

**MANAGING CORE RISKS  
IN BANKING:**

**INTERNAL CONTROL &  
COMPLIANCE**



**BANGLADESH BANK**

**INTERNAL CONTROL**

**&**

**COMPLIANCE**

**FRAMEWORK FOR INTERNAL CONTROL**

**SYSTEMS**

**IN**

**BANKING ORGANISATIONS**

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**BRPD Circular # 12, dated 23-12-2002**

**6.**

**References**

## **Internal Control Policy**

### **1.1 Overview**

**Banking has a diversified and complex financial activity which is no longer limited within the geographic boundary of a country. Since its activity involves high risk, the issue of effective internal control system, corporate governance, transparency, accountability has become significant issues to ensure smooth performance of the banking industry throughout the world. In many banks internal control is identified with internal audit; the scope of internal control is not limited to audit work. It is an integral part of the daily activity of a bank, which on its own merit identifies the risks associated with the process and adopts a measure to mitigate the same. Internal Audit on the other hand is a part of Internal Control system which reinforces the control system through regular review.**

According to an IMF publication Internal Control refers to the mechanism in place on a permanent basis to control the activities in an organization, both at a central and at a departmental/divisional level. A key component of effective internal control is the operation of a solid accounting and information system.

In Bangladesh analysis on the performances of the banks has pointed out that an effective internal control system could have contributed significantly in improving the performance of the commercial banks if the control culture is brought in through policy guidelines and structural changes at these banks.

### **1.2 Definition**

Internal control is the process, effected by a company's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws, regulations, and internal policies.

Internal controls are the policies and procedures established and implemented alone, or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed or in which it is engaged.

### **1.3 Internal Control Environment**

The internal control environment is the framework under which internal controls are developed, implemented and monitored. It consists of the mechanisms and arrangements that ensure internal and external risks to which the company is exposed are identified; appropriate and effective internal controls are developed and implemented to soundly and prudently manage these risks; reliable and comprehensive systems are to be put in place to appropriately monitor the effectiveness of these controls.

Each company needs to have in place an appropriate and effective internal control environment to ensure that the company is managed and controlled in a sound and prudent manner. The factors which together comprise the control environment are:

- a board of directors that is actively concerned with sound corporate governance and that understands and diligently discharges its responsibilities by ensuring that the company is appropriately and effectively managed and controlled;
- a management that actively manages and operates the company in a sound and prudent manner;
- organizational and procedural controls supported by an effective management information system to soundly and prudently manage the company's exposure to risk; and
- an independent audit mechanism to monitor the effectiveness of the organizational and procedural controls.

#### **1.4 Objective of Internal Control**

**The primary objective of internal control system in a bank is to help the bank perform better through the use of its resources. Through internal control system bank identifies its weaknesses and takes appropriate measures to overcome the same. The main objectives of internal control are as follows:**

- **Efficiency and effectiveness of activities (performance objectives).**
- **Reliability, completeness and timelines of financial and management information (information objectives)**
- **Compliance with applicable laws and regulations (compliance objectives)**

#### **1.5 Policy Guidelines For Internal Control**

#### 1.5.1 Responsibility of the Board of Directors

- **The overall responsibility of establishing broad business strategy, significant policies and understanding significant risks of the bank rests with the Board of Directors.**
- Through the establishment of 'Audit Committee' the Board of Directors can monitor the effectiveness of internal control system. Bangladesh Bank has already instructed the banks to establish Audit Committee (Appendix 5.4)
- The internal as well as external audit reports will be sent to the board without any intervention of the bank management and ensure that the management takes timely and necessary actions as per the recommendations.
- Have periodic review meetings with the senior management to discuss the effectiveness of the internal control system of the bank and ensure that the management has taken appropriate actions as per the recommendations of the auditors and internal control.

#### 1.5.2 Responsibility of the Senior Management

- **In setting out a strong internal control framework within the organization the role of Managing Director is very important. He/she will establish a 'Management Committee' (MANCOM), which will be responsible for the overall management of the Bank**
- **With governance & guidance from the Board of Directors the MANCOM will put in place policies and procedures to identify, measure, monitor and control these risks.**
- **The MANCOM will put in place an internal control structure in the banking organization, which will assign clear responsibility, authority and reporting relationship.**
- The MANCOM will monitor the adequacy and effectiveness of the internal control system based on the bank's established policy & procedure.
- The MANCOM will review on a yearly basis the overall effectiveness of the control system of the organization and provide a certification on a yearly basis to the Board of Directors on the effectiveness of Internal Control policy, practice and procedure.

#### 1.5.3 Risk Recognition and Assessment

- An effective internal control system continually recognizes and assesses all of the material risks that could adversely affect the achievement of the bank's goals
- Effective risk assessment must identify and consider both internal and external factors. Internal factors include complexity of the organization structure, the nature of the Bank's activities, the quality of personnel, organization changes and also employee turnover. External factors include fluctuating economic conditions, changes in the industry, socio-political realities and technological advances.
- Risk assessment by Internal Control System differs from the business risk management process which typically focuses more on the review of business strategies developed to maximize the risk/reward trade-off within the different areas of the bank. The risk assessment by Internal Control focuses more on compliance with regulatory requirements, social, ethical and environmental risks those affect the banking industry.

#### **1.5.4 Control Activities and Segregation of Duties:**

- Effective internal control system requires that an appropriate control structure is set up with control activities defined at every business level, i.e. top level review; appropriate activity controls for different departments or divisions; physical controls; checks for compliance with exposure limits and follow-up on non-compliance; a system for approvals and authorizations and system of verification and reconciliation.
- Control activities involve two steps: (1) the establishment of control policies and procedures and (2) verification that the control policies and procedures are being complied with.
- Senior management should ensure that adequate control activities are an integral part of the daily functions of all relevant personnel; this enables quick response to changing conditions and avoids unnecessary costs. Control activities are most effective when they are viewed by management and all other personnel as an integral part of daily activities rather than an addition to it.
- One of the most important aspects of internal control system requires that there is appropriate segregation of duties and personnel are not assigned conflicting responsibilities.
- Furthermore the employees must also be provided with necessary authority which will enforce segregations of duties.

- For employees to carry out their responsibilities properly each employee should have appropriate job description
- Areas of potential conflicts of interest should be identified, minimized and subject to careful independent monitoring.

#### **1.5.5 Management Reporting System:**

- Effective internal control system requires that there is an effective reporting system of information that is relevant to decision making. The information should be reliable, timely accessible and provided in a consistent format.
- Information would have to include external market information about events and conditions that are relevant to decision making. Internal information include financial, operational and compliance data.
- There should be appropriate committees within the organization which would evaluate data received through various information systems. This will ensure supply of correct and accurate information to the management.
- Internal information must cover all significant activities of the bank. These systems including those that hold and use data in electronic form must be secure, monitored independently and supported by contingency arrangements.
- Most importantly the channels of communication must ensure that all staff fully understand and adhere to policies and procedures effecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.

#### **1.5.6 Monitoring Activities & Correcting Deficiencies:**

- Effectiveness of the Bank's internal controls should be monitored on an ongoing basis. Key/high risk items should be identified and monitored as part of daily activities. In addition there should be periodic evaluation by the business lines and internal audit team.
- There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff specially designated by the management. The significant deficiencies identified by the audit team should be reported to the board on a periodic basis. The Audit Committee of the board should be the cell to whom such report should be forwarded for review.

- Preferably the internal control team should be reporting to the board of directors or its audit committee. If practical considerations do not permit internal control team to directly report to the board of directors then it can report directly to the MD.
- Internal control deficiencies, whether identified by business lines, internal audit or other control personnel should be reported in a timely and prompt manner to the appropriate management level and addressed immediately.
- Material internal control deficiencies should be reported to senior management and board of directors with recommendations where necessary. Each bank should set out its own guideline regarding what should be considered as major branches. However, it should be noted that consideration should be given to major financial exposure or loss, significant process lapses, serious employee misconduct etc.

#### **1.5.7 Role of External Auditors in Evaluating Internal Control System:**

- External Auditors by dint of their independence from the management of the bank can provide unbiased recommendation on the strength and weakness of the internal control system of the bank.
- They can examine the records, transactions of the bank and evaluate its accounting policy, disclosure policy and methods of financial estimation made by the Bank; this will allow the board and the management to have an independent overview on the overall control system of the bank.

#### **1.5.8 Regulatory Compliance:**

- For the banks Central Bank is the primary regulator, who governs the activities of banks. In addition Tax Authority, Registrar of Joint Stock Company, Finance Ministry etc. are different types of regulatory bodies whose directives have significant impact of bank's business.
- The internal control system should always take into account the bank's internal processes to meet the regulatory requirement before conducting any operation.
- The internal control system of the bank must be designed in a manner that the compliance with regulatory requirements is recognized in each activity of the bank. The bank must obtain regular information on regulatory changes and

distribute among the concerned department, so that they can take necessary action to adapt to such changes.

- The bank must develop an effective communication process which will allow smooth distribution of relevant regulations among different departments and personnel.

#### **1.5.9 Establishment of a Compliance Culture:**

- A bank is said to have strong compliance culture when throughout the organization employees are encouraged to comply with policies, procedures and regulation. Even an individual at the lowest echelon should be empowered to speak up without the fear of reprisal if she/he identifies something non-compliant.
- The board of directors and the senior management must establish a compliance culture within the banking organization that emphasizes and demonstrates to all levels of personnel the importance of internal control.
- In order to establish a compliance culture the board of directors and senior management must promote a high ethical and integrity standard.
- In reinforcing ethical values the banking organization should avoid policies and practices that provide inadvertent incentive for inappropriate activities. Examples of such policies and practices include undue emphasis on performance targets or operational results, particularly short term ones that ignore long term risks and compensation schemes that overly depend on short term performance.
- The board of directors and the senior management may establish a 'Code of Ethics' that all levels of personnel must sign and adhere to.

## **2. Organisation Structure**

### **2.1 Structure for Internal Control System**

Organization structure plays a vital role in establishing effective internal control system. The essence of the ideal organizational structure that will facilitate effectiveness of the internal control system is the segregation of duties. The bank should, depending on the structure, size, location of its branches and strength of its manpower try to establish an organizational structure which allow segregation of duties among its key functions such as marketing, operations, credit, financial administration etc.

Up to which level this segregation will take place will depend on an individual bank. For instance a bank which has small branch operations at remote places of the country may not find it feasible to have such functional segregation of duties at that branch level. However at the higher level such segregation should exist and where possible this should be extended to the branch levels.

In cases where such segregation is not possible, there must be certain monitoring mechanism which should be independently reviewed to ensure all policies and procedures are followed at the branch level. A detail guideline in this respect is given in the following section.

### **2.2 Structure of the Internal Control Unit**

For an effective control system a separate organizational structure is also provided for this unit. The organizational structure of the internal control will depend on the tasks performed by the unit and the size of the organization. A bank with large branches may have regional level internal control units which will allow regular monitoring and audit at the branch level.

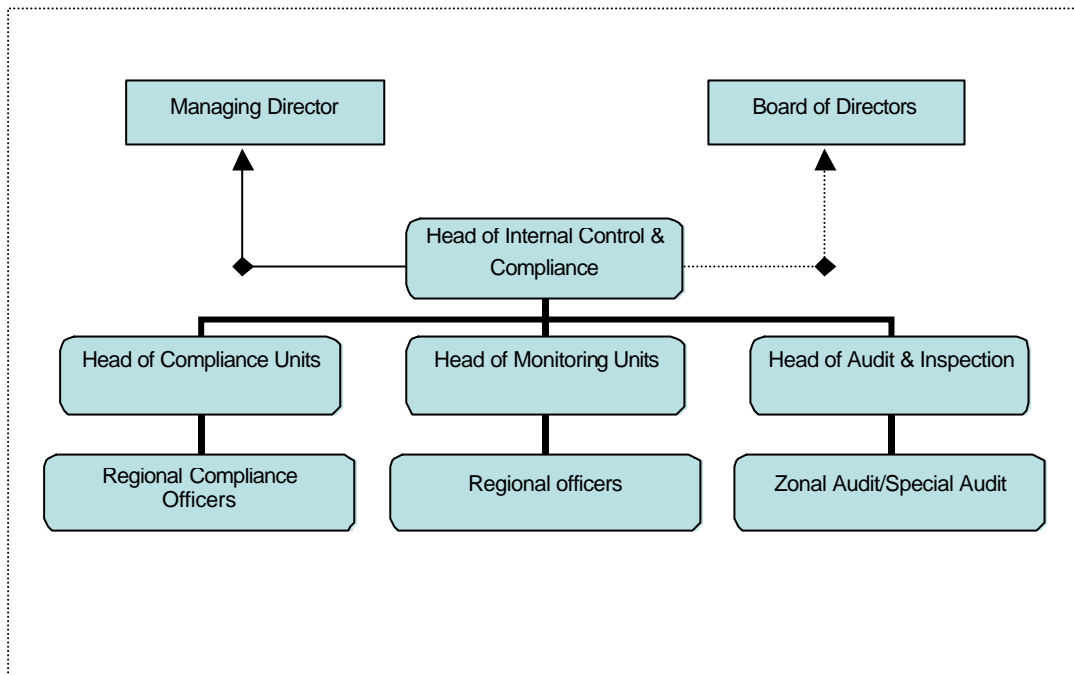
The head of internal control unit should have a reporting line with the bank's board. The audit committee of the board can be the contact point for the internal control unit. This unit must also have a reporting line with the Managing Director of the bank.

The unit should be adequately staffed so that it can perform its duty properly. In order to ensure that availability of efficient people with internal control the banks will make it mandatory for all middle to senior management staff to spend at least two years with internal control on secondment.

The following organization structure for the internal control unit is based on the basic tasks that are to be performed by this department. Depending on the size of the bank and its requirement this may vary. A brief discussion of the structure has also been provided.

The head of the internal control will be responsible for the both compliance and control related tasks which include compliance with laws and regulation, audits and inspection, monitoring

activities and risk assessment. The head of internal control will report directly to the MD and also have an indirect reporting line to the Audit Committee of the Board



The compliance unit will be responsible to ensure that bank complies with all regulatory requirement while conducting its business. They will maintain liaison with the regulators at all level and notify the other units regarding regulatory changes.

The monitoring will be responsible to monitor the operational performance of various branches. They will collect relevant data and analyze those to assess the risk of individual units. In case they find major deviation they will recommend to the Internal Control Head for sending audit & inspection team for thorough review.

The audit team will perform periodic and special audit. A bank may have different section within this team responsible for carrying out specific tasks. For instance a bank may have a special audit section responsible only for credit inspection.

### **3. Process Guidelines**

Each Bank should have a policy guideline in order to ensure an effective control over its process in various fields e.g. credit, human resources, finance & accounts, treasury, audit, customer service etc. There should be a written policy guideline for each Department's function which may be as follows.

#### **3.1 Credit Policy Manual/Guideline**

The main objective of lending money is to ensure maximum return of lendable fund. This manual should highlight the process starting from review of credit proposals, obligor risk rating, approving credit limit, disbursement of loans, monitoring of credit risk etc. Various types of MIS should be provided in order to have better control over assets of the bank.

- Risk classes, lending limits and credit authorities
- Lending guidelines
- Approval processes
- Documentations
- Secured loans and collaterals

#### **3.2 Operations Manual**

This manual should contain role of Credit Admin., Trade Finance, Reconciliations, Cash, Client's service, Treasury Back office etc. It should also reflect a clear guideline regarding Anti-Money Laundering activity in order to protect Bank's interest. Credit Admin will be responsible for monitoring of limits and outstanding as per credit approval. The basic content of Operations manuals are:

- Account Opening and closing
- Check clearing
- Cash & teller Operations
- Payment monitoring procedures
- Nostro account reconciliation
- Letters of credit, collection, bank to bank reimbursement
- Loan Administration
- Treasury Operations
- Anti-money Laundering procedures

### **3.3 Finance & Accounting Manual**

This manual should provide all financial activities regarding income and expenditure of a bank. They will look after if there is any exaggeration of expenditure where it is necessary to get control. They will also ensure the profitability of the bank. by projection of income, expenditure and thereby achieve ultimate targeted profit. Various types of MISs are to be submitted from this Dept. as per time schedule.

- Treatment of Land, Building & Equipment
- Capital Adequacy and Shareholders Equity
- Treatment of expenditures
- Commission, fees and revenues
- Income tax procedures
- Write-off procedures

### **3.4 Treasury Manual**

This manual should include activities of fund transfer. Inter bank fund management is done by them. The manual should include the guideline so that they may manage the bank's fund properly and profitably. There may be some idle fund in the bank which is to be taken into account so as to make them invested in optimum profit seeking area. They should also ensure the security of the fund. If possible, they may look into international money market subject to the available opportunity in the money market arena.

- Liquidity
- Investments
- Capital management
- Dealing room activity
- ALCO

### **3.5 HR Policy Manual**

They will, at first, ensure the proper distribution of available human resources in the inter structure of the bank. To find out the right person for setting up them at the right position is very crucial. The rewarding method of that department should be impartial. They will ensure staff welfare which will ultimately encourage people and create a healthy working atmosphere.

- Recruitment policy
- Background checking policy
- Leave policy

- Compensation policy
- Reward and Recognition policy
- Termination & retirement policy
- Promotion and increment policy
- Training guidelines

### **3.6 Internal Control Manual**

This manual should contain three parts internal control over the operating activities of bank (here, audit means the internal audit). They will monitor the functions of various departments' of the bank periodically on regular basis. Depending on the requirement, they should carry out inspection, surprise inspection in order to help avoiding any fraudulent activities which in turn would strengthen the bank to set up sound structural base.

- Know your customer policy
- Code of conduct/Ethics
- Gift giving and acceptance
- Monitoring procedures
- Audit guidelines

## **4. Internal Control Process**

### **4.1 Departmental Control Function Checklist (DCFCL) {Appendix 5.1}**

- a) The guideline/procedure deals with matters relating to review/verifications of departmental functions to ensure that prescribed procedures are being followed by each department.
- b) All departments are required to check that prescribed controls are being observed and laid down procedures are not overlooked & relaxed.
- c) Departmental Managers, Line Managers, Branch Managers will review the DCFCL to ensure that control functions are performed and documented in the control sheets (Appendix 1) at the prescribed frequencies i.e. Daily, weekly, monthly and quarterly.
- d) The DCFCL Checklist should be retained with the branch/departments for future inspection by Internal Control and Senior Management.

### **4.2 Loan Documentation Checklist {Appendix 5.2}**

The checklist deals with matters relating to security documentation for sanctioning and draw-down credit facilities to ensure that prescribed documentation is being obtained to safe guard bank's legal charge.

### **4.3 Quarterly Operations Report {Appendix 5.3}**

- a) This guideline/procedure relates to reporting of operational functions of each branch/centre under the following heads on the enclosed format:
  - i. Policies, Procedures and Controls
  - ii. Protection of Valuables
  - iii. Proofs/Verifications and Internal Checks
  - iv. Personal and Supervision and
  - v. Premises Management
  - vi. Confirmation on Regulatory Compliance

- b) A report will be prepared in duplicate copies by each branch/centre in the prescribed format; one copy is to be dispatched to the Line Management and another copy to the Internal Control Team by 10<sup>th</sup> of the following month i.e. 10<sup>th</sup> April, July, October and January each year.
- c) The items which are not applicable for individual Branch or Department should be marked as N/A and no signature is required against the items marked as N/A.
- d) Any deviation in the quarterly operations report must be reported in a separate exception report
- d) All concerned are advised to adhere to the requirements as outlined in each of the above head for review by the Line Management quarterly and by Internal Control/Audit as and when they visit the branch/centre.

#### 4.4 Risk Analysis of Control Functions

Individual items in the DCFCL need to be assigned a risk rating in terms of the following dimensions:

- a) **Impact:** Before taking into account the mitigation (i.e. Insurance) what is the impact of the lapse/omission.
- b) **Probability:** After taking into account of the mitigation what is the likelihood of the event occurring.

To assist in this task, the following matrix (Table 1) can be used. However some banks may consider customization of this matrix to suit their own risk profile. Where appropriate, additional details (e.g. financial values can be added). The key principle is that all banks should be able to differentiate between different levels of risk in their own area of activity and then ensure appropriate controls are established.

Scores should be plotted on the following table to determine a category of high, medium and low.

<b>P r o b a b i</b>	3	High	High	High
	2	Medium	Medium	High
	1	Low	Medium	High

<b>li t y</b>	1	2	3
	<b>Impact</b>		

**Table: Risk Assessment Matrix**

To arrive at the decision of what constitutes a high, medium or low risk the following template can be used

<b>Risk Score</b>	<b>Probability</b> (after taking into account of risk mitigation)	<b>Impact</b> (before taking into account of mitigation)
3	<ul style="list-style-type: none"> <li>• High probability or almost certainty</li> <li>• High/frequently recurring</li> <li>• Governed by widely anticipated external factors/frequency of management review not established</li> <li>• New area of risk with no policy &amp; procedure to deal with the matter</li> <li>• Probability uncertain</li> <li>• Complex, requires specialized skills to mitigate</li> </ul>	<ul style="list-style-type: none"> <li>• Catastrophic/major impact on the bank</li> <li>• Potential loss in excess of BDT 1Million.</li> <li>• Serious regulatory implications (Revocation of license, imprisonment)/sanctions.</li> <li>• Potential/actual damage to reputation</li> <li>• Major corporate governance failure</li> </ul>
2	<ul style="list-style-type: none"> <li>• Evidence of increasing trends</li> <li>• Management reviews largely to manage exceptions</li> <li>• Policies exists but compliance is complex</li> <li>• External factors have medium bearing on ability to follow established standards</li> <li>• Process requires moderate degree of supervision</li> </ul>	<ul style="list-style-type: none"> <li>• Significant impact on the bank.</li> <li>• Potential loss in excess of BDT 1,00,000</li> <li>• Possibility of fines/penalties from regulators</li> <li>• Medium financial loss with some potential for recovery</li> <li>• Medium level of reputation risk</li> <li>• Exposure due to control weakness</li> </ul>
1	<ul style="list-style-type: none"> <li>• Unlikely</li> <li>• Isolated incident/Not likely to be repeated</li> <li>• Frequent management review/well documented</li> <li>• Clear policy exists</li> <li>• External factors have low impact on ability follow</li> </ul>	<ul style="list-style-type: none"> <li>• Potential or actual loss less than BDT 1,00,000</li> <li>• Low impact on business or reputation</li> <li>• Exposure on regulatory sanctions low</li> <li>• Customer service issues are within expected levels</li> </ul>

	established standards • Process simple	• Impact on local business unit level
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#### 4.5 Monitoring & follow-up

- The Internal Control Team (ICT) will review the Quarterly Operations Report and Exceptions Report (if any); in addition to the line management the internal control team will instruct the branch/unit to rectify the exception and report the same. If deemed necessary the ICT will instruct the Audit & Inspection Team (A&IT) to carry out an inspection on the specific deviation.
- Depending upon the gravity of the deviation the ICT will report the matter to the Managing Director with a copy to the Audit Committee of the Board for necessary action and rectification.
- A copy of the Loan Documentation Checklist would be send by each branch/unit to the ICT, who will review the same. On a quarterly basis ICT will submit a report to the MD/Audit Committee on the type/nature of the discrepancies in credit documentation.
- In addition to the above the ICT will send out the A&IT routinely but on surprise dates to branches/departments to carry out sample checks on the items mentioned in the DCFCL. The frequency and sample volume of these checks are given in the template below.

<u>Risk Rating</u>	<u>Frequency</u>	<u>Sample Volume</u>
High	Quarterly	25%
Medium	Half Yearly	12%
Low	Yearly	10%

#### 4.6 Reporting

The Banks will design a reporting structure for ICT depending upon their size and complexity of business. However the following reporting structure can be used as a benchmark for the banks.

- The ICT will prepare report on individual inspection programs within 15 days (except for items that needs to be escalated immediately) and submit the same to the branch/ business unit for rectification with a copy to line management.
- For no high-risk items and less than 5 medium risk items will be reported to the MD/CEO.
- More than 3 high-risk items identified in breach will trigger the report to be given to the MD/CEO and the Audit Committee of the Board.
- However any losses amounting to more than BDT 10 million will be directly reported to the MD and the Audit Committee of the Board.
- ICT will prepare an annual report on the health of the Bank to be submitted to the MD and the Audit Committee of the Board for onward submission to the Board of Directors.

#### **4.7 Compliance Process**

- Regulatory requirements are to be incorporated into the work process to ensure full compliance.
- The bank has to ensure that all guidelines received from the regulatory authority are properly disseminated among the relevant departments.
- A particular unit (if possible Internal Control) should be responsible of receiving regulatory guidelines, maintaining proper record and distribution among all relevant units.
- If required this unit would contact regulatory authorities for proper clarifications on a particular issue and notify the concerned departments accordingly.
- When regulatory inspection is conducted on the operation of the bank this unit should work as point of contact.
- Once the audit report is received they must ensure that corrective measures are taken and the appropriate response is made on a timely fashion.
- If any major lapse is identified by the regulatory authority they must ensure that the Audit Committee of the board is also notified along with the senior management of the branch.
- This unit must arrange appropriate training for employees so that employees are aware of the regulations that are necessary to accomplish their jobs.

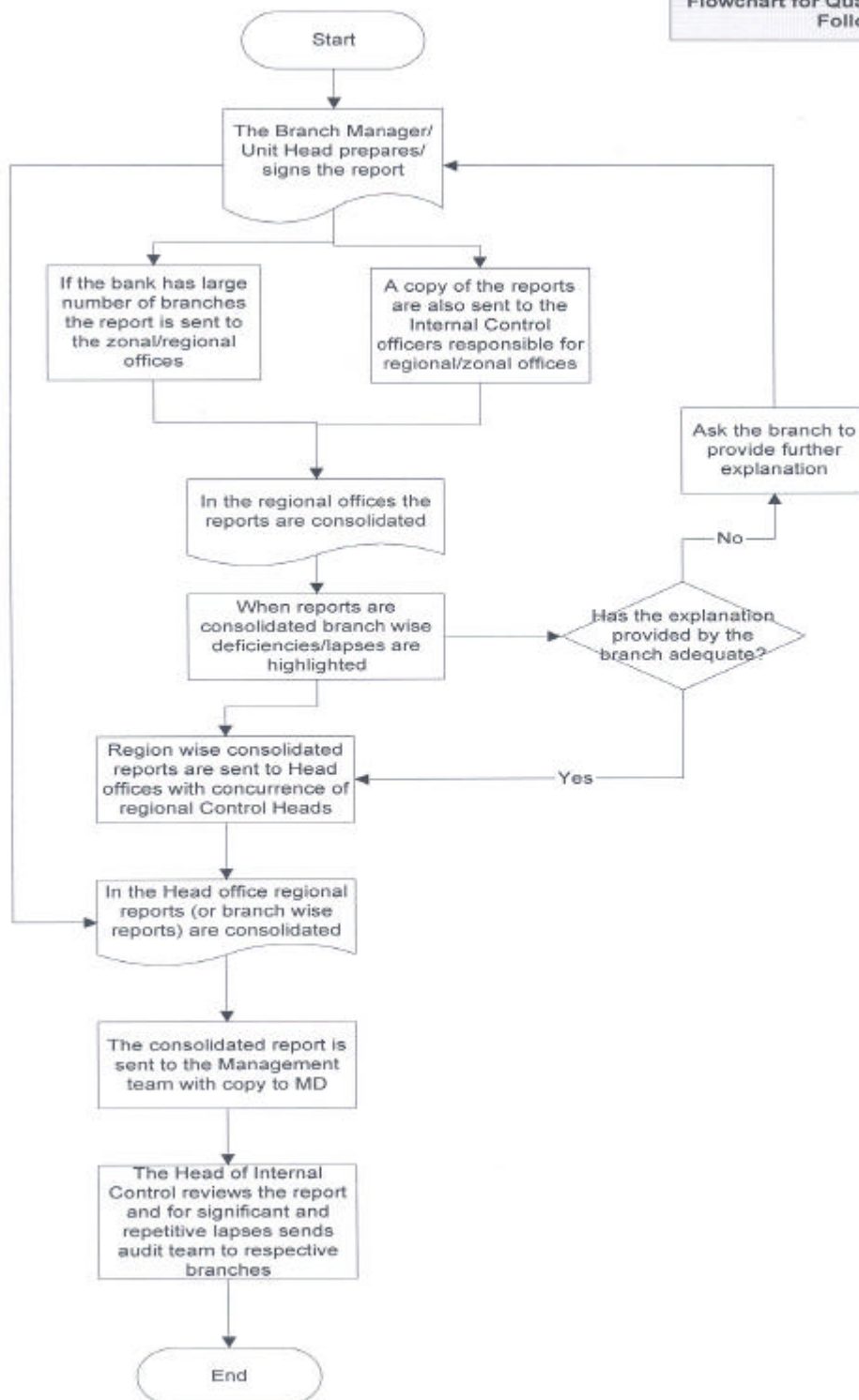
#### **4.8 Audit Procedure**

- Each Year the Head of Internal Control will set out an audit plan for the year. This would be a high level plan which will be approved by the Managing Director and should have concurrence of the Audit Committee.
- This will be a risk based plan where sensitive areas will be provided with priority.

- The deficiencies identified by during the audits should be notified to the appropriate level and significant audit findings should be reported to the Managing Director level.
- At the end of the year there should be a summary report on the audit findings and corrective actions taken which should be forwarded to the Audit Committee of the board and the Managing Director.
- Based on the review of monitoring reports the audit team should also conduct surprise check on the branches where regular gaps are identified.

# Appendixes

Flowchart for Quarterly Reports and Follow-up



**DEPARTMENTAL CONTROL FUNCTION CHECKLIST - QUARTERLY**

This is sample list of control functions. Each bank will develop the list according to their need.

PROCESS	FUNCTIONS	Responsibilities	1st QUARTER		2nd QUARTER		3rd QUARTER		4th QUARTER	
			Date	Int.	Date	Int.	Date	Int.	Date	Int.
Prize Bonds	Verify Prize Bonds held list to BGL on last day of quarter	Branch Manager	31/1		30/4		31/7		31/10	
Review outstanding Stop instruction for obsolete cheques instruction	Review outstanding Stop instruction for obsolete cheques instruction	Supervisor								
Hold/Inactive Accounts/WAU Accounts & Deceased Accounts	Review Hold / Inactive Accounts / WAU Accounts & Deceased Accounts by designated officer	Branch manager								
Holiday File	Check against independent Source ie. Central Bank for local holidays	Manage - Treasury Support								
Stamp Forms	Physical check of stamp forms, bill stamps, stamp paper etc. & value agree to departmental Records	Department Officer								

\_\_\_\_\_  
 Reviewed  
 Designated Officer

**DEPARTMENTAL CONTROL FUNCTION CHECKLIST - MONTHLY**

This is sample list of control functions. Each bank will develop the list according to their need.

<b>Process</b>	<b>Function</b>	<b>Responsibilities</b>	<b>Date</b>	<b>Int.</b>
Cash / Foreign Monies / Bangladesh Prize Bonds	Physical verification to Br Genral Ledger	Officer designated by Audit & Compliance		
Accountable Forms, Cheque Books, Drafts, Bank Cheque(P/Order) T/Cheques, WES Bonds, Saving , Certificates.	Physical check of working stock on hand	Working Stock Custodian		
Travellers Cheques	Verify Bulk stock to main Register	Bulk Stock Custodian		
Account Documentations	Check follow-up on incomplete documentations	Branch Manager		
Signature Scanning	Designated officer to ensure all signature are scanned	Officer designated by Br Manager		
Agency Accounts	Review all Agency Accounts reconciled at least monthly	Officer Recon		
Funds Transfer	Ensure source documents exist for all In & Out Remittances	Fund Transfer- Officer		
Premium & Discount on Treasury Bills	Reconcile accrued premium/discount report balances to CGL	Treasury support - Officer		
Interest Accrual	Reconcile Money market accrued interest report balance to General Ledger	Treasury support - Officer		
Departmental Suspense Account	Review outstandings items	Br Manager / Manager- Treasury support		
Securities revaluation prices	Check rates against independent source (stock exchange price)	Treasury support - Officer		
Operating Losses	Review of operating losses and procedures	Branch Manager		

**DEPARTMENTAL CONTROL FUNCTION CHECKLIST - MONTHLY**

This is sample list of control functions. Each bank will develop the list according to their need.

Process	Function	Responsibilities	Date	Int.
Reconcile physical securities bought (Treasury Bill/ T&T Bonds etc.	Verify outstanding Securities report to CGL	Treasury support - Officer		
Transaction details swapped	Check to ensure that details requiring details to be confirmed are swapped	Treasury support - Officer		
Nostro Reconciliation	Review outstanding Treasury deals/items	Dealer		
Revaluation Rates	Review of revaluation report	Treasury support - Manager		
Inactive Accounts	Review inactive accounts	Branch Manager		
Savings Certificates / Sanchayapatras	Commission on sales	Officer		
Interest Provision	Review that monthly provision for interest on customer's account is correct	Supervisor - Finance		
User profile of Treasury Frontend	Review user Profiles	Head of Treasury		
User Profile in the Computer system	Review user Profile in system to ensure that IDs are correctly authorised and used.	Branch system security officer		

Reviewed  
Designated Officer

**DEPARTMENTAL CONTROL FUNCTION CHECKLIST - WEEKLY**

This is sample list of control functions. Each bank will develop the list according to their need.

PROCESS	FUNCTIONS	Responsibilities	1st WEEK		2nd WEEK		3rd WEEK		4th WEEK		5th WEEK	
			Date	Int.	Date	Int.	Date	Int.	Date	Int.	Date	Int.
Travellers Cheques	Physical verification of Tellers stock to CBS report	Supervisor										
Cheque Collection	Review overdue items to ensure follow-up done to obtain payment	Dept. Head										
Mails	Review usages of postage & franking Machine	OIC - Despatch										
Nostro Accounts (Agency A/C)	Review list of unresponded items	Dept. Head										
Incoming TT/DD/MT	Review reversing vouchers of outstanding items	Manager Funds Transfer										
FX revaluation rates and forward points	Random check of rate against independent sources	Dept. Head										
Outstanding Investigation and Interest claims	Manual check of outstanding investigation	Dept. Head										
Inter Branch Funds Transfer	Review inter area funds transfer through Bangladesh Bank	Dept. Head										
Premises and Protection	Review record of after Banking and Office hour's arrivals/departures	Manager Admin										
Premises and Protection	Test alarm systems	Manager Admin										
ATM Cash Count	Count Cash on a weekly basis	Custodians										

**DEPARTMENTAL CONTROL FUNCTION CHECKLIST - DAILY**

This is sample list of control functions. Each bank will develop the list according to their need.

PROCESS	FUNCTIONS	RESPONSIBILITY																																			
			1	2	3	4	5	6	7	8	9	0	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	2	2	2	2	2	3	3			
Cash Transaction	Cheques/Withdrawal slip to be cross checked with the Teller Journal 100% by the tellers (Independent)	Teller																																			
	Exceptions, such as, teller limit, posting restrictions, insufficiency, etc. to be checked instantly against source document.	Supervisor																																			
	Review teller's cash sheet & registers	Cash Officer																																			
TC Sell/Purchase	Source Document to be checked with Journal 100%	Teller/ Supervisor																																			
	Check exceptions, such as, rate amendment, commissions, etc.	Supervisor																																			
Account Transfer	Reconcile number of transactions on the journal against source document	Supervisor																																			
	Exceptions, such as, teller limit, posting restrictions, insufficiency, etc. to be checked instantly against source document	Supervisor																																			
	40% random check of transactions within teller limit.	Supervisor																																			
	Verify non cash transaction is done by a non-cash teller by reviewing Teller's Summary in journal.	Supervisor																																			
Remittance	On-line authorisation in outward TT to be compared with customer instruction	Supervisor																																			
	Draft issue report to be checked with source documents 100% in branches and sample 25% in Central Operations	Supervisor																																			
	Exceptions to be checked instantly against source document	Supervisor																																			
Cash Fcy Lcy Bangladesh Prize Bonds	25% random check of transactions within teller limit	Supervisor																																			
	Every draft has to be signed jointly	Supervisor/																																			
	Cash holding within overnight limits	Custodian																																			
	Check balance - Teller Tills																																				
	Movement of Cash evidence of daily check with Branch GL																																				
Accountable Forms	Compare stock on hand to Working Stock																																				

<b>Cheque books, Drafts Pay Order, WES Dev. Bond, Savings Certificates</b>	<b>Register</b>	Working Stock Custodian																																			
<b>Check, proofs and Verification</b>	<b>Control Accounts</b>	Internal Control																																			

**DEPARTMENTAL CONTROL FUNCTION CHECKLIST - DAILY**

This is sample list of control functions. Each bank will develop the list according to their need.

PROCESS	FUNCTIONS	RESPONSIBILITY																																			
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31				
Inward Clearing	Reconcile number of cheques received from Bangladesh Bank (with schedules) after posting	Supervisor																																			
	Ensure physical authorisation of cheques posted beyond teller's authority against inward Clearing report	Supervisor																																			
	Exceptions to be checked instantly against source document	Supervisor																																			
Outward Clearing	In order to avoid LCY Credit to a convertible accounts/restricted accounts, verify details and status of the beneficiary's account with that of the cheques deposited	Teller																																			
	Physical authorisation on deposit slip and on the reverse of the cheques must be done before separating the deposit slip from the cheques	Supervisor																																			
Counter - party Confirmation Checking	Check details of C/P confirmation against system records	Supervisor																																			
Chaser Confirmation Issued	Check released confirmations against Report	Supervisor																																			
Manual Payments Draft/Telex	Check payment details against deal details Report	Supervisor																																			
Manual Payments / SWIFT / Telex	Check payment details against deal details, incorrect payment & payments realised report	Supervisor																																			
Transaction Status	Check status of transactions	Supervisor																																			
Confirmation released	Check confirmations to be released against deals input listings	Supervisor																																			
Automated payments	Check payments to be released against daily	Supervisor																																			







## QUARTERLY OPERATIONS REPORT

Date :  
From : Branch Manager.....  
To : Managing Director/ General Manager  
Copy : Head of Internal Control Team

Quarterly Operations Report for  
the Quarter Ended on .....

### POLICIES, PROCEDURES AND CONTROLS

1. Central Bank

The Branch/Centre was last audited by the Central bank on .....  
We confirm that adequate corrective actions have been initiated to remove the deficiencies other than the following papers of their Audit Report.

<u>Audit Paras Number</u>	Original Target Date <b>of Rectification</b>	Revised <b>Target Date</b>
-------------------------------	-------------------------------------------------	-------------------------------

2. INTERNAL CONTROL (LOCAL)

The Branch's/Centre's operational functions were also last audited by the Internal Control on ....., We confirm that adequate corrective actions have been initiated to remove the deficiencies other than the following paras of the report.

<u>Audit Paras Number</u>	Target Date <b>of Rectification</b>	Revised <b>Target Date</b>
-------------------------------	----------------------------------------	-------------------------------

3. REGULATORY COMPLIANCE

We confirm that regulatory requirements in Bangladesh as outlined by Bangladesh Bank / other Govt Ministry have been complied with except the following:

<b>Sl. No</b>	<b>Compliance Risk</b>	<b>Legislation</b>	<b>Remarks</b>
4.	<u>CLOSED CIRCUIT TELEVISION (CCTV)</u> ( This para will be used if branches are having CCTV's at their premises)		<p>We confirm that operations and recording of day's activities in CCTV installed in the branches and ATM's where applicable have been checked regularly. The recorded cassettes are being controlled as per instructions from the MD's / GM's office.</p>
5.	<u>Computer ACCESS ( if available)</u>		<p>a. We confirm that a full review of "Access Levels" is made to ensure that no conflicts exist and no official is holding both IDs to input transactions and Authorise such transactions.</p> <p>b. We also confirm that Administrator Passwords are held in dual custody and the both custodians review the Administrator Journal Report and the Audit Trail Report (which reports all user access maintenance) and investigate all activities on a daily basis.</p>
6.	<u>CUSTOMER SERVICES STANDARDS</u>		<p>The Customer Services Standards of all departments have been checked and documented as per guidelines from Head Office/ Regional Office. The shortfalls detected during the last quarter have been/will be removed within the target set.</p>
7.	<u>DEPARTMENTAL CONTROL FUNCTIONS CHECK LISTS</u>		<p>a. The DCFCLs were completed and documented as per Head Office Guidelines by the concerned departments which are being/have been verified by the designated independent officials on _____</p> <p>b. We confirm that no shortfalls have been identified by the Independent Reviewer and/or the shortfalls identified by him/her are being rectified and will be completed by _____ under advice to Head of Compliance.</p>
8.	<u>INTERNAL CHECKS</u>		

We confirm that all Internal Checks as per Head Office Guidelines applicable to us are being undertaken by the Independent officials designated in writing. All papers and the reviewer's certificates are retained under the control of the Unit Head/Branch Manager/Designated official for future review by the Bangladesh Bank audit team/Internal Control Team.

9. COMPLAINTS

We confirm that complaint letters received from Customers were dealt with in terms of Head office guidelines. All complaints in the form of statement including pending complaints of previous quarter have been forwarded to Head of Internal Control Team for his review.

\*(Strike out which is not applicable)

10. RECOVERY OF COSTS

We confirm that the costs of telex/swift/telegrams/telephone/fax and other charges have been recovered from the Customers/Correspondents where applicable and credited to the appropriate Recoveries Accounts under Expenses Head.

11. FRAUDS, FORGERIES & OPERATING LOSSES

Following transaction(s) involving Frauds/Forgeries/Other Operating Losses has/have been detected during the quarter ended on \_\_\_\_\_ and reported to Head Office / zonal office/ Bangladesh Bank / Internal Control unit

12. RETURNS

We confirm that returns to Head Office /Zonal Office Bangladesh Bank including those under Calendar of Returns have been submitted within the schedule dates except the following:

<b>Title of Return</b>	<b>Due Date</b>	<b>Reasons for Delay</b>	<b>Sent on</b>
------------------------	-----------------	--------------------------	----------------

13. LEGAL

We confirm that legal matters are being monitored by us as per Head office/ Zonal Office / internal control units. Return for this half-year ended March/September has been submitted to Internal Control department on .....

14. COMMUNICATIONS

Following meetings were held during this quarter to improve communication among the members of Officer/Staff. We enclose a copy of the minutes of the meetings held for information and record.

<b>Date &amp; Time</b>	<b>Subject of discussions/or Agenda in brief</b>	<b>Suggestions/Outcome/ Recommendations</b>
------------------------	------------------------------------------------------	-------------------------------------------------

15. **FIXED ASSETS**

We confirm that:

- a. Quarterly as on December, March, June and September all items of Fixed Assets deployed to the branch have been included in the respective departmental lists and physical check of all departmental Fixed Assets has been undertaken and verified with the departmental inventories.
- b. The entries passed through Profit and Loss A/c in respect of sale of Fixed Assets for the half year ended March/September have been reviewed to ensure that no entry is outstanding in the books .
- c. Returns as on 30<sup>th</sup> September and 31<sup>st</sup> December showing the Fixed Assets sold during October to September and January to December have been prepared & reviewed for tax purposes
- d. Fixed Assets of the centre as on 31<sup>st</sup> March and 30<sup>th</sup> September have been physically checked by the independent officers designated by Internal Control team / Zonal Office

## **PROTECTION OF VALUABLES**

1. **CHANGE OF KEYS**

We confirm that the Key Register is being maintained as per prescribed procedure and keys were 1<sup>st</sup> changed with the duplicates on \_\_\_\_\_ August \_\_\_\_\_

2. **SAFE CUSTODY**

We confirm that Safe Custody items are being maintained under dual custody and the Last complete independent physical verification of Safe Custody items as per Head Office/ Zonal Office's instructions was undertaken on \_\_\_\_\_. We enclose a copy of the certificate received from the designated reviewer(s).

\_\_\_\_\_ CUSTODIAN(S)

3. SAFE DEPOSIT LOCKERS

We confirm that keys to unrented lockers are kept in sealed envelopes under dual control and spare locks and surrendered keys pending change of locks and keys are controlled by two independent custodians who have no access to locker custodian's key(s)

We also confirm that Semi-Annual and Annual Internal Checks are conducted at the prescribed frequencies and by the independent designated officials.

\_\_\_\_\_  
CUSTODIAN – 1

\_\_\_\_\_  
CUSTODIAN – 2

(Item 3 applies to branches/centres where lockers are installed)

4. CONTROLLED STATIONERY

All Controlled Stationery are being kept under dual custody and Bulk/Working Stocks are being verified as per instructions from Head Office / Zonal Office

5. TEST KEYS

TEST/KEYS/CODE BOOKS are being maintained as per requirements.

6. SIGNATURE BOOKS

All signature books of branches & correspondent banks are being maintained as per requirements.

7. CASH/TC/SPS ETC.

Cash/TCs/Prize Bonds / Foreign Monies / Sanchaya Patras / Wage Earners' Development Bonds are being dealt with as per requirements – Physical verifications also being carried out at the frequencies prescribed.

PROOFS/VERIFICATIONS

1. All accounts in GL/ Subsidiary ledger were proved and verified during the quarter except the following accounts.

<u>Title of GL/ GSL Account</u>	<u>Difference Amount</u>	<u>Date Last Reconciled</u>	<u>Target Date/ Date Reconciled</u>
-------------------------------------	------------------------------	---------------------------------	-----------------------------------------

We confirm that all outstanding entries in General Suspense (Assets & Liabilities) are being followed up for early liquidation. We enclose the statements of General Suspense Accounts as at 31<sup>st</sup> March/30<sup>th</sup> June/30<sup>th</sup> September/31<sup>st</sup> December for your perusal.

2. DIFFERENCE ACCOUNTS

We enclose a summary showing the outstanding in Difference Accounts. The entries relating to differences are being investigated. All unresolved entries will be adjusted in terms of approval of Head office/ Zonal Office

PERSONNEL & SUPERVISION

1. Following transfers/movements were affected during the quarter (both Officers and Unionized Staff).

<u>Name</u> —	<u>From (Dept.)</u>	<u>Period worked In this department</u>	<u>Transferred To (Dept.)</u>	<u>W.E.F. (Date)</u>
------------------	-------------------------	---------------------------------------------	-----------------------------------	--------------------------

LEAVE PROGRAMMES

1. Officers/staff are being granted leave as per leave programme. (Exception are given below):

<u>Name</u>	<u>Category of Staff</u>	<u>Numbers of days accumulated</u>
-------------	--------------------------	------------------------------------

2. Unionized staff has leave entitlement within the prescribed limit of 93 days. Exceptions having leave accumulation over the limit of 93 days are given below:

<u>Name</u>	<u>Number of days accumulated over limit</u>
-------------	----------------------------------------------

3. Arrangements have been made to allow all employees including Management Staff to avail of 10 days uninterrupted leave or half of annual leave entitlement, whichever is the lesser in terms of service rules.

4. TRAINING PROGRAMME

Following Officers / staffs are undergoing training / have undergone training during the quarter

<i>Name</i>	Name of	Duration of	Course
<b>Participant</b>	<i>Course attended</i>	<i>Course</i>	<i>Conducted by</i>

***PREMISES MANAGEMENT***

1. FIRE/SAFETY STANDARDS

- a) Following items have been checked during the quarter ended March/June/September/December \_\_\_\_\_.

<u>Fire/Safety Procedure Ref:</u>	<u>Standard Achieved/Shortfalls detected</u>
-----------------------------------	----------------------------------------------

i)

ii)

iii)

iv)

- b. Half-yearly Self Audit of Fire/Safety Standards was undertaken and the return submitted to you for the period ended 31<sup>st</sup> January / 31<sup>st</sup> July ..... by a separate letter on .....

- c. We confirm that:

- i) Fire Drill was carried out half-yearly on ..... and ..... in terms of Emergency Evacuation Standards of Fire / Safety procedures.
  - ii) Security Drill was carried out regarding Audible Tellers Counter Alarm Protective System and documented.
  - iii) Recording of the arrival and departure time of all personnel occupying the Premises outside working hours and after banking hours are being documented/reviewed on the Registers maintained for these purposes.
- a. All electric wiring were checked by M/s ..... on ..... and certificates obtained and kept in file for future audit / inspection. We enclose a copy of the certificate for our record.
  - b. The premises were inspected on holidays by the officers on rotation. Immediate action was taken on shortfalls detected through the checklist maintained which is retained after taking appropriate action as applicable for future audit/inspection.

(Branch Manager)

(Zonal Manager)

**LOAN DOCUMENTATION CHECKLIST**

**Appendix 5.2**

BORROWER:	
REGISTERED ADDRESS:	

STATUS: Individual / Proprietorship / Partnership / Limited Company      A/c No. \_\_\_\_\_

First obtain General Documents. Then identify the Collateral, Facility and obtain specific documents listed hereunder. Leave out documents not called for by the terms of the Credit Approval and Facilities Advice Letter (Sanction Letter).

Sl. No	DESCRIPTION	REQD (√)	DATE OF DOC.	DATE RECEIVED	EXPIRY	ORIGINAL DOC LOCATED IN	TAKA AMOUNT
<b>A.</b>	<b>GENERAL DOCUMENTS</b>						
1.	Letter of Borrower requesting for new facilities / renewal						
2.	Authority of Borrow to Borrower (Letter of authority from partners in case of partnership concern and resolution in case of limited company) – with list of Partners/Directors						
3.	Form XII certified by RJSC regarding list of existing Directors for limited company						
4.	Facilities Advice Letter: accepted unconditionally by Borrower						
5.	Demand Promissory Note						
6.	Letter of Continuity						
7.	Deed of Partnership (for Partnerships; Borrower / third party), By-Laws etc.						
8.	Memorandum and Articles of Association (for limited company Borrower / third party) with Certificate of Incorporation						
9.	Letter of Arrangement						
10.	Letter of Disbursement						
11.	Revival Letter (Form I & II)						
<b>B.</b>	<b>LIEN OF ACCOUNT</b>						
1.	Resolution to lien account proceeds (for Third Party partnerships and limited cos.)						
2.	Letter of Lien and Set - Off (Pledge Agreement)						
<b>C.</b>	<b>PLEDGE OF DEPOSITS/S. PATRA</b>						
1.	Resolution to deposit (for Third Party partnerships and limited company)						
2.	Fixed Deposit Receipts / Sanchaya Patra / Bonds endorsed by holder(s)						
3.	Letter of Guarantee by depositor (if the deposit stands in the name of Third Party)						

Sl. No	DESCRIPTION	REQD (√)	DATE OF DOC.	DATE RECEIVED	EXPIRY	ORIGINAL DOC LOCATED IN	TAKA AMOUNT
4.	Letter of Lien and Set Off (Pledge Agreement)						
5.	Letter of Authority for encashment of Sanchaya Patra/ Fixed Deposits						
<b>D.</b>	<b>PLEDGE OF SHARES</b>						
1.	Resolution to deposit (for Third Party partnerships and limited company)						
2.	Share certificates						
3.	Blank transfer forms for each share certificate (Form 117)						
4.	Memorandum of Deposit of Shares						
5.	Letter of Guarantee by the shareholder (if the share stands in the name of person other than borrower)						
6.	Irrevocable letter of authority for collection of dividends, bonus etc. addressed by the shareholder to the relative company.						
7.	Notice of pledge by the shareholder to the relative companies.						
<b>E.</b>	<b>PLEDGE OF INVENTORY</b>						
1.	Letter of Pledge / Pledge Agreement						
2.	Letter of Disclaimer (if required)						
3.	RJSC Search Report (for limited company partnerships; Borrower / third party)						
4.	RJSC Form 18, and receipt of filing with RJSC						
5.	Certificate of registration from RJSC						
6.	Modification of Letter of Pledge / Pledge Agreement of Inventory						
7.	RJSC Form 19, and receipt of filing with RJSC						
8.	Insurance Policy with EBL as jointly insured						
<b>F.</b>	<b>HYPOTHECATION OF INVENTORY</b>						
1.	Resolution to hypothecate inventory (for Third Party partnerships and limited cos.)						
2.	Letter of Hypothecation of Inventory / Hypothecation Agreement						
3.	RJSC Search Report (for limited company. partnerships; borrower/third party)						
4.	RJSC Form 18, and receipt of filing with RJSC						
5.	Certificate of registration from RJSC						
6.	Modification of Letter of Hypothecation						

Sl. No	DESCRIPTION	REQD (√)	DATE OF DOC.	DATE RECEIVED	EXPIRY	ORIGINAL DOC LOCATED IN	TAKA AMOUNT
	of Inventory						
7.	RJSC Form 19, and receipt of filing with RJSC						
8.	Insurance Policy - jointly insured						
<b>G.</b>	<b>TRUST RECEIPT</b>						
1.	Trust Receipt Agreement						
<b>H.</b>	<b>HYPOTHECATION OF RECEIVABLES/BOOK DEBTS</b>						
1.	Resolution to hypothecate receivables / book debts (for Third Party partnerships and limited company)						
2.	Letter of Hypothecation of Receivables / Book Debts (Hypothecation Agreement)						
3.	RJSC Search Report (for limited company/registered partnerships; borrower/third party)						
4.	RJSC Form 18, and receipt of filing with RJSC						
5.	Certificate of registration from RJSC						
6.	Modification of Letter of Hypothecation of Receivables						
7.	RJSC Form 19, and receipt of filing with RJSC						
<b>I.</b>	<b>HYPOTHECATION OF MACHINERY AND EQUIPMENT</b>						
1.	Resolution to hypothecate inventory (for Third Party partnerships and limited cos.)						
2.	Letter of Hypothecation of Machinery and Equipment / Hypothecation Agreement						
3.	RJSC Search Report (for limited company. partnerships; borrower/third party)						
4.	RJSC Form 18, and receipt of filing with RJSC						
5.	Certificate of registration from RJSC						
6.	Modification of Letter of Hypothecation of Machinery & Equipment						
7.	RJSC Form 19, and receipt of filing with RJSC						
8.	Latest list of machinery & equipment						
9.	Insurance Policy with EBL as jointly insured						
<b>J.</b>	<b>ASSIGNMENT OF RECEIVABLES</b>						
1.	Resolution to assign receivables (for Third Party partnerships and limited cos.)						

Sl. No	DESCRIPTION	REQD (√)	DATE OF DOC.	DATE RECEIVED	EXPIRY	ORIGINAL DOC LOCATED IN	TAKA AMOUNT
2.	Deed of Assignment of receivables						
3.	Notification and acknowledgement of assignment and confirmation of receivables from the debtor						
<b>K.</b>	<b>MORTGAGE</b>						
1.	Letter of nomination of third party mortgagor from Borrower with attested specimen signature of mortgagor						
2.	Resolution to mortgage and guarantee (for Third Party partnerships and limited company)						
3.	Copy of valid ID (for Third Party individual mortgagor)						
4.	Personal Guarantee from Third Party mortgagor						
5.	Original title deeds of mortgagor and previous owners (Bia- Deed)						
6.	C.S., S.A. and R.S. Parchas						
7.	Mutation Parchas in mortgagor's name, certified by Assistant Commissioner of Land						
8.	Duplicate carbon receipt for mutation case						
9.	Letter of no objection of lessor for mortgagor to mortgage (for leasehold property)						
10.	Land development tax receipts of the immediately preceding Bangali year						
11.	Municipal holding tax receipts for property in municipalities						
12.	Building/factory plan with letter of approval						
13.	Real Estate Appraisal / Valuation report						
14.	RJSC Search Report (for limited company/registered partnerships; borrower/third party)						
15.	Memorandum of deposit of title deeds (for equitable mortgages) with legal counsel's approved draft.						
16.	Mortgage Deed and registration receipt endorsed by mortgagor (for legal/Registered mortgage) along with Power of Attorney						
17.	RJSC Form 18, and receipt of filing with RJSC if property in the name of ltd cos.						
18.	Certificate of registration from RJSC						
19.	Modification of Memorandum of deposit of title deeds						
20.	RJSC Form 19, and receipt of filing with RJSC						
21.	Income Tax Clearance Certificate as required for Registration						
22.	Non Encumbrance Certificate from Land						

Sl. No	DESCRIPTION	REQD (√)	DATE OF DOC.	DATE RECEIVED	EXPIRY	ORIGINAL DOC LOCATED IN	TAKA AMOUNT
	Registrar						
<b>L.</b>	<b>GUARANTEE</b>						
1.	List of Directors/Partners with specimen signatures, certified by company secretary or chairman, or managing partner (for limited company and partnerships)						
2.	Resolution to guarantee (for limited company and partnerships)						
3.	Net Worth Statements (NWS) for individuals/guarantors						
4.	Letter of Guarantee						
5.	Letter of Counter Indemnity						
<b>M.</b>	<b>TERM LOAN AGREEMENT</b>						
1.	Term loan agreement between Borrower and EBL						
2.	Draft Term Loan Agreement approved by Head of Credit Risk Management Division and Legal Counsel.						
<b>N.</b>	<b>SECURITY SHARING AGREEMENT</b>						
1.	Security Sharing Agreement						
2.	Draft Security Sharing Agreement approved by Head of Credit Risk Management Division and Legal Counsel.						
<b>O.</b>	<b>SYNDICATION</b>						
1.	Accepted Mandate Letter						
2.	Accepted Term Sheet						
3.	Information Memorandum						
4.	Participation letters						
5.	Facilities Agreement						
6.	Powers of Attorney of participants						
7.	Accepted Fee Letter						
8.	Legal counsel's opinion						
9.	Head of Credit Risk Management and Legal Counsel approval of documents.						
<b>P.</b>	<b>OTHER DOCUMENTS</b>						

DEPARTMENT/UNIT	NAME	DATE	SIGNATURE
RELATIONSHIP MANAGER:			
CREDIT ADMINISTRATION:			

TELEGRAM

BANGLADESH BANK

BANKING

BANGLABANK

HEAD OFFICE  
DHAKA

REGULATIONS &  
POLICY DEPARTMENT

BRPD CIRCULAR NO. 12

23 December, 2002  
DATED: -----  
09 Poush, 1409

Chief Executive Officer

All Scheduled Banks in Bangladesh

Dear Sirs,

**Constitution of the Audit Committee of Board of Directors**

Audit Committee of the Board of a bank can play an effective role in providing a bridge between the board and management, shareholders, depositors and stakeholders and help in ensuring efficient, safe and sound banking practices. Rate of the audit committee is also important in evolving an effective procedure for financial reporting disclosure, developing a suitable internal control system and maintaining liaison with internal and external auditors to minimize various business risks. Moreover, new business opportunities and increased competition due to globalization of markets, increased use of electronics and information technology, increased complexity of transactions, accounting standards and regulatory requirements are contributing to and expansion of the role of audit committee. Under the above circumstances, as part of the best practices, banks are advised to constitute Board's Audit Committee and the following regulations are being issued by Bangladesh Bank for compliance by the banks:-

02. **Overall Purpose/Objectives**

The audit committee will assist the board in fulfilling its oversight responsibilities including implementation of the objectives, strategies and overall business plans set by the board for effective functioning of the bank. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the bank's process for monitoring compliance with laws and regulations and its own code of business conduct.

cont/p-2

03. **Roles and Responsibilities of the Audit Committee**

The audit committee will:

(a) **Internal Control**

- (1) Evaluate whether management is setting the appropriate compliance culture by communicating the importance of internal control and the management of risk and ensuring that all employees have understanding of their roles and responsibilities;
- (2) Review the arrangements made by the management for building a suitable Management Information System (MIS) including computerization system and its applications ;
  - (3) Consider whether internal control strategies recommended by internal and external auditors have been implemented by the management ;
  - (4) Review the existing risk management procedures for ensuring an effective internal check and control system ;
  - (5) Review the corrective measures taken by the management as regards the reports relating to fraud-forgery, deficiencies in internal control or other similar issues detected by internal and external auditors and inspectors of the regulatory authority and inform the board on a regular basis .

(b) **Financial Reporting**

- (1) Review the annual financial statements and determine whether they are complete and consistent with the accounting standards set by the regulatory authority ;
- (2) Meet with management and the external auditors to review the financial statements before their finalization .

cont/p-3

(c) **Internal Audit**

- (1) Review the activities and organizational structure of the internal audit function and ensure that no unjustified restrictions or limitations is made ;
- (2) Review the efficiency and effectiveness of internal audit function ;
- (3) Review that findings and recommendations made by the internal auditors for removing the irregularities detected and also running the affairs of the bank are duly considered by the management.

(d) **External Audit**

- (1) Review the auditing performance of the external auditors and their audit reports ;
- (2) Review that findings and recommendations made by the external auditors for removing the irregularities detected and also running the affairs of the bank are duly considered by the management.;
- (3) Make recommendations to the board regarding the appointment of the external auditors.

(e) **Compliance with existing laws and Regulations**

Review whether the laws and regulations framed by the regulatory authorities (central bank and other bodies) and internal regulations approved by the board have been complied with.

cont/p-4

**(f) Other Responsibilities**

(1) Place compliance report before the board on quarterly basis regarding regularization of the errors & omissions, fraud and forgeries and other irregularities as detected by the internal and external auditors and inspectors of regulatory authorities ;

(2) Perform other oversight functions as requested by the board and evaluate the committee's own performance on a regular basis .

**04. Organization**

(1) The audit committee will comprise of 03 (three) members ;

(2) Members of the committee will be nominated by the board of directors from the directors ;

(3) Members may be appointed for a 03 (three)-year term of office ;

(4) Company secretary of the bank will be the secretary of the audit committee .

**05. Qualifications of the Member**

(1) Integrity, dedication, and opportunity to spare time for the committee will have to be considered while giving nomination a director to the committee ;

(2) Each member should be capable of making valuable and effective contributions in the functioning of the committee ;

cont/p-5

(3) To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks .

**06. Meetings**

- (1) The audit committee should hold at least 3/4 meetings in a year and it can seat any time as it may deem fit ;
- (2) The committee may invite such other persons (e.g. the CEO, head of internal audit) to its meetings, as it deems necessary ;
- (3) The internal and external auditors of the bank should be invited to make presentations to the audit committee as appropriate ;
- (4) To maximize effectiveness, detailed memorandum to be discussed in the meeting should be distributed to committee members well in advance of the meeting to allow proper consideration of enclosed papers ;
- (5) The proceedings of all meetings will be minuted .

Please acknowledge receipt.

Yours faithfully,

( MD. JAHANGIR ALAM )  
DEPUTY GENERAL  
MANAGER  
PHONE:7125844

## **References**

1. Framework for Internal Control Systems in Banking Organizations:  
Basel Committee Publications No. 40 (September 1998)
2. BRPD Circular # 12, dated 23-12-2002