Persons in positions of authority overriding existing controls because subordinates or weak controls allow them to avoid the rules.
- (d) A poor internal control framework that:
 - Fosters over-reliance on key individuals to control all activities.
 - Does not ensure staff are properly trained and motivated to understand the substance of their work and its relative importance within the control framework.
 - Lack of mobility of staff-staff performing the same work year after year.
 - Lack of transparency in the regulations, rules and procedures applied in the business process.

Types of Frauds

Fraud is possible or prevalent in the collection of revenues, payment of expenses and in the management of assets, including movable and immovable assets. The following are some examples of common frauds:

- (i) Misappropriation or stealing - of cash or assets of any value (supplies, inventory, equipment, and information) mainly by adjusting or falsifying relevant records.
- (ii) Skimming—stealing cash and assets from an organization before it is recorded on the organization's books and records. For example, an employee collecting taxes, fees or charges does not record the receipt in the records.
- (iii) Disbursement against falsified and untrue documents – mainly for goods and services that were not received. This would include invoices that are inflated by manipulation of quantities, quality and prices.
- (iv) Savings received from member a big amount at a time, but deposits to the office less or late or two or more installments. Installment of gross period received by the staff, but not deposit to the office. Loan realized (full paid) from members as advance, but not deposit on that day or deposited as installment. Loan realized (Sufolon) from members as advance, but not deposit on that day.
- (v) Fraudulent expense claims by staff and others—for travel or activities that did not occur and sometimes using falsified bills to inflate expenses for food, facilities and hospitality functions.
- (vi) Payroll—claims for hours not worked and adding non-existent (ghost employees) to the payroll or improperly claiming certain allowances for which there was no entitlement.
- (vii) Procurement of goods and services – this can occur at any stage of a procurement cycle:

- Specifications for requirements are manipulated and not professionally prepared.
- Tenders or bidding processes, including evaluations of tenders and bids, are subverted and not conducted in a transparent manner that promotes effective competition among suppliers.
- Using sole source procurement without proper justification or approval.
- Overstating quantities of good or levels of service received or the quantity and quality of work performed by contractors.

Viii) Misuse of entrusted power for private gain—such abuse normally equivalent to corruption. Corruption is often an off-book fraud, meaning that there is little financial physical evidence available to prove that the crime occurred. Very often the corrupt employees simply receive cash payments under the table. Corruption often involves the purchasing function.

(viii) Conflict of interest - an employee, manager, or executive of an organization has an undisclosed personal economic interest in a transaction that adversely affects the organization. This could involve the award of contracts at favorable terms to related persons or a company in which the employee has an interest.

Role of Internal Audit in Fraud Management

Internal Auditors normally do not have direct responsibility for the incidence of fraud. Fraud is not the primary focus of auditing. Internal auditing as ‘an independent, objective assurance and consulting activity’ that adds value to an organization’s risk management, control and governance processes. Internal auditors must:

- have sufficient knowledge to evaluate the risk of fraud and how it is managed, but are not expected to have the expertise of someone whose prime responsibility is detecting and preventing fraud.
- Evaluate the potential for fraud to occur and how the organization manages fraud risk.
- Consider the probability of significant fraud when setting objectives.

NDP's Executive Director and senior management may expect additional work from internal audit, such as data analytics and fraud investigations. It is the combination of external standards and internal policy that determines the precise role of internal audit in responding to fraud risk within each organization. This should be stated clearly in the audit charter and the anti-fraud policy.

In addition, Internal Auditors, when assessing the adequacy and effectiveness of internal controls should take note that the existence of opportunities is one of the primary reasons for the occurrence of frauds. As the regular tasks, IAD should assist management’s efforts to improve prevention of fraud by:

- (i) Providing consulting expertise (advice) in establishing effective fraud prevention measures.
- (ii) Reviewing and analyzing reports prepared by others on specific fraud incidents to identify root causes of fraud and propose remedial measures.
- (iii) Promoting fraud awareness within the organization by providing training on ethics, risks and controls.
- (iv) Managing a hotline, where necessary, to receive reports from whistleblowers (staff and others) on possible fraud within the organization and investigating those reports.
- (v) Conducting, where there is sufficient evidence or where there are other valid reasons to do so, proactive auditing to search for misappropriation of assets and other possible wrongdoings.

Role of Internal Audit in Fraud Investigations

IAD can take on different roles with respect to fraud investigations. For example, an Internal Auditor may have the primary responsibility for fraud investigations, may act as a resource for investigations, or may refrain from involvement in investigations. The role of the internal audit activity in investigations needs to be clearly defined or in a separate and well-publicized document issued by the Chief Executive or a higher authority. Where an IAD takes any active role in investigations, the IAD has to ensure that there is sufficient proficiency among the Internal Auditors within IAD to undertake the assigned role. The Internal Auditors in this case would have to obtain sufficient knowledge of fraudulent schemes, investigation techniques, and applicable laws.

Where the CIA undertakes responsibility for the whole of an investigation or parts of an investigation, the CIA should, where appropriate in consultation with Management and legal officers, establish a protocol for undertaking the responsibility. The following elements may form part of such a protocol:

- (i) Gathering evidence through surveillance, interviews, or written statements.
- (ii) Documenting and preserving evidence
- (iii) Considering legal rules of evidence, and the business uses of the evidence.
- (iv) Determining the extent of the fraud.
- (v) Determining the techniques used to be responsible the fraud.
- (vi) Evaluating the cause of the fraud.
- (vii) Identifying the executor.
- (viii) Form and periodicity of reporting on the findings of the investigations.

Analysis of Lessons Learnt from Fraud Incidents during investigation

After a fraud has been investigated either by the Internal Auditor and communicated to the Chief Executive and other relevant authorities, it is important for Management and the CIA to step back and review the lessons learned. Such a review may include the following:

- (i) How did the fraud occur?
- (ii) What controls failed and why?
- (iii) What controls were overridden?
- (iv) Why wasn't the fraud detected earlier?
- (v) What red flags were missed by Management and the Internal Auditors?
- (vi) How can future frauds be prevented or more easily detected?
- (vii) What controls need strengthening?
- (viii) What internal audit plans and audit steps need to be enhanced?
- (ix) What additional training is needed?

Compliance of MRA Rules & Regulation

- a) NDP will be complied with the International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) while maintaining accounting records and preparing financial statements.
- b) NDP's all activities will implement as "Microcredit Regulatory Authority Act-2006." Or "Micro credit Regulatory Authority Ordinance - 2010." Or amendment act for future.
- c) Closing balance of last year's audited financial statement will be carried forward as opening balance in current year's accounts.

- d) The books of accounts of NDP are maintained proper books for sector-wise receipt of funds and they are properly complied with the rules and regulations as per accounting manual provided by the authority.
- e) Fund management of NDP will kept the records separately for the collected funds under various components of micro credit activities and submit separate reports on that basis.
- f) NDP will be maintain properly record and accounts for the receipt and disbursement of fund from different donor organizations and utilized them as per their principles/ terms and conditions of the agreement with the donors.
- g) The member's savings collection and savings will properly record and deposit to bank after collection. The organization is paying 6% interest/circulate letter's rate on member's savings.
- h) Before disbursing loan among the beneficiaries for all formalities and properly complied with the provisions in the rules mentioned before disbursing loan among the beneficiaries.
- i) The documents of passbook, loan / savings collection schedule, and loan application form regarding loan write off, bad loan record, register and document will preserve separately.
- j) NDP properly complied with the rules regulations relating to the constitutions particularly in respect of formation of General Body and Governing Body.
- k) The physical existence of assets acquired out of surplus service charge and fund received from different sources for institutional development as loan or grants.
- l) The loans will properly utilized by the beneficiary members.
- m) All kinds of transactions will be done through bank except collection of savings, disbursement of micro credit and some other small amount of transaction.
- n) The collection money from beneficiaries and recover loan and savings amount from members will be duly deposited into bank after daily disbursement to loanee on the same date.
- o) Collecting savings are properly recorded and accounted for at member's level as well as samity level.
- p) All recovery of loan disbursed out of fund received from several sources are made as per Schedule.
- q) Loan loss provision will be computed and accounted for as per Microcredit Regulatory Authority Act 2006 and Micro credit Regulatory Authority Rules 2010.
- r) Closing cash balance at the time of ending day and found will be OK. Internal Auditor will check bank balance of year end/month end by collecting certificate of bank balance and also check Bank Reconciliation Statements and found ok.
- s) Internal auditor will be checking the payments procedures with proper approval authority of bills/ voucher. And a "Budgetary control system" exists in the organization.
- t) Internal monitoring team (Finance/Auditor) will be monitored in unusual fund.
- u) Audit report and audited financial statement will be presented to different donor organizations, regulatory authority and other authorities.
- v) There will be a proper compliance with the provision of the Income Tax and Value Added Tax (VAT) authority rules implemented by the Government.
- w) The procurement policy, service policy, loan and savings policy etc. are in place and are properly followed by the Branches.
- x) NDP has an internal audit arrangement/ division and internal audit shall conduct regularly.

- y) Comment on Compliance of the status of the prior year/prior internal audit/financial monitoring visit audit observations:

Sl. No.	Observations	Implementation Status

- z) NDP share its cost between of micro-credit and other program.
- aa) The transaction processes of NDP will be implementing through bank for significant amounts excluding saving returns, loan disbursement or meeting minutes.
- bb) Yearly ratio analysis will prepare for sustainability analysis. One example has mentioned for clear understanding:

Sl. No.	Particulars	PKSF Standard	Current Year 2015-2016	Last Year 2014-2015
1	Debt to Capital Ratio	Max 9:1		
2	Capital Adequacy Ratio	Min 10%		
3	Debt Service Cover Ratio	1.25:1		
4	Current Ratio	Min 2:1		
5	Liquidity to Savings Ratio	Min 15%		
6	Rate of return on capital	Min 1%		
7	On Time Recovery	Min 92%		
8	Cumulative Recovery Rate (CRR)	Min 95%		

Note: Time to Time/Up-date policy of MRA shall be followed.

CHAPTER III

Function of Internal Audit Department

The person who has the responsibility of internal audit process has to manage internal audit function effectively to ensure that it gives a value added for the organization. The functions are:

- 1) Planning,
- 2) Communication and agreement/engagement,
- 3) Resource management,
- 4) Policy and procedure,
- 5) Coordination, and
- 6) Report to Executive Director/Audit Committee.

Audit planning (Develop the Audit Plan)

The chief of Internal Audit is responsible for developing a risk based Audit Plan that includes areas subject to regulatory review, each fiscal year. Internal Audit Manager is supposed to prepare a quarterly, six monthly or annual audit plans. The Audit Plan is a written document showing specific audits or projects to be performed by the Internal Audit staff. After review by the Executive Director, the Audit Plan is presented to the Audit Committee/chief of the Audit annually for approval. (See Annexure "A").

The most successful audits are those involving sound planning. Although every audit is unique, the audit process is similar for most engagement, and normally consists of three stages: planning (sometimes called survey or preliminary review), executing and reporting.

STAGE 1: Planning

During the planning portion of the audit, the auditor notifies the Auditee of the audit, discusses the scope and objectives of the examination with management, gathers information on important processes, evaluates existing controls, and plans the remaining audit steps.

9. Engagement Letter

It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the beginning of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports. The Auditee is informed of the audit through an engagement letter from the chief of Audit. An engagement letter (see Annexure "B") with TOR, ICQ & Audit program/schedule will have to send the Auditee at least one week ago. This letter communicates the scope and objectives of the audit, the auditors assigned to undertake the audit, what materials/documents should be made available and other relevant information.

10. Terms of Reference (TOR)

The overall status and remit of internal audit should be formalized in terms of reference, often referred to as an audit charter, and approved by the Executive Director, normally through chief of the audit. These should then be communicated to relevant people within the organization. Internal audit's terms of reference or charter should provide clarity about its:

- Strategy and objectives;
- Role and responsibilities within the organization;
- Scope of work;
- Accountability to the Internal Audit;
- reporting lines for line management purposes;
- Unregulated access to all information, people and records across the organization.

The terms of reference should make it clear that internal audit should not be put in a position where it has to review its own work. TOR helps the auditor for executing Internal Audit activity smoothly. So, NDP has made a TOR ((see Annexure "C") for conducting internal Audit effectively.

11. Internal control questionnaire (ICQ)/Checklist

The internal auditor along with the audit staff is expected to take the help of an Internal Controls questionnaire. An internal control questionnaire (ICQ) is a series of 'yes' or 'no' questions about the internal control structure. A 'yes' answer indicates that a needed controller policy is in place but however is to be accepted only after confirmation and testing to satisfy the existence. A 'no' indicates absence of a control and enhances risk or may not be relevant to the business, but requires confirmation to judge the impact of the same. Most internal auditors use ICQ for undertaking audits. These questionnaires are designed specifically for the department/office being audited. Answering this series of 'yes' or 'no' questions helps in the assessment of internal controls. This document provides information on the role and use of audit checklists to actively support the audit process. Whilst the document is primarily directed to external auditing

organizations including registration and certification bodies, the information can also equally be used by any organization conducting internal audits. In looking at current auditing standards, makes reference to “Preparing work documents”.

The use of checklists and forms should not restrict the extent of audit activities, which can change as a result of information collected during the audit”

At the same time as not always required in management system standards, audit checklists are just one tool available from the “auditor's toolbox”. Many organizations will use them to ensure that the audit at a minimum will address the requirements as defined by the scope of the audit. (See Annexure “D”).

12. Audit Program/Schedule

The audit program specifies who is doing what, why it is being done, how it is to be done, when it is to be done and where it is to be done, while allowing some flexibility for the use of initiative and sound judgment in deviating from prescribed procedures or extending the audit work where necessary.

To enhance time management on audits, a schedule should be prepared for each audit assignment and used as a “benchmark” for the actual hours spent on the assignment. Furthermore, the internal auditors should prepare daily time sheets which show the tasks accomplished on each working day and the number of “person-hours” spent on each task. (See Annexure E”). Those time sheets should be reviewed and approved by the chief Audit and filed in the administration section of the audit file.

13. Entrance Interview/Opening Conference

During this meeting, the client describes the unit or system to be reviewed, the organization, available resources (personnel, facilities, equipment, funds), and other relevant information. The internal auditor(s) meets with the senior officer directly responsible for the unit under review and any staff members, he wishes to include. It is important that the client identify issues or areas of special concern that should be addressed. At the entrance conference, the auditor should:

- Perform introductions between externals and the other management representatives in attendance.
- Distribute a sign-in sheet, to include name, department, and extension.
- Inform externals and others in attendance where the workspace for the externals is located.
- Discuss, or invite externals to discuss, the reason for the audit, the objectives and scope of the audit, the timeframe covered by the audit, and the expected duration of the audit.
- A meeting minutes have to preserve in the program/project/Branch office.

4. Survey/Internal Control Review/Testing

In this phase the auditor gather relevant information about the department in order to obtain a general overview of operations. She/he talks with key personnel and reviews reports, files, and other sources of information.

Testing will include interviews with the staff, review of procedures and manuals, compliance with the NDP policies and governmental laws and regulations and assessing the adequacy of internal controls.

The auditor will review the department's internal control structure, a process which is usually time-consuming. In doing this, the auditor uses a variety of tools and techniques to gather and analyze information about the operation. The review of internal controls helps the auditor determine the areas of highest risk and design tests to be performed in the fieldwork section.

5. Field Work

Field work addresses the objectives of the audit and is carried out by the audit team usually comprising the in-charge auditor and one or two audit staff. Primarily, the work consists of verifying the existence of appropriate internal controls through discussions with key personnel and the testing of specific transactions with supporting documents on a sampling basis. Progress is discussed with area management, usually as individual objectives are finished, and particularly with regard to any audit concerns.

The emphasis of the evaluation is to determine if there are adequate control systems and whether the systems are functioning as intended. The controls are measured against NDP policies and procedures, government laws and regulations, and generally accepted accounting principles. Areas of deficiencies and potential recommendations are discussed with the appropriate staff and are documented in the audit work papers.

The evaluation of internal controls is conducted within a cost/benefit framework. Whenever less than ideal controls exist, the Internal Auditor will first look to the existence or the possible establishment of monitoring controls in order to mitigate risk.

The Internal Auditor encourages personnel to share their ideas for improvement to the operation of the area or process being audited. This productive exchange of ideas often results in them being formally documented and communicated to appropriate decision makers for consideration and discussion.

6. Sampling

As it is not possible to check all transaction or meet all clients, the internal audit has to depend on sampling. Auditors have to sample out the transactions, records and reports to be checked and clients to be visited. While sampling, following things have to be considered:

- The sample should be representative of entire portfolio and should be able to cover all products, different geographic locations and all field staff.
- The sample should put more emphasis on the vulnerable areas like cash handling, groups having repayment problems.
- Different samples, in the Microfinance program 75% of all the passbooks will be checked, 100% bill-vouchers will be checked, 10% of the borrowers will be visited, etc. It is changed on basis of various perspectives. NDP management decisions regarding sampling will have to mention on the Audit checklist.

STAGE 2: Executing

Conducting the fieldwork is the main activity under the executing stage and it concentrates on transaction testing and informal communications. It is during this phase that we, the auditors determine whether the controls identified during the preliminary review are operating properly and in the manner described by you the Auditee. This stage concludes with a list of significant findings from which we will prepare a draft of the audit report.

1. Advice and Informal Communications

As the fieldwork progresses, the auditor discusses any significant findings with the Auditee. Hopefully, the Auditee can offer insights and work with the auditor to determine the best method

of resolving any queries or findings. Usually these communications are oral. However, when dealing with more complex situations written communications (memos, interim reports and emails) are used. There are times when we may have an informal meeting with management or present an interim report if we think our findings must be address immediately.

7. Audit Summary

Upon completion of the field work the auditors summarize the audit findings, conclusions, and recommendations necessary for the draft audit report.

8. Audit evidence

An auditor must obtain all of the evidence considered necessary for the expression of an informed opinion. The evidence required will vary and professional judgment is required to determine the amount and nature of the evidence required. It may be used to support the auditor's finding. The auditor should consider:

- the nature of the item under examination;
- the materiality of possible errors or irregularities;
- the degree of risk involved, which is largely dependent on the adequacy of internal control;
- the susceptibility of the given item to conversion, manipulation or misstatement.

Types of evidence

The following outlines the different types of evidence obtained during the course of an audit:

- a) **Physical evidence** obtained through observation and inquiry;
- b) **Testimonial evidence** from interview and statements from involved persons;
- c) **Documentary evidence** consisting of legislation, reports, minutes, memoranda, contracts, extracts from accounting records, formal charts and specifications of documentation flows, systems design, operations an organization structure.
- d) Analytical evidence secured by analysis of information collected by the auditor.

9. Working Papers

Working Papers are a vital tool of the audit profession. They are the support of the audit opinion and they connect all the dots, that is, the Auditee records to what auditors found. They are comprehensive and serve many functions such as reference materials and providing a history of the audit relationship between the Auditee and the chief of IAD. The standard for working papers and all documentation relating to an audit is very important as the purpose for the working papers can include any one or all of the following:

- They assist directly in the performance of the audit;
- They provide a historical record of the audit work;
- They contain the basis for the auditor's opinion;
- They provide information for the auditor's report;
- They help the review and evaluation of the audit work;
- They support legal action against departmental officers.

STAGE 3: Reporting

An audit report is a formal document where internal audit summarizes its work on an audit and reports its findings and recommendations based on that work. The Auditor's report is provided as an assurance service in order for the user to make decisions based on the results of the audit. An

audit report apart from disclosing the findings about the auditee also helps the users to evaluate the performance of the evaluate auditors themselves. More often than not, the report becomes a statement of the auditor's credibility when they are circulated, referred to and implemented. It is a major factor by which the reputation of internal audit department is established.

An Internal audit report is basically a four step process comprising of: What is wrong? Disclosure of findings and processes involved in arriving at such finding. Why is it wrong? Description of findings-the root cause analysis. How to correct it? Recommendations and Suggestions. What will be done? Auditee's views and comments. An Internal audit report should have the following features:

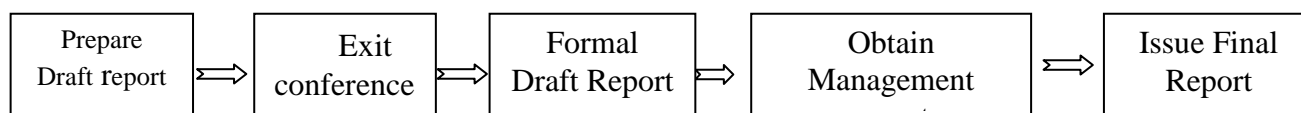
Disclose findings: Present findings both favorable present findings and unfavorable in a concise manner so that the auditee is apprised of the situation in an operation segment.

Description of findings: Adverse findings should be described in detail. It could be internal control weakness, gaps, violations of procedures or any other audit concern. Each finding must be provable. Auditor beliefs, without proper documentation will not be carried to the report.

Suggestions and Recommendations: The auditor should make suggestions for prevention or correction of the deficiencies or gaps identified.

Auditee's Comments: The auditee may wish to provide clarifications on any of may wish to provide clarifications on any of the issues reported or issues reported or state the constraints or mitigating circumstances or what corrective action the auditee has initiated or proposes to initiate. (See Annexure F").

The following diagram gives an overview of the reporting phase of the audit.



1. Draft Report

The audit is concluded once all the audit procedures and checking are completed by Assistant Manager (Audit). He/she shall prepare a Draft Audit Report for discussing in the exit meeting.

2. Exit Conference

Probable exit meeting date is mentioned on the Engagement Letter. But it may be changed based on concluding of the work. So, a meeting date is scheduled with the same individuals who attended the entrance conference and informed to them at least two days ago. At the exit conference, a rough draft of the audit report is reviewed so that all of the parties understand the nature of the recommendations and agree upon the possible solutions to any problem areas. Any misunderstandings or possible misstatements contained in the report are identified and resolved. Any deficiencies identified during the audit, which were not significant enough to be included in the audit report, but still represent a potential risk, are also discussed. Minutes of the meeting should be prepared and filled. (See the Annexure "G")

3. Formal Draft Report

Deputy Manager (Audit) shall finally review the working papers to see that the audit has been conducted according to plan and it has achieved its objectives. He should check the supporting

evidence for each observation that is proposed to be put in the report. He should satisfy himself about the sufficiency and relevance of the evidence. Then he/she should approve as a Draft Audit Report and submits to the Manager (Audit)/Chief Auditors. The format of the draft report shall be same as final report. The submission shall be done in the following manner:

- Deputy Manager (Audit) shall submit the draft audit report to the Manager (Audit)/Chief Auditors within 5 days after completion of exit conference.
- Manager (Audit) shall review the report over a period of 3 days and finalize the report in discussion with the Assistant/Deputy Manager (Audit).

4. Management Response

The chief of Auditor should be requested to submit written management comments within 10 working days after the closing meeting. The comments should include proposed timeframe for the implementation of the audit recommendations. A form of management response/comments will have to send to the Auditee for providing feedback of report findings. (See the Annexure "H")

It is then management's responsibility to address the items and to provide a management response for each reportable finding, setting out intended improvement action and a time line for inclusion in the final report. This may have already been jointly developed and agreed upon with internal auditing.

Internal auditing will work actively with management in supporting and advising them on the formulation of their responses to ensure they fully address the recommendation, indicate adequate and timely improvement action, and take credit for actions already in place. Internal auditing has the option to include an additional internal audit comment on an item at this stage, but it is intended this would be seldom used.

5. Auditee Comments/Auditee feedback survey

Finally, as part of the IAD's evaluation program, we ask Auditee to comment on our performance. This feedback has proven to be very beneficial to the department, and it has made changes in their procedures as a result of Auditee's suggestions. Auditee feedback survey form will have to send to Auditee with final report and want to back with management response. (See the Annexure "I")

6. Final Report

An audit report basically summarizes the findings of the audit conducted, points out the issues and suggests remedial actions, and also reflects the action plan suggested by the management of the organization. Audit reports must be taken seriously by organization as they present them with opportunities for improvement. They are essential tools that help a business in achieving its objectives and move towards continual growth.

The report should contain an executive summary, which should highlight key observations and recommendations. It should contain introduction and background, purpose of audit, scope of audit. Internal auditor's report should contain a clear written expression of significant observations, suggestions/recommendations based on the policies, processes, risks, controls and transaction processing taken as a whole and management's responses. Mentioning that, the final report will have to segregate in three (Management Report, Accounts Report and Field Visit Report segments based on obtaining observations:

Management Report- all management related gaps or findings will address as Management report.

Accounts Report- all accounts related gaps or findings will address as Accounts report.

Field Visit Report- field visit related gaps or findings will address as Accounts report. (See Annexure-J)

7. Report Distribution

The audit report is presented to the Executive Director and to the necessary department. The report must be discussed in the Audit Review Committee meeting as well as in the Executive Director/Audit Committee meetings. It is the responsibility of the management to see that the findings are followed up properly and required actions are initiated. Audit reports are also shared with the Branch so that they can know of their shortcomings and improve them. The auditors in the next auditing must verify if the shortcomings reported in last report have been addressed or not. If not, then it should be mentioned in report that no action has been taken despite mention in audit report last time.

Internal Audit Department will be prepared Final report and send to the following person or department:

- ☐ Executive Director/audit committee
- ☐ Focal Person
- ☐ Deputy Director-Finance & Account
- ☐ Concerned Program Director
- ☐ Concerned Program In charge

Internal Audit Department also submits the following Special Reports:

- ☐ Quarterly Presentation on summary of Internal Audit Observation (Financial and Policy issues) to the Audit Committee/Executive Director and other top Executives.
- ☐ Reporting to Executive Director on Core issues (as and when it requires).
- ☐ Reporting to Executive Director and program concern person on fraud related issues (as and when it requires). Quarterly Reporting to Audit Committee, Executive Director/Managing Director and Other High Officials on unsettled issues of Audit Review Committee's Decision.
- ☐ Quarterly Reporting to Senior Management for non-compliance of reply on Internal Audit Report from Local Office.
- ☐ Summary of Follow up Report on external audit observation.

Internal Audit Department will send letters to management for reply on Internal Audit Report presented to the management. Timing of reply: within stipulated time. The objective for sending reply is to know the action taken by the management after getting Internal Audit Report.

An Audit Review Committee has been formed with a view to taking prompt action and for the sake of greater transparency.

After going through the internal audit report and reply, Internal Audit Department selects report for Audit Review meeting and organized Audit Review Meeting. Audit Review Committee review the major findings brought by Internal Audit Department and settle them through discussion with program management.

Quality of internal audit performance

10. The heads of internal audit unit should promote and maintain adequate quality standards. He should establish methods of evaluating the work of his staff to ensure that the internal audit unit fulfils its responsibilities and has proper regard to this guideline.
11. The internal auditor undersign state that if find out major irregularities and fraud after performing audit, he/she are liable for this. (See Annexure "K").

Audit Follow-up

IAD has the responsibility to follow up and determine whether or not management has taken steps to adequately, effectively and timely address the matters reported in audit findings and recommendations, including those raised by the Office of the Auditor General. IAD therefore monitors on a bi-Monthly basis, the status of implementation of open recommendations until the reported issue is either solved or the appropriate level of management or the Board has accepted the risk.

1. If the recommendation has been implemented, the auditor should validate the response and if the action is appropriate, close the issue.
2. If the audited entity's action is not satisfactory, the auditor should indicate the specific actions that are still required to enable closure of the finding. The auditor should indicate that the finding and report are still open.
3. If the audited entity's response indicates that the recommendation has been overtaken by events or other circumstances that make it impractical to implement the recommendation and the auditor concurs, the recommendation should be closed without implementation.

At the conclusion of an audit, findings and proposed recommendations are discussed with management and subsequently management action plans are developed to explain how the agreed recommendations will be implemented. Challenging priorities, budget limitations and other factors may prevent managers from implementing agreed actions in the agreed timeline or as previously designed to mitigate the risk. The purpose of follow up is to ensure that management has implemented the action. Internal audit may help the organization to track the implementation of actions and periodically follow up to see. This does not mean that internal auditors have to undertake the follow up but they do have to ensure that actions have been implemented effectively or that management has accepted the risk of not taking action. (See the Annexure "L")

Audit Review Committee

There shall be an Internal Audit Compliance Review Committee (IACRC) in each Department to review the progress of compliance to the Internal Audit Reports. The committee shall meet quarterly to review the status of the compliance of the audit. The committee shall examine the compliance in each case and shall give necessary actions to settle wherever compliances are found satisfactory. Where no compliance has been received, the Committee shall issue instructions to the Auditee to give compliance within a specified time.

Function of Audit Review Committee:

- IAD will have to prepare Audit compliance based on last quarter's Audit reports and represents it on Audit Review Committee meeting.
- To review the major findings brought by Internal Audit Department.
- To settle them through discussion with program management.
- Decision taken by the Audit Review Committee to be implemented immediately by the program management.
- Compliance status of Audit Review Committee's Decision to be followed up by the Internal Audit Department during the next Internal Audit.
- Unsettled issues of Audit Review Committee's decision to be presented to the Audit Committee by Internal Audit Department.

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Chapter-V Annexure

Annexure-A

NATIONAL DEVELOPMENT PROGRAMME-NDP
INTERNAL AUDIT DEPARTMENT
NDP BHABAN, BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Audit Activity Plan/Calendar, FY: -----

Target Area/Procedure to be audited				January	February	March	April	May	June	July	August	Sept	Oct
SL	Name of Branch/project	Previous Audit date	Suggest frequency										

Prepared by:

Approved by:
Annexure-B

NATIONAL DEVELOPMENT PROGRAMME-NDP
INTERNAL AUDIT DEPARTMENT
NDP BHABAN, BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Reference: NDP/Audit/--/project/program name/Letter no-

Date: -----

Audit Engagement Letter

From

To

Name: -----

Name: -----

Designation: -----

Designation: -----

Internal Audit Department

Name of Project/Program

National Development Programme–NDP

National Development Programme–NDP

NDP Bhaban, Bagbari, kamarkhanda Sirajganj.

NDP Bhaban, Bagbari, kamarkhanda Sirajganj.

Subject: Audit of ----- Project/program by Internal Audit Department.

Dear PM/PC,

Please be informed that according to our Annual Audit Plan, Internal Auditor of NDP would like to conduct an audit of your project as per following schedule:

SL	Name of visitors	Designation	Probable date to complete

During the course of audit, they will review the official documents and field activities of your project. Below please need the relevant information and requirements:

- Objective of the Audit: The objective of the audit is to review whether the internal control system of the project provides reasonable assurance that risks in the following categories are mitigated:
 1. Reliability and Integrity of Financial and Operational Information,
 2. Compliance with Laws, Regulations, and Contracts,
 3. Safeguarding of Assets and property,
 4. Effectiveness and Efficiency of Operations of the key area.
- Scope of the Audit:
 1. The time scope of the audit is from -----
 2. The audit will include reviewing a randomly selected sample of expenses funded by WFP.
 3. We will review functional areas such as cash, procurement, property, payments, accounting & field level project activities.
- At the beginning of our audit, we would like the opportunity to meet with you to discuss our audit objectives and seek your effort. Our goal is to perform an effective and efficient audit. We will need your staff to provide us the attaching documents and schedules. We need certain information to conduct the audit. So be ready of information/documents as per attaching checklist.

Before the audit team leaves the client site at the end of the fieldwork phase, a meeting will be held with you to discuss preliminary findings raised, any outstanding information and the next steps to the audit. The draft audit report will be completed by the audit staff and reviewed by Manager (Audit) in the next three weeks. You are then expected to provide a response to the

draft report within two weeks. The report will be finalized and presented to the audit committee at their next meeting.

- Probable exit meeting date: -----

Our mission is to help you achieve project's objectives by providing you information about the effectiveness of internal control and by recommending courses of actions which improve performance. So, please provide assistance to the audit team for finishing their works successfully.

If you have any questions about this year's audit, please do not hesitate to call at 01713-383109 or email us at jkanndp@gmail.com.

Thank you for your cooperation in this matter.

Thanking You

K.M. Jahangir Alam
Manager (Audit)

Annexure "C"



NATIONAL DEVELOPMENT PROGRAMME-NDP

INTERNAL AUDIT DEPARTMENT

BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Terms of Reference (TOR)

Internal Audit is a part of overall controlling system of the organization. It is recognized to execute the internal control system of the organization. Internal Audit is helpful to prevent error and financial corruption effectively. It is also helpful to establish organizational principle, legal basement, rule and conception. NDP is determined to implement smoothly its program/projects. It is also determined to insure accuracy and accountability of its financial transactions and accounting procedure.

Internal Audit Department (IAD) is an independent Department headed by a Chief Internal Auditor-Manager (Audit). IAD is responsible for conducting internal in accordance with the Internal Audit Charter and in compliance with the Code of Ethics for Internal Auditors, Standards for Internal Auditing other guidelines issued by the NDP. IAD is directly reportable to the Executive Director/Audit Committee. A statement in accordance with some conditions (TOR) to help for executing Internal Audit activity. So, NDP has made a TOR (Terms of Reference) for conducting internal Audit effectively.

- IAD will perform Audit of all program/projects accordance with Yearly/Monthly Action plan.
- In Auditing of all program/projects, IAD will have to be most responsible and impartial.
- During the course of Audit, IAD will have to check physically the closing balance of Cash book and examine accuracy and appropriateness of the Cash and Banking transactions.
- IAD will have to examine Cashbook, Bankbook, General ledger, Sub-ledger, Bank statement and all kind of vouchers.

- This is the main obligation of IAD due to examine truthfulness, accuracy and appropriateness of the financial statement (Trial Balance-yearly, Cash in and out flow statements, Receipts and payments Accounts, income statement and Balance sheet) of program/project office.
- To review the overall Fund management of the programs/projects-Fund received from Donor and expense against various activities.
- To review all kinds of bill-vouchers and ensure authenticity of them.
- To ensure deducts and deposits VAT & Tax according to Govt. rule.
- IAD will have to review the overall Fixed Assets management of the programs/projects such as cross checking between General ledger and Fixed Assets Register, verification of Fixed Assets accordance with Fixed Assets Register for checking physical existence, depreciation setting and appropriately include in the Accounts. IAD will also check the effectiveness of internal control system in Fixed Assets transfer, selling and purchasing and properly entry in the Accounts.
- Internal audit must review achieve budget, budget variance analysis and budgetary control means real performance of the project/programs compare with Annual budget and identified difference that are established foundation of future budgetary control.
- To check various supplementary Registers or documents using in Accounts & Admin as supporting documents such as Advance register & Advance adjustment procedure, cheque issue register, Cheque counterpart, Salary sheet, Logbook, Attendance, Leave, Movement, stock register & staff personal file etc.
- To visit field level activities of the project and discuss with the beneficiaries who received input support from project. Further, to check the documents maintained at field level as well as at the project office.
- To detect any malpractice, collusion or action on part of employees that is against the organizational policies/culture or can bring disrepute to the institution.
- To review the internal control system of organization-practice existence of written policy & procedures of the organization or Donor such as Accounts Manual, Procurement Policy, and Human Resource Policy & MOU.
- To check individually periodic action plan and progress report of Project/Program's staffs that is prepared and preserved individually in a file.
- To check unethical staff behavior and to get a sense of organizational image as perceived by clients.
- To provide feedback/opinion related to operational risks such as staff dissatisfaction, competition inappropriate policies or areas of potential conflict.
- To assist management in achieving the most efficient administration of the operation by establishing procedures by complying with company's operating policies.
- To check the efficiency of staffs that helps to increase the efficiency of them.
- To do any kind of investigation according to the guidance of management.

Internal Audit Department-IAD has to follow the conditions of TOR for auditing organization's program/projects with Head Office documents. This rule will be continued up to not next coming rule.

(Md. Alauddin Khan)
Executive Director



NATIONAL DEVELOPMENT PROGRAMME-NDP

INTERNAL AUDIT DEPARTMENT

BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Internal Control Questionnaire-ICQ

SL	Questionnaire	Use '√'		Comments (if any)
		Yes	No	
A. Organization's Policy & Procedures:				
01	Does Accounts & Adm. Officer maintain Accounts according to the organization's written policy & procedures/ Donor's Accounts Manual & other Manual? (If applicable) (Accounts Manual, Service Policy, Procurement Policy, Human Resource Policy, ASF/PSF Policy or Office Order, External Audit Report)?			
02	Have the policies of the organization have been preserved in the office file?			
03	Are the policies of the organization approved by competent authority?			
04	Is the agreement/Log frame of Project/Program between Donor & Organization is always followed?			
05	Is the code of ethical conduct of organization is available to the employees/ employee's personal file?			
06	Des the Management arrange training for employee to update policy and procedures?			
07	Are the using registers and files are approved/certified by the authorized person?			
B. Action Plan (Financial & Programmatic) :				
01	Are individually periodic action plan of Project/Program's staffs prepared and preserved individually in a file?			
02	Is the Project/Program's action plan prepared by compiling the Staff's individually periodic action plan?			
03	Is the Plan approved by the competent authority?			
04	Is the work made according to the Action Plan?			
05	Is the Annual Financial planning (Budget) segregated Monthly/Quarterly for acquiring Financial achievement?			
06	Has any expenditure crossed the Budget line items within the specific financial period?			
C. Progress Report (Financial & Programmatic) :				
01	Is individually periodic Progress Report of employee prepared?			
02	Is the periodic progress report of the Project/Program prepared by compiling the Staff's individually progress report?			
03	Is periodic budget variance prepared to review the financial performance and is it reviewed by top management?			
04	Is the progress report preserved in the office file?			

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

	Is the progress report made according to Action Plan?			
05	Is the Monthly/Quarterly Accounts report prepared? Is it preserved in the office file?			
06	Have you cross checked/verified Accounts report with general ledger?			
07	Have you found any inconsistency?			
D. Attendance Register:				
01	The project maintains a register for staff's daily attendance.			
02	Every staff's name has entered into the attendance register.			
03	The employee signs on the register regularly.			
04	Leave/Absence of employees is mentioned on the register if any staff stays absence or enjoy Leave.			
05	The attendance register reviewed by authorized person.			
E. Salary Sheet :				
01	Salary sheet with affixing revenue stamp and signature of employees is preserved in file.			
02	It is prepared on the basis of attendance register.			
03	Salary is deducted of employee if he/she stays absence.			
04	Salary is paid to employees by considering their working days.			
05	Income tax is deducted on the taxable salary of employees and deposited it into the Govt. treasury.			
06	Salary of staff is deducted if he/she resigns/absence from job without notice/ permission of authority (Before one Month).			
07	Salary is given by accounts payee cheque.			
F. Leave Register/Form:				
01	The project maintains a register for staff's enjoying leave.			
02	Every staff's name has entry the attendance register.			
03	The format of register is prescribed of the organization.			
04	The Leave balance of register is mentioned according to the HR Manual (CL-12, EL-15, ML-15, Maternity leave-3 Months, Paternity leave-7 days).			
05	The enjoying leave of employees is written in the register.			
06	The prescribed format of the organization is used.			
07	Employees enjoy leave after the approval of authority.			
08	Employees fill up leave form and signed with date after enjoying leave which is approved by authority.			
09	The female staffs have enjoyed maternity leave before one year expired from their service period.			
10	The female/male staffs have enjoyed maternity/paternity leave more over two times of her service life.			
11	Employees enjoy leave more than achieving his/her leave.			
G. Movement Register:				
01	Movement Register is used in Project/program.			
02	The using register/format is prescribed of the organization.			
03	Employee writes down properly when he/she leaves office.			
04	Employees close movement register when he/she come back to the office.			
H. Fixed Assets /Register:				
01	Fixed Assets Register is maintained.			

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

02	The using register's format is prescribed of the organization.			
03	Assets register posting is updated according to the voucher/GL.			
04	It is mentioned on the register properly such as user name, reference no, cost, depreciation if applicable.			
05	Purchasing cost of assets above tk.2000 is considered as fixed assets.			
06	Fixed assets report/schedule is prepared periodically (Quarterly/half yearly/yearly).			
07	It is counted physically by the authorized persons in periodically and it is documented.			
08	The identification number is mentioned on Assets.			
09	Total/individually balance of fixed assets of register is equal to the balance of GL.			
10	Movable (Like; Motor cycle, Cycle, etc.) Fixed Assets are assigned to the staff by giving an assignment letter/Agreement/ from the management.			
I. Advance Management (Advance Register/Adjustment process):				
01	Advance Register is used in the Project/Program.			
02	The register is prepared according to the prescribe format of NDP.			
03	Advance is written down in the register individually of staff.			
04	More than one advance is paid to one employee at a time.			
05	Recipient's signature is available on the advance register/slip.			
06	Advance receiving date, possibility of adjustment date, actual adjustment date of advance are mentioned in the advance register.			
07	Advance is paid to staff at a time over the advance sealing?			
08	Advance is adjusted on time/within 7days after completion of work.			
09	Total outstanding of advance of register is equal of GL.			
10	Advance adjusting process is correct.			
11	Advance is given to concern staff only for programmatic purpose.			
12	Advance Policy is followed before giving any advance to staff.			
13	Advance Request is given by the staff as per planned activities.			
14	Advance is given to the third party (like; Vendor, House Owner, contractor, etc).			
J. Project/Program Bank account :				
01	A separate project bank account has been set up.			
02	Bank account is dual/more signatories.			
03	Opening documents (resolution approved by EC committee, letter of HQ which is mentioned authorized cheque signatories with name and designation, Segregation of cash withdraw limit of bank signatories etc.) of Bank Account are available.			
04	Changing documents of Bank signatories/Accounts are preserved.			
05	Cheque signatories are approved by the competitive authority.			
K. Bank Management (Cheque Issue Register & Cheque):				
01	Fund is withdrawn against approved activities/Budget line items			
02	Salary is transferred through Bank Advice Letter or Account Payee Cheque.			

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

03	Vendor's payment is made through Account Payee Cheque, which amount is beyond the cash limit as per policy.			
04	All kinds of payment, which is equivalent to BDT 3,000/- or, above made through Account Payee Cheque.			
05	Cheque Book is preserved & maintained by Accountant/ Accounts Officer.			
06	Cheque issue Register is maintained with detail information of the payments such as cheque number, Amount, Receiver signature, sign of bank signatory, officer's signatures column etc.			
07	Recipient's signature is found on the Cheque Counter foil.			
08	Cheque signatory's signature is found in the Cheque Register.			
09	Cheque Book number is found on the cover page of the Cheque Book.			
10	Necessary signatures received on the register.			
11	The continuing cheque's pages are alright according to cheques serial number. (Please count it)			
12	The counter foil of using cheques is preserved.			
13	The signatures are available on cheques foil such as receiver's signature of cheques, signatures of bank signatory.			
L. Procurement Register/Procurement Policy:				
01	Procurement register is maintained.			
02	It is posted in the register when any procurement occurred.			
03	Organizational policy procurement is followed, when need to purchase above Tk. 5000.			
04	Procurement personnel obtain at least three written independent bids for procurement above Tk 20,000 to 200,000 and at least two bids for procurement Tk 20,000 and below.			
05	Press tender is given on the news paper when need to procure above tk.200,000.			
06	Budget is Reviewed by the concerned staff whether budgetary provision exists.			
07	Purchase Requisition is found before any procurement.			
08	Procurement Committee is formed before purchase.			
09	Offer Letter or, Quotation is provided to the recognized vendors.			
10	Sealed Quotations are submitted by the Vendors against Offer Letter / Quotation called/ Tender.			
11	Sealed Quotations are opened by the Procurement Committee.			
12	Comparative Statement is prepared for Vendor selection.			
13	Quantity, Quality, Time & Cost (QQTC) is considered before Vendor selection.			
14	Work Order is issued to the selected Vendor whether quoted price is lowest.			
15	The date sequence of PR, RFQ, CS & WO is reasonable.			
16	The signature of purchase committee is available on the Quotation and CS with seal accepted/not accepted.			
17	Goods are received through Challan Receipts.			
18	Goods Receipts Notes is maintained for receiving any goods.			
19	All submitted bill is paid through A/c Payee Cheque/DD/Pay Order.			
20	Money Receipt is received from the Vendor for settlement of the Transactions.			

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

21	Are procurement personnel and any other personnel involved in the vendor selection process prohibited from receiving anything (conflict of interest) from vendors?			
22	Have you fill up procurement check list for checking procurement voucher?			
M. Stock Register:				
01	Stock Register is used for controlling office supplies.			
02	The register is written down when any office supplies is purchased.			
03	When the stationery items are out from register, receiver's signatures/store requisitions are taken.			
04	Stock verification report/stock valuation prepared in quarterly basis.			
05	Have you verified/counted stock items physically according to the balance of stock register.			
N. Other Input Register:				
01	A register is used for Agriculture/IGA/others Input support to the beneficiaries.			
02	The register is written down when any input is purchased.			
03	When the inputs are out from register, receiver's signatures/store requisitions are taken.			
04	When the inputs are distributed among beneficiaries, receiver's signatures/store requisitions /master roll are taken/prepared.			
05	Stock verification report/stock valuation of inputs prepared in quarterly basis.			
06	Have you verified/counted stock items of inputs physically according to the balance of stock register.			
O. Vehicle Management (Usage/Fuel/Logbook):				
01	Motor cycle is assigned to staff and documented.			
02	Agreement on non-judicial stamp is provided to the staff for using any Office/rented vehicle? (Motor Cycle, Micro Bus, Private Car, etc.)			
03	Permission of the Executive Committee is found before renting Vehicle from the office or staff.			
04	Vehicle's Logbook is maintained regularly.			
05	Vehicle is used only official purpose.			
06	If Vehicle is used for personal work, permission of authority [s available.			
07	The logbook contain an accounting for all mileage of the vehicle/Motor cycle by describing the beginning odometer reading and ending odometer reading of each use of the vehicle, the purpose of using.			
08	The claiming fuel bill of staff is authentic according to the official using km.			
09	The purchasing date of fuel is mentioned on the logbook.			
10	Have you checked the ending odometer reading of each vehicle with the logbook.			
11	Authorized person review the logbook.			
12	Motor cycle's blue books, valid Insurances and valid driving license are available to the staff.			
P. Visiting Register:				

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

01	Visiting register is opened.			
02	Visitors write any comments/lacks which should be improved immediately.			
03	Have you followed up his/her advice implemented in the project?			
Q. Monthly/Weekly Meeting Register:				
01	Monthly/Weekly meeting Register is used.			
02	Attendance of staffs is available in the Register.			
03	The discussions and decisions are written in the Meeting Register? It is approved by president.			
04	The resolution/Meeting minutes is contained in the Register.			
05	The resolution approved by president.			
R. Letter Receive & Payment Register:				
01	Letter Receive & Payment Register is used.			
02	All letters are written down in the register which comes from Donor/HO and out going from project/program office to Donor/HO/staff.			
S. Cash Book:				
01	Cash book is updated regularly in manually/software.			
02	Cash book is signed by responsible person after the day.			
03	Have you physically checked the remaining Cash in hand.			
04	Have you checked the remaining bank balance to go to the Bank or checked with the Bank statement.			
05	Bank reconciliation is prepared if any difference creates in the balance of Bank and cash book.			
T. Petty Cash:				
01	Petty Cash Book is maintained for Petty Expenses.			
02	Petty cash established the maximum amount tk.5000 for which is approved by Executive Director/A/C Manual.			
03	Payment is made above tk.1, 000 for one bill from petty cash.			
04	Payments are made from the petty cash shall be reimbursed to the cashier once a month of proper vouchers and authenticated documents.			
05	Payment is made without approval of the Director/Designated person.			
06	Petty cash is kept in lockable Box/secured place.			
07	Physical cash in hand at the end of the day is counted and documented.			
08	Cash balance is entry daily in a volt register with detonations?			
09	The signature of petty cash custodian is available in the volt register.			
10	Petty cash is counted Monthly by an employee/authorized person other than the petty cash custodian.			
11	Paid seal is used on bills/invoices during the payments.			
U. Ledger book :				
01	The transactions are written on the ledger Book day by day.			
02	Every head of ledger book is closed in Monthly.			
03	Have you checked the ledger head with the AIS report?			
V. Bill-Vouchers:				

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

01	Voucher is prepared with adequate supporting documents.			
02	Signature of the proper approval authorities is found in the bills and vouchers.			
03	Prepared by, Checked by and Approved by persons are different and designated accordingly.			
04	Serial numbers of Debit/credit/journal vouchers are alright according to the Cash book.			
05	As per serial number of vouchers, have you checked every voucher is presented			
06	In the credit voucher, the date of bank deposit slip is similar to the date of credit voucher/cash book?			
W. Staff Management :				
01	Staff has been recruited as per Project plan.			
02	Some staff has been terminated by the Project Authority due to misconduct of staff.			
03	Some staff has resigned due to personal issue.			
04	Staff Turn Over Rate is more than expectation.			
05	Project Implementation Committee is Gender Sensitive.			
06	Gender equality is one of the major concerns of the Project Management Committee.			
07	Have you fill up check list of personal file?			
X. Vendors/Suppliers/Land Owner Contractors Management :				
01	Organizational Policy is followed before selecting any Vendors, Suppliers, Land owner and Contractors.			
02	Purchase of Contract is prepared before engagement of any contract			
03	Both parties signature is taken in the Purchase of contract.			
04	Necessary Terms and Conditions is mentioned in the Contract Paper.			
05	Lease Agreement has been made by following the Organizational Policy and Donors guideline as well.			
06	Legal Entity Documents are collected from the Vendors, Suppliers, and Contractors.			
07	Vat & Tax is deducted at source from the Vendors, Suppliers, Land owner and Contractors as per Bangladesh Government Tax Ordinance and VAT Act.			
08	Tax & VAT is deposited to the Government Treasury within the stipulated time of the Government on be half of the Vendors, Suppliers, Land owner and Contractors.			
09	Payments of the Vendors, Suppliers, Land owner and Contractors are made through Account Payee Cheque.			
10	Separate file is maintained for individual Vendor, Supplier, Land owner and Contractor.			
Y. Information of technology (IT) :				
01	All financial data is backed-up daily and that is up to date and stored off-site?			
02	All anti-virus software is up to date and installed on all PCs?			
03	Appropriate security policies are in place and being adhered to e.g. password protected screen-savers?			
Z. Recording Management :				
01	Separate filing and admin systems are being maintained for the project.			

02	All project documents and financial information are securely stored, and are kept throughout the lifetime of the project, and at least for 1 year after the project is completed.			
Questionnaire of field visit				
A. Group resolution khata:				
01	Does the Samity use a register for group meeting?			
02	Are all meeting minutes write down in this register properly like main discussion and decision, issue based discussion, input purchase and distribution etc.?			
03	Are the most of the member attended in the meeting?			
04	Is it the final approved member whose get advantage from the project? Have you checked this?			
B. Savings Register/Loan Register /Pass book:				
01	Does the Samity use a register for group savings?			
02	Is the balance of savings of register and pass book equal?			
03	Is the balance of loan of register and pass book equal?			
C. Input Distribution/Stock Register/Pass book:				
01	Does the project use any for input distribution?			
02	Are any kinds of input distributed among beneficiaries?			
03	Do the inputs have entry in the stock register/pass book?			
04	Have you discussed with beneficiaries about getting the inputs?			
D. Training Register:				
01	Have the members received any training from the project?			
02	Does the project use register for trainee's attendance?			
03	Is the register signed by the officers?			
04	Have the members of group received cash or food?			
05	Have you discussed with the member about this according to bill?			

Prepared by: **K, M, Jahangir Alam**

Annexure-E



NATIONAL DEVELOPMENT PROGRAMME-NDP
INTERNAL AUDIT DEPARTMENT
BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

(Audit Program/Schedule)

Name of project: -----

Audit duration: -----

SL	Name of Activity	Date	Time	Responsible person	Signature: done by
	Entrance Interview/Opening Conference				
	Draft report review				

Exit Conference.				
------------------	--	--	--	--

Prepared by: Khan Mohammad Jahangir Alam.
Manager (Audit)

Approved by:

Annexure-F

NATIONAL DEVELOPMENT PROGRAMME-NDP INTERNAL AUDIT DEPARTMENT

2018

AUDIT OBSERVATION WORKSHEET

	Working Paper Reference
Audit observation:	
Supporting evidence:	
Fact:	
Effect:	
Potential recommendations:	
Management comments:	

Prepared by:

Approved by:

Date:

Annexure-G

NATIONAL DEVELOPMENT PROGRAMME-NDP INTERNAL AUDIT DEPARTMENT

2018

EXIT MEETING NOTE

Meeting Date: -----

Audit Period: -----

Meeting Place: -----

Period of Visit: -----

Attaching the observations are discussed and shared in the meeting and obtained management response:

Name list with signature of Audit Department:

SL	Name	Designation	Posting Place	Signature

Name list with signature of Program/project staff:

SL	Name	Designation	Posting Place	Signature

Signature: ----- ----- K. M. Jahangir Alam Manager (Audit)	Signature (AM/ZM/PM/DD): ----- Name: ----- Designation: -----
---	---

Attachment: Observation sheet.

Annexure "H"

ACTION TAKEN AGAINST INTERNAL AUDIT OBSERVATIONS



Name of the Project: -----

Audit period: -----

SL	Observations	Management Response (Please describe in detail causes of observation/mistaken/fraud)	Auditor's recommendations	What types of action has been taken	Attachment (Action oriented documents)

For kind consideration (Executive Director/Chief of Auditor)	Signature: _____ Name: ----- Designation: -----
---	---

NATIONAL DEVELOPMENT PROGRAMME-NDP

INTERNAL AUDIT DEPARTMENT

nDP BHAban, BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.



Auditee Feedback Survey

To help us evaluate the quality and effectiveness of the internal audit function, we would appreciate your sincere response to the below questionnaire. The questionnaire is designed to help us identify areas Internal Audit could improve on to provide more effective service to management and maintain a high level of quality.

Please provide a response that best reflects your rating of the audit services & Auditor's in the following areas:

SL	Evaluation Criteria	✓ (marks)			
		Excellent	Good	Fair	Poor
A	Planning & Communication:				
	1. Duration of the audit.				
	2. Selection of important areas or topics for audit.				
	3. Notify to you of audit purposes and scope on time.				
	4. Audit engagement letter.				
B.	Audit Execution:				
	1. Entrance Conference.				
	2. Internal audit activity to ensure its independence and ability to fulfill its responsibilities.				
	3. Usefulness of the audit in improving dealings process and controls.				
	4. Auditors have free and unlimited access to records, information, location, and employees during the performance of their engagements.				
	5. The internal audit activity promotes a client orientation by providing quality work.				
	6. Department's policies and procedures				
	7. Feedback to you on rising issues during audits.				
	8. Quality of relationship and rapport between auditors and Auditee.				
	9. Audit work done in stipulated time.				
	10. Exit conference.				
C.	Audit findings, Report and Recommendation:				
	1. Effectiveness of the audit in covering key operating areas.				
	2. Accuracy of the audit findings.				
	3. Value of audit recommendations.				
	4. Correctness of the audit report.				
	5. Clearness of the audit report.				

INTERNAL AUDIT DEPARTMENT (ALWAYS INDEPENDENT)

	6. Transparency of audit report.				
D.	Professional skill, Management of Audit Team:				
	1. Internal audit as a valued member of the management team.				
	2. Effectiveness of internal audit team management.				
	3. Guidance of team leader.				
	4. Knowledge of your program/process/success factors.				
	5. Technical expertise of auditors.				
	6. Professionalism of auditors.				
	7. Communication skill of auditors.				
E.	Field Visit :				
	1. Field visit and politely discuss with assets recipients.				
	2. Own bike uses for visiting field activities.				
	3. Performs in the night if auditor overnight stay during audit.				
F.	Miscellaneous:				
	1. Ability to consult and collaborate with management.				
	2. Assistance of supervision to strengthen auditing work.				
	3. Satisfaction with performance review process.				
	4. Assistance to management in risk assessment.				
G.	Answer the following question:	Yes	No	X	N/A
	1. Did you have an opportunity to provide explanations or responses to the auditor's observations and recommendations?				
	2. Did the auditor carry out his/her responsibilities in a polite and professional manner?				

H. Was there anything about the audit that you especially liked?

I. Was there anything about the audit that you especially disliked?

J. Additional Comments (if any):

Auditee Signature _____
 Designation _____
 Name of project/program _____

Date _____

NATIONAL DEVELOPMENT PROGRAMME: NDP



FINAL AUDIT REPORT OF

(NAME OF PROJECT/PROGRAM/BRANCH/HEAD OFFICE)

FUNDED BY: _____
FROM THE PERIOD OF -----



INTERNAL AUDIT DEPARTMENT

NDP Bhaban, Bagbari, Shahidnagar, Kamarkhanda, Sirajganj-6703, Phone: 0751-63870-71 Fax: 88+ 0751-63877, Mobile: 01713-383109, Email: jkhanndp@gmail.com. Web: www.ndpbd.org.



NATIONAL DEVELOPMENT PROGRAMME-NDP
INTERNAL AUDIT DEPARTMENT
BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Reference: -----

Date: -----

To,

The Chairperson, Audit Committee
National Development Programme –NDP
NDP Bhaban, Bagbari, Shahid Nagar, Kamarkhand, Sirajganj.

Subject: Audit Report on Audit of -----.

Dear Sir,

With due respect, I would like to inform you that we have carried out the Audit of accounts of -----
-----funded by ----- for the year ended ----- . We examined
the paper documents of the project and field level activities. During the course of our audit visit we
discovered some observations, but we did not find any major defraud, which I may attract, your immediate
attention.

We submit herewith our detailed report with your feedback on the audit of accounts of -----
project operations that the summarize observations of the report are as follows.

SL	Observations	Page & findings number	
		Page	Findings

I am therefore pleased to submit the Audit Report of ----- Project for your kind
consideration.

Thanking you
With best regards

K. M. Jahangir Alam
Manager (Audit)

CC:

- a) Director (Program)
- b) DD (Finance & Accounts)
- C) Project Coordinator
- d) Office copy.



NATIONAL DEVELOPMENT PROGRAMME-NDP
INTERNAL AUDIT DEPARTMENT
BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Reference: -----

Date: -----

To,

Designation: -----

Name of Project/Program/Branch: -----

Address: -----

Subject: Audit Report on Audit of -----.

Dear -----,

According to the Engagement letter Reference: ----- Date: -----

----- for conducting audit, we have carried out the Audit of accounts of -----

----- funded by ----- for the year ended -----

-----.

We submit herewith our detailed report with your feedback on the audit of accounts of -----
 -----project operations that the summarize observations of the report are as follows.

SL	Observations	Page & findings number	
		Page	Findings

We would like to keep on record our sincere thanks and gratitude to the management and staff members of ----- project for extending their cooperation in conducting the audit.

Thanking you

Name: -----

Chief of Audit.

- CC. a) Executive Director
 b) Director Program
 c) DD (Finance & Accounts)
 d) Office copy.



NATIONAL DEVELOPMENT PROGRAMME-NDP
INTERNAL AUDIT DEPARTMENT
BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Detailed Report

1.0 Introduction and background

National Development program-NDP is a non-government, non-profit, non-political organization registered with the Government of Bangladesh. NDP will implement ----- Project with the support of ----- over the DONOR ----- . The over goal of -----Project is to enhance the capacity of ----- . The propose project will contribute to ----- .

2.0 Project Objectives:

3.0 Scope of work

Specific audit scope to be undertaken at the at ----- :-----;

2.1 The time scope of the audit was from ----- .

2.2 The auditor shall examine the overall disbursement performance and identify the reasons if the disbursement performance is not up to the mark.

2.3 The auditor shall assess the actual progress and compare with the yearly target as per yearly work plan and report thereon.

2.4 The auditor shall examine the vehicle logbook and report as to whether the project's vehicles have been used for program activities and ensures that the vehicles have not been used outside of the project activities.

2.5 The auditor shall examine the staff recruitment procedure and personal file.

2.6 The auditor shall assess the internal control practices as adopted by the project and make suggestions to the senior management for further improvement.

2.7 The auditor shall check the authentic accuracy of accounting documents, vouchers and financial statements.

2.8 The auditor shall ensure the accuracy, quantity and quality of implementing activities at field level.

4.0 Auditors Comments on Specific Scope

4.1 Project Agreement:

4.2 Accounts Manual:

4.3 Financial Records:

4.4 Cash count:

4.5 Irregularities and Fraud:

4.6 Physically Inventory:

4.7 Discussion with the beneficiaries at field level

5.0 Auditor's Observations and Recommendations:

We have received all sorts of cooperation during the time of our audit. No major loopholes have been identified which requires top management's immediate attention. However, we have noted some of the

areas where management can take necessary steps for further improvement of their existing internal control system. The report have been segregated in three (Management Report, Accounts Report and Field Visit Report) segments based on obtaining observations: These are listed in brief as follows:

Management Report

5.1.0 Observation (Head Line):

5.1.1 Observation: -----

Fact: -----

Effect: -----

• Management Response:

Please describe in detail causes of observation/mistaken/fraud: -----

What types of action has been taken: -----

Attachment (Action oriented documents): -----

Recommendation: -----

Accounts Report

5.1.0 Observation (Head Line):

5.1.1 Observation: -----

Fact: -----

Effect: -----

• Management Response:

Please describe in detail causes of observation/mistaken/fraud: -----

What types of action has been taken: -----

Attachment (Action oriented documents): -----

Recommendation: -----

Field Visit Report

5.1.0 Observation (Head Line):

5.1.1 Observation: -----

Fact: -----

Effect: -----

• Management Response:

Please describe in detail causes of observation/mistaken/fraud: -----

What types of action has been taken: -----

Attachment (Action oriented documents): -----

Recommendation: -----

Conclusion:

We expect that our visit will help the project management to identify the weakness and the areas where improvement is essential to achieve the activities effectively.

We are thankful to project management for their excellent efforts and cooperation during our audit.

For kind consideration:	Signature:
Executive Director	Name: ----- Designation: -----



NATIONAL DEVELOPMENT PROGRAMME-NDP
HUMAN RESOURCE DEVELOPMENT UNIT
NDP BHABAN, BAGBARI, SHAHIDNAGAR, KAMARKHANDA, SIRAJGANJ.

Name of program/project: -----

Date: -----

Audit period: ----- Duration of Audit: -----

DECLARATION REGARDING CONFLICT OF INTEREST & AUDIT PERFORMANCE

We hereby declare that we have always practiced the ethical code of conduct of NDP in performing Audit work and there are no "Conflict of Interest" relating to the Auditee. If an issue arises with my professional behavior that is not in the spirit of the code of ethics or a conflict of interest should occur, I shall immediately report it to the Chief Auditor/Executive Director/Chair of Audit committee.

Further, we the undersigned hereby state we have constantly practiced to establish the organization's existing internal control system. We have reviewed the official documents and field level activities of the program/project according to organization's Manuals, Donor compliance, TOR and Audit Program/schedule. We have broadly hunted to find out irregularities and fraud and presented real picture of that project/program in the report. We have also undertaken that no major irregularities and fraud/misappropriation existed in the project/program. If find out major fraud/misappropriation in performing audit period, we are liable for this.

SL	Name of employees	Designation	Signature

- Shall perform internal audit services in accordance with the International Standards for the professional Practice of Internal Auditing.
- Shall continually improve their proficiency and the effectiveness and quality of their services.
- Conflict of interest is a situation in which an Internal Auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of Impropriety that can weaken confidence in the Internal Auditor, the Internal Audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

NATIONAL DEVELOPMENT PROGRAMME-NDP 2018

INTERNAL AUDIT DEPARTMENT

Follow-up on Internal Audit Recommendations

Name of Branch/Project: ----- Date:-----

Name of responsible person : -----Designation : ---

Update on High (including critical and major) Risk Internal Audit recommendations status:
Outstanding and partially implemented

NDP'S STRATEGY FOR ADDRSSING ISSUE						
Ref. No.	Risk	Issue identified in Auditors report (Observation)	Management Comments	Agreed implementation date	Auditors Recommendations	Current Status : Implementation progress (Implemented/ In process/No action yet taken)

Prepared by:

Approved by: