

Checklist for an Internal Audit



Muhota Kimotho and
Catholic Relief Services Microfinance



ABOUT THE AUTHOR

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ABOUT THE PUBLISHERS

Catholic Relief Services (CRS), founded in 1943, assists the poor and disadvantaged outside the United States. CRS works to alleviate human suffering, promotes the development of people, and fosters charity, justice, and human dignity in the world. CRS assists the poor solely on the basis of need, not creed, race or nationality, and maintains strict standards of efficiency and accountability. CRS currently operates in 99 countries and territories.

CRS Microfinance focuses its services on the poorest clients and on strengthening its partner organizations that serve them. Its goal is to provide the self-employed poor, especially women, with access to reliable and permanent financial services. As of December 2004, CRS reaches over 850,000 microfinance clients in 29 countries in Africa, Asia, Europe, the Middle East, Latin America and the Caribbean.

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Cover photo: Mary Courtney
Ms. Eam Chreb, with a bicycle she purchased with a CRS microfinance loan from Thaneakea Phum Cambodia to expand her business opportunities.

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PREFACE AND INTRODUCTION

Catholic Relief Services (CRS) is committed to providing dependable, continuous and sustainable financial services to the poor by offering loan and secure savings opportunities through community-based microfinance programs.

This *Checklist for an Internal Audit* is intended to assist microfinance institutions (MFIs) in developing their internal audit capacities. It should be considered a template for creating a similar checklist more specific to the operations of your particular MFI. It needs to be adjusted to match the terms and methodology used in your MFI and your guiding policies and procedures.

An underlying principle highlighted by this document is the need for comprehensive written institutional policies and procedures to be in place. If those do not already exist, gaps in policies and procedures can be identified through careful use of this checklist.

Duties and Responsibilities of an Internal Auditor

The duty of an internal auditor is to independently, impartially, and systematically appraise the operating units and internal controls of an organization. He or she should have a sound understanding of the systems and procedures of the organization as a whole, as well as the specific roles and activities of each unit within it, and must be freely able to communicate with anyone in the organization to obtain information.

An internal auditor determines whether an organization's documented operating policies and procedures are easily and clearly understood; whether they are sufficient; whether they are used effectively and consistently; whether the organization's management effectively identifies and minimizes risks; whether staff consistently adhere to written external regulations and internal policies and procedures; whether gaps in internal controls or policies and procedures are present; and whether resources are used efficiently and to the benefit of the organization. Furthermore, it is an internal auditor's function is to be directly and actively concerned with detecting and preventing frauds or forgeries.

Internal auditing ultimately is geared toward assisting all members of an organization to fully understand and effectively perform their duties, and toward the achievement of the organization's overall objectives.

On the Use of this Checklist

The format of the checklist is designed to guide the process. Every question must be answered: the internal auditor should check “yes,” “no,” or “not applicable (N/A)” and comment accordingly. The comments are especially important inputs for the record, particularly where the answer is “no.”

The “date” column should reflect the day the item is completed and answered. When the internal auditor’s inspection and the checklist are complete, he or she will submit it to the Branch Manager for review. The “Branch Manager initials” column provides space for the Branch Manager to indicate that he or she has seen each item. It does not indicate whether the Branch Manager agrees or contends the finding - that information is to be included in the final Internal Audit Report (as discussed in Appendices C and D).

Some items are marked with either a single (*) or a double (**) star. A “No” answer to a single-star question calls for urgent remedial action. A “No” answer to a double-star question denotes a critical situation. For your reference, these items are also listed in Appendix F.

To the internal auditor: This checklist cannot substitute for a sound understanding of auditing tasks and protocol, nor reduce your responsibility for thoroughness. It serves as a guide, intended to help organize the audit process and to aid your memory. This checklist is not exhaustive, and the audit team should review and update it regularly, based on lessons learned.

Reporting the Results of an Internal Audit

An internal auditor should report directly to the Board of Directors and not to the Director or the senior management of the MFI. Since the audit findings may concern management at various levels, reporting to the same persons would create a potential conflict of interests. The audit report itself should be written in such a way that the identity of all contributors to the findings is protected. Otherwise, it will be increasingly difficult for the auditor to gather sensitive, critical information in future audits. Finally an individual should never serve as an internal auditor for a unit(s) for which he or she has any direct operational or managerial responsibility.

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Branch Name:

Date:

BUILDING AND PREMISES		Y	N	N/A	Comments	Date	Branch Manager Initials
1	Is the branch easy to locate?						
2	Are natural disasters rare at the location?						
3	Is the building secure against crime? (Does it have permanent, solid walls, ceiling and floors; is it located in a low crime district?)						
4	Is the gate locked overnight, with adequate security personnel on site?						
5*	Are all doors and windows well secured to prohibit forced entry?						
6*	Are at least two different keys required to unlock the building's doors?						
7**	Are at least two different keys required to unlock the strong room (safe room) door?						
8*	Is the strong room secured to prohibit forced entry?						
SAFE							
9*	Is the safe fixed to the wall or floor to prevent its removal?						
10**	Do safe custodians issue receipts for all cash received, and are copies of those kept in the safe?						

SAFE, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
11**	Are all changes of custodian for safe key and combination, and the date and time of each change, recorded in a register?						
12**	Are the safe key and combination held separately at all times by senior staff?						
13**	Do outgoing and incoming safe custodians sign next to the change entries?						
14*	Do duplicate safe keys and combinations exist?						
15*	Are there written procedures to access the duplicates?						
16*	Are receipts kept whenever duplicate keys or combinations leave or enter the safe?						
17**	Is more than one custodian present when the safe is opened?						
18**	Before the safe is opened, are the main door and the door to the strong room locked?						
CASH RECORDS							
19**	Are all cash movements to and from the safe recorded in a cashbook?						
20**	Are entries in the cashbook and on receipts recorded in both numbers and words?						

CASH RECORDS, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
21**	Do the figures and words in all entries agree?						
22	Are receipts for cash received into the safe prepared in triplicate? Does the final copy remain in the receipt book?						
23	Are the receipts in the receipt book in ascending numerical order?						
24*	When a receipt is cancelled, are all three copies left in the receipt book?						
25	Is all cash in the safe arranged by denomination, appropriately sealed, and the amount labeled on each bundle?						
26**	Does the total cash count reconcile with the recorded total in the cashbook, the cash journal and in the daily cash position register?						
27	Is the branch cash limit in writing?						
28*	Is the branch cash limit observed?						
29*	Did you undertake a random check of at least 50% of all cash transactions in the cashbook to confirm that the entries are correct?						

APPEARANCE		Y	N	N/A	Comments	Date	Branch Manager Initials
30	Are receipts stamped with the branch logo?						
31	Does the staff look professional and portray a good image?						
32	Do the branch's services adequately meet client needs?						
33	Does the Branch Manager hold meetings with each Credit Agent before he or she goes out to the field and when he or she returns?						
34	Are the stipulated working hours strictly observed?						
FIXED ASSETS							
35	Do the fixed assets (computers, desks, filing cabinets, etc.) correspond with what is listed in the branch's printed inventory?						
36	Apart from normal wear-and-tear, are the furniture, equipment and machines well protected and in good condition?						
37	Are the Credit Agents' motorbikes and keys left at the branch overnight?						
38	Is a fuel log maintained to record all fuel purchases?						
39	Do the Credit Agents wear helmets at all times while driving?						

FIXED ASSETS, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
40	Do all fixed assets have a Fixed Asset Number clearly written on them in indelible ink?						
41	Are all computers, printers and keyboards covered to protect them when not in use?						
42	Are all business visit destinations, mileages and times of departure and return recorded?						
43	Do branch vehicles carry only employees and Management Committee members?						
44	Are the vehicles cleaned regularly and in good condition?						
45	Are major defects to vehicles or motorbikes repaired immediately?						
46*	Are all vehicles and motorbikes fully insured and licensed?						
47	Are repair bills for vehicles and motorbikes reasonable, taking into account the age of the machines?						
OFFICE SUPPLIES							
48	Does one employee manage the ordering, control, storage and disbursement of office supplies?						
49	Are "re-order point" slips utilized, to prompt the reorder of supplies?						

OFFICE SUPPLIES, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
50	Upon receiving items, does the supply manager check that the items received match the order invoice?						
51	Are supplies kept locked?						
52	Do department heads sign for departmental stationery orders?						
53	Does the Branch Manager ensure that stocks are maintained at reasonable but not excessive levels?						
OPERATIONS MANUALS							
54	Does the Branch Manager keep master copies of the operations and administrative manuals?						
55	Are all sections of the operations manual present and in the correct order in the binder, and is the index up to date?						
56	Does each staff member have a copy of the section that relates directly to his or her job?						
57	Do all employees understand the sections relevant to their jobs?						
58	Do all departments abide by the operations manual?						

GENERAL LEDGER, VOUCHERS AND PAYMENTS		Y	N	N/A	Comments	Date	Branch Manager Initials
59	Is one employee designated to daily verify all voucher entries to ensure details are posted correctly to the accounts?						
60	Does he or she check the “brought forward” and “carried forward” debit and credit figures to ensure they are correct?						
61	Does the manager daily personally scrutinize each balance in the ledgers to ensure that the correct account balances are reflected?						
62	Is one employee designated to ensure that all general subsidiary ledger vouchers are fully completed?						
63	Have all vouchers been approved and initialed or signed, as needed, by all parties?						
64	When bills are paid in cash, is a receipt issued for the amount?						
65	Are full details recorded on vouchers for branch expenses to any account (including prepaid expenses)?						
66	Are all “paid” vouchers cancelled or perforated immediately after posting to prevent their re-use?						

GENERAL LEDGER, VOUCHERS AND PAYMENTS, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
67	Where debit vouchers are raised above the limit of the Branch Manager's authority, is the amount within his or her branch budget?						
68	Are all cash advances paid to out-of-office staff properly authorized and not excessive?						
69	Are all previous cash advances resolved within five days of an employee's return to the office, and before a new cash advance is granted?						
LOAN DISBURSEMENT							
70	Do all loan applications have the signature or thumbprint of the borrower, and have the borrower's photograph attached?						
71	Do Credit Agents submit loan agreements, loan application forms, journals and signed reports five working days before a disbursement date?						
72	Do both the Credit Manager and Branch Manager approve all loan documents before the Cashier releases cash?						

LOAN DISBURSEMENT, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
73	Does the Cashier initial against the signature of the Credit Agent, the Credit Manager and the Branch Manager on all loan approvals before releasing cash for disbursement?						
74	Does the Cashier prepare each loan disbursement voucher in triplicate?						
75	Do the Credit Agent, Credit Manager, Branch Manager and Cashier sign each voucher?						
76	Does the Cashier keep the last copy, and give the original and first copies to the Credit Agent?						
77	If a Credit Agent does not disburse the total cash for loans:						
	<p>a. Are the amounts on individual loan agreements amended to reflect the actual cash amount disbursed, and then signed by the Credit Agent, the Management Committee Treasurer and Secretary, and the client?</p> <p>b. Is the disbursement voucher amended to reflect the correct amount disbursed, and is it signed by the Credit Agent and the Management Committee Treasurer, Secretary and President?</p>						

LOAN REIMBURSEMENT		Y	N	N/A	Comments	Date	Branch Manager Initials
78	Do member names and numbers, the total number of members, and the amounts borrowed, as recorded on individual loan agreements, match the data recorded in the Credit Agent's journal?						
79	Do the Management Committee Treasurer and Secretary always sign where required in the Credit Agent's journal?						
80	Does the Treasurer always count the cash handed to her by the President to confirm that the amount collected is what is due?						
81	Is cash received at the Village Bank arranged by denomination?						
82	Does the Credit Agent issue a receipt to the Management Committee President for the total amount of cash received, and do both sign the receipt to confirm it?						
83	Do the Credit Manager and the Branch Manager daily record the amount of cash they should receive from each Credit Agent that day?						

LOAN REIMBURSEMENT, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
84	Do the Credit and Branch Managers confirm that the cash received by a Credit Agent from a Village Bank is recorded in the Credit Agent's journal and on the receipt, and that the amounts agree?						
85	Does the Cashier accept cash from the Credit Agents only after the Credit and Branch Managers initial the Credit Agent's journal and the receipt?						
86	After the Cashier counts the cash and finds the amount correct, does she or he issue an official receipt to the Credit Agent showing the amount in words and figures?						
87	Is cash received lodged in the safe immediately after counting?						
88	Does the Bookkeeper update the cashbook, the cash ledger and the daily cash position daily before leaving?						
89	Do separate staff members perform cashiering and accounting functions?						
90	Does the Branch Manager ensure that the Cashier does not have access to the accounting records, especially those related to cash transactions?						

LOAN REIMBURSEMENT, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
91	At the end of each working day, does the Branch Manager verify and reconcile all daily entries and closing balances in the cashbook, cash ledger and daily cash position?						
92	Is action on loans in arrears prompt and continuous?						
93	Do two Credit Agents go to collect arrears, to avoid potential one-to-one disagreements with a client?						
94	Does the Branch Manager verify arrears by personally visiting clients in default?						
95	Is the amount of cash from arrears collected recorded in the Credit Agent's journal, and is that amount handed over to the Cashier on the same day it is collected?						
MONITORING REVENUE AND INCOME							
96	Does the Branch Manager reconcile all entries to the interest-earned account?						
97	Is a register or passbook maintained to record all interest earned?						

ACCRUED INTEREST RECEIVABLE AND CLIENT LOAN RECORDS		Y	N	N/A	Comments	Date	Branch Manager Initials
98	Does the number of outstanding loans upon the date of this audit agree with the number shown on the latest return submitted to Head Office?						
99	Does the total value of the current outstanding loans agree with the value shown on the latest return submitted to Head Office?						
100	Is the number of loans outstanding equal to or less than the number of the branch's clients?						
101	Do all loans outstanding meet the branch's lending criteria? Have all of them been acknowledged by the Branch Manager?						
102	In all cases, are interest rates on loans calculated correctly?						
103	Did you ascertain, by doing a sample check, that all the loans granted by the branch are to genuine identities?						
104	Did you verify, by doing a sample check, that there were no loans granted by proxy?						
105	What is the number and value of loans in arrears? (A loan is considered to be in arrears one day after it is due for repayment.)	<i>(Please list)</i>					

ACCRUED INTEREST RECEIVABLE AND CLIENT LOAN RECORDS, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
106	What is the number and value of loans considered "portfolios at risk"? A loan is considered at risk immediately after repayment falls into arrears.	<i>(Please list)</i>					
107	What is the number and value of loans written-off? A loan is written-off if it is 90 days in arrears.	<i>(Please list)</i>					
108	Is Head Office approval obtained before all write-offs?						
109	Do the calculations for loans in arrears, for portfolios at risk, and for loans written-off correspond with the numbers reported on the latest return submitted to Head Office?						
110	Did you undertake at least a 50% random check to confirm that all clients have only one loan?						
111	What is the growth rate of number and value of loans over the last two quarters?	<i>(Please list)</i>					
112	Do your growth rate calculations (above) agree with those reported by the branch?						
113	Is cash received by loan repayments handed over to the Cashier on the same day it is received?						

ACCRUED INTEREST RECEIVABLE AND CLIENT LOAN RECORDS, continued		Y	N	N/A	Comments	Date	Branch Manager Initials																												
114	Did you undertake a random check on at least 25% of all loans to determine whether the interest collected is correct?																																		
115	Did you undertake a random check on at least 10% of all portfolios to determine whether interest due to the branch been collected and credited to the appropriate revenue account?																																		
116	Are detailed files maintained for each client?																																		
117	Are clients who have dropped out recorded in the register, listing the full name, passbook number, name of the Village Bank and the reason for leaving?																																		
STAFF DISCIPLINE, MORALE, RESIGNATION AND TRAINING																																			
118	List staff actually seen during this audit by title and number of individuals in that role: <table style="width: 100%; border: none;"> <thead> <tr> <th style="text-align: left;">Title</th> <th style="text-align: center;">(Number of Persons)</th> <th style="text-align: left;">Title</th> <th style="text-align: center;">(Number of Persons)</th> </tr> </thead> <tbody> <tr> <td>Branch Manager</td> <td style="text-align: center;">_____</td> <td></td> <td></td> </tr> <tr> <td>Credit Manager</td> <td style="text-align: center;">_____</td> <td></td> <td></td> </tr> <tr> <td>Credit Agent</td> <td style="text-align: center;">_____</td> <td></td> <td></td> </tr> <tr> <td>Bookkeeper</td> <td style="text-align: center;">_____</td> <td></td> <td></td> </tr> <tr> <td>Cashier</td> <td style="text-align: center;">_____</td> <td></td> <td></td> </tr> <tr> <td colspan="4" style="text-align: right;">TOTAL number of staff seen: _____</td> </tr> </tbody> </table>					Title	(Number of Persons)	Title	(Number of Persons)	Branch Manager	_____			Credit Manager	_____			Credit Agent	_____			Bookkeeper	_____			Cashier	_____			TOTAL number of staff seen: _____					
Title	(Number of Persons)	Title	(Number of Persons)																																
Branch Manager	_____																																		
Credit Manager	_____																																		
Credit Agent	_____																																		
Bookkeeper	_____																																		
Cashier	_____																																		
TOTAL number of staff seen: _____																																			
119	Does the total number of staff actually seen agree with Head Office's record for staff for the branch?																																		

STAFF DISCIPLINE, MORALE, RESIGNATION AND TRAINING, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
120	In your opinion, is the number of staff currently appropriate? If not, which positions should be reduced or augmented?						
121	Do you consider all staff to be well trained in performing their job functions? If not, which individuals require attention, and what training do you recommend?						
122	Is the branch's on-the-job training adequate?						
123	Are all staff utilized to their full capacity?						
124	In case of unexpected absence, are there alternate individuals on staff to fulfill the work?						
125	Do the performance evaluations on file accurately reflect individual employees' performances?						
126	Do the management's interactions and relationships with staff encourage participation and commitment?						
127	Is the Branch Manager effective?	<i>(Please comment)</i>					
128	Do Credit Agents report to Village Bank meetings on time?						

STAFF DISCIPLINE, MORALE, RESIGNATION AND TRAINING, continued		Y	N	N/A	Comments	Date	Branch Manager Initials
129	Are Credit Agents rotated to avoid collusion?						
130	Does the Credit Manager regularly undertake visits to the Village Banks to get feedback from clients on how their needs are being met?						
131	How would you describe staff morale at the branch?	<i>(Please comment)</i>					
132	Is high staff turnover a concern at the branch? If yes, what are frequent causes for resignation?						
PAYROLL							
133	Does the total monthly debit listed on the master payroll voucher agree with the monthly amount debited to the staff emoluments account?						
134	Does the financial controller initial all alterations or cancellations to the master payroll voucher?						
135	Are contra entries on the total payroll debit transferred correctly to the appropriate account? *						

* For example, are leave allowances and recoveries for advances reversed to credit the prepaid expenses account?

SICK AND ANNUAL LEAVE RECORDS		Y	N	N/A	Comments	Date	Branch Manager Initials
136	Are all staff sick and annual leave absences recorded?						
137	Does the branch maintain a leave roster?						
138	Is the staff leave roster kept up-to-date?						
MEDICAL COVERAGE							
139	Are all staff medical claims recorded?						
140	Are sufficient details of an employee's family -- spouse's full name, number of children, marriage and birth certificates - included with all medical claims?						
141	Are claim forms always signed by the employee submitting the claim?						
142	Is an original doctor's, laboratory or pharmacy receipt always attached to a medical claim form?						
143	Does the CEO or COO at Head Office, as well as the Branch Manager, sign all medical claim reimbursements?						
144	Is the stipulated maximum for medical claim expenses per employee, per year, strictly observed?						

OPERATIONAL WEAKNESSES		Y	N	N/A	Comments	Date	Branch Manager Initials	
145	In your opinion, are there any operational weaknesses at this branch? If so, what are they and how could they be addressed?							
EXPENSES								
146	Are costs effectively controlled?	<i>(Please comment)</i>						
147	Are all costs approved by Head Office?							
148	Did you note any unauthorized expenses? If so, give full details.							
FRAUDS AND FORGERIES								
149	Have there been any frauds or forgeries at the branch? If so, were they reported to Head Office?							

OTHER OBSERVATIONS		Y	N	N/A	Comments	Date	Branch Manager Initials
150	Has all revenue due to the branch been collected and credited to the appropriate revenue account?						
151	Are the branch's marketing, business development and relationships with clients good and effective?	<i>(Please comment)</i>					
152	Who are the new competitors in the area?	<i>(Please list)</i>					
153	Are the branch's privileged records - for example loan and staff files - locked in a fire-proof cabinet to which only authorized personnel can gain access?						
154	Are all files withdrawn recorded to ensure their return?						
155	Are records kept in good condition and in an orderly manner, to facilitate their easy retrieval?						

CHECK ON MAJOR BALANCE SHEET HEADINGS

156		NUMBER OF LOANS (CLIENTS)		LOAN AMOUNT		VARIANCE
		Last Audit	This Audit	Last Audit	This Audit	
	Loans (Assets)					
	Savings (Liabilities)					

157		BUDGETED	ACTUAL	ACHIEVEMENT (%)	VARIANCE
	Operating Revenue				
	Less: Operating Costs				
	Operating Surplus				

158		LAST YEAR	BUDGET THIS YEAR	ACTUAL THIS YEAR	VARIANCE
	Operating Revenue				
	Less: Operating Costs				
	Operating Surplus				

159		AMOUNT LAST AUDIT	AMOUNT THIS AUDIT	VARIANCE
	Frauds and Forgeries			
	Provision for Bad and Doubtful Debts			

IMPORTANT RATIOS

160	RATIO	CALCULATION	LAST YEAR	THIS YEAR
	Cost Per Unit	Operating costs		
		Total portfolio		
	Loan Officer Productivity	Number of active loans		
		Number of loan officers		
	Client Drop-out or Increase	Number of active clients* at beginning of period + Number of new clients during the period - Number of active clients at the end of the period <hr/>	+ - <hr/>	+ - <hr/>
		(=) Number of active clients at the end of the period		
	Staff Turnover	Number of staff who left		
		Average number of staff		
	Loans in Arrears	Loans in arrears		
		Total portfolio		
	Portfolios at Risk	Amount in arrears in the past 60 days		
		Total portfolio		
	Loan Loss Ratio	Loans written-off		
		Average Portfolio		
	Increase in Portfolio	(Ending portfolio - beginning portfolio)		
		Beginning portfolio		
	Increase in Savings	(Ending savings - beginning savings)		
		Beginning savings		

* An "active client" is one with an outstanding loan during the period, which is not in arrears.

DAILY CASH CHECK AND RECONCILIATION PROCEDURES FOR BRANCH AND CREDIT MANAGERS

A Branch Manager is required to verify and reconcile the total cash on hand in three separate records at the close of every working day. He or she checks all entries in the Cash Book, the Cash Ledger and the Daily Cash Position, and then initials the recorded total cash on hand for that day in each, if correct. The Branch Manager should use a pen, preferably red, that is different in color from the one used to make the entries.

Daily cash on hand is recorded in:

- The **Cash Book** – maintained by the regular Cashier
- The **Cash Ledger** – records various cash transactions
- The **Daily Cash Position** - where all transactions are totaled

The Credit Manager, or next most senior person under the Branch Manager, is required to weekly verify and reconcile the cash on hand in the same three documents. The Credit Manager should also do so with a distinct pen color.

To begin each new business day, “yesterday’s” cash on hand is carried forward to “today,” and becomes the day’s starting cash on hand. The amount is entered into the cash records as “brought forward” (B/F).

The following are four sample scenarios involving the cash reconciliation process. For all, 26 August 2005 is “yesterday’s date,” and 27 August 2005 is “today’s date.” At the close of business yesterday, the cash on hand at this imaginary branch was 20,500 units; that amount was carried forward to become the starting cash on hand today.

SCENARIO I

From 20,500 units starting cash on hand today, the branch disbursed 2,000 in loans to various Village Banks. The branch received no reimbursements. The transaction reduces today’s cash on hand to a closing total of 18,500 units.

		<i>Yesterday’s closing cash on hand / Today’s starting cash on hand (20,500)</i>
-		<i>Total amount of cash disbursed today (2,000)</i>
=		<i>Today’s closing cash on hand (18,500)</i>

These transactions are documented in the Cash Book as follows:

Sample Cash Book page (Scenario I)				
Date	Entry	Total Cash Balance		
		Cash IN (Reimbursement)	Cash OUT (Disbursement)	Balance
08/26/05	Closing cash on hand today			20,500
08/27/05	Cash B/F from yesterday			20,500
08/27/05	Today's transactions	(none)	2,000	18,500
08/27/05	Closing cash on hand today			18,500

SCENARIO II

The starting cash on hand is 20,500 units. Today, the branch receives reimbursement ("cash in" from clients) totaling 10,500 units. The branch conducts no disbursements today, and so the day's final cash on hand is 31,000 units.

	<i>Yesterday's closing cash on hand / Today's starting cash on hand (20,500)</i>
+	<i>Total amount of reimbursements received today (10,500)</i>
<hr/>	
=	<i>Today's closing cash on hand (31,000)</i>

These transactions are documented in the Cash Book as follows:

Sample Cash Book page (Scenario II)				
Date	Entry	Total Cash Balance		
		Cash IN (Reimbursement)	Cash OUT (Disbursement)	Balance
08/26/05	Closing cash on hand today			20,500
08/27/05	Cash B/F from yesterday			20,500
08/27/05	Today's transactions	10,500	(none)	31,000
08/27/05	Closing cash on hand today			31,000

SCENARIO III

The branch's starting cash on hand is 20,500. Today, the branch disburses 3,000 units in loans to Village Banks, and receives 7,000 units in reimbursement. The transactions result in an overall net cash on hand increase by 4,000 units, and a total of 24,500.

	<i>Yesterday's closing cash on hand / Today's starting cash on hand (20,500)</i>
-	<i>Total amount of cash disbursed today (3,000)</i>
+	<i>Total amount of reimbursements received today (7,000)</i>
<hr/>	
=	<i>Today's closing cash on hand (24,500)</i>

These transactions are documented in the Cash Book as follows:

Sample Cash Book page (Scenario III)				
Date	Entry	Total Cash Balance		
		Cash IN (Reimbursement)	Cash OUT (Disbursement)	Balance
08/26/05	Closing cash on hand today			20,500
08/27/05	Cash B/F from yesterday			20,500
	Today's transactions			
08/27/05	"Village Bank A"	2,300		22,800
	"Village Bank B"	3,400		26,200
	"Village Bank C"	1,300		27,500
	"Village Bank D"		600	26,900
	"Village Bank E"		2,000	24,900
	"Village Bank F"		400	24,500
08/27/05	Today's transaction totals	7,000	3,000	4,000
08/27/05	Closing cash on hand today			24,500

SCENARIO IV

The branch's starting cash on hand is 20,500 units. Today, the branch disburses no loans and receives no reimbursements. The branch's cash position - that is, its cash on hand - does not change.

These transactions are documented in the Cash Book as follows:

Sample Cash Book page (Scenario IV)				
Date	Entry	Total Cash Balance		
		Cash IN (Reimbursement)	Cash OUT (Disbursement)	Balance
08/26/05	Closing cash on hand today			20,500
08/27/05	Cash B/F from yesterday			20,500
08/27/05	Today's transactions	(none)	(none)	20,500
08/27/05	Closing cash on hand today			20,500

INTERNAL CONTROLS

I. CASH CONTROLS

a. Loan Disbursement

All loan application documents must meet requirements and must be verified as going to genuine borrowers. Only after the Credit Agent, Credit Manager and Branch Manager sign all loan documents can the cashier release funds.

To do this, the cashier prepares and signs a disbursement voucher, and the Branch Manager and two Credit Agents sign it in full to approve. All disbursement vouchers and receipts must be mechanically numbered in print (not by hand) in a continuous sequence. The original disbursement voucher goes to the Village Bank with the cash funds, and a duplicate remains in the receipt book, kept by the cashier.

At the Village Bank meeting, the Credit Agent delivers the cash to the Management Committee President, who counts the money to confirm its amount, signs the disbursement voucher and returns the voucher to the Credit Agent. Loan cash is distributed only to approved borrowers themselves. *Loans are never issued by proxy.* The Management Committee Treasurer records the amount of loan cash received by each client, and obtains the signature or thumbprint of each client.

When all loans are disbursed, the Credit Agent and President sign the Credit Agent's journal to confirm the total cash distributed. If the cash amount listed on the disbursement voucher is not distributed in full, the remaining balance is counted and confirmed by the Credit Agent and President. The disbursement voucher must be amended, both in figures and in words, to show the actual amount disbursed. The Credit Agent and President sign the alteration in full. Two Credit Agents hold the un-disbursed cash and issue a receipt for the amount to the President; upon returning to the office they give the amount to the cashier, and receive a receipt.

The two Credit Agents deliver to the cashier the disbursement voucher signed by the Management Committee President, and the bookkeeper makes any necessary adjustments to the records. If for any reason a disbursement voucher or receipt is cancelled, all copies remain in the receipt books.

No new loan disbursement will take place if there are any arrears of the principal or interest of a client's existing loan, in either the external account or in special loans.

b. Loan Reimbursement

Daily, the Branch Manager and Credit Manager record the amount of cash that each Credit Agent is expected to collect. Credit Agents must ensure that they have all necessary records and materials before departing for the Village Bank repayment meeting.

At the meeting, the Management Committee President organizes the VB members so that they approach the table to make repayments one at a time, systematically. When this is done, the President hands the total amount of cash collected to the two Credit Agents. All the cash is arranged by denomination. The two Credit Agents sign a receipt for the cash, and the President also signs.

Upon returning to the office, the two Credit Agents deliver a reimbursement report and receipt to

the Credit and Branch Managers. The Credit Manager ensures that all repayments are recorded accurately, and then signs the documents and delivers them to the Branch Manager, who also scrutinizes the details before signing. The Branch Manager sends the report and receipt to the cashier.

The cashier receives the cash from the Credit Agents for counting and reconciliation. If all is correct, the cash is locked immediately in the safe, and the cashier issues a receipt to the Credit Agents. On the same day, the cashier delivers the reimbursement records to the bookkeeper. The cashier does not have access to the records after she or he has received, counted and balanced the cash.

The Branch Manager daily checks all entries in the Cash Book, Cash Ledger, and Daily Cash Position, and reconciles the final balance on all three documents before initialing. He or she also reconciles the branch's cash on hand with the entries on those books.

The cashier records all receipts and disbursement vouchers, along with the date, who delivered it, to whom it is issued, the number of pages, the total amount of cash it represents. Every day the cashier reconciles the receipt books and disbursement vouchers, and signs beside the remaining balance.

All unused receipt books and disbursement vouchers should be kept in a locked cabinet.

c. Revenue Collection

The Credit Agents, Credit Manager and Branch Manager ensure that an accurate interest rate is calculated for every loan disbursed. If any amount of interest or principal on any loan is in arrears, no new loans may be disbursed to anyone in the entire group.

The Branch Manager ensures that interest due is collected on the date due, and that it is credited to the appropriate interest receivable account. The Branch Manager also prepares a monthly statement comparing branch costs and revenues.

d. Petty Cash

The Head Office fixes the petty cash limit for each branch, and remits that amount to the branch. Under no circumstances should branch cash be used as petty cash. The stock of petty cash should be kept up so that it is never depleted. Petty cash is released only if the person receiving it gives a signed receipt.

The bookkeeper records daily petty cash in and out. The Credit Manager reconciles the petty cash balance daily, as does the Branch Manager weekly on an irregular schedule.

The cash box should be locked in the safe overnight.

e. Client Savings

The Branch Manager ensures client savings records are kept accurately, and that clients observe the compulsory savings requirement. The Branch Manager also ensures that client savings cash is recorded in the Cash Book, Cash Ledger and Daily Cash Position records.

II. WHERE MOST FRAUDS AND FORGERIES OCCUR

Loans to "ghost clients" (fraudulent identities);

Loans distributed by proxy;
Loan capital being shared between borrower and staff;
Credit Agents using loan collections for personal use with the intent to pay them back later;
New loans granted to hide arrears;
New loans taken to pay other loans;
New loans taken to cover the compulsory savings requirement;
Payment of non-existent bills;
Theft of client savings by staff or Management Committee members;
Multiple loans to the same individual (within one Village Bank, using multiple names, or at multiple Village Banks using the same or multiple names); or
Staff thefts.

III. MINIMIZING FRAUDS AND FORGERIES

Assume that anyone can be tempted to commit fraud. Be aware of sudden, inexplicable, unplanned or unexpected significant increases or decreases in a portfolio. Assume intelligence in the design and cover of the act. Follow every suspicion to its conclusion. Regularly rotate staff at all levels, including the Credit Manager. Pay and treat your staff well, and be firm, fair and impartial in your dealings with staff. Operate with zero tolerance for frauds and dishonesty.

Adhere to documented procedure and policy strictly and without lapses to discourage staff from taking advantage of gaps in protocol. Document all procedures, policies, and systems to ensure that each duty and responsibility is explained fully in writing.

If you do not have sufficient time to check a document properly before you sign it, do not sign it. Do not sign any vouchers unless all supporting documents are attached. Always have the person preparing, the person checking, and the person approving any voucher sign it. Always write number amounts in both words and figures, and leave no space to add more figures.

Maintain separation of duties - for example, a cashier should not handle accounting, or have access to accounting records.

Obtain as much information possible about a client, including a photograph, before the first loan is disbursed. Have more than one Credit Agent attend disbursement and reimbursement meetings. As a part of your internal auditing duty, visit several clients to confirm with them the amounts they borrowed, and that that information confirms the records. Outside of your auditing duties, occasionally talk to clients, and even to non-clients: you may receive helpful information.

All records should be written clearly and in ink, and access to all records must be restricted to authorized staff only.

IV. COST CONTROLS

Reuse items and materials as much as possible. Only essential items should be purchased, and are to be approved by Head Office and fit within the branch budget. Prior to the purchase of any items, at least three different price quotations must be obtained. Exceptions to that procedure for *only the following* expenditures:

- Rent paid according to the current lease
- Fuel and oil for vehicles, motorbikes, and generator
- Water and electric utilities
- *Minor* vehicle or motorbike repairs
- Small office supplies such as pens, pencils or notebooks
- Photocopies

As often as every quarter, review the number and type of branch staff positions in relation to the total number of clients, the total branch portfolio and number of Village Banks, to determine whether the staff may be excessive.

When considering a proposed new Village Bank site, always take into consideration the distance from the branch office. A motorbike ride of more than one hour likely exceeds acceptable costs in fuel, time and security of cash or staff in transit.

Control the expenditure of office supplies, particularly computer supplies, and restrict the use of vehicles and motorbikes to branch business only. Likewise, monitor access to telephones so that personal expenditures to the branch are minimized; one staff member may be designated to place all outgoing calls. Ensure that the branch's fixed assets - such as computers and furniture - are protected.

From cycle to cycle, monitor changes in loan size, the number of active clients, and the increase or decrease of the branch portfolios; the number and size of loans affects overall costs.

Training is essential for continued growth and sustainability of a branch, but ensure that trainings are relevant to staff development and do not unduly inhibit productivity.

If a consultant must be hired, the need must be clearly defined in advance, and the individual's cost and credentials verified and reconciled to the branch budget. Hiring and training of new staff is also expensive. Whenever possible, senior management - a CEO or COO - should sit down with a staff member who declares his or her resignation in order to determine if he or she might be persuaded to stay.

Credit Inspection Internal Audit Report

(Page 1 of 2)

BRANCH NAME: _____

Ratings key:

Please make your assessments by percentage point (to be totaled and compared).

Excellent: 100%
 Good: 90% or better
 Satisfactory: 80% or better
 Unsatisfactory: Less than 80%

	Evaluation Categories	Previous Audit	Current Audit
1	The branch conducts client baseline surveys prior to choosing a Village Bank site. <i>Gauge how much information is gathered, how it is gathered, how the information is analyzed, whether the branch adequately uses the information, etc.</i>		
2	The branch promotes client business plans that in the auditor's opinion are intelligent and attainable.		
3	New Management Committee members and Village Bank members are properly trained.		
4	Client thumbprints or signatures appear on all loan contracts.		
5	Loan approval policies and procedures are strictly and consistently followed.		
6	Loan disbursement procedure is strictly and consistently followed.		
7	The growth rate in the loan portfolios is in the auditor's opinion acceptable.		
8	Less than 1% of portfolios are at risk in one calendar year.		
9	Overdue debts are written-off for the year in which they occur.		
10	Reimbursement records are free from arrears on any external or internal loans		
11	The collection of arrears occurs with prompt and continuous action.		
12	Interest due the branch is calculated accurately and collected consistently.		
13	Client files are properly protected.		
14	Client drop-out is recorded and monitored.		
	<i>Overall Total</i>		

CREDIT AUDIT INSPECTION SUMMARY

(Page 2 of 2)

1. This credit inspection of _____ (*branch name*) commenced on _____ (*date*) and was completed on _____.

2. Based on percentage assessments in the fourteen control categories, the branch achieved an overall performance rating of _____ percent for the current year.

3. The current audit rating of _____ percent is an improvement / decline (*circle one*) from the overall rating of the previous audit.

4. Improvement or decline is noted in the following areas:

5. In order to improve its overall credit rating, the branch should ensure that all irregularities identified by this audit report are corrected. The following are suggested actions toward noted shortcomings:

The Branch Manager acknowledges the content of this report, and has discussed any concerns with the auditor. Any items of disagreement between the Branch Manager and the auditor regarding this report are to be documented in an attached list. *Please check one:*

- See attached list
- No disagreements noted

Signed,

Date:

Branch Manager

Internal Auditor (or Internal Audit Manager)

FINANCIAL SERVICES INTERNAL AUDIT REPORT

(PAGE 1 OF 2)

BRANCH NAME: _____

Ratings key:

Please make your assessments by percentage point (to be totaled and compared).

Excellent: 100%
 Good: 90% or better
 Satisfactory: 80% or better
 Unsatisfactory: Less than 80%

Evaluation Categories		Previous Audit	Current Audit
1	Personnel policies and active procedures are consistent.		
2	Supervision of staff is adequate and in the auditor's opinion effective.		
3	Administrative policies and active procedures are consistent.		
4	Accounting policies and active procedures are consistent.		
5	In the auditor's opinion, the branch's internal controls are effective.		
6	Expenses, costs and income are traceable and reasonable.		
7	Daily and weekly cash reconciliation and records-keeping is consistent.		
8	Communication between management and staff is in the auditor's opinion effective.		
9	Cash and fixed assets are protected.		
	<i>Overall Total</i>		

FINANCIAL SERVICES INSPECTION SUMMARY

(Page 2 of 2)

6. This credit inspection of _____ (*branch name*) commenced on _____ (*date*) and was completed on _____.

7. Based on percentage assessments in the fourteen control categories, the branch achieved an overall performance rating of _____ percent for the current year.

8. The current audit rating of _____ percent is an improvement / decline (*circle one*) from the overall rating of the previous audit.

9. Improvement or decline is noted in the following areas:

10. In order to improve its overall credit rating, the branch should ensure that all irregularities identified by this audit report are corrected. The following are suggested actions toward noted shortcomings:

The Branch Manager acknowledges the content of this report, and has discussed any concerns with the auditor. Any items of disagreement between the Branch Manager and the auditor regarding this report are to be documented in an attached list. *Please check one:*

- See attached list
- No disagreements noted

Signed,

Date:

Branch Manager

Internal Auditor (or Internal Audit Manager)

JOB DESCRIPTION FOR AN INTERNAL AUDITOR

Working Relationships

Under direction of the Internal Audit Manager, an Internal Auditor (IA) coordinates and communicates closely with branch staff, the Branch Manager, Credit Manager, and with managers in the Head Office. The IA must also work closely with Village Bank Management Committee members, clients and village leaders to obtain information relevant to the confirmation of branch records and operations.

Job Statement

Reporting directly to the Internal Audit Manager, the IA is responsible for systematically examining all of a branch's financial transactions to ensure the accuracy and adequacy of accounting records and systems, and to locate and identify discrepancies, if any.

Duties and Responsibilities

1. To check the branch's adherence to personnel management and administrative policies;
2. To check branch compliance with accounting and internal control protocol by:
 - Confirming authorization for cash disbursement and office expenses;
 - Scrutinizing accounts classification;
 - Scrutinizing cash handling procedures;
 - Confirming a separation of duties such as prohibits opportunities for fraud;
 - Confirming the safekeeping of cash and files; and
 - Assessing the adequacy of staff volume to the branch's current level of business.
2. To verify balances in client savings, external accounts, and internal accounts at three levels. The IA ensures the accuracy of Village Banks' financial records in Credit Agents' journals and reports, in Management Committee documentation, and in clients' passbooks.
3. To check the branch's adherence to procedures for Village Bank meetings and financial records-keeping, and aptitude in transferring skills and knowledge to clients.
4. To ascertain the existence and true value of accounts by:
 - Counting and reconciling cash on hand with the Daily Cash Journal;
 - Confirming balances of inventories, loans, repayments, etc;
 - Scrutinizing the rate of aging on receivables; and
 - Confirming account value information with creditors and debtors.

5. To check allocated budgets against actual expenditures to report any discrepancies;
6. To check the inventory list and depreciation schedule. The IA will confirm that the branch's assets agree with its official inventory list, and that its fixed assets are accurately and consistently depreciated;
7. To discuss the audit process with branch management and staff prior to conducting it, and afterward to clarify initial findings and recommendations;
8. To prepare audit reports; and
9. To ensure the branch's compliance of audit recommendations.

Terms of Work

For an IA to be effective and efficient in fulfilling the duties of the position, he or she must be provided with computer/technical assistance, training opportunities to continually upgrade his or her financial auditing knowledge, and relevant support and direction from the Audit and Finance Committee of the Board of Directors.

Minimum Competencies for an Internal Auditor

- Financial auditing experience, preferably within a financial institution;
- Working knowledge of financial planning, including budgeting and accounts projection;
- Ability to prepare external and internal financial statements;
- Ability to detect and interpret patterns in financial data;
- Ability to assess and improve financial systems and procedures;
- Familiarity with accounting and auditing procedures generally;
- Excellent spreadsheet analysis skills;
- Attentiveness to detail, ability to manage multiple tasks and meet deadlines;
- Supervisory experience and ability to be impartial;
- Interest in helping the poor and marginal sectors of society;
- Character of integrity and honesty;
- Ability and willingness to identify frauds and forgeries;
- Excellent communication skills in written and spoken English.

SINGLE- AND DOUBLE-STARRED CHECKLIST ITEMS

As referred in the Introduction, some items in the checklist are marked with either a single (*) or a double (**) asterisk. The following is a consolidated list of these especially important points.

*	
Checklist number	If your answer is "no," the issue requires urgent remedial action .
5	Are all doors and windows well secured to prohibit forced entry?
6	Are at least two different keys required to unlock the building's doors?
8	Is the strong room secured to prohibit forced entry?
9	Is the safe fixed to the wall or floor to prevent its removal?
14	Do duplicate safe keys and combinations exist?
15	Are there written procedures to access the duplicate keys and combinations?
16	Are receipts kept whenever duplicate keys or combinations leave or enter the safe?
24	When a receipt is cancelled, are all three copies left in the receipt book?
28	Is the branch cash limit observed?
29	Did you undertake a random check of at least 50% of all cash transactions in the cashbook to confirm that the entries are correct?
46	Are all vehicles and motorbikes fully insured and licensed?

**	
Checklist Number	If your answer is "no," the issue denotes a critical situation .
7	Are at least two different keys required to unlock the strong room (safe room) door?
10	Do safe custodians issue receipts for all cash received, and are copies of those kept in the safe?
11	Are all changes of custodian for safe key and combination, and the date and time of each change, recorded in a register?
12	Are the safe key and combination held separately at all times by senior staff?
13	Do outgoing and incoming safe custodians sign next to the change entries?
17	Is the safe opened only in the presence of more than one custodian?
18	Before the safe is opened, are the main door and the door to the strong room locked?
19	Are all cash movements to and from the safe recorded in a cashbook?
20	Are entries in the cashbook and on receipts recorded in both figures and words?
21	Do the figures and words in all entries agree?
26	Does the total cash count reconcile with the recorded total in the cashbook, the cash journal and in the daily cash position register?

Catholic Relief Services, founded in 1943, assists the poor and disadvantaged outside the United States. CRS works in solidarity with all people of good will and similar vision to promote human dignity, alleviate human suffering, promote the development of people, and foster charity, justice, and peace in the world. CRS assists the poor solely on the basis of need, not creed, race, or nationality, and maintains strict standards of efficiency and accountability. CRS currently operates in 99 countries and territories and supports microfinance activities in 29 countries.

CRS Microfinance

West Africa

Benin
Burkina Faso
Ghana
Niger
Senegal

Eastern Africa

Ethiopia
Uganda

Middle East and North Africa

Egypt
Jerusalem, West Bank, and Gaza
Morocco
Turkey

South Asia

India
Pakistan

South East Asia

Cambodia
East Timor
Indonesia
Philippines
Thailand

Europe

Armenia
Bosnia-Herzegovina
Bulgaria
Croatia
Macedonia

Latin America and the Caribbean

Ecuador
El Salvador
Guatemala
Haiti
Nicaragua
Peru

