

PA-ABU-467

1-1-1995

**Deloitte Touche  
Tohmatsu**



*Technical Assistance for  
Ceskosloveska Obchodni  
Banka  
Workplan --  
Internal Audit Project*

*Delivery Order No. 31*

*Contract No. EUR-0014-I-00-1056-00  
Eastern Europe Enterprise Restructuring and  
Privatization Project*



*U.S. Agency for International Development  
EUR/ENI*

*February 1995*

**Deloitte Touche  
Tohmatsu  
International**



March 6, 1995

Mr. Lawrence Camp  
AID/ENI/PER/EP  
Room 3206, SA-15  
Washington, DC 20523

**Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 31,  
Technical Assistance to the CSOB,  
Report on Function C: Internal Audit Project**

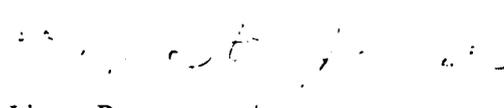
Dear Lawrence:

In accordance with Article IV of the above Delivery Order, we are providing you with four copies of the report on Internal Audit Project fulfilling the deliverables for Function C of the workplan. Our objectives for this task included building an audit and risk profile of the Bank; recommending and developing an effective audit plan; developing customized and practical audit procedures; implementing the audit plan; identifying skills requirements and training needs for the Internal Audit Department; optimizing the use of facilities available from computerized accounting systems; and developing a new products process.

Additional assistance to CSOB in this area is being provided under an extension to the Delivery Order. Deliverables for work performed under this extension are described in the updated workplan.

If you have any questions regarding this report, please call Adrienne Brombaugh at (202) 879-5650.

Sincerely,

  
Lizann Prosser  
Senior Manager

**Deloitte Touche  
Tohmatsu**



**Deloitte Touche Tohmatsu**  
ILA Group Ltd.  
1001 Pennsylvania Avenue, N.W.  
Suite 350N  
Washington, DC 20004-2594 USA

Telephone: (202) 879-5600  
Facsimile: (202) 879-5507

October 12, 1994

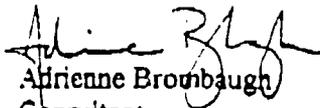
Lawrence Camp  
USAID - ENI/PER/EP  
320 21st Street, N.W.  
Washington, D C. 20523

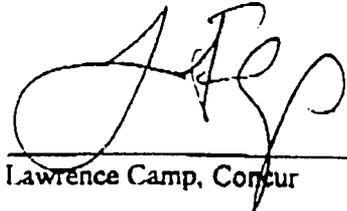
**Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 31,  
Ceskoslovenska Obchodni Banka (CSOB) - Draft Workplans**

Dear Lawrence:

As required by Article IV of the above-referenced delivery order, we are submitting for your approval the attached draft workplans for technical assistance to the Treasury Department (Function A) and the Internal Audit Department (Function C) of CSOB. If these workplans are acceptable, please indicate your approval by signing below and returning a copy to us via fax for files. With your approval last week of the workplan for the Problem Loan Department (Function B), the remaining workplan to be submitted is for the revised tasks described in the recent modification to the scope of work. If you have any questions regarding this request, please call me at (202)879-5650.

Sincerely,

  
Adrienne Broubaugh  
Consultant

  
\_\_\_\_\_  
Lawrence Camp, Concur

11/30/94  
Date

**Deloitte Touche  
Tohmatsu  
International**

**BEST AVAILABLE DOCUMENT**

TOTAL PAGES

Ceskoslovenska Obchodni Banka A.S.

**WORK PLAN**  
**INTERNAL AUDIT PROJECT**

Deloitte & Touche, Czech & Slovak Republics

July 1994

## INTERNAL AUDIT PROJECT

		Estimated Timing
<b>Phase I</b>	<ul style="list-style-type: none"> <li>Fact Finding &amp; Familiarisation; Overview of &amp; Familiarisation with the Bank's Business Activities and Automated Systems including IBIS. Overview of the Structure &amp; Organisation of the Internal Audit Department, Audit Plan, Personnel &amp; Procedures; Report Preparation</li> </ul>	12-15 Man Days
<b>Phase II</b>	<ul style="list-style-type: none"> <li>Recommendations for Internal Audit - Plan, Structure etc.</li> </ul>	10-15 Man days
<b>Phase III</b>	<ul style="list-style-type: none"> <li>Development of Practical &amp; Customised Audit Procedures covering, as a minimum, the principal business activities of the Bank</li> </ul>	
<b>Phase IV</b>	<ul style="list-style-type: none"> <li>Implementation of Audit Plan</li> </ul>	
<b>Phase V</b>	<ul style="list-style-type: none"> <li>Identify Skills Requirements &amp; Training needs for Internal Audit Department</li> </ul>	3-5 Man days
<b>Phase VI</b>	<ul style="list-style-type: none"> <li>Staff Training for Internal Audit</li> </ul>	
<b>Phase VII</b>	<ul style="list-style-type: none"> <li>Optimise Use of Audit Trailing facilities available from the computerised accounting system(s) including IBIS</li> </ul>	15-20 Man Days
<b>Phase VIII</b>	<ul style="list-style-type: none"> <li>Development of New Product Process</li> </ul>	3-5 Man Days
<b>TOTAL</b>		

## INTERNAL AUDIT PROJECT

### PHASE I:

- Fact Finding & Familiarisation including obtaining an understanding of:
  - the Bank's Automated Accounting Systems;
  - Internal Audit Department's Structure & Plan
  - Current & Planned Business Activities

### ➤ OBJECTIVE:

*BUILD AN AUDIT & RISK PROFILE  
OF THE BANK*

## INTERNAL AUDIT PROJECT

### PHASE II:

- ◆ Recommend and Develop an Effective Audit Plan & Programme for the Bank's Internal Audit Department.

### ➤ DELIVERABLE(S):

- ◆ *an Audit Plan which, in the first instance, is balance-sheet and P & L related*
- ◆ *an Audit Plan which is based on Risk Assessment & Analysis and is tailored to meet the Risk Sensitivities of the Bank's current and planned business activities*
- ◆ *an Audit Plan which is flexible to meet a changing environment and one that can respond to special situations as they arise*
- ◆ *an Audit Plan which meets the needs of Senior Management and the Supervisory Board*
- ◆ *an Audit Plan which is best banking practice and meets generally accepted International Auditing Standards*
- ◆ *an effective and professional Audit Programme which will eventually enable the external auditors to reduce the extent of their auditing, place more reliance on the work of the Internal Auditing Division and thus enable the Bank to reduce External Audit Fees*

## INTERNAL AUDIT PROJECT

### PHASE III:

- **Develop Customised and Practical Audit Procedures which are applicable and sensitised to the underlying risks in the Bank's Business Activities**

The *main focus* will be.

1. *audit objectives;*
2. *balance sheet & statement of P & L related i.e. each audit includes an element of trial balancing and proof of the prime accounting records;*
3. *all risks assessed and covered;*
4. *effective internal controls are in place and are operative;*
5. *all transactions are approved prior to booking;*
6. *all transactions are booked & booked correctly;*
7. *all income received and booked to the accounts;*
8. *continuous review of the computerised accounting systems in use;*
9. *verification that operating staff are familiar with their jobs;*
10. *compliance with Bank Policy & Directives;*
11. *compliance with the Rules & Regulations of the Czech & Slovak Republics;*

INTERNAL AUDIT PROJECT

➤ **DELIVERABLE(S):** *AUDIT PROCEDURES COVERING THE FOLLOWING AREAS/BUSINESS ACTIVITIES*

- *Accounting & General Ledger*
- *Foreign Exchange & Money Market (include. FRAs, Currency Options)*
- *Funding Risks (Exposure to Interest Risks)*
- *Securities & Investments Activities*
- *Loans & Advances (Credit)*  
*Bills of Exchange*  
*Bills Discounted*  
*Letters of Credit*  
*Guarantees Issued*
- *Cash Area & Vault*
- *Nostro Accounts Reconciliations*
- *Internal Accounts Reconciliations*
- *Fixed Assets*
- *Retail Banking (Demand Deposit Accounts)*
- *Data Processing Developments (New Systems)*
- *Data Processing Security (Existing systems)*

## INTERNAL AUDIT PROJECT

### PHASE IV:

- Implementation of Audit Plan

## INTERNAL AUDIT PROJECT

### PHASE V:

- Identify Skills Requirements & Training Needs for the Internal Audit Department

### ➤ DELIVERABLE(S):

- *Skills Requirements Identified;*
- *Actual Skills Available Documented;*
- *Skills Shortfalls, if any, Identified & Documented*
- *Training Needs Identified*

INTERNAL AUDIT PROJECT

PHASE VI:

- Staff Training provided through a mixture of on-site (in-house) training and out-Bank coursed as appropriate

## INTERNAL AUDIT PROJECT

### PHASE VII:

- **Optimise the use of facilities available from the IBIS and other computerised accounting systems**
  1. *review the audit trailing facilities available from the IBIS and other computerised accounting systems*
  2. *identify reports which are available and which can be used without any system changes required*
  3. *identify reports which are available and which can be used with some report formatting & or system changes*
  4. *identify data which is available and which can be presented in customised reports requiring some system changes or which can be down loaded onto a PC for further use*

### ➤ **DELIVERABLE(S):**

- *List of automated reports/facilities and audit trailing already available and which can be utilised by the audit department without requiring any system changes*
- *List of automated reports/facilities and audit trailing already available and which can be utilised by the audit department but which require some system changes*
- *List of automated reports/facilities and audit trailing already available and which can be utilised by the audit department after some system changes and/or additional report generation*
- *List of automated reports/facilities and audit trailing which should form an integral part of each and every audit*

## INTERNAL AUDIT PROJECT

### PHASE VIII:

- Development of a New Products Process

### ➤ DELIVERABLE:

- *a New Products Process which includes all the necessary features relating to Risk Analysis and Assessment, Credit, Accounting, Czech and Slovak Accounting and Other Regulations and which involves all the appropriate parties including the Internal Audit Department, as appropriate*

## **STANDARDS AND POLICIES**

**INDEX**

**STANDARDS & POLICIES:**

- ***Responsibilities of the Chief Internal Auditor*** **SP 1**
  - Introduction
  - Responsibility
  - Independence
  - Standards
  - Policies
  
- ***Auditing Principles & Standards*** **SP 2**
  - Internal Controls
  - Separation of Duties
  - Vacation Policy
  - Rotation of Duties
  - Dual Controls
  - Accrual Accounting
  - The Internal Audit Programme
  - Qualifications of the Auditor
  - Professionalism & Maturity
  - Competence

## **STANDARDS & POLICIES**

### **RESPONSIBILITY OF THE CHIEF INTERNAL AUDITOR**

#### **INTRODUCTION**

Internal Auditing is an independent inter-organisational appraisal function which carries out regular reviews of operations and other activities as a service to management. Internal auditing is a management control whose function is to measure, evaluate and report on the effectiveness of other controls.

The principal objective of the internal auditing function is to assist all members of management in the effective discharge of their responsibilities, by providing them with regular analyses, appraisals, recommendations and pertinent comments concerning the banking activities reviewed. The realisation of this objective involves:

- reviewing and appraising the soundness, adequacy and application of the system of internal control;
- ascertaining that the assets of the Bank and its customers are safeguarded;
- determining that transactions are processed on a timely basis and in accordance with generally accepted accounting principles;
- ascertaining the extent of compliance with established procedures, management policies and regulatory requirements;

#### **RESPONSIBILITY**

The responsibilities of the Internal Audit Function must be clearly established and defined in the Bank's bye-laws. It should be management's policy that the Chief Internal Auditor conducts audits of CSOB and its subsidiaries and that he reports his findings to line management, and the Board of Directors and the Audit Committee, as appropriate. In order to discharge these responsibilities effectively, the auditor must have full and unrestricted access to all the Bank's records, properties and personnel relevant to any examination being undertaken and be free to review all policies, plans, budgets, transactions, policies and procedures.

Responsibility for the development, implementation and enforcement of the system of internal control rests with management at all levels. In performing his duties, the internal auditor has no direct responsibility over any of the activities which he reviews. In other words, the internal auditor's review and appraisal does not in any way relieve management of their responsibilities.

### **INDEPENDENCE**

Independence is essential for the effective performance of the internal audit function. Independence is obtained primarily through appropriate organisational relationships, but also requires the objectivity of the auditor. This implies that:

- The chief internal auditor should have direct access to the Board of Directors and the Audit Committee;
- The Auditing Division must be independent from the areas it audits. The internal auditor should not develop and implement procedures, prepare accounting vouchers and other records, or engage in any other activity which he would normally review and appraise and which could reasonably be construed to compromise his independence.

His objectivity is not adversely affected, however, by his determination of the standards of control to be applied or his recommendations for improvement in the procedures under his review.

### **STANDARDS & POLICIES**

The development of proper and comprehensive Standards and Policies is necessary for an effective discharge of the responsibilities of the auditor. Auditing Standards and Policies should constitute the framework within which the detailed procedures, as specified in the Internal Audit Programme, are performed.

Specifically:

- Standards:***

Standards are the criteria by which principles can be properly translated into action and the results evaluated. They deal with professional qualities and set the guidelines for the exercise of judgement. Whilst broad based, they still must be clearly defined and fully articulated since they form the parameters within which detailed Audit Policies and Procedures should be developed.

□ ***Policies:***

Policies are directives determined by senior management to be used in attaining given objectives. Auditing Policies are developed within the context of the Auditing Standards and as such naturally emanate from them.

## **STANDARDS & POLICIES**

### **AUDITING PRINCIPLES & STANDARDS**

A major responsibility of the Bank's Board of Directors is the establishment of proper internal controls to protect its customers, shareholders, directors and staff. The execution of this responsibility requires a professionally competent internal auditor who is responsible for an audit programme which, in effect, is a managerial control within the Bank.

Internal auditing has as its basic purpose the prevention and detection of loss. To be fully effective, the audit programme and its administration must have management support of its freedom to review, examine and appraise independently all the Bank's activities and procedures. Effective auditing means more than just an examination and verification of, and recommendations for, proper internal controls as well as the review of compliance with laws, regulations and policies. At the same time, sound practice requires that the cost and extent of internal auditing should be commensurate with the risks involved.

The auditor must serve in a staff relationship without authority or direct control over the staff and departments whose work he reviews. Moreover, the review and appraisal of the work of others does not relieve them of their own assigned responsibilities. The auditor must have complete independence in carrying out the audit programme and in reporting his findings. He should be administratively responsible to a senior officer at the executive management/policy making level and normally should send copies of his reports to the Bank's Chief Executive Officers and other senior managers as appropriate. When in his judgement the best interest of the Bank demands it, the auditor should be free to report not only to executive management but also to the Board of Directors and/or an Audit Committee.

#### **STANDARDS for EVALUATING INTERNAL AUDIT & CONTROL PROCEDURES**

The following statements will establish the criteria by which principles can be properly translated into action and the results evaluated.

##### **Internal Controls:**

Internal Controls referred to herein consist of checks and balances built into the operating procedures of the Bank. They exclude administrative controls such as cost and quality controls, time and motion studies etc. Policies and procedures on internal controls should be in writing. The auditor is responsible for reviewing the controls and procedures for adequacy and compliance.

The auditor should review all changes in operating procedures to make sure that proper and adequate internal controls are built-in. For objectivity he should not install procedures, originate or approve entries or otherwise engage in any activity that he would be expected to review or appraise.

The auditor also has a responsibility to acquire sufficient knowledge of electronic data processing systems and techniques to assure himself that adequate controls are incorporated in all systems in use and planned. He must keep himself informed of any programme modifications so that he can establish, if appropriate, that suitable controls are maintained at all times.

As a minimum, an internal control programme should include the following:

*Separation of Duties:*

No one individual should control a transaction from inception to completion.

*Vacation Policy:*

To be effective, vacation policy requires a minimum time each year away from the job - vacation, training course, military service etc. The recommended minimum period is two weeks.

*Rotation of Duties:*

On a periodic basis e.g. every two years, employees should be assigned to different jobs within their respective department and, to the extent possible, within other departments.

*Dual Controls:*

Dual control is an important aspect of internal control. It should include the physical handling or custody of all cash, quasi-cash and securities in the strong room, loan collateral etc. Dual control of assets held by other depositories should be exercised through a dual signature arrangement i.e. 2 individuals must sign. Dual control procedures should also include sensitive areas such as dormant accounts.

*Accrual Accounting:*

Accrual accounting of income and expenses facilitates a more accurate determination of current profits. It also provides an important control over the actual receipt of income and the payment of expenses.

□ ***The Internal Audit Programme:***

In order to meet its proper objectives, the internal audit programme should include:

- ⇒ A determination that:
  - ⇒ the accounting and other records of the Bank are accurate;
  - ⇒ transactions are promptly and properly recorded in the accounts;
  - ⇒ assets are adequately safeguarded and properly recorded in the financial reports and statements;
  - ⇒ liabilities are fully disclosed and accounted for;
  - ⇒ collateral and other non-ledger items are properly recorded and protected by effective custodial controls;
  
- ⇒ A review of:
  - ⇒ the adequacy and effectiveness of written procedures covering the accounting, reporting, operations, credit and treasury functions;
  - ⇒ compliance with applicable Czech & Slovak rules and regulations;
  - ⇒ compliance with Bank policies as established by management and/or the Board of Directors;
  - ⇒ the accounting for and controls over the receipt of income;
  - ⇒ expenses to determine that they are authorised, correct as to amount and consistent with bank policy;
  - ⇒ the performance of personnel in accomplishing assigned internal control functions and responsibilities;
  - ⇒ loan losses, operating losses and charge offs and efforts made to recover these funds;
  - ⇒ signing and other authorities granted to members of the organisation - to approve and make loans, sign official checks, bank drafts and payment orders, internal accounting entries, letters of authorisation, title deeds transfers and any other legal or accounting document - to ensure compliance with established policies;
  - ⇒ the administration and operation of personal and trust accounts and the validity of action taken by authority granted under the trust instruments;
  - ⇒ any pending litigation affecting the Bank including a determination of whether or not legal opinion or advice of counsel has been obtained and is on record;

- ⇒ An examination and test of the reliability of the accounting procedures and the accuracy of the resulting reports and financial statements.
- ⇒ An examination and test of the income and expense accruals.
- ⇒ An examination and test of the contingent accounts.
- ⇒ An audit of loans including loan collateral and a verification that all loans have been properly approved. A loan review/credit review unit is utilised by some banks as a means of monitoring and maintaining the quality of the loan portfolio.
- ⇒ An evaluation of all insurance policies in force.
- ⇒ The utilisation of generally accepted verification and confirmation techniques e.g. positive and negative confirmations and circularisation programmes.
- ⇒ The preparation of proper, logical and complete sets of working papers covering each audit.

□ ***Qualifications of the Auditor:***

The qualifications of the auditor will have a direct bearing on the adequacy of any internal audit and control programme. The job specifications for a good auditor call for an unusual combination of personal qualities. The auditor needs mature judgement, integrity, imagination, initiative, courage and a high degree of objectivity and skill in personal relationships. His educational background should include accounting concepts and the theory and practice of banking and banking products.

□ ***Professionalism & Maturity:***

The auditor should be a professional who performs in a specialised technical environment. This professionalism should be characterised by maturity, discipline and competence. Conduct and appearance should reflect the standards of a professional person capable of exercising mature judgement.

**Competence:**

The auditor must possess the knowledge and skill required to fulfill the responsibilities of the audit function. He must:

- ◇ understand and apply the Bank's Standards and Policies in performing his audit functions;
- ◇ be able to apply appropriate auditing skills and techniques to specific audit assignments;
- ◇ develop and maintain a working knowledge of relevant technical subjects;
- ◇ exercise sound judgement;

**APPROACH  
TO  
INTERNAL AUDITING**

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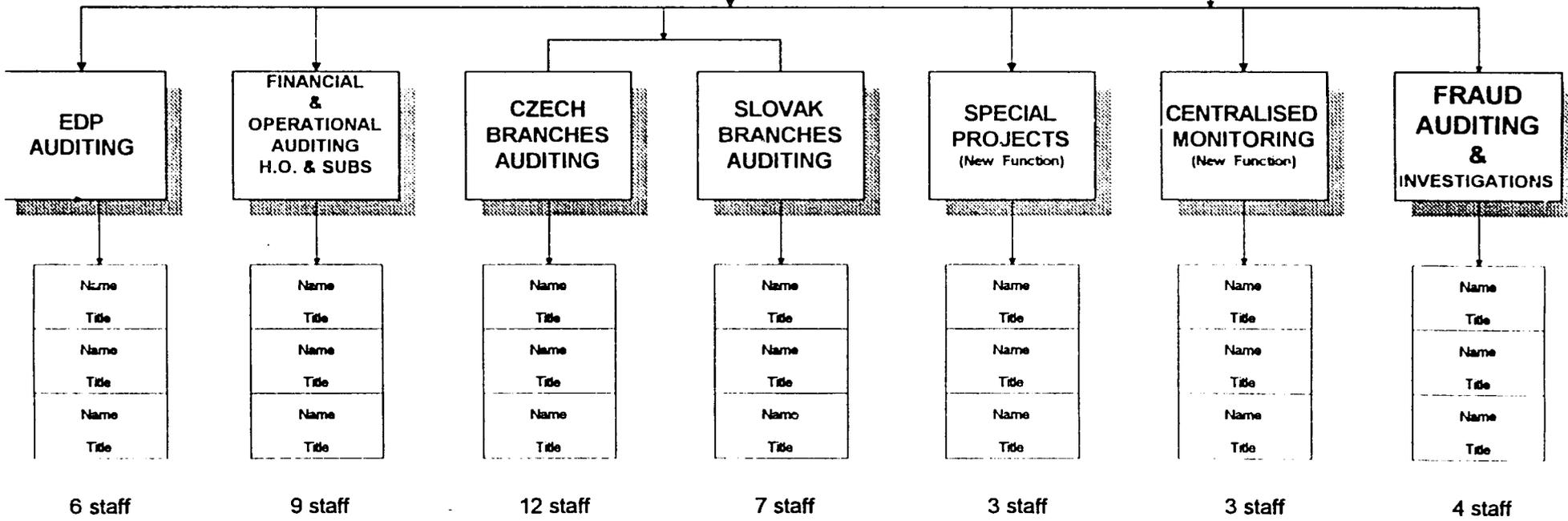
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**SECTION I**

**HEAD  
OF  
INTERNAL AUDITING  
DIVISION**

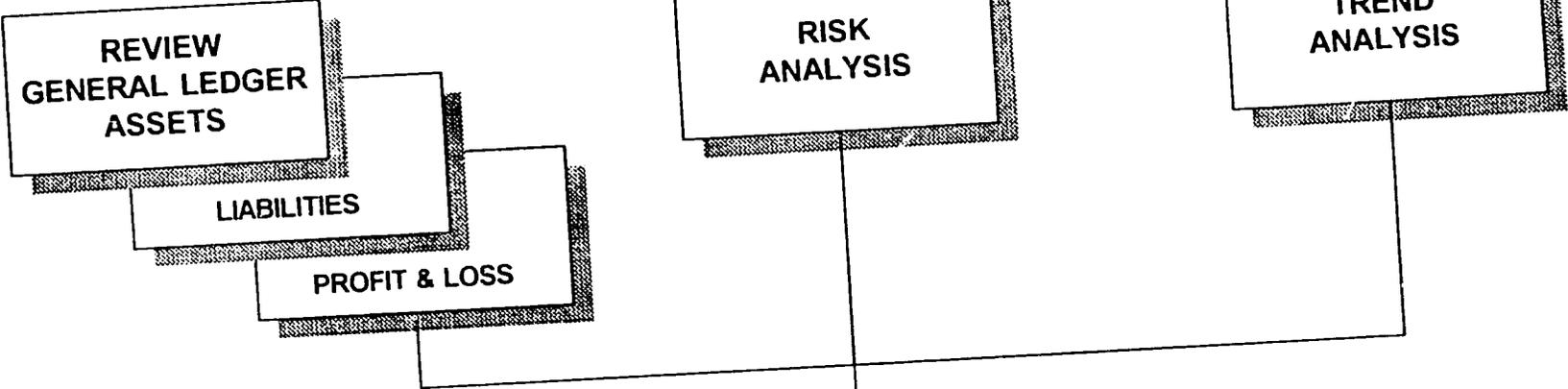
**SECRETARY**



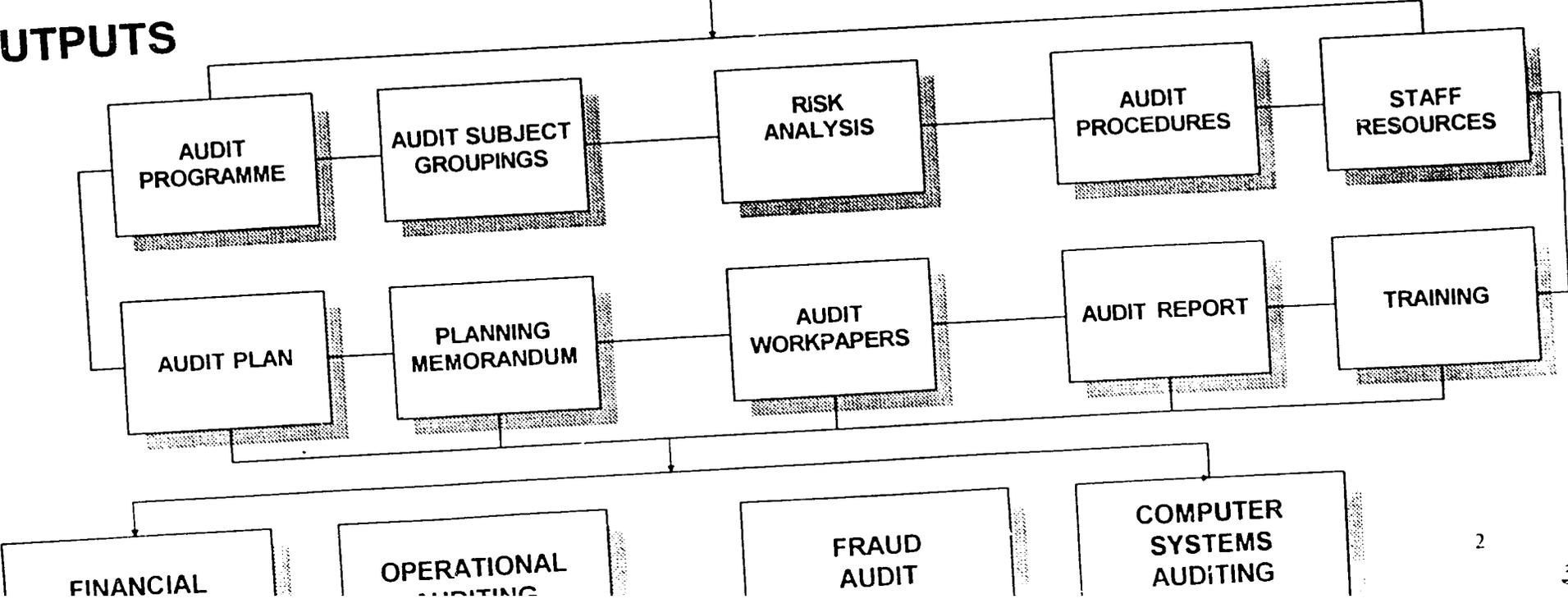
**TOTAL = 54 STAFF**

PROJECT PLAN - INTERNAL AUDIT

TASKS



OUTPUTS



## The Role of The Centralised Monitoring Group (New Function)

### General:

The basic function of this Group is to be 'the financial eyes and ears' of the Department, to gather financial intelligence, to be an important aide in risk monitoring, assessment and analysis, trend analysis etc. and to keep the audit department informed of such matters - the principal reason for this being that whilst the auditors are out in the field auditing they will not have much time to keep abreast of important matters happening elsewhere which might impact on their work either specifically or generally.

For example:

- an audit of Income & Expenses commenced on 1 January. On 4 January the Chief Auditor received a newly issued Bank Policy Directive on Bank Expenses covering approvals, documentation etc. The auditors in the field are not aware of this document but its contents clearly have an important bearing on their audit.
- some problems have been encountered in Branch A involving the accounting for Foreign Exchange. At the same time a team of auditors are auditing foreign exchange in Branch X.

In both instances the task here for the Centralised Monitoring Group would be to review both situations to appraise themselves fully of the facts and, if appropriate, to ensure that the auditors in the field are fully informed of any urgent matters so that they can adjust the scope of their audit accordingly.

### Task List: (Not exhaustive)

1. *Set up and maintain a system to receive regular e.g. monthly relevant financial data including consolidated Statement of Financial Condition, consolidated Profit & Loss statement, branch balance sheets, currency balance sheets, variance analyses, funding reports etc.*
2. *Review financial data and identify any unusual trends. Make comment and follow up as appropriate. Advise Chief Auditor &/or Audit Manager.*
3. *Carry out trend analysis especially relating to balances, business volumes, error statistics etc. Inform relevant Audit Manager so that he can follow up during the next audit or earlier as appropriate.*

4. *Develop, implement and maintain a system of bi-monthly phone calls to branch managers, important functional heads - the purpose of the phone calls is to ascertain if there are any special problems, issues or transactions etc. which the auditors should know about.*
5. *Review existing and new Bank policy documents. Identify any changes required in existing audit procedures, get approval to update the audit procedures, make the changes and disseminate changes especially to auditors in the field .*
6. *Review operations departments operating procedures and, if appropriate, prepare comments for the signature of the Chief Auditor.*
7. *Review departmental charts of organisation and advise the Chief Auditor or relevant Audit Manager of any appropriate matters which need to be followed up.*
8. *Review existing and new Czech & Slovak Regulations. Identify any changes required in existing audit procedures, get approval to update the audit procedures, make the changes and disseminate changes especially to auditors in the field .*
9. *Review audit workpapers at the end of each audit and identify any potential changes required in the audit procedures, obtain approval to make the changes, make the changes and disseminate.*
10. *Maintain files of permanent audit working papers.*
11. *Review audit workpapers at the end of each audit and identify any papers of a permanent nature which should be carried forward to the permanent papers file(s). Execute.*
12. *Regula-ly review appropriate financial journals to identify any matters which may have a bearing on the audits of the Bank. Disseminate as appropriate. For example published bank errors or frauds.*
13. *Establish & maintain a library of reference books, articles etc. relating to auditing, risk analysis etc*

### The Role of The Special Projects Group (New Function)

#### General:

The Special Projects Group can be described as the 'fire-fighting section' of the Internal Audit Department.

From time to time operating problems arise in the Bank requiring the assistance of in-house experts from one or more departments to help solve. Generally speaking internal auditors will tend to have a broader knowledge of the Bank's operations than any other group and in some ways could be looked upon as the 'knowledgeable elite'. Therefore, the basic function of this Group is to utilise the experience and logical mind of its trained auditors in giving assistance to the Bank in helping to solve special problems of a bank-wide nature as they arise. Also by taking part in these special project(s) the auditor(s) are representing the interests of the Internal Auditing Department by keeping a watching brief and by ensuring that the solutions taken are logical and effective and that the problem has been solved.

Also, from time to time problems of an urgent auditing nature arise and there are no auditors around as they are all on auditing assignments. Thus, the Special Projects Group affords the Internal Auditing Management with a measure of flexibility in its day to day operations.

#### Task List: (Not exhaustive)

1. *To provide a measure of flexibility to the Internal Audit Department in its day to day operations.*
2. *To provide technical, logistic and physical assistance to the Bank in special problematic situations as they arise either by managing special projects independently or as part of a bank-wide team.*
3. *To represent the interests of the Internal Auditing Department whilst involved in bank-wide projects.*

CSOB - INTERNAL AUDIT PROGRAMME - OVERALL

AUDIT SUBJECT	SHORT CODE	AUDIT CYCLE IN MONTHS	TOTAL MAN DAYS	RATING FROM LAST AUDIT	DATE OF LAST AUDIT	NEXT AUDIT		AUDIT TYPE
						1995	1996	
<b>BALANCE SHEET RELATED:</b>								
<b>Assets:</b>								
Office Organisation	OO	24	80					Full
Accounting & General Ledger	AC	24	160					Full
Balance Sheet Review	BS	24	80					Full
Income & Expense Statement Review	IE	24	80					Full
Foreign Exchange, FRA's, Options	FX	24	170					Full
Investments	TI	24	70					Full
Cash & Vault	CA	24	120					Full
Due From Central Bank	RE	24	100					Full
Minimum Reserves with CNB	MM	24	150					Full
Due from Banks	REMM	24	140					Full
Government Bills	TI	24	50					Full
Loans to Government Institutions	LA	24	20					Full
Commercial Loans	LA	24	240					Full
Loans & Advances								Full
Bills Discounted								Full
Letters of Credit								Full
Guarantees								Full
Leasing/Factoring								Full
Other Receivables from Customers	IIS	24	10					Full
Suspense Loans	LA	24	60					Full
Collection Items	IIS	24	2					Full
Other Receivables from Debtors	IIS	24	8					Full
Accrued Receivables	IE	24	80					Full
Receivables from Shareholders	IIS	24	4					Full
Receivables from Stock Exchange Subjects	IIS	24	2					Full
Securities Purchased	TI	24	50					Full
Investments	TI	24	150					Full
Placements with Foreign Branches	MM	24	40					Full
Tangible Property	FA	24	80					Full
Intangible Property	IIS	24	6					Full
Acquisition of Property	TI	24	30					Full
Special Transactions		24	20					Full
Sub-Total			2,002					

BEST AVAILABLE DOCUMENT

BEST AVAILABLE DOCUMENT

CSOB - INTERNAL AUDIT PROGRAMME - OVERALL

AUDIT SUBJECT	SHORT CODE	AUDIT CYCLE IN MONTHS	TOTAL MAN DAYS	RATING FROM LAST AUDIT	DATE OF LAST AUDIT	NEXT	AUDIT	AUDIT TYPE
						1995	1996	
<b>Liabilities:</b>								
Loans from Central Bank	IIS	24	50					Full
Liabilities to Financial Institutions	DA	24	40					Full
Deposits from Banks	CD	24	60					Full
Deposits from Gov't Institutions	IIS	24	60					Full
Commercial Deposits (incl Retail Banking)	IE	24	160					Full
Due to Customers - Other Balances	IE	24	60					Full
Certificates of Deposit Issued	CP	24	60					Full
Deposits from Domestic Branches		24	80					Full
Due to Other Creditors		24	40					Full
Accrued Payables		24	80					Full
Due to Stock Exchange Entities		24	20					Full
Unpaid Securities Liabilities		24	10					Full
Reserves		24	80					Full
Retained Earnings		24	50					Full
Capital		24	30					Full
Undivided Profits from Prior Periods		24	10					Full
Current Period Earnings		24	20					Full
Special Operations			20					Full
<b>Sub Total</b>			<b>930</b>					
<b>Non Balance Sheet Related:</b>								
Funding	FD	24	60					Full
Data Processing Developments (New Systems)	DPD	24	500					Full
Data Processing Security (Existing Systems)	DPS	24	900					Full
Communications	COM	24	100					Full
Funds Transfers	FT	24	60					Full
Personnel	PE	24	100					Full
Security of Premises	SEC	24	100					Full
Compliance with Bank Policy	CL	24	80					Full
Compliance with Czech & Slovak Laws & Regulations	CLR	24	120					Full
<b>SUB-TOTAL</b>			<b>2020</b>					
<b>Other:</b>								
Trend Analysis		Monthly	400					
Centralised Monitoring		Daily	600					
Fraud		Continuous	1,000					
Special Projects		Continuous	800					
<b>Sub Total</b>			<b>2,800</b>					
<b>GRAND TOTAL</b>			<b>7,752</b>					

ASSETS		Amount in CKcs	% of Total	Audit Short Code	Audit Cycle in Months	Total Man Days	Rating From Last Audit	Date Of Last Audit	Next Audit			Audit Type
Account Ref.	Account Description								1994	1995	1996	
11	CASH	3,493,226	2.32%			120						Full
12	Cash on Hand	3,092,868	2.05%	CA	24	120						Full
13	Gold	223,570	0.15%	CA	24							Full
14	Precious Metals	0	0.00%									Full
15	Other Liquid Assets	176,788	0.12%	CA	24							Full
16	<b>DUE FROM CENTRAL BANK</b>	<b>1,159,793</b>	<b>0.77%</b>			<b>70</b>						Full
17	Payment Accounts	1,159,793	0.77%	RE	24	20						Full
18	Other Placements	0	0.00%			50						Full
19	<b>MINIMUM RESERVES WITH CNB</b>	<b>2,768,089</b>	<b>1.84%</b>	CP	24	10						Full
20		0	0.00%									Full
21	<b>DUE FROM BANKS</b>	<b>30,248,252</b>	<b>20.07%</b>			<b>370</b>						Full
22	Current Accounts	4,021,414	2.67%	RE	24	80						Full
23	Time Placements	10,473,597	6.95%	MM	24	145						Full
24	Time Loans	15,753,241	10.45%	MM	24	145						Full
25		0	0.00%			0						Full
26		0	0.00%			0						Full
27		0	0.00%			0						Full
28	<b>GOVERNMENT BILLS</b>	<b>14,349,000</b>	<b>9.52%</b>	TI	24	100						Full
29		0	0.00%									Full
30	<b>LOANS TO GOVERNMENT INSTITUTIONS</b>	<b>1,700</b>	<b>0.00%</b>			<b>20</b>						Full
31		0	0.00%									Full
32		1,700	0.00%	TI	24	20						Full

CESKOSLOVENSKA OBCHODNI BANKA A.S. - CONSOLIDATED as at Close of Business 31 May 1994

ASSETS		Amount in CKcs	% of Total	Audit Short Code	Audit Cycle in Months	Total Man Days	Rating From Last Audit	Date Of Last Audit	Next Audit			Audit Type
Account Ref.	Account Description								1994	1995	1996	
33	<b>COMMERCIAL LOANS</b>	74,187,583	49.23%			220						Full
34	Current Accounts (Overdrawn)	7,857,486	5.21%	LA	24	40						Full
35	Short Term Loans for Comm Receivables	1,114,278	0.74%	LA	24	50						Full
36	Other Short Term Loans	20,634,743	13.69%	LA	24	50						Full
37	Medium Term Loans	8,720,392	5.79%	LA	24	40						Full
38	Long Term Loans	35,860,684	23.80%	LA	24	40						Full
39	<b>OTHER RECEIVABLES FROM CUSTOMERS</b>	201,401	0.13%	HS	24	8						Full
40	<b>SUSPENSE LOANS (Classified)</b>	5,053,535	3.35%			20						Full
41	Doubtful Loans	2,648,577	1.76%	LA	24	5						Full
42	Loan Losses	2,404,958	1.60%	LA	24	5						Full
43	Non Standard Loans	0	0.00%			5						
44	Other Classified Loans	0	0.00%			5						
45		0	0.00%									
46		0	0.00%									
47		0	0.00%			0						
48	<b>COLLECTION ITEMS</b>	276,534	0.18%	HS	24	2						Full
49		0	0.00%			0						Full
50	<b>OTHER RECEIVABLES FROM DEBTORS</b>	610,957	0.41%	HS	24	8						Full
51	<b>ACCRUED RECEIVABLES</b>	6,144,221	4.08%			80						Full
52	Future Expenses	98,610	0.07%	IE	24	30						Full
53	Future Income	3,114,608	2.07%	IE	24	30						Full
54		0	0.00%									Full
55	Foreign Exchange Accounts	20,534	0.01%	FX	24	10						Full
56	Other Foreign Exchange Accounts	2,910,469	1.93%	FX	24	10						Full
57	<b>RECEIVABLES FROM SHAREHOLDERS</b>	34,975	0.02%	HS	24	4						Full
58		0	0.00%			0						Full
59	<b>RECEIVABLES FROM STOCK EXCHANGE SUBJECTS</b>	109	0.00%	HS	24	2						Full

CESKOSLOVENSKA OBCHODNI BANKA A.S. - CONSOLIDATED as at Close of Business 31 May 1994

ASSETS		Amount in CKcs	% of Total	Audit Short Code	Audit Cycle in Months	Total Man Days	Rating From Last Audit	Date Of Last Audit	Next Audit			Audit Type
Account Ref.	Account Description								1994	1995	1996	
60		0	0.00%			0						
61	<b>SECURITIES PURCHASED</b>	4,584,143	3.04%			50						Full
62	<i>Securities Purchased on Account</i>	9,498	0.01%	TI	24	30						Full
63		0	0.00%									Full
64	<i>Fixed Interest Securities</i>	3,911,889	2.60%	TI	24	10						Full
65	<i>Shares/Securities with distinct Income</i>	662,756	0.44%	TI	24	10						Full
66		0	0.00%									Full
67	<b>INVESTMENTS</b>	1,953,611	1.30%			150						Full
68	<i>Investments with Major Influence</i>	1,622,973	1.08%	TI	24	75						Full
69	<i>Discretionary Investments</i>	330,638	0.22%	TI	24	75						Full
70	<b>PLACEMENTS WITH FOREIGN BRANCHES</b>	1,067,920	0.71%			40						Full
71	<i>Long Term Placements with Fgn.Branches</i>	1,067,920	0.71%	MM	24	40						Full
72			0.00%									Full
73	<b>TANGIBLE PROPERTY</b>	2,145,462	1.42%			80						Full
74	<i>Operational Property</i>	2,063,312	1.37%	FA	24	50						Full
75	<i>Non Operational Property</i>	82,150	0.05%	FA	24	30						Full
76		0	0.00%			0						
77		0	0.00%									
78		0	0.00%									
79	<b>INTANGIBLE PROPERTY</b>	20,155	0.01%	HS	24	6						Full
80	<b>ACQUISITION OF PROPERTY</b>	2,320,554	1.54%	FA	24	30						Full
81		63,765	0.04%	HS	24	2						Full
82		0	0.00%			0						
83		10,622	0.01%	HS	24	2						Full
84		0	0.00%			0						
88	<b>SPECIAL TRANSACTIONS</b>	218,061,410			24	20						
85	<b>GRAND TOTAL ASSETS</b>	150,695,607	100.00%			1,394						

CESKOSLOVENSKA OBCHODNI BANKA A.S. - CONSOLIDATED as at Close of Business 31 May 1994

LIABILITIES												
Account Ref.	Account Description	Amount in CKcs	% of Total	Audit Short Code	Audit Cycle in Months	Total Man Days	Rating From Last Audit	Date Of Last Audit	Next Audit			Audit Type
									1994	1995	1996	
89	Loans from Central Banks	826,303	0.55%			90						Full
90			0.00%									Full
91	Other Borrowings	491,300	0.33%	MM	24	50						Full
92		0	0.00%									Full
93	Refinanced Loans - Total	335,003	0.22%	DA	24	40						Full
94		0	0.00%									Full
95		0	0.00%									Full
96	Refinanced Loans	335,003	0.22%	DA	24	40						Full
97		0	0.00%									Full
98		0	0.00%									Full
99		0	0.00%									Full
100		0	0.00%									Full
101	Deposits from Banks	50,021,231	33.19%			50						Full
102	Current Accounts	3,161,394	2.10%	DDA	24	10						Full
103	Time Deposits	26,167,140	18.69%	MM	24	20						Full
104	Other Deposits	18,692,697	12.40%	MM	24	20						Full
105		0	0.00%									Full
106		0	0.00%									Full
107	Deposits from Govt. Institutions	5,077,727	3.37%			10						Full
108		0	0.00%									Full
109	Deposits non Budget Means	5,077,727	3.37%	MM	24	10						Full
110	Commercial Deposits	53,127,024	35.25%			65						Full
111	Current Accounts	29,941,491	19.87%	DDA	24	35						Full
112	Term Deposits	23,185,534	15.39%	DA	24	30						Full
113	Savings Accounts	0	0.00%									Full

CESKOSLOVENSKA OBCHODNI BANKA A.S. - CONSOLIDATED as at Close of Business 31 May 1994

LIABILITIES Account Ref.	Account Description	Amount in CKcs	% of Total	Audit Short Code	Audit Cycle in Months	Total Man Days	Rating From Last Audit	Date Of Last Audit	Next Audit			Audit Type
									1994	1995	1996	
114	Due to Customers - Other Balances	3,783,707	2.51%	DA	24	20						Full
115	Certificates of Deposit Issued	3,346,618	2.22%	CD	24	60						Full
116		0	0.00%									Full
117		0	0.00%									Full
118		0	0.00%									Full
119	Deposits from Domestic Branches	1,066,217	0.71%	MM	24	20						Full
120	Due to Other Creditors	25,171	0.02%	DA	24	10						Full
121	Accrued Payables	6,746,131	4.48%			390						Full
122	Future Expenses	1,483,013	0.98%	IE	24	60						Full
123	Future Income	18,430	0.01%	IE	24	160						Full
124		0	0.00%									Full
125	Foreign Exchange Operations Accounts	152,256	0.10%	FX	24	100						Full
126	Other Accounts	5,092,432	3.38%	FX	24	70						Full
127												Full
128	Due to Stock Exchange Entities	15,820	0.01%	HS	24	5						Full
129	Unpaid Securities Liabilities	225	0.00%			5						Full
130	Purchased Securities/Stock	225	0.00%	Ti	24	5						Full
131		0	0.00%									Full
132		0	0.00%									Full
133		0	0.00%									Full
134		0	0.00%									Full
135		0	0.00%									Full

ČESKOSLOVENSKÁ OBCHODNÍ BANKA A.S. - CONSOLIDATED as at Close of Business 31 May 1994

LIABILITIES		Amount in CKcs	% of Total	Audit Short Code	Audit Cycle in Months	Total Man Days	Rating From Last Audit	Date Of Last Audit	Next Audit			Audit Type
Account Ref.	Account Description								1994	1995	1996	
136	Reserves	11,335,548	7.52%			85						Full
137	Reserves Free of Taxes	8,483,751	5.63%	IE	24	45						Full
138	Other Reserves	2,851,797	1.89%	IE	24	40						Full
139	Retained Earnings	5,163,692	3.41%			40						Full
140	Legal Reserve Fund	5,105,000	3.39%	CP	24	25						Full
141	Other Reserve Funds	33,822	0.02%	CP	24	10						Full
142	Other Funds from Earnings	24,870	0.02%	CP	24	5						Full
143	Capital	5,105,000	3.39%	CP	24	15						Full
144		1,030,766	0.68%	HS	24	15						Full
145		0	0.00%									Full
146	Undivided Profits from Prior Periods	70,039	0.05%	CP	24	5						Full
147			0.00%									Full
148	Current Period Earnings	3,954,389	2.62%	IE	24	5						Full
152	Special Operations	218,061,410	144.70%									Full
149	<b>TOTAL LIABILITIES</b>	<b>150,695,607</b>	<b>100.00%</b>			<b>890</b>						

**CESKOSLOVENSKA OBCHODNI BANKA A.S. - 1995 AUDIT SCHEDULE**

	January					February				March				April				May				June				Total
	02	09	16	23	30	06	13	20	27	06	13	20	27	03	10	17	24	01	08	15	22	29	05	12	19	
<b>Prague H.O.</b>																										
<i>Plan</i>																										
<i>Actual</i>																										
<i>Difference</i>																										
<b>Brno</b>																										
<i>Plan</i>																										
<i>Actual</i>																										
<i>Difference</i>																										
<b>Ostrava</b>																										
<i>Plan</i>																										
<i>Actual</i>																										
<i>Difference</i>																										
<b>Plzen</b>																										
<i>Plan</i>																										
<i>Actual</i>																										
<i>Difference</i>																										
<b>C. Budejovice</b>																										
<i>Plan</i>																										
<i>Actual</i>																										
<i>Difference</i>																										

**CESKOSLOVENSKA OBCHODNI BANKA A.S. - 1995 AUDIT SCHEDULE**

	January					February				March				April				May					June				Total	
	02	09	16	23	30	06	13	20	27	06	13	20	27	03	10	17	24	01	08	15	22	29	05	12	19	26		
<b>H.Kralove</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>Liberec</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>Jablonec</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>Nachod</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>Teplice</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												

**CESKOSLOVENSKA OBCHODNI BANKA A.S. - 1995 AUDIT SCHEDULE**

	January					February				March				April				May				June				Total	
	02	09	16	23	30	06	13	20	27	06	13	20	27	03	10	17	24	01	08	15	22	29	05	12	19		26
<b>Bratislava</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Trencin</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Kosice</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Zilina</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											

**CESKOSLOVENSKA OBCHODNI BANKA A.S. - 1995 AUDIT SCHEDULE**

	July					August				September				October					November				December				Total	
	03	10	17	24	31	07	14	21	28	04	11	18	25	02	09	16	23	30	06	13	20	27	04	11	18	25		
<b>Prague H.O.</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>Brno</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>Ostrava</b>																												
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<i>Actual</i>																												
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<b>Plzen</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												
<b>C. Budejovice</b>																												
<i>Plan</i>																												
<i>Actual</i>																												
<i>Difference</i>																												

**CESKOSLOVENSKA OBCHODNI BANKA A.S. - 1995 AUDIT SCHEDULE**

	July					August				September				October				November				December				Total	
	03	10	17	24	31	07	14	21	28	04	11	18	25	02	09	16	23	30	06	13	20	27	04	11	18		25
<b>H.Kralove</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Liberec</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Jablonec</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Nachod</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											
<b>Teplice</b>																											
<i>Plan</i>																											
<i>Actual</i>																											
<i>Difference</i>																											

**CESKOSLOVENSKA OBCHODNI BANKA A.S. - 1995 AUDIT SCHEDULE**

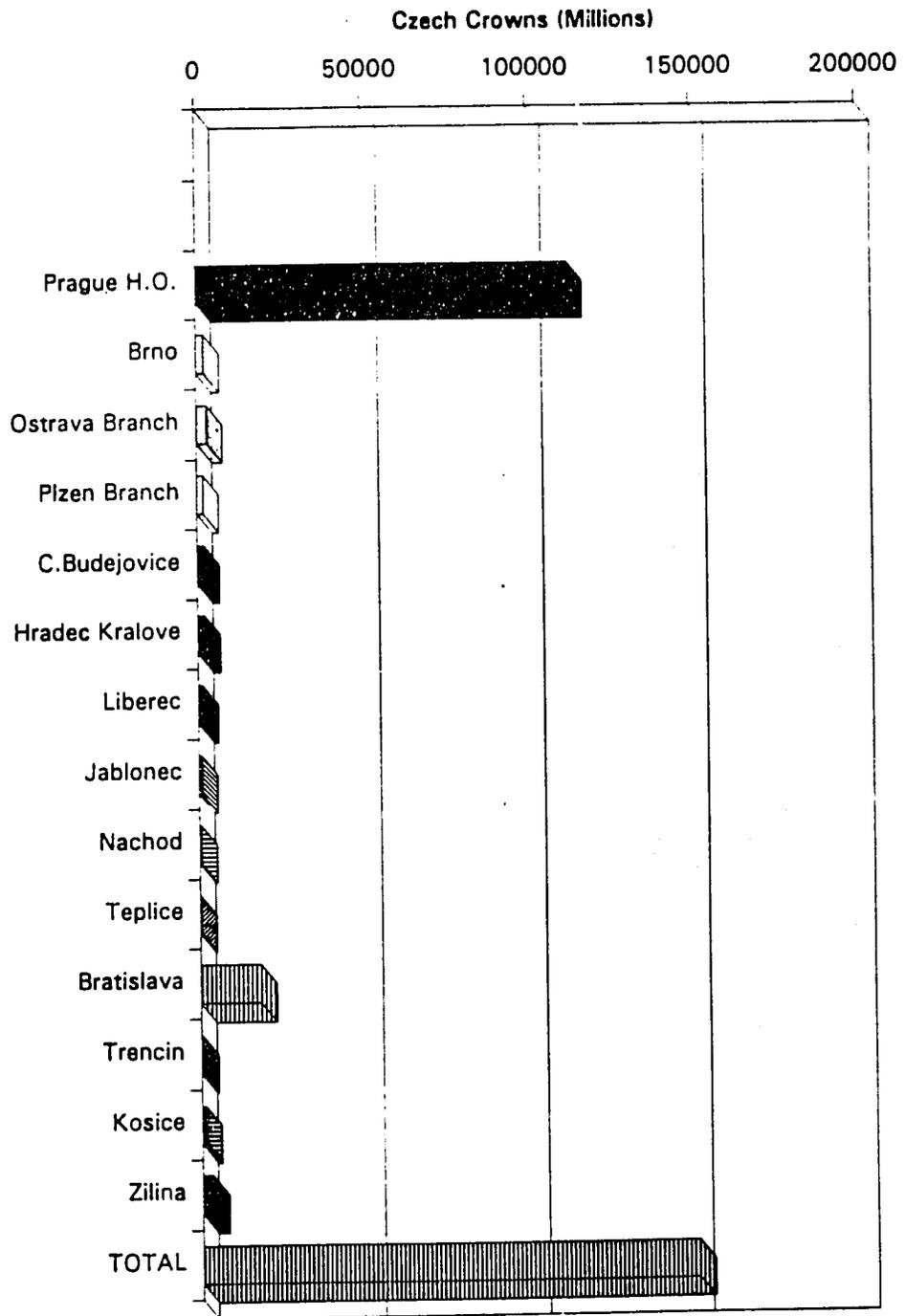
	July					August				September				October					November				December				Total		
	03	10	17	24	31	07	14	21	28	04	11	18	25	02	09	16	23	30	06	13	20	27	04	11	18	25			
<b>Bratislava</b>																													
<i>Plan</i>																													
<i>Actual</i>																													
<i>Difference</i>																													
<b>Trencin</b>																													
<i>Plan</i>																													
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<i>Difference</i>																													
<b>Kosice</b>																													
<i>Plan</i>																													
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<i>Difference</i>																													
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<i>Plan</i>																													
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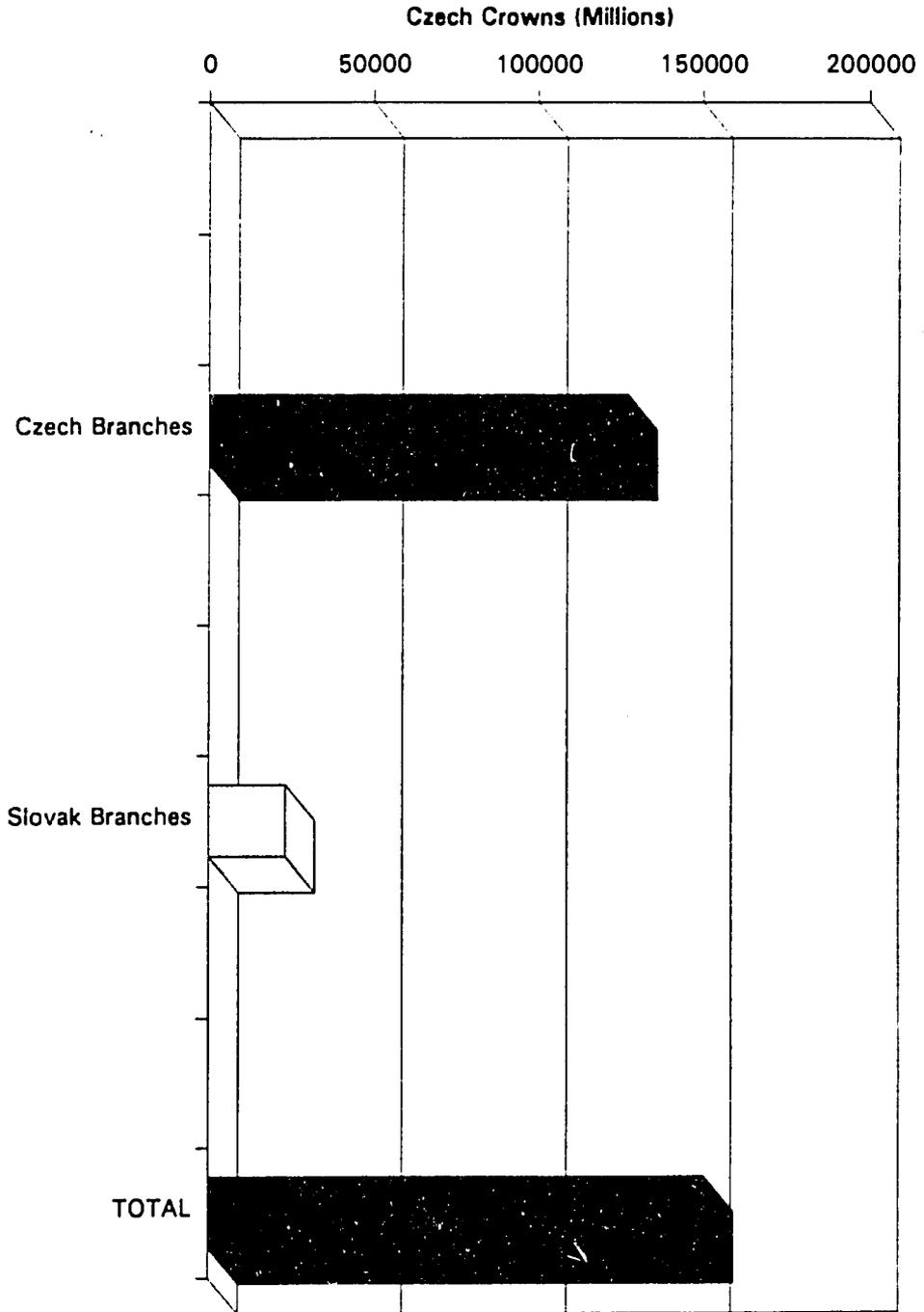
**SECTION II**

**ASSETS:**

Total consolidated assets as at close of business 31 May 1994 were Czech Crowns (CZK's) as follows:

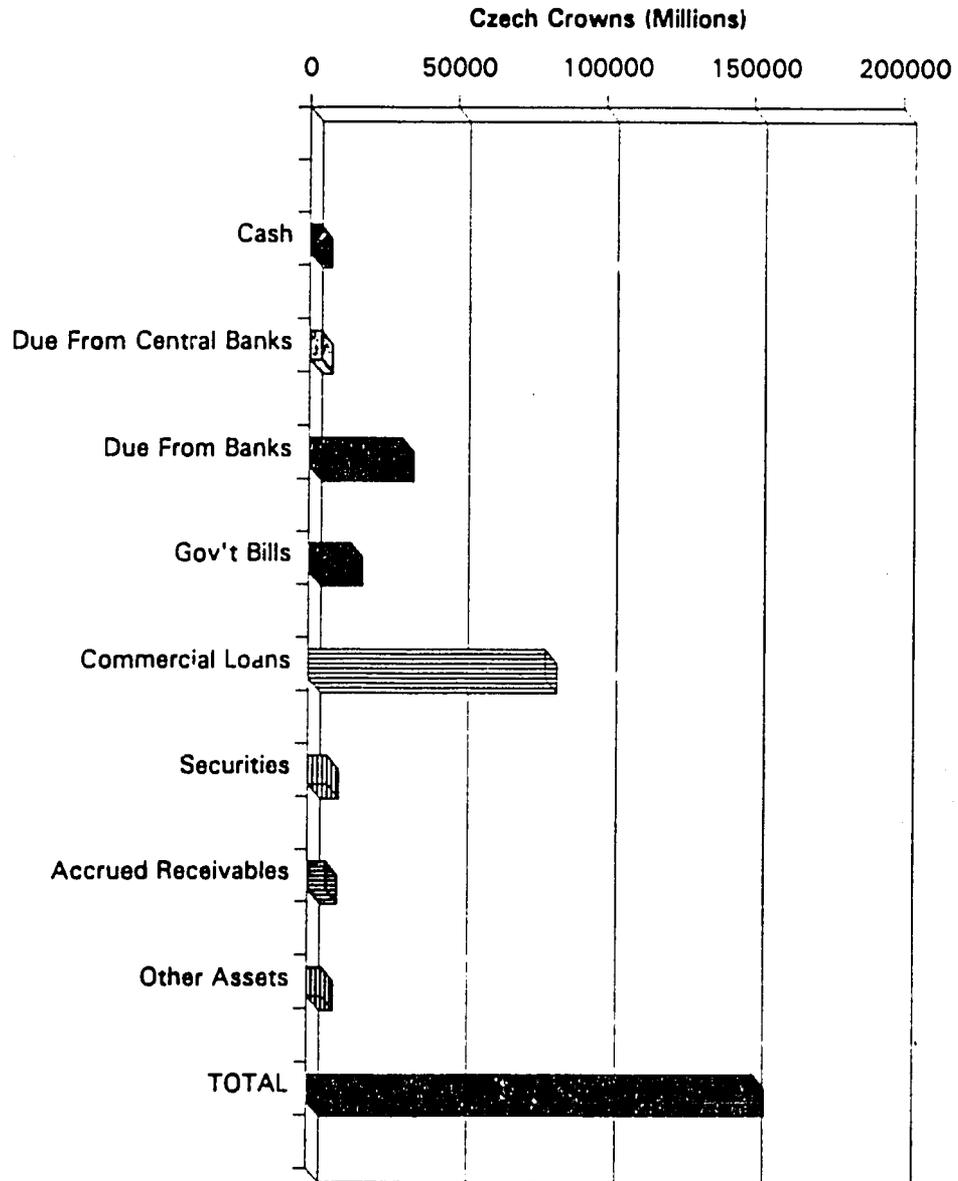
<i>BRANCH</i>	<i>CZK's (Millions)</i>	<i>%</i>
<i>Czech Branches:</i>		
- Prague Head Office	112,496	74.65
- Brno Branch	2,300	1.53
- Ostrava Branch	3,217	2.13
- Plzen Branch	1,911	1.27
- C.Budejovice Branch	2,073	1.38
- Hradec Kralove Branch	2,232	1.48
- Liberec Branch	1,306	.87
- Jablonec Branch	987	.65
- Nachod Branch	712	.47
- Teplice Branch	254	.17
<i>Sub-Total</i>	127,488	84.60
<i>Slovak Branches:</i>		
- Bratislava Branch	18,256	12.11
- Trencin Branch	373	.25
- Kosice Branch	1,231	.82
- Zilina Branch	3,347	2.22
<i>Sub-Total</i>	23,207	15.40
<b>TOTAL</b>	150,695	100.00





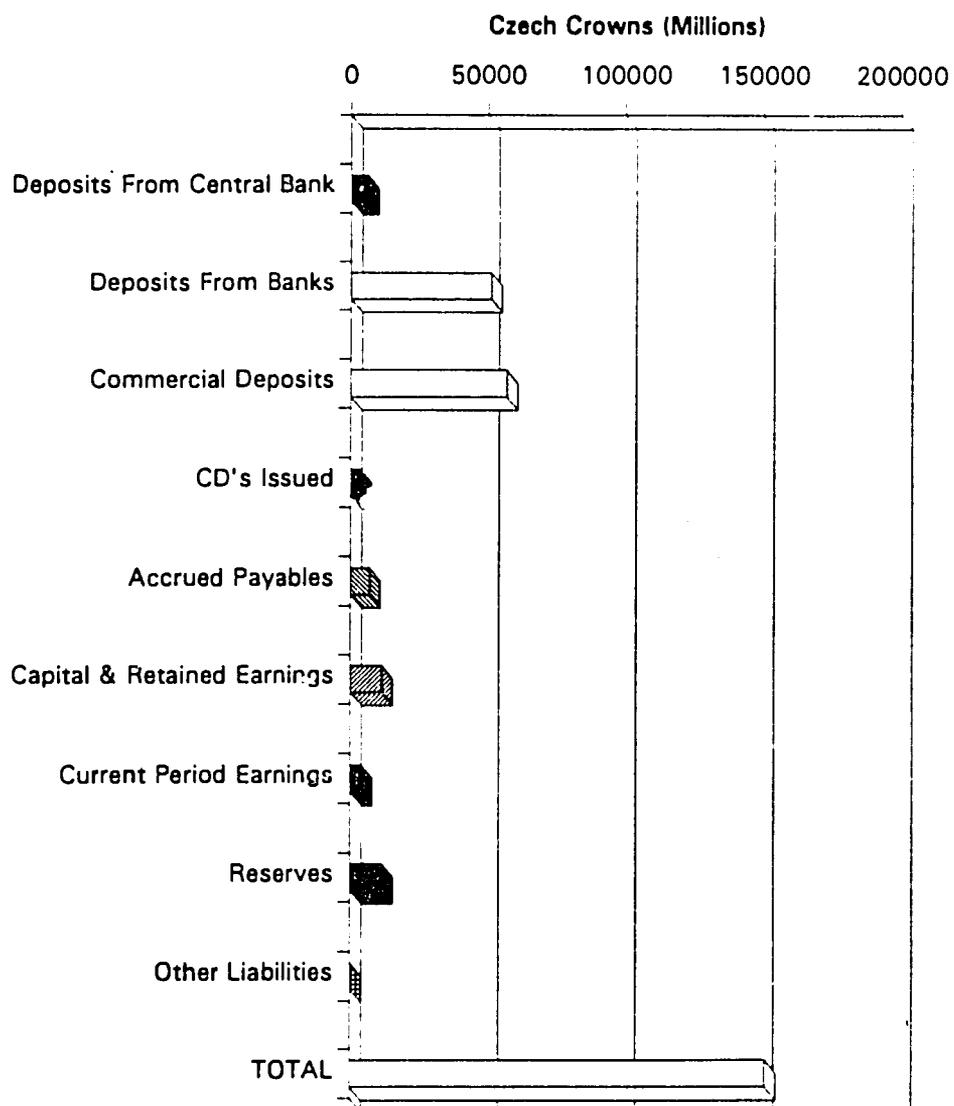
STRUCTURE OF CONSOLIDATED ASSETS

	<i>CZK's (000's)</i>	<i>%</i>
<i>Cash</i>	3,493,226	2.32
<i>Due From Central Banks/Reserves</i>	3,927,882	2.61
<i>Due From Banks</i>	31,316,172	20.78
<i>Government Bills</i>	14,349,000	9.52
<i>Commercial Loans</i>	80,055,175	53.12
<i>Securities Purchased/Investments</i>	6,537,754	4.34
<i>Accrued Receivables</i>	6,144,221	4.08
<i>Other Assets</i>	4,872,176	3.23
<b>TOTAL</b>	<b>150,695,606</b>	<b>100.00</b>



STRUCTURE OF CONSOLIDATED LIABILITIES

	CZK's (000's)	%
<i>Deposits from Central Bank/Govt. Institutions</i>	5,904,030	3.92
<i>Deposits from Banks</i>	51,087,448	33.90
<i>Commercial Deposits</i>	56,910,731	37.77
<i>CD's Issued</i>	3,346,618	2.22
<i>Accrued Payable</i>	6,746,131	4.48
<i>Capital &amp; Retained Earnings</i>	11,369,497	7.54
<i>Current Period Earnings</i>	3,954,389	2.62
<i>Reserves</i>	11,335,548	7.52
<i>Other Liabilities</i>	41,216	.03
<b>TOTAL</b>	<b>150,695,608</b>	<b>100.00</b>



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**SECTION III**

**OVERALL AUDIT OBJECTIVES:**

- √ Integrity of Statement of Financial Condition
- √ Integrity of Statement of Income & Expenses
- √ Risk Sensitive to the Bank's Business Activities
- √ Flexible to Meet Changing Business Activities & Environment
- √ Adoption of Best International Auditing Practices & Standards
- √ Meets the Needs of Senior Management
- √ Reduction in External Audit Fees

**OPERATIVE AREAS:**

- √ IBIS Computerised Accounting System
- √ Balance Sheet Related Activities
- √ Non-Balance Sheet Related Activities

**A MAIN FOCUS:**

- √ Accounting & General Ledger
- √ IBIS Generated Audit Trails
- √ Foreign Exchange & Money Market Activities  
(including FRA's, Currency Options)
- √ Funding Risks & Liquidity (Exposure to Interest Rate Risks)
- √ Securities & Investments Activities
- √ Lending Activities:
  - Loans & Advances;
  - Bills of Exchange;
  - Bills Discounted;
  - Letters of Credit;
  - Guarantees Issued;
  - Leasing;
- √ Cash Area & Vault
- √ Deposit taking Activities (Retail Banking)
- √ Fixed Assets
- √ Nostro Accounts Reconciliations
- √ Data Processing Developments (New Systems)
- √ Data Processing Security (Existing Systems)

**PLANNED RESULTS:**

- √ Adequate Separation of Duties, Roles & Responsibilities
- √ Identification of Appropriate Internal Controls covering all Activities
- √ Ensuring that Internal Controls are in place and are Effective
- √ Operational Security:
  - All transactions booked;
  - All transactions booked correctly;
  - All transactions booked on a timely basis;
- √ All Sources of Income & Revenues Identified and Documented
- √ All Income & Revenues Received on a Timely Basis
- √ All Income & Revenues booked to the Appropriate Accounts
- √ All Operating Expenses Adequately Approved and Booked to the Appropriate Accounts
- √ Compliance with Bank Policies & Directives
- √ Compliance with the Laws & Regulations of the Czech & Slovak Republics

**SECTION IV**

**PRINCIPLES OF INTERNAL CONTROL  
AN OVERVIEW**

**BACKGROUND:**

The basic trading commodity of any bank or financial institution is money and, potentially, banks are exposed to monetary loss through a deterioration in a customer's credit worthiness, operating errors or defalcation and fraud. In order to mitigate against these potential exposures banks need to establish a system of "Internal Controls" with the following principal features and objectives:

**INTERNAL CONTROLS:**

- to prevent errors and irregularities;
- to detect, identify, correct and report on errors and irregularities;

**QUALITY CONTROLS:**

- to promote, improve and maintain operating efficiencies;
- to ensure the accuracy and financial and other integrity of outputs and reports to management;

**MANAGEMENT CONTROLS:**

- to develop and establish standards and performance criteria;
- to develop a logical and effective system for measuring financial performance and for allocating revenues and costs;
- to monitor and report on financial performance;

**SEPARATION OF DUTIES:**

A basic tenet or principle of control is the separation of duties concept which stipulates that to the extent possible, no one individual should control a transaction from inception to completion. Or in other words the maker and checker routine.

**RISKS:**

To be effective, any system of Internal Controls should, in the first instance, revolve around the balance sheet and should take into account the risks inherent in the various business activities which are expressed in the accounts and financial statements. The principal risks can be defined as:

*Financial:* e.g. Interest Rate Risk; Credit Risk; Currency Risk; Funding Risk, Liquidity Risk;  
*Product Based;*  
*Staffing (Human Resources);*  
*Systems (Technology);*

**AN APPROACH TO INTERNAL AUDITING  
&  
ACCOUNTING CONTROL**

√ **STEP I:**

Identify the principal activities in each operating function of the Bank and define and document the control objectives related to these activities

√ **STEP II:**

Identify the system attributes and procedures which contribute to the achievement of the control objectives, or identify the deficiencies which prevent the control objectives from being achieved

√ **STEP III:**

Evaluate whether the identified system attributes and procedures provide reasonable assurance that the control objectives are achieved

## **BASIC OPERATING FUNCTIONS OF THE BANK**

A framework for completing *Step I* will be provided by dividing the Bank into the following six basic operating functions and by defining the typical control objectives related to the activities of each function.

- √ Administration (Control & support of Functional Activities)
- √ Lending (Extensions of Credit)
- √ Investments (Managing Liquidity and Secondary Utilisation of Funds)
- √ Fiduciary & Other Services (Providing non-funds related services)
- √ Financial (Managing non-deposit Funds)
- √ Operations (Processing & Control of Transactions)

**I. ADMINISTRATION  
(Control and Support of Functional Activities)**

- \* Plan of Organisation
- \* Policies and Procedures
- \* Internal Audit
- \* Branch/Subsidiary Bank Administration
- \* Laws & Regulations
- \* Information Systems:
  - Budgets;
  - Responsibility Centres & Cost Accounting Systems;
  - Operating Analyses;
  - Financial reporting;
  - Regulatory reporting;
- \* Security & Physical Safeguards
- \* Reconciliation of Detailed Records to Control Accounts
- \* Reconciliation of Physical Assets to Accounting Records
- \* Advertising & Promotion of the Bank and its Services
- \* Acquisition of Deposits
- \* Salaries & Wages:
  - Hiring of Staff & Terminating Staff;
  - Wages & Salary Administration;
  - Fringe Benefits;
  - Preparation of Payroll;
  - Recording of all Transactions;
- \* Bank Premises & Equipment
- \* Tax Planning & Administration
- \* External Audit

**II. LENDING**  
**(Extensions of Credit)**

- \* Analysis of Credit Risk
- \* Review of Credit Risk
- \* Authorisation of Credit & Terms
- \* Recording of Transactions
- \* Billing and Collection of Principal & Interest
- \* Valuation of Collateral & Security
- \* Security & Physical Safeguards

**III. INVESTMENTS**  
**(Managing Liquidity and Secondary Utilisation of Funds)**

- \* Investment Securities, Trading Account Securities and Money Market Funds:
  - Authorisations;
  - Recording of Transactions;
  - Income Recognition;
  - Valuations;
  - Security & Physical Safeguards;
- \* Foreign Exchange:
  - Authorisations;
  - Recording of Transactions;
  - Income Recognition;
  - Valuations;
- \* FRA's & Other Derivatives:
  - Authorisations;
  - Recording of Transactions;
  - Income Recognition;
  - Valuations;

**IV. FIDUCIARY & OTHER SERVICES**  
**(Providing non-funds related Services)**

- Trust Services:
  - Authorisations;
  - Recording of Transactions;
  - Billing & Collection of Fees;
  - Security & Physical Safeguards
- Safekeeping
- Safe Deposits
- Collection Items
- Travellers Cheques, Bureau de Change etc.
- Letters of Credit
- Mortgage Loan Servicing
- Other Services

**V. FINANCIAL  
(Managing non-deposit Funds)**

- \* Borrowed and Purchased Funds & Leases:
  - Authorisations;
  - Compliance;
  - Recording of Transactions;
- \* Equity:
  - Authorisations;
  - Compliance;
  - Issuance;
  - Recording of Transactions;
- \* Investments in and advances to/from Branches, Subsidiaries & Other Affiliates:
  - Authorisations;
  - Recording of Transactions;
  - Valuations;

**VI. OPERATIONS**  
**(Processing & Control of Transactions)**

- \* Cash - security & physical safeguards
- \* Corporate Disbursements:
  - Authorisations;
  - Recording of all Transactions;
- \* Deposits in other Banks:
  - Authorisations;
  - Recording of all Transactions;
- \* Interest on Deposit Accounts:
  - Authorisations;
  - Recording of all Transactions;
- \* Service Charges on Deposit Accounts:
  - Authorisations;
  - Recording of all Transactions;
- \* Transactions Processing:
  - Authorisations;
  - Recording of all Transactions;
  - Daily Balancing, Periodic Proofs, Reconcilements etc.

**RISK PROFILE:**

√ System Attributes and Procedures to Consider

√ What can go wrong

- errors

- irregularities

**LENDING:**

- √ Lending Arrangements require Authorisation of Credit and Terms (Authorisation)
- √ Lending Arrangements are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Potentially Uncollected Accounts are Promptly Identified, Evaluated and Provided for (Valuation) and Known Uncollectible Accounts are Charged Off with Proper Authorisation (Authorisation, Recording)
- √ Transactions Involving Real Estate and Other Repossessed Property are Authorised, Evaluated and Recorded Correctly as to Account, Amount and Period (Authorisation, Recording, Valuation)
- √ Interest, Loan Fees and Other Charges are Billed to Customers in the Correct Amount (Authorisation, Recording)
- √ Interest, Loan Fees and Other Charges are Recorded Correctly as to Account, Amount and Period (Recording)

**INVESTMENTS:**

- √ Investment, Trading Account and Money Market Transactions are Authorised and Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)
- √ Income Earned on Investments, Trading Account Securities and Money Market Funds is Correctly Recorded as to Account, Amount and Period (Recording)
- √ Loss in Value of Investments is Promptly Detected and Provided For (Valuation, Recording)
- √ Physical Loss or Misuse of Investments is Prevented or Promptly Detected (Safeguarding, Reconciliation)
- √ Foreign Currency Transactions and Foreign Exchange Futures and Other Derivative Contracts are Authorised and Recorded Correctly as to Account, Amount and Period and Timely Revaluations are Made Using Appropriate Rates (Authorisation, Recording, Valuation)

**FIDUCIARY AND OTHER SERVICES:**

- √ Trust Department Procedures Provide for Compliance with Provisions of Trust Agreements (Authorisation, Safeguarding)
- √ Trust Department Assets are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Trust Fees are Billed in the Correct Amount (Authorisation, Recording)
- √ Trust Fees are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Physical Loss or Misuse of Trust Department Assets is Prevented or Promptly Detected (Safeguarding, Reconciliation)
- √ Fees for Other Services are Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)

**FINANCIAL:**

√ Transactions Involving Borrowed or Purchased Funds, Leases and Other Obligations and Related Expenses are Authorised and Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)

√ Equity Transactions are Authorised and Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)

√ Investments In and Advances to/From Branches, Subsidiaries and Other Affiliates are Authorised and Recorded Correctly as to Account, Amount and Period (Authorisation, Recording, Valuation)

**OPERATIONS:**

- √ Physical Loss of Cash is Prevented or Promptly Detected (Safeguarding, Reconciliation)
- √ Cash Disbursements are for Goods or Services Authorised and Received (Authorisation, Safeguarding)
- √ Cash Disbursements are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Due From Bank Transactions are Authorised and Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)
- √ Transactions Processed by Tellers are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Loan Disbursements are Properly Authorised (Authorisation)
- √ Withdrawals from Deposit Accounts are Properly Authorised (Authorisation)
- √ Customer Initiated Transactions Affecting Loans and Deposits are Properly Applied to Subsidiary and Other Accounts (Recording)
- √ Documents Entering the Accounting/Proofing Department are Controlled and Balanced (Authorisation, Recording, Reconciliation)
- √ Interest on Deposits is Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)
- √ Service Charges on Deposit Accounts are Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)

**ADMINISTRATION:**

- √ Salaries, Wages and Benefit Expenses are Incurred Only for Work Authorised and Performed (Authorisation)
- √ Salaries, Wages and Benefits are Calculated at the Proper Rate (Authorisation)
- √ Salaries, Wages, Benefits and Related Liabilities are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Other Expenses and Related Liabilities are Incurred Only with Proper Authorisation (Authorisation)
- √ Other Expenses and Related Liabilities are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Provisions for Income Taxes and Related Assets and Liabilities are Recorded Correctly as to Account, Amount and Period (Authorisation, Recording)
- √ Commitments and Contingencies are Identified, Monitored and if Appropriate, Recorded (Recording, Valuation)
- √ Amortisation or Loss in Value of Intangibles is Recorded Correctly as to Account, Amount and Period (Recording, Valuation)
- √ Bank Premises and Equipment Transactions are Made Only with Proper Authorisation (Authorisation)
- √ Bank Premises and Equipment Transactions and Depreciation are Recorded Correctly as to Account, Amount and Period (Recording)
- √ Physical Loss of Bank Premises and Equipment is Prevented or Promptly Detected (Safeguarding, Reconciliation)
- √ Physical Loss or Misuse of Items for which the Bank is Accountable to Others is Prevented or Promptly Detected (Safeguarding, Reconciliation)

**CONTROL OBJECTIVES:**

Five general control objectives will apply to any type of transaction or account.  
These are:

- √ Authorisation
- √ Recording
- √ Safeguarding
- √ Reconciliation
- √ Valuation

**I. Authorisation:**

All transactions must be executed in accordance with management's intentions. Authorisations may be *general* and apply to a large number of similar transactions, or they may be *specific*. General authorisations are granted by establishing policies such as officer lending limits, customer credit limits, or ranges of interest rates.

Specific authorisations are required if management has not given general approval. For example, management may decide that all loans over a certain figure requires approval by three approvers.

**II. Recording:**

All authorised transactions are recorded in the correct amounts, in the appropriate accounting period and in the appropriate accounts and sub-accounts. No fictitious transactions are recorded.

**III: Safeguarding:**

Responsibility for physical custody of assets should be assigned to specific individuals who are independent of the related record-keeping functions. Physical and direct access to assets should be limited to designated personnel (e.g. only tellers have access to cash) and indirect (paperwork) access to assets should be limited to those who are properly authorised. Safeguarding should also be achieved through physical precautions (e.g. locked filing cabinets for unused bank drafts and fire-proof vaults for the protection of securities, collateral etc.)

**IV. Reconciliation:**

Records are regularly compared with physical assets, documents, or control accounts (e.g. periodic reconciliation of investment securities to detailed records, control accounts etc.) The nature and amount of any differences must be determined and appropriate adjustments recorded.

**V. Valuation:**

Recorded amounts are regularly reviewed for impairment in value and write-offs or other adjustments must be recorded as appropriate and in accordance with generally accepted accounting principles.

## **AUDITING PRINCIPLES & STANDARDS**

A major responsibility of the Bank's Board of Directors is the establishment of proper internal controls to protect its customers, shareholders, directors and staff. The execution of this responsibility requires a professionally competent internal auditor who is responsible for an audit programme which, in effect, is a managerial control within the Bank.

Internal auditing has as its basic purpose the prevention and detection of loss. To be fully effective, the audit programme and its administration must have management support of its freedom to review, examine and appraise independently all the Bank's activities and procedures. Effective auditing means more than just an examination and verification of, and recommendations for, proper internal controls as well as the review of compliance with laws, regulations and policies. At the same time, sound practice requires that the cost and extent of internal auditing should be commensurate with the risks involved.

The auditor must serve in a staff relationship without authority or direct control over the staff and departments whose work he reviews. Moreover, the review and appraisal of the work of others does not relieve them of their own assigned responsibilities. The auditor must have complete independence in carrying out the audit programme and in reporting his findings. He should be administratively responsible to a senior officer at the executive management/policy making level and normally should send copies of his reports to the Bank's Chief Executive Officers and other senior managers as appropriate. When in his judgement the best interest of the Bank demands it, the auditor should be free to report not only to executive management but also to the Board of Directors and/or an Audit Committee.

### **STANDARDS for EVALUATING INTERNAL AUDIT & CONTROL PROCEDURES**

The following statements will establish the criteria by which principles can be properly translated into action and the results evaluated.

*Internal Controls:* Internal Controls referred to herein consist of checks and balances built into the operating procedures of the Bank. They exclude administrative controls such as cost and quality controls, time and motion studies etc. Policies and procedures on internal controls should be in writing. The auditor is responsible for reviewing the controls and procedures for adequacy and compliance.

The auditor should review all changes in operating procedures to make sure that proper and adequate internal controls are built-in. For objectivity he should not install procedures, originate or approve entries or otherwise engage in any activity that he would be expected to review or appraise.

The auditor also has a responsibility to acquire sufficient knowledge of electronic data processing systems and techniques to assure himself that adequate controls are incorporated in all systems in use and planned. He must keep himself of any programme modifications so that he can establish, if appropriate, that suitable controls are maintained at all times.

As a minimum, an internal control programme should include the following:

*Separation of Duties:* No one individual should control a transaction from inception to completion.

*Vacation Policy:* To be effective, vacation policy requires a minimum time each year away from the job - vacation, training course, military service etc. The recommended minimum period is two weeks.

*Rotation of Duties:* On a periodic basis e.g. every two years, employees should be assigned to different jobs.

*Dual Controls:* Dual control is an important aspect of internal control. It should include the physical handling or custody of all cash, quasi-cash and securities in the strong room, loan collateral etc. Dual control of assets held by other depositories should be exercised through a dual signature arrangement i.e. 2 individuals must sign. Dual control procedures should also include sensitive areas such as dormant accounts.

*Accrual Accounting:* Accrual accounting of income and expenses facilitates a more accurate determination of current profits. It also provides an important control over the actual receipt of income and the payment of expenses.

*The Internal Audit Programme:* In order to meet its proper objectives, the internal audit programme should include:

⇒ A determination that:

- the accounting and other records of the Bank are accurate;
- transactions are promptly and properly recorded in the accounts;
- assets are adequately safeguarded and properly recorded in the financial reports and statements;
- liabilities are fully disclosed and accounted for;
- collateral and other non-ledger items are properly recorded and protected by effective custodial controls;

⇒ A review of:

- the adequacy and effectiveness of written procedures covering the accounting, reporting, operations, credit and treasury functions;
- compliance with applicable Czech & Slovak rules and regulations;
- compliance with Bank policies as established by management and/or the Board of Directors;
- the accounting for and controls over the receipt of income;
- expenses to determine that they are authorised, correct as to amount and consistent with bank policy;

- the performance of personnel in accomplishing assigned internal control functions and responsibilities;
  - loan losses, operating losses and charge offs and efforts made to recover these funds;
  - signing and other authorities granted to members of the organisation to approve and make loans, sign official checks, bank drafts and payment orders, internal accounting entries, letters of authorisation, title deeds transfers and any other legal or accounting document to ensure compliance with established policies;
  - the administration and operation of personal and trust accounts and the validity of action taken by authority granted under the trust instruments;
  - any pending litigation affecting the Bank including a determination of whether or not legal opinion or advice of counsel has been obtained and is on record.
- 
- ⇒ An examination and test of the reliability of the accounting procedures and the accuracy of the resulting reports and financial statements.
  - ⇒ An examination and test of the income and expense accruals.
  - ⇒ An examination and test of the contingent accounts.
  - ⇒ An audit of loans including loan collateral and a verification that all loans have been properly approved. A loan review/credit review unit is utilised by some banks as a means of monitoring and maintaining the quality of the loan portfolio.
  - ⇒ An evaluation of all insurance policies in force.
  - ⇒ The utilisation of generally accepted verification and confirmation techniques e.g. positive and negative confirmations and circularisation programmes.
  - ⇒ The preparation of proper, logical and complete sets of working papers covering each audit.

*Qualifications of the Auditor:* The qualifications of the auditor will have a direct bearing on the adequacy of any internal audit and control programme. The job specifications for a good auditor call for an unusual combination of personal qualities. The auditor needs mature judgement, integrity, imagination, initiative, courage and a high degree of objectivity and skill in personal relationships. His educational background should include accounting concepts and the theory and practice of banking and banking products.

*Professionalism & Maturity:* The auditor should be a professional who performs in a specialised technical environment. This professionalism should be characterised by maturity, discipline and competence. Conduct and appearance should reflect the standards of a professional person capable of exercising mature judgement.

*Competence:* The auditor must possess the knowledge and skill required to fulfil the responsibilities of the audit function. He must:

- ⇒ understand and apply the Bank's Standards and Policies in performing his audit functions;
- ⇒ be able to apply appropriate auditing skills and techniques to specific audit assignments;
- ⇒ develop and maintain a working knowledge of relevance technical subjects;
- ⇒ exercise sound judgement;

## **DEFINITION OF AN AUDIT**

An audit can be said to be such an examination of the system of internal controls and operating procedures and the books, accounts and vouchers of a business, as will enable the auditor to report whether he is satisfied that an adequate system of internal control is in place and is effective; that the balance sheet and statement of income & expenses are correct, properly drawn up and give a true and fair view of the state of the business for the financial period under review, based on an analysis of the best information and explanations given and as supported by the accounting and other records; and if this is not the case the auditor must give a report as to which aspects are not satisfactory together with recommendations for correction.

## **OBJECTIVES OF AN INTERNAL AUDIT**

**(i) The Audit Report**

As stated above, the main objective of an audit is to assess and give an opinion on the system of internal controls by means of a report. Other objectives include:

**(ii) The Detection of Errors**

The detection of errors is a matter of considerable importance arising from an audit and it is important for the auditor to examine carefully the cause of any errors, analyse and assess and to make appropriate recommendations

**(iii) The Detection of Fraud**

The detection of fraud is another important function of any audit. Fraud may be divided into:

- defalcations, involving mis-appropriation of money or goods
- the fraudulent manipulation of accounts not involving defalcation

The auditor, therefore, must pay particular attention to those type of transactions which offer opportunities for collusion and fraud, especially cash transactions and the pay-away of funds

## **INTERNAL AUDIT - A MISSION STATEMENT**

From the foregoing, a typical mission statement of an internal auditor would be "to protect the interests and assets of the Corporation and its shareholders" by carrying out a series of checks and reviews of records, reports, balances and accounts to determine whether the system of internal control is adequate and effective.

## **RESPONSIBILITY OF THE CHIEF INTERNAL AUDITOR**

### **INTRODUCTION**

Internal Auditing is an independent inter-organisational appraisal function which carries out regular reviews of operations and other activities as a service to management. Internal auditing is a management control whose function is to measure, evaluate and report on the effectiveness of other controls.

The principal objective of the internal auditing function is to assist all members of management in the effective discharge of their responsibilities, by providing them with regular analyses, appraisals, recommendations and pertinent comments concerning the banking activities reviewed. The realisation of this objective involves:

- reviewing and appraising the soundness, adequacy and application of the system of internal control;
- ascertaining that the assets of the Bank and its customers are safeguarded;
- determining that transactions are processed on a timely basis and in accordance with generally accepted accounting principles;
- ascertaining the extent of compliance with established procedures, management policies and regulatory requirements;

### **RESPONSIBILITY**

The responsibilities of the Internal Audit Function must be clearly established and defined in the Bank's bye-laws. It should be management's policy that the Chief Internal Auditor conducts audits of CSOB and its subsidiaries and that he reports his findings to line management, and the Board of Directors and the Audit Committee, as appropriate. In order to discharge these responsibilities effectively, the auditor must have full and unrestricted access to all the Bank's records, properties and personnel relevant to any examination being undertaken and be free to review all policies, plans, budgets, transactions, policies and procedures.

Responsibility for the development, implementation and enforcement of the system of internal control rests with management at all levels. In performing his duties, the internal auditor has no direct responsibility over any of the activities which he reviews. In other words, the internal auditor's review and appraisal does not in any way relieve management of their responsibilities.

## INDEPENDENCE

Independence is essential for the effective performance of the internal audit function. Independence is obtained primarily through appropriate organisational relationships, but also requires the objectivity of the auditor. This implies that:

- The chief internal auditor should have direct access to the Board of Directors and the Audit Committee;
- The Auditing Division must be independent from the areas it audits. The internal auditor should not develop and implement procedures, prepare accounting vouchers and other records, or engage in any other activity which he would normally review and appraise and which could reasonably be construed to compromise his independence.
- His objectivity is not adversely affected, however, by his determination of the standards of control to be applied or his recommendations for improvement in the procedures under his review.

## STANDARDS & POLICIES

The development of proper and comprehensive Standards and Policies is necessary for an effective discharge of the responsibilities of the auditor. Auditing Standards and Policies should constitute the framework within which the detailed procedures, as specified in the Internal Audit Programme, are performed.

Specifically:

*Standards:* Standards are the criteria by which principles can be properly translated into action and the results evaluated. They deal with professional qualities and set the guidelines for the exercise of judgement. Whilst broad based, they still must be clearly defined and fully articulated since they form the parameters within which detailed Audit Policies and Procedures should be developed.

*Policies:* Policies are directives determined by senior management to be used in attaining given objectives. Auditing Policies are developed within the context of the Auditing Standards and as such naturally emanate from them.

**SECTION V**

## **AUDIT APPROACH**

✓ **Balance Sheet Related:**

The audit programme will revolve around the balance sheet and Statement of Income & Expenses. During the audit planning stage, the appropriate General Ledger & Subsidiary Ledger Accounts will be identified from the latest accounting records and each audit procedure will include a number of accounting steps and tasks. See attached).

✓ **Auditing By Function (Divisions):**

To the extent possible, all audits will be carried out by functions. For an example, an audit of the Foreign Exchange activities will include Prague Head Office etc. This approach will enable the auditor to give an opinion on the particular activity which is being audited on a bank-wide-basis.

## THE CONTROL ENVIRONMENT

*Plan of Organisation & Bank Policies & Procedures:* The control and support of all activities must be accomplished to a great extent through a Plan of Organisation and the establishment, communication and monitoring of Bank Policies and Procedures.

An organisation chart supported by detailed position descriptions and well written and presented policies and procedures are not a guarantee of adequate internal accounting control. Employees, however, need to know exactly what their responsibilities and duties are and what is allowed, in order to make the system of control work and work effectively.

These two factors, together with the following, must create the environment in which the accounting system functions and must contribute to the likelihood that all control objectives will be achieved.

*Separation of Duties:* To be effective, any organisation plan must provide for checking, balancing and reconciliation procedures to be performed by different individuals. In summary, no one individual should control any transaction from inception to completion. This means that different individuals should be responsible for the record-keeping and physical custody of assets and general supervision and authorisation of transactions. In other words, the "maker" and "checker" routine.

*Information Systems:* Management control of the activities will be only as effective as the completeness and timeliness of the information it receives. Operating analyses as well as financial statements must be up-to-date and in sufficient detail to highlight operational and financial changes which may warrant management attention.

*Budgets:* A well prepared budget greatly enhances the effectiveness of internal accounting controls.

To the extent possible, budget preparation should include departmental personnel, proposed budgets should be carefully reviewed before acceptance, and differences between budgeted amounts and actual performance must be analysed and reported to appropriate senior management at regular intervals.

*Czech & Slovak Laws & Regulations:* The Bank is governed by a variety of laws and a complicated regulatory system and is subject to the rules and regulations of several separate government regulatory agencies.

There must be a continuous review of legislation, rules and regulations to determine how the Bank's activities are affected and whether it is in compliance

*Loan Review:* The loan portfolio is the Bank's largest asset and its greatest source of exposure to loss. There must be a loan review department or similar function to assist management in assessing the quality of the loans in its portfolio. This function should assist in the early identification of problem loans and enable management to determine the effect on the Bank. In addition, the loan review department should monitor compliance with the Bank's established policies and procedures relating to the lending function.

*Periodic Reconciliations:* The Bank's monitoring system must include procedures to discover and report errors, differences and deviations from expected results. Accordingly, control and subsidiary accounts should be reconciled regularly and any discrepancies reported to the appropriate personnel.

Cash, investments, loans and other valuable assets must be compared with the records at regular intervals and any differences must be investigated and reported.

*Evaluation of Computer Controls (EDP):* The use of electronic data processing systems does not alter the thought process required to determine whether control objectives are being achieved. The following example illustrates the relationship of EDP controls and specific control objectives:

The demand deposit system documentation indicates that EDP generated totals are independently compared to total deposits received. Therefore, it is concluded that there is a reasonable assurance that the total deposits received have been properly credited to the demand deposit file.

However, it is not clear that there is reasonable assurance that individual deposits have been credited to the proper customer accounts. In order to make this determination, it will be necessary to perform a review of the EDP related controls.

**INTERNAL CONTROL QUESTIONNAIRES (ICQ's)**

In order to assist in acquiring an appreciation and understanding of the system of accounting internal control in operation in the Bank, selective use will be made of the "internal control questionnaire".

1. Answers which are given must not be regarded as conclusive if they are based simply on the verbal reply of a department head or officer. All answers must be corroborated by actual observation by the internal auditor.
2. Department Heads or officers must not be given the ICQ's to fill in at their convenience. More revealing replies are usually received during verbal interrogation, with the auditor filling in the responses.
3. Only senior officials, e.g. heads of departments and directors will be interviewed for the purpose of completing the ICQ's.
4. The form of the ICQ to be adopted will allow for questions to be answered simply in the affirmative or negative. The questions will be phrased in such a way that the answer "yes" will be regarded as an indication that the system is satisfactory in the particular regard being considered.

The answer "no" will be interpreted in one of two ways:

- either a definite weakness (real or potential) exists;
- or the system of internal checks in operation succeed in overcoming the apparent weakness revealed by the "no" answer, by some other means.

Therefore, every answer "no" must be referenced to an explanatory memorandum giving details of the particular circumstances.

5. All ICQ's will be carried forward to the next audit. Accordingly, on the conclusion of each audit adequate time must be devoted to a review of the ICQ and any changes which have taken place since the last review must be entered in the appropriate sections.

**ASPECTS WHICH WILL BE CONSIDERED**

√ **Plan of Organisation, Policies & Procedures, Separation of Duties:**

- . Is there an up-to-date Chart of Organisation for the Bank as a whole and for each department or unit ?
- . Are Position Descriptions clear and well defined ?
- . Are Accounting, Credit Granting and All Policies and Procedures documented ?
- . Is there an up-to-date Chart of Accounts ?
- . Does the Chart of Accounts provide for all appropriate accounts and does it describe the contents of each account ?
- . Are the background and references of all job applicants followed-up ?
- . Is there a formal Conflict of Interest Policy or Code of Ethics in effect ? If yes, has it been signed by all employees and does it require periodic declarations of compliance by officers, directors and key employees ? Is there a system to monitor compliance ?
- . Do related employees, if any, have job assignments that minimise the likelihood of collusion ?
- . Are all employees who handle cash, securities and other valuable assets bonded ?
- . Is rotation of duties enforced by mandatory uninterrupted vacations ?
- . What employee training programs are in place ?

√ **Information Systems:**

- . Are financial statements submitted at regular intervals to management ? Are they submitted to the Board of Directors or Audit Committee ?
- . Are financial statements prepared by knowledgeable employees ? Is the degree of detail appropriate to the level of management receiving them ?
- . Are financial statements accompanied by analytical comments ? Do they show comparisons with prior periods and budgets and forecasts ?
- . What operating analyses (e.g. loan yields, cost of funds or interest margins) are provided to management ?
- . Are reports on operating results and key financial data provided by the *branches*, subsidiaries or affiliates on a regular and timely basis ?

√ **Budgets:**

- . Do budgets and forecasts cover revenues, costs and expenses, capital expenditures, loans and loan losses, deposits as liquidity ?
- . Are budgets and forecasts submitted to management on an established timescale ?
- . Are budgets based on estimated future requirements and conditions rather than on past year amounts ?
- . Are budget variances reported and analysed ?

√ **Czech & Slovak Laws & Regulations:**

- . Are current copies of bank and/or bank holding company laws and regulations maintained ?
- . Are there procedures in place to ensure that management are informed of changes in laws & regulations ?
- . Are specific areas of the Bank's activities regularly reviewed for compliance with bank regulatory, accounting and reporting requirements ?

√ **Loan Review:**

- . Are loan reviews carried out independently of management & loan officers ?
- . Does the loan review department have direct access to senior management and the Board of Directors ?
- . Are employees adequately trained and supervised and is the department supported by staff with adequate experience ?
- . Are written reports on loan reviews issued to appropriate executives ?
- . Is the frequency of reviews sufficient to detect significant deterioration in the portfolio ?
- . Does loan review utilise a watch list or similar technique to monitor problem loans ?

√ **Periodic Reconciliations:**

- . Are physical assets reconciled with accounting records with respect to:
  - cash and due from banks;
  - investments;
  - trading account securities;
  - loans;
  - real estate and other non-income producing assets;
  - bank premises and equipment;
- . Are detailed and control accounts kept in balance as regards:
  - investments;
  - loans;
  - bank premises and equipment;
  - deposits;
  - debts;
- . Are changes between beginning and ending balances accounted for ?
- . Are non-book items reconciled with the underlying control records e.g. items held in safekeeping, unused travellers cheques, loan collateral ?

## FLOW CHARTING

In its simplest form, a flowchart may be described as a map of inter-related operations, specially arranged so as to indicate and explain the sequence of events and the types of operations undertaken.

The object of the flowchart will be to show how the system which is being audited functions. This is done by mapping the movements, or flow, of documents and other information through the system.

The flowchart is a tool for efficient documentation and is concerned principally with functions such as authorisations, separation of duties and check/control operations which have been incorporated into the system. Each flowchart will incorporate brief narrative statements describing each processing step reflecting, in chronological sequence, document flows and procedures and controls which comprise the system under review. Key controls will be identified and highlighted. Any weakness identified will be specified.

The information provided by the flowcharts will then be used to plan and execute the audit assignments.

All flow charts will be carried forward to the next audit and will be maintained in a section entitled "permanent workpapers". Accordingly, on the conclusion of each audit adequate time must be devoted to a review of the flow chart and any changes which have taken place since the last review must be entered in the appropriate sections. If necessary, new flow charts will be prepared.

### ✓ Document Flowcharting:

In the document flowchart, all manual operations and paperflow activities will be scheduled. The computer processing element of each system will be represented by a "black box" approach - i.e. only indicating the flow of documents to and from the computer without elaborating in any detail on what happens within the computer.

√ **Computer Applications Flowcharting:**

A detailed analysis of the internal computer processing will be carried out as a separate computer review and the appropriate flowcharts prepared.

## THE INTERNAL AUDIT PROGRAMME

The Internal Audit Programme will provide a detailed outline of the audit tests which will be undertaken and the underlying rationale for each test. The programme will be divided into "Audit Subjects" and will be tailored to cover the specific requirements and risks in each area.

Each audit subject will include two categories of audit tests :

*Compliance Tests:* these tests will seek to provide audit evidence that appropriate internal controls are being applied in the required manner

*Substantive Tests:* these will consist of tests of transactions and balances and other procedures such as analytical reviews which will seek to provide audit evidence that the information contained in the accounting records or financial statements are complete and accurate

### √ **Compliance Programme:**

The object of the compliance programme will be to ensure that key controls are being complied with and to provide evidence that the defined control objectives are being met.

This programme will consist of three components:

- evaluation of systems and selection of tests
- the evaluation of the system will involve the identification of key controls and weaknesses identified during the flowcharting process. A selection of appropriate tests will be specified to assess the effectiveness of the key controls
- selection of transaction samples (statistical sampling) to be tested and an explanation of the basis of selection
- recording of the results of the tests, the number of errors noted and a determination of any follow-up or additional work which may be required

### √ **Substantive Programme:**

The object of the substantive programme is to ensure that the accounting records and financial statements are correct.

- rationale for the Selection of Tests
- the emphasis of the substantive audit tests will be on areas of greatest risk as identified by the results of the compliance tests. The substantive audit programme will, therefore, include a rationale for the test selected and a description of the test itself.
- determination of the Extent of Detailed Testing Required
- the extent to which accounts will be examined will be determined and the basis for the selection documented. The extent of testing which will be undertaken will reflect the risk element(s) identified.
- recording of the results of the tests, the number of errors noted and a determination of any follow-up or additional work which may be required

## **AUDITING RESOURCES**

The following factors should be taken into account in determining the resources required for an effective and pro-active internal auditing department:

- ✓ Existing System(s) of Internal Controls
- ✓ Effectiveness of Existing System(s) of Internal Controls
- ✓ Operating Staff Experience, Dedication & Loyalty
- ✓ Quality and Availability of Bank Policies and Guidelines covering all major aspects of the Business
- ✓ Quality of Operating Procedures
- ✓ Quality and Extent of Managerial Supervision
- ✓ Business Products, Account Balances, and Daily Transaction Volumes
- ✓ Training and Experience of the Auditor(s)
- ✓ Corporate Culture
- ✓ Quality of the Record-keeping and the Availability of records
- ✓ Accounting System in Operation and Quality of the Accounting Records

## **HEADCOUNT/FULL TIME EQUIVALENTS (FTE's)**

In calculating the required resources, it has been estimated that 1 Full Time Staff Member will generate the equivalent of 210 Net Working Days a year i.e. net of annual vacation, time off for training, sickness and public holidays.

**AUDIT PLANNING MEMORANDUM**

- ✓ **Audit Type/Scope:**
  - Full (Comprehensive)
  - Partial
  - Spot
  
- ✓ **Audit Rationale:**
  - Normal Cycle
  - Follow-up
  - Special

✓ **Audit Procedures:**

Attach a copy of the audit procedures which will be used. Identify clearly which audit steps will be performed and which will not.

✓ **% Audit Test Checks:**

Document the extent of audit checking/testing which will be performed. For example, all transactions (100 %), all loans over CZK's 75 million (80 % of Loans) etc.

- ✓ **Audit Personnel:**
  - ABC, ANO
  - BCD, XYZ

✓ **Audit Timetable:**

	Week 03/01/94	Week 10/01/94	Week 17/01/94	Week 24/01/94
ABC				
ANO				
BCD				

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## **AUDIT REPORT FORMAT**

- ✓ **Background - including general description of area audited, balance sheet footings, number of staff etc.**
- ✓ **Scope**
- ✓ **Audit Findings**
- ✓ **Recommendations**
- ✓ **Distribution List**

## AUDIT RATING

✓ **Satisfactory:**

- all appropriate controls in place and effective
- only minor audit exceptions noted
- no risk/exposure to the Bank

**Next Audit:** Normal Cycle

✓ **Generally Satisfactory:**

- some controls not in place or effective
- some important exceptions noted
- no major risk/exposure to the Bank

**Next Audit:** Normal Cycle with a spot review in 12 months

✓ **Poor:**

- major deficiencies noted
- major risk/exposure to the Bank

**Next Audit:** within 6 months

## **AUDIT CIRCULARISATION (CONFIRMATION) PROGRAMME**

Independent verification of customer accounts, balances and transactions is a standard audit technique. Normally a selection is made from every general ledger line and a letter is sent out by the auditor (i.e. independent of Bank personnel) direct to customers. A list of accounts, transactions and balances are taken from the accounting records and the customers are asked to confirm the balances (normally by signing the copy of the list provided) and to return same direct to the auditor in a specially addressed envelope. If there are any omissions or differences, the customer(s) are requested to note these with full details etc. and to inform the auditor. All discrepancies must be followed-up and resolved satisfactorily.

An audit confirmation programme is normally carried out at the end of each financial year and in conjunction with the external auditors but can be done at any time.

Basically, there are 2 types of audit confirmations:

- ✓ **Positive Confirmation** (as described above)
  
- ✓ **Negative Confirmation:**

A negative confirmation is a process whereby customers are given an opportunity to check their accounts, balances etc. with the Bank and are only required to contact the bank if there is a discrepancy. For example, on a periodic basis customers should be sent a statement of account(s) with the bank. The statements must be prepared and mailed independently of account officers and other staff who control or book entries over the accounts.

Customers are requested to advise any discrepancies within a specified period - normally 10 working days.

## **FORMAT OF AUDIT PROCEDURES**

- √ Description
- √ Objective(s)
- √ Detailed Audit Procedures to be followed
- √ List of all Accounts which will be Checked and Verified
- √ Sources of Income and Income Verification
- √ Bank Policy & Procedures
- √ Czech & Slovak Laws & Regulations
- √ Systems (Technology)
- √ Staffing & Human Resources
- √ Management, Regulatory & Other Reports

## **AUDIT TYPES**

- √ **Full Audit**
  - all procedures followed
  
- √ **Partial Audit**
  - certain procedures
  
- √ **Spot or High Risk Audit**
  - verification that main controls are in place and are effective

## **AUDIT WORKPAPER PRESENTATION**

Each audit test will be supported by a working paper, clearly referenced to the audit programme and set out under the following sections:

- √ Details of Tests Undertaken
- √ Details of Procedures Undertaken
- √ Schedule of Results
- √ Audit Conclusion
- √ Follow-up Action
- √ Cross Referencing
- √ Conclusion - Summary of audit findings plus matters for Inclusion in the Audit Report
- √ Confidentiality

*Details of Tests Undertaken:* Each workpaper will be referenced with the test number and will provide details of the test itself, as specified in the audit programme. All workpapers will be clearly referenced and initialled by the auditor. There will be no unanswered questions or unexplained exceptions. All outstanding issues will be resolved before the workpapers are finalised

All photocopies and documents etc. will be clearly labelled, will give the reason for insertion and will be cross-referenced. All workpapers will be reviewed by the auditor in charge and initialled by him as evidence of his review.

*Details of Procedures Undertaken:* The workpaper will include brief details of the procedures undertaken, providing these are not self-evident from the details of the test itself

*Schedule of Results:* Details of tests will be presented in a format which contains the maximum of detail and minimum of narrative. Wherever possible, results of tests will be documented in the form of schedules and audit "tick-marks" and descriptive legend to indicate the results.

All narrative relating to the results will be brief and concise and will concentrate on problems encountered, procedural weaknesses and areas in which there is a lack of control together with any recommendations to management.

*Audit Conclusion:* The conclusion or summary will be a statement by the auditor as to whether the controls, as tested by the audit procedures, are adequate to highlight and prevent material errors

The conclusion will also focus on the recommendations to be made to management (if any) and the reasons

*Follow-up Action:* If any further audit work is undertaken following the completion of the original procedures, details will be documented together with the original procedures and the rationale for the further work

## **INTERNAL CONTROL QUESTIONNAIRE**

INTERNAL CONTROL QUESTIONNAIRE  
(Summarised Audit Procedures)

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## INTERNAL CONTROL QUESTIONNAIRE

## □ GENERAL OVERVIEW:

		YES	NO
01	Is there an up-to-date Chart of Organisation for the Bank as a whole and for each Department and or Area or Main Function ?		
02	Does the assignment of duties & responsibilities provide for adequate separation of duties ? e.g. marketing or loan officers should not authorise the disbursement of loan proceeds, personnel carrying out Control functions should not have cheque signing authority or pass accounting (book-keeping) entries.		
03	Is each function or position documented in the form of a formal job description and with operating procedures? Are all the principal controls for the specific activity covered in respect of: - operating/processing controls including adequate separation of duties - quality controls - management controls		
04	Are there any formal Bank Policy statements covering the main activities of the Bank ? Consider such items as: - credit policy including approval limits, limits by Customer, Country etc. and guidelines for loans to shareholders, directors etc. - trading guidelines (foreign exchange, bonds, securities) including position limits, maturity gap limits etc. - investment policy - accounting policies - code of ethics and/or conflicts of interest - expenses control guidelines - data & system security guidelines - record retention (archiving) guidelines		
05	Is there a Chart of Accounts and if so, does it provide for all appropriate accounts ? Does it describe the contents of each account and any specific approvals required ?		
06	Are financial statements submitted at regular intervals to management ? Are they submitted to the Board of Directors and/or Audit Committee ?		
07	Are financial statements prepared by employees who are knowledgeable ? Is the degree of detail appropriate to the level of management receiving them ?		

**REF: ICQ 1**  
**Date: 07/94**

		YES	NO
08	Are financial statements accompanied by analytical comments ? Do they show comparison with prior periods and budgets and forecasts ?		
09	What operating analyses are provided to management ? e.g. loan yields, foreign exchange and funding reports, cost of funds or interest margins, problem or doubtful loan reports, error statistics		
10	Are the reports on operating results and key financial data provided by branches or subsidiary companies on a regular and timely basis ?		
11	Are current copies of bank and/or bank holding company laws and regulations maintained ?		
12	Are consolidated financial statements prepared periodically for management and are they accompanied by analytical comments ? Do they show comparisons with prior periods and budgets and forecasts ?		
13	Where an operating loss has been incurred, is there a reporting and approval requirement that ensures that senior management and the internal auditors are informed of the underlying circumstances ?		
14	Are there procedures to ensure that management is informed of changes in laws and regulations pertaining to the business ?		
15	Are specific areas of bank activity regularly reviewed for compliance with bank regulatory requirements ? e.g. lending limits, consumer loan laws, trust laws and regulations, liquidity ratios, capital ratios, qualified investment securities ?		
16	Is there a loan review department ? Is it independent of management and loan officers ? Is the department able to obtain direct access to senior management and the Board of Directors ?		
17	Are written reports on loan reviews issued to appropriate executives ? Do they require follow-up ? Are they reviewed by the Board of Directors and/or Audit Committee ?		
18	Is the frequency and depth of reviews sufficient to detect significant deterioration in the portfolio ?		
19	Does loan review use a watch list or similar technique to monitor problem loans ?		
20	Are physical assets regularly reconciled with the accounting records as to Cash on Hand, Cash & Due from Banks, Investments, Securities, Fixed Assets etc. ?		
21	Are non-book items held in Safe Custody in the vault reconciled regularly with the control records ?		

**REF: ICQ 1**  
**Date: 07/94**

		<b>YES</b>	<b>NO</b>
<b>22</b>	Do related employees, if any, have job assignments that minimise the likelihood of collusion ?		
<b>23</b>	Are employees who handle cash, securities and other valuable assets bonded ?		
<b>24</b>	Is rotation of duties enforced by mandatory uninterrupted vacation ? Are duties of vacationing or absent employees assumed by others ?		
<b>25</b>	Are employees adequately trained and supervised ? Is each department supported by staff with adequate experience ? What employee training programmes are in effect ?		

## INTERNAL CONTROL QUESTIONNAIRE

## ❑ FOREIGN EXCHANGE:

		YES	NO
01	Does the Bank have a written policy document similar to a Trading Guideline, outlining its foreign exchange trading and back-office activities and describing controls, responsibilities and accountabilities ?		
02	Are trading and back-office functions separated ?		
03	Are all foreign exchange deals transacted by the dealers recorded on a position sheet immediately after being contracted and in strict dealing sequence ? Are all exchanges originating in other operating departments also recorded on the position sheet ?		
04	Is there a daily agreement, independent of the traders, of the positions recorded in the accounting records to the dealers position records ?		
05	Are positions reported to management daily ? Is there an independent check to ensure that the positions reported to management are accurate ?		
06	Is there a system to ensure that all holdover deals are recorded on the current dealing date and that, if appropriate, previously reported positions are amended and management advised of the amendments ?		
07	Do senior management review position sheets daily in order to identify out of line exchange rates, as well as the pattern of intra-day positions held, counterparties dealt with, deal size and brokers used ?		
08	Are all deals independently verified by reference to an incoming counterparty confirmation ? Are all relevant details i.e. deal date, value date, payment instructions etc. checked for accuracy ?		
09	Is there a system for identifying and promptly following up non-receipt of incoming confirmations ?		
10	Is there a system for checking all outstanding deals daily against approved limits i.e. customer limits, gap/maturity limits, net open position limits etc. ?		
11	Are all over limits referred to senior management for approval ?		
12	Are limits - customer, net open position, gap etc. reviewed at least annually for appropriateness ?		

REF: ICQ 2  
Date: 07/94

		YES	NO
13	Are all outstanding deals re-valued at least monthly and are revaluation rates obtained/checked independently of the traders ?		
14	Are dealers allowed to trade for their own account ? If so, are there any special reporting or approval requirements ?		
15	How does management assess the Bank's exposure to exchange rate movements or interest rate changes ? Are there any foreign exchange or similar reports prepared for and reviewed by management ?		

INTERNAL CONTROL QUESTIONNAIRE

☐ MONEY MARKET:

		YES	NO
01	Are the money market trading and back-office functions separated ?		
02	Are all deals independently verified by reference to an incoming counterparty confirmation and are all relevant details on the confirmation checked for accuracy ?		
03	Is there a system for identifying and promptly following up on incoming confirmations ?		
04	Have individual limits been established to control the amounts of deposits placed with other banks ?		
05	Is there a daily system for checking all outstanding deposits placed against approved limits and for reporting all over limits to senior management ?		
06	Are depository limits reviewed at least annually for appropriateness ?		
07	Do the dealers keep records to provide them with the ability to maintain strict control over their nostro account balances, in order to prevent excessive or negative balances ?		
08	Is there a check undertaken independently of the money market traders to ensure that all deals are transacted at market rates ?		
09	Is there a reporting and approval mechanism to inform senior management of the underlying circumstances resulting in the payment of penalty interest ?		
10	Is the Bank exposed by being over dependent on any particular depositor or depositors ?		

**INTERNAL CONTROL QUESTIONNAIRE**

**□ INVESTMENT PORTFOLIO:**

		YES	NO
01	Does the Bank have a written policy covering investments both for its own account and for its trading account ? If so, does it cover matters such as investment objectives, limits and the approvals necessary prior to purchase or sale ?		
02	Are all investments periodically reviewed for compliance with investment objectives and limits ?		
03	Is there a policy regarding the need to account differently for items as between investment account and trading account ?		
04	Are trading account investments re-valued as to lower of cost or market at least monthly ?		
05	Are revaluation rates obtained or verified independently of the dealers ?		
06	For own account investments, is any premium or discount taken to profit or loss on an accrual basis over the life of the underlying investment ?		
07	Are certificates or documents of title held in the vault under dual control or, if held to the Bank's account by a correspondent bank or safe custodian, does the Bank request and receive a periodic written confirmation of that and is the signature on the confirmation verified for authenticity ?		
08	On a periodic basis, are the investments held in the vault physically counted and agreed to the vault contents control register and to the accounting records ? Are the confirmations of investments held by correspondents or custodians also periodically agreed to the accounting records ?		
09	Are controls in place to ensure prompt receipt of interest and dividends and are there reporting procedures to bring non-receipt of income to management's attention ?		

INTERNAL CONTROL QUESTIONNAIRE

☐ LENDING:

(Including: - Loans, Advances, Overdrafts, Letters of Credit, Lease Receivables, Bills Discounted, Acceptances and Guarantees Issued)

		YES	NO
01	Does the Bank have a written credit policy covering matters such as credit approval requirements and procedures, country credit limits, loan and account documentation procedures and responsibilities and loans to directors and shareholders ?		
02	Is the loan administration function separate from the marketing and credit approval functions ?		
03	Is all lending closely monitored ? Are management information reports available on a regular basis concerning: - portfolio content broken down by borrower - country/industry risk/exposure - potentially un-collectible loans - suspense or non-accrual loans - principal and interest - deficiencies in loan documentation or collateral		
04	Is a documentation check list utilised ? Is it used to monitor the following: - that all mandatory documents are held before funds are disbursed - that lending/new business officers have not exceeded their authority to waive documents - that documentation held has been reviewed and is adequate - that all original documents are held under dual control in a fire proof safe/cabinet - regular receipt and review of annual financial statements - that checks have been made to ensure all loans are to bona-fide customers e.g. company searches, bankers references etc.		
05	Are all extensions of credit independently reviewed for proper approval ?		
06	Do customers confirm in writing, that they have received the proceeds of the loan ?		
07	Is there a system in place to ensure that all interest and principal amounts are collected when due and that amounts not received are promptly identified and reported to management ?		

REF: ICQ 5  
Date: 07/94

		YES	NO
08	Have standard bank documents (guarantees or letter of pledge for example) been approved by legal counsel and is non-standard documentation automatically referred to legal counsel to ensure that the Bank is fully protected ?		
09	Does bank policy require two authorised signatures on a Guarantee or a Letter of Credit before it becomes a valid and binding document ?		
10	Are counter indemnities always taken from customers on whose behalf the Bank has entered into a guarantee commitment ?		

INTERNAL CONTROL QUESTIONNAIRE

☐ LOAN REVIEW:

		YES	NO
01	Is there a loan review function which is independent of management and lending officers ? Does the function report directly to senior management and the Board of Directors ?		
02	Are written reports on loan reviews issued to appropriate executives ? Do they require follow-up ? Are they reviewed by the Board of Directors or Audit Committee ?		
03	Is the frequency of reviews sufficient to detect significant changes or deterioration in the portfolio ?		
04	Does loan review use a watch list or similar technique to monitor problem loans ?		

## INTERNAL CONTROL QUESTIONNAIRE

## □ INCOME &amp; EXPENSES:

		YES	NO
01	Are there controls in place to ensure that all interest income and expenses are accrued correctly ?		
02	Are the accrual calculations independently verified ?		
03	Are the accrual records and all appropriate accounting balances e.g. principal, accrued receivable and accrued payable proved, at least monthly, to the accounting records ?		
04	Are there controls which would identify overdue interest and principal repayments ?		
05	Are there controls which would identify non-receipt of fees, commissions and other non-interest income ?		
06	Are all reserve and prepaid balances reviewed monthly for accuracy and are they proved at year-end to identify any under statement or over statement of profit and loss ?		
07	Does the Bank have a written policy setting out the management approvals required for authorising expenses ? Are the approval requirements structured by type of expense and level of expense ?		
08	Are all expenses independently reviewed for correct approval ?		

INTERNAL CONTROL QUESTIONNAIRE

□ ACCOUNTING & ELECTRONIC DATA PROCESSING SECURITY:

		YES	NO
01	Is there a Chart of Accounts and if so, does it describe the contents and purpose of each account used? Are additions and deletions strictly controlled?		
02	Are all accounting entries (whether created manually or generated through input to an automated system) reviewed and approved by an authorised signatory of the Bank who is independent of the individual(s) originating and/or inputting the entries?		
03	After entries have been posted to the accounts, is there an independent review of all input documents or computer output reports to ensure that only authorised transactions have been booked? For all expense tickets, does this review also check conformity with the expense approval requirement policies?		
04	Does the Bank have a policy requiring that, on a periodic basis, accounting balances are proved to underlying documentation? If yes, are the internal auditors informed of the completion of these periodic proofs?		
05	Is access to the computer system effectively controlled by means of passwords, user codes, mandatory menus limiting the availability of functions etc.?		
06	Is there a directory of system users and their functions? Does the distribution of functions ensure separation of duties between user departments on the one hand and system operators/programmers on the other? Can function availability be changed only by duly authorised access?		
07	Are passwords changed at irregular intervals to help protect their integrity? If the system requires that only one person accesses the password file to effect password changes, is that person a senior manager?		
08	Are special passwords required to access privileged functions?		
09	Does the access to privileged functions automatically provide a written audit trail in the form of a computer log which records the access and details of all input carried out? Is there a review of the log independent of the users of the privileged functions in order to identify any unusual or unauthorised activity?		
10	Are there any of the following controls over terminal activity: - terminals dedicated to specific user codes - automatic time out (cut off of access) when a terminal which is logged on to the system, has not been used for a pre-determined period - reports of attempted unauthorised access		

		YES	NO
11	Are there controls to ensure that only duly authorised computer programs are resident on the system ? Are independent program comparisons undertaken periodically to ensure that there have been no unauthorised program additions, deletions or amendments ?		
12	Is there an inventory of all programs and has each program on the inventory been properly authorised ?		
13	Are disks and tapes physically secure and held under dual control ?		
14	Are the environmental conditions within the data centre kept within the parameters recommended by the system manufacturers ?		
15	Is the data centre physically secure in terms of restricted access and fire prevention/fighting capability ?		
16	Do contingency/back-up disaster plans exist in case of hardware failure ? Are the plans reviewed periodically and have they been tested ? Do they clearly identify roles and responsibilities ?		
17	Are there arrangements for the off-site storage of software and data on a daily basis, in addition to routine back-up held on-site ?		

## INTERNAL CONTROL QUESTIONNAIRE

## ❑ ELECTRONIC DATA PROCESSING DEVELOPMENTS:

		YES	NO
01	Have all electronic data processing developments been evaluated from a cost/benefit standpoint and approved by senior management ?		
02	Have Automation Policy, Standards and Procedures been established and documented and are there procedures to ensure that all system developments are carried out in accordance with established standards ?		
03	Have documented specifications been prepared, explaining the system from both the user and functional viewpoints ?		
04	Have all EDP developments received the appropriate budget approval and is there a control in place to ensure that each project is adequately approved and regularly re-assessed in the light of budget, time frames established etc. ?		
05	If a third party is involved in any aspect of the project, has an enforceable contract been drawn up to protect the Bank's interest ? Has the contract been reviewed by legal counsel ?		
06	Has the system specification been independently reviewed before the commencement of programming to check that all required controls have been incorporated ?		
07	Have program specifications been prepared, independently reviewed and approved in accordance with established standards ?		
08	When programs have been developed, have they been independently reviewed, approved, documented and tested in accordance with established standards ?		
09	Has the new system been run in parallel with the existing system to prove its accuracy ? In particular, has the parallel run included month-end profit days, if applicable ?		
10	Has data been loaded onto the system and checked under dual control ?		
11	Have all staff been trained to use the system, particularly the operating departments and computer operators ? Are run books available for the computer operators to enable them to operate the system in any situation, particularly when faults occur ?		
12	Are there documented recovery procedures to enable the Bank to continue to process transactions, in the event of a system or computer failure ?		

INTERNAL CONTROL QUESTIONNAIRE

CASHIERS FUNCTION:

		YES	NO
01	Do the cashiers work in an area of effective restricted access ?		
02	Is the vault under dual control and are cash, other valuable items, duplicate keys etc. held in the vault overnight ?		
03	Are cashiers required to count and agree their cash holdings (including any cash reserve held in the vault) to the accounting records on a daily basis ? Is there a Bank policy which requires a surprise and independent full cash count on a monthly basis ? When was the last independent cash count taken ?		
04	Have limits been established to control the amount of local/foreign currency held by the cashiers in their tills ? Are till holdings regularly monitored against limits ? When was this last done ?		
05	Are tellers transactions reviewed daily ?		
06	Are tellers overages and shortages documented and reviewed ?		

INTERNAL CONTROL QUESTIONNAIRE

☐ CAPITAL ACCOUNTS:

		YES	NO
01	Are capital and retained earnings accounts regularly reviewed and reconciled to ensure that only authorised entries e.g. monthly profit and loss have been passed over the accounts ?		
02	Are all credits to retained earnings accounts independently verified to the profits recorded on the statement of profit and loss ?		
03	Is there a control in place to ensure that minimum capital requirements/ratios are maintained at all times ?		
04	Is there a corporate seal in use ? Is so, is the seal held in the vault when not in use and is it maintained under dual control when in use ? Is a log of its usage maintained ?		
05	Is there a control in place to ensure that any investment in affiliates and/or subsidiaries is properly approved by senior management, that evidence of the investment is held and that the investment has been properly accounted for ?		

## INTERNAL CONTROL QUESTIONNAIRE

## ☐ FIXED ASSETS:

		YES	NO
01	Is there adequate separation of duties covering the following aspects of the purchase and disposal of fixed assets to ensure that only approved transactions take place: - requisitions for the purchase of fixed assets - approvals for purchases - acknowledgement of receipt of assets (signed delivery notes etc.) - payment of invoices - disposal of assets		
02	Is there a fixed asset inventory and is the inventory periodically checked to the physical assets and agreed to the accounting records ?		
03	Are the depreciation and amortisation records periodically agreed to the accounting records ?		
04	Does the bank have insurance coverage in respect of its fixed assets that provides adequate coverage against all major risks and are all premiums paid up-to-date ?		
05	Are there procedures which call for at least an annual re-appraisal of the adequacy of the insurance coverage ?		

**INTERNAL CONTROL QUESTIONNAIRE**

**☐ NOSTRO ACCOUNT RECONCILIATIONS:**

		<b>YES</b>	<b>NO</b>
<b>01</b>	Does the person responsible for the reconciliation function maintain a control list showing all accounts to be reconciled, including all nostros, inter-branch and clearing and holdover accounts ? Is the list annotated to show the completion of each reconciliation ?		
<b>02</b>	Are all accounts reconciled at least monthly ?		
<b>03</b>	For the high volume nostro accounts have arrangements been made to receive the correspondents statements on a daily or weekly basis and do the reconciliation staff perform a tick-back of these statements to the ledgers as the statements are received ?		
<b>04</b>	Are account reconciliations completed by staff who are not involved in passing entries over the accounts and are they independently reviewed ?		
<b>05</b>	Do the reconciliations of each account provide full information concerning the date and nature of the open items and the status of the follow-up action taken to resolve them ?		
<b>06</b>	Are the responsibilities for resolving and following up open items clearly documented ? Are there any material long-outstanding items on the latest account reconciliations ?		
<b>07</b>	Are all outstanding items supported by documentation proving the authenticity of the underlying item ?		

**INTERNAL CONTROL QUESTIONNAIRE**

**☐ HOUSE ACCOUNTS:**

(Including all sundries receivable, payable and other in-house accounts)

		YES	NO
<b>01</b>	Are all accounts reconciled at least monthly ? Do the reconciliations provide full information concerning the date of the original entry, the description of the item and the status of the follow-up action taken to resolve the matter ?		
<b>02</b>	Are the reconciliations completed by staff who are not involved in passing entries over the accounts ?		
<b>03</b>	Are the reconciliations reviewed by management after they have been completed ?		
<b>04</b>	Are the responsibilities for resolving and following up open items clearly documented ? Are there any material long-outstanding items on the latest account reconciliations ?		
<b>05</b>	Are all outstanding items supported by documentation proving the authenticity of the underlying item ?		

INTERNAL CONTROL QUESTIONNAIRE

☐ PERSONNEL FUNCTION:

		YES	NO
01	Are there formal recruitment procedures for engaging staff ? Do these procedures include: - signed employee application form and employment contract - obtaining satisfactory references prior to the commencement of employment - medical examination prior to the commencement of employment		
02	Does the Bank have a written Code of Ethics or Conflicts of Interest Policy ? If yes, are all employees given a copy of the document on joining and are they reminded of the contents periodically thereafter ?		
03	Are all staff provided with at least an annual performance appraisal ?		
04	Does the Chairman or his delegate authorise all changes in salary and staff benefits ?		
05	Does the Bank have a policy calling for the periodic rotation of staff duties ?		
06	Is rotation of duties enforced by a policy of mandatory uninterrupted vacations e.g. a minimum of 2 weeks away from the job ? Are the duties of vacationing or absent employees temporarily assumed by other staff ?		
07	Do related employees, if any, have job assignments that minimise the likelihood of collusion ?		
08	Are employees who handle cash, securities and other valuable assets bonded ?		
09	Are the monthly payroll calculations checked independently of the person preparing them and are payments authorised by the Chairman or his designate ?		
10	Are attendance records maintained ?		
11	Are all overtime claims independently verified and approved ?		
12	Do staff maintain checking or deposit accounts with the Bank ? If yes, are the transactions passing over the accounts periodically reviewed by management ?		

## INTERNAL CONTROL QUESTIONNAIRE

## ☐ SECURITY OF PREMISES:

		YES	NO
01	Are the arrangements for protecting the physical security of the Bank's premises, personnel and assets adequate ? If necessary, has professional advice been taken on security matters ?		
02	Is access to the Bank controlled ?		
03	Is fire-fighting equipment adequate and is it regularly inspected by representatives of either the supplier or the fire fighting services ? Have fire officers who would be responsible for ensuring that all staff were safely evacuated in the event of a fire, been appointed ?		
04	Are fire evacuation drills carried out regularly ?		
05	Are offices fitted with fire alarm systems and are the systems tested periodically ?		
06	Are key and lock combinations for vaults, safes and other secure areas strictly controlled ? Are combinations changed periodically ?		
07	Are items held in safe custody reconciled regularly with control records ?		
08	Are there any procedures for protecting and re-constructing prime accounting or other records in case of a disaster ? Are records micro-filmed and stored off-site ?		

**AUDIT PROCEDURES  
FOR  
MONEY MARKET ACTIVITIES**

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MONEY MARKET ACTIVITIES

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## **MONEY MARKET ACTIVITIES**

### **COMPLIANCE WITH BANK POLICIES & PROCEDURES**

#### **DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

#### **AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. For example, it is usual for banks to place a time limit on money market placements with other banks. This time limit should be for a period not exceeding 12 months.
7. Money markets placements must not be rolled-over but must repaid at the maturity date.
8. During the examination the following specific items should be considered:
  - ☐ Bank Operating Directives
  - ☐ Bank Accounting Manual
  - ☐ Expenses Control Guidelines
  - ☐ Credit Authorities Manual
  - ☐ Money Market & Foreign Exchange Trading Policies & Guidelines
  - ☐ Any Other Directives (specify)

## **MONEY MARKET ACTIVITIES**

### **COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

#### **DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

#### **AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

## MONEY MARKET ACTIVITIES

### SEPARATION OF DUTIES

#### DESCRIPTION

To effectively ensure the integrity of the books of the Bank and of the various management reports there must be adequate separation of duties especially as between the front office (traders/treasurers), the back-office processing department and the credit operations department.

#### OBJECTIVES

1. To ensure that there is adequate separation of duties within and among three principal departments concerned with the recording -keeping and daily checks and balances in the trading operation i.e.
  - ☐ the dealing room itself
  - ☐ the back-office operations
  - ☐ a telex section for handling the pay-away and receipt of funds
  - ☐ credit administration and operations

#### AUDIT PROCEDURES

1. Obtain the charts of organisation of the various departments involved in the money market and similar operations.
2. Review the reporting lines and verify that there is an adequate separation of duties.

Please note that in some banks, the back-office operations reports to the Chief Trader/Treasurer. This arrangement is not recommended for two basic reasons:

- ☐ from the standpoint of control purposes, it is more desirable that each area operates independently of each other
- ☐ the administrative requirements of the back-office operations may present needless interruptions for the Chief Dealer/Treasurer

3. Select a number of transactions for review and verify that the separation of duties is being observed:
- ☐ dealing room personnel are responsible for negotiating the contracts, writing up the deals and maintaining position records, projected nostro and liquidity records, blotters and other records as appropriate
  - ☐ dealing room personnel should not be involved in the duties of the servicing section including the receipt and checking of incoming confirmations and the booking of trades
  - ☐ dealing room personnel should not be involved in funds transfers
- all pay-away of funds to third parties are independently checked and verified before the funds are paid-away
- ☐ brokers notes, where appropriate, are checked and approved independent of the dealers
  - ☐ verify that periodic proofs are carried out independent of the dealing room personnel

## MONEY MARKET ACTIVITIES

### REVIEW OF INTERNAL CONTROL & PROCEDURES

#### DESCRIPTION

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### OBJECTIVES

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### AUDIT PROCEDURES

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of actual transactions and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:
  - i) *Income:*
    - ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
    - ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
    - ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
    - ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e correct level
  - ii) *Management Reports:*
    - ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
    - ☐ review and comment on each report. Consider such matters as:
      - timely production of reports
      - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
      - report format and adequacy
      - where applicable, do the reports agree to the accounting records
      - adequate distribution i.e. distributed to the appropriate individuals or managers
    - ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
    - ☐ are there too many reports

iii) *Systems (Technology):*

- ☐ is the system in use automated or manual
- ☐ if automated, is it adequate and are there any weaknesses. Consider such matters as:
  - system capacity and utilisation (over/under)
  - system flexibility
  - operating costs
  - processing costs
  - system and data security issues
  - error rates

iv) *Staffing (Human Resources):*

- ☐ is the overall organisational structure adequate
- ☐ is the departmental organisational structure adequate
- ☐ is the departmental management structure adequate
- ☐ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?.
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ? .
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

## **MONEY MARKET ACTIVITIES**

### **CHECKING OF ADHERENCE TO COUNTER-PARTY LIMITS**

#### **DESCRIPTION**

Risks in money market are similar to the risks that banks take in their lending portfolio or other activities. The most obvious risk arises from trade tickets written-up as money market placements when in fact they might be un-approved loans.

#### **OBJECTIVES**

1. To ensure that all money market trades are checked, independently of the dealers, for adherence to customer counter-party limits.
2. To ensure that all over limit situations are reported to management and adequately approved.

#### **AUDIT PROCEDURES**

1. Obtain copies of the Bank's latest Money Market Guidelines and Credit Authorities.
2. Verify that the trader's are familiar with the Guidelines and Authorities. Sight the trader's copies as prima-facie evidence.
3. Review the trader's records of outstanding money market transactions and customer limits and verify that they are up-to-date.
4. Review the procedures in force in the credit/appropriate department for checking adherence to limits etc. and comment on the adequacy.

**REF: MM 5**

**Date: 11/94**

5. Review the procedures for advising the traders and the back-office of changes in limits and comment as appropriate.
6. Obtain the records of the counter-party over limit situations for a selected period and verify that they have been reported to senior management and have been adequately approved.

**MONEY MARKET ACTIVITIES**

**TRIAL BALANCE & PROVE  
RECEIPT & CHECKING OF INCOMING COUNTER-PARTY CONFIRMATIONS**

**DESCRIPTION**

The most important control over the money market activities is the receipt and checking, independent of the traders, of an incoming counter-party confirmation.

The deal ticket written-up by the trader is the primary source input for the entire accounting and record-keeping system. It is the dealer's hand-written record of what was transacted. Accuracy is of prime importance.

**OBJECTIVES**

1. To ensure that all deals are valid and subsequently controlled and verified by the receipt and checking of a counter-party confirmation of all the deal details.
2. To ensure that the non-receipt of an incoming counter-party confirmation is followed up on a regular basis and any out-of-line situations are reported to senior management.

**AUDIT PROCEDURES**

1. Obtain the IBIS computer produced report of all outstanding money market transactions.
2. Verify the totals on the report to the general ledger on a currency by currency basis.
3. Verify that all trades for forward value dates ( i.e. any date beyond the current day's date) have been booked to the contingent accounts.
4. By reference to the records maintained by the back-office department, verify that an incoming counter-party confirmation has been received by the department and checked to ensure that all details are correct. Pay particular attention to ensure that the following details are correct:

- ☐ trade date
- ☐ value date
- ☐ amount of placement or deposit
- ☐ the agreed % rate
- ☐ the counter-party's payment instructions
- ☐ broker used for the transaction

5. Comment and follow-up on all important discrepancies noted:

- ☐ *a trade date* discrepancy i.e. an instance where the incoming confirmation states an earlier trade date than that recorded by the traders might indicate that the Bank's traders are holding-up trades and might indicate that the dealers are in excess of their counter-party limits and the outstanding credit report to management is in-correct
- ☐ *a value date* discrepancy might have an effect on the Bank's nostro balance and funding
- ☐ *% rate* discrepancy might indicate that the amount of the accrued interest is incorrect and thus, the Bank will deliver the wrong amount and might incur a penalty interest fee
- ☐ *deposit placed or deposit accepted* discrepancies i.e. instances where the dealers say that the Bank is placing a deposit with the counter-party but the incoming confirmation states that the counter-party is placing a deposit with the Bank - in other words the Bank is accepting a deposit. Such a discrepancy might indicate that the dealer has written the deal the wrong way round and, consequently, the Bank's assets and liabilities are incorrectly recorded
- ☐ *counter-party payment* instruction discrepancy might indicate that the Bank will pay the counter currency to the wrong correspondent and might incur a penalty interest fee
- ☐ *broker used* discrepancy i.e. instances where the Banks traders state that a broker was used as an intermediary whereas the incoming confirmation states that the trade was dealt directly on the phone/telex might indicate possible collusion between the trader and the broker to transfer funds out of the bank in the guise of broker's fee expenses

6. Follow-up all and comment on all instances where no incoming counter-party confirmation has been received.
7. Review and comment on the back-office department's procedures for following-up the non-receipt of an incoming confirmation.
8. Verify that all instances are referred to senior management where counter-parties consistently refuse to send a written confirmation.

9. By reference to the outgoing telex or S.W.I.F.T. payment instructions verify that no funds were paid away to a third party, indicating a potential loan disguised as a money market transaction.
- 10.. Verify that all money market transactions will mature within 12 months maximum or shorter period as per local custom.
11. Review a number of maturities and verify that the funds have been re-paid correctly.
12. Check the accounts for money market balances with odd amounts i.e. amounts which are not whole millions and/or thousands as this might indicate a roll-over of principal and interest.
13. Obtain the records of customer complaints and review to ascertain whether any customers have complained about the non-repayment of deposit previously placed with the Bank and not re-paid on the due date. This might indicate that the proceeds of the initial deposit were diverted.
14. Select a number of transactions and carry out an audit confirmation. Follow-up and comment on any discrepancies advised.
15. Review the rates on the transactions and verify that the rates are in line with market conditions and that no customer is being favoured with a rate lower than the market.

## FUNDING

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FUNDING

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## FUNDING

### BACKGROUND

Before the 1950's, banks were inclined to attract deposits somewhat passively, competition being largely on the basis of the provision of services. Such deposits were then either lent out or invested, usually on a rather conservative basis. On the whole, this amounted to an emphasis on the *management of assets*. "*Liability management*" - as it is called - initially originated, at about the same time, in the USA and Canada. Its purpose was to fund or finance holdings of remunerative assets such as loans, advances and various kinds of investments, as efficiently and profitably as possible. Sometimes these assets would be "matched" with liabilities e.g. short-term with short-term; medium-term with medium-term, but not necessarily, since it is part of the function of banking to transform short-term moneys into medium-to-longer-term assets.

The inter-relationship between assets and liabilities relates to both domestic and international funding and lending. Funding may derive from either domestic sources or the Eurocurrency markets. Likewise lending may relate to the domestic economy or take the form of international loans. Both these are sometimes financed partly from domestic sources and partly through the Eurocurrency markets. In recent years the capital/assets ratios of banks have operated at a constraint and, as a result, there has been a shift back from liabilities management to asset management, where the latter may consist of substituting high yield assets such as advances for lower yield assets such as government securities. Alternatively, there may be occasions when, to increase its profitability, a bank may shift into low risk assets (e.g. government securities) in place of high risk assets (such as property loans, loans to agriculture), which are more liquid.

A consequence of recent developments in the world banking activity has been the increasing concern of banks and financial institutions with *interest rate sensitivity*. It has become imperative, for example, to monitor the speed at which assets and liabilities change in their composition along with rates of interest in the money markets. Some assets and liabilities are *rate insensitive* (fixed rate loans, demand and savings deposits). Others, like variable rate loans and inter-bank loans, may be very volatile and change quite rapidly. They are therefore interest rate sensitive.

In other instances, rate sensitivity may relate to the maturity distribution of the portfolio. On the loan side, a fixed rate portfolio that is on the point of maturing can be expected, in a high rate environment, to become interest rate sensitive, as loans are moved over to a variable rate. In the context of securities portfolios, interest rate expectations will play a leading role in determining maturity distributions e.g. in a situation where there is great uncertainty about the future direction of interest rates, banks will tend to stay short. Also, if rates are likely to rise they will tend to run down, or switch out of, their longest dated securities because of the risk of capital depreciation.

Management of assets and liabilities must operate within the framework of the prudential controls and monetary policy laid down from time to time by the bank and by the authorities of the country concerned, in this case, the Czech & Slovak REpublics.

One of the major issues currently facing both the banker and the regulator is capital and in particular, the precise role of capital, what form it can take, the alternative sources of capital, the changing structure of banks' capital base and the various issues relating to capital adequacy. In all of these issues, the role of regulation has become increasingly central as regulators in most countries have increased the attention given to bank capital adequacy and structure.

Generally speaking, capital is needed to both deal with losses while enabling the business to continue, and support the basic infrastructure of the Bank. Capital and risk are inseparable as risk is at the centre of capital adequacy issues. The ultimate purpose of capital is to protect against various forms of risk that may affect a bank's ability to service its liabilities in the face of fluctuating earnings and changes in the value of assets.

For the purposes of this procedure, two general categories of risk are particularly important:

- ☐ *"maturity transformation" risk* which emerges when the maturity structure of assets and liabilities are different;
- ☐ *"interest mis-matching risk"* applies when the flexibility of the Bank's interest rates on assets is not synchronised with the flexibility on its liabilities, either because of the nature of the assets and liabilities or the interest rate formula applied when setting interest rates.

An individual bank's need for liquidity arises from the uncertainty surrounding its cash flow profile. Each bank has to deal with any net shortfall in cash inflow that it might experience, anticipated or otherwise. Accordingly, banks should operate a well diversified deposit base, both by maturity and counterparty and seek to secure an optimal mix of other liquidity forms such as cash, liquid assets and cash flows deriving from loans and securities holdings. A bank's natural desire to minimise "funding risk" or the risk that it will not be able to meet commitments as they fall due, is tempered by its desire to maximise profits. Because profits are inextricably linked to interest rate changes, exposure to which is heavily determined by the maturity profile of assets and liabilities, liquidity management can reasonably be viewed as a device for maximising "wealth".

#### **Liquidity Management and the Management of Risk:**

The two main banking risks of direct relevance to liquidity management are "funding risks" alternatively termed liquidity risk and "interest rate risk".

**REF: FD 1**  
**Date: 12/94**

Funding risk is a risk that a bank will not have sufficient funds to meet commitments at any given point in time. Factors which might account for a shortfall in availability include unexpected shortfalls in asset earnings, unexpected withdrawal of depositor credit facilities, unanticipated expenditure (current or capital) and unexpected movements in the maturity profile of assets and liabilities.

By way of contrast, interest rate risk is concerned with the uncertainty created for bank profitability by possible changes in interest rates.

A well diversified deposit base, both by maturity and counterparty, can be regarded as one prerequisite of prudent liquidity management. Other components include liquidity deriving from asset holdings such as cash, readily liquefiable assets, loans (via repayments of interest and principal), securities (via interest and dividend payments and sales and maturity proceeds).

## **FUNDING**

### **COMPLIANCE WITH BANK POLICIES & PROCEDURES**

#### **DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

#### **AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. For example, it is usual for banks to place a limit on the extent of the interest rate risk (short funded or long funded) risk it is prepared to undertake by imposing maximum funding gaps by maturity period, by currency and by maximum maturity.
7. Obtain details of the latest approved limits.
8. Make a determination as to which limits will be checked for compliance.
9. Obtain details of the accounting records for, say, a 3 month period.
10. Review the positions held and compare against the approved limits.
11. Identify any over limit situations.
12. Follow through and identify how the over limit situation was corrected.
13. During the examination the following specific items should be considered:
  - ☐ Bank Operating Directives
  - ☐ Bank Accounting Manual
  - ☐ Expenses Control Guidelines
  - ☐ Credit Authorities Manual
  - ☐ Foreign Exchange Trading Guidelines & Policies
  - ☐ Interest Rate Risk Guidelines & Policies
  - ☐ Any Other Directives (specify)

## **FUNDING**

### **COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

#### **DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

#### **AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate
6. Select a number of transactions for checking that the laws and regulations are being complied with.

7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

For example, there may be restrictions on:

- ☐ maintaining assets/liabilities in certain currencies
- ☐ the minimum or maximum permitted maturity periods
- ☐ taking deposits from or placing deposits in certain countries
- ☐ the maximum interest rate which can be charged to borrowers
- ☐ liquid assets ratio - the minimum rate of liquid assets to total deposits
- ☐ cash ratio - ratio of assets to total deposits

## **FUNDING**

### **REVIEW OF INTERNAL CONTROL & PROCEDURES**

#### **DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### **OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### **AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of actual transactions and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.

6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.

7. Carry out an operational overview of the area as follows:

**i) *Income:***

- ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
- ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
- ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
- ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e. correct level

**ii) *Management Reports:***

- ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
- ☐ review and comment on each report. Consider such matters as:
  - timely production of reports
  - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
  - report format and adequacy
  - where applicable, do the reports agree to the accounting records
  - adequate distribution i.e. distributed to the appropriate individuals or managers
- ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
- ☐ are there too many reports

**iii) *Systems (Technology):***

- ☐ is the system in use automated or manual
- ☐ if automated, is it adequate and are there any weaknesses. Consider such matters as:
  - system capacity and utilisation (over/under)
  - system flexibility

- operating costs
- processing costs
- system and data security issues
- error rates

iv) *Staffing (Human Resources):*

- ≡ is the overall organisational structure adequate
- ≡ is the departmental organisational structure adequate
- ≡ is the departmental management structure adequate
- ≡ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ?
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

**FUNDING**  
**REVIEW OF LIQUIDITY**

**DESCRIPTION**

One of the most important controls over the cash liquidity is the maintenance of accurate records by the traders of all maturing assets and liabilities.

The trade ticket written-up by the trader is the primary source input for the loan & deposit maturity records. In addition, the cash and back-office operations departments should inform the dealers, on a daily basis, of any individual cash movement or daily cash movements in excess of the amount set by the Treasurer as being material and/or marketable.

**OBJECTIVES**

1. To ensure that all adequate records and accurate records exist of all cash movements in or out of the bank and that the dealers are informed on a daily basis, preferably at least 2-3 days in advance of the maturity date.
2. To ensure that the non-receipt of incoming funds are followed-up immediately and advised to the dealers and that regular checks are made between the incoming correspondent bank statement and the Bank's ledgers.

**AUDIT PROCEDURES**

1. Obtain the IBIS computer produced reports of the projected nostro balances for each important currency or for all currencies.
2. By reference to the underlying prime records such as deal slips, incoming confirmations, loan agreements etc. verify that the transaction maturity dates have been input correctly.
3. Verify that all maturities, including foreign exchange deals, maturing securities etc. have been included and that there are no missing transactions.
4. Verify that the dealers are utilising the same records for managing the Bank's cash position. If the traders are using different records, verify that these are checked to the accounting records referred to in 1. above.

5. Verify that there is a procedure for following up with customers in advance of the maturity date, to ensure that loan interest and principal repayments etc. are received on the due date. For example, by debit to customer's account with the Bank (please note that this does not increase cash liquidity unless there is a matching asset that is also maturing the same day) or funds transfer from another bank
6. Review the projected nostro balances for the major and/or active dealing currencies and identify whether on any day or days there are any large or material positive or negative cash in-flows or out-flows. Follow-up and comment.
7. Refer the situations to the Treasurer and discuss the background etc. and ascertain how these will be regularised/resolved.
8. Ascertain whether there is any very large loan maturing, the non-receipt of which might jeopardise the Bank's cash position. Follow-up and comment.
9. Review the incoming correspondent bank statements and ascertain whether any accounts are showing large overdrawn balances.

Please note that large overdrawn balances might indicate that the Bank's cash position is not being properly managed.

10. Verify that the non-receipt of incoming funds are promptly followed-up and that, where appropriate, customers are charged penalty interest on overdue balances. If appropriate refer to the nostro account reconciliations.

## FUNDING

### TRIAL BALANCE & PROVE

### REVIEW OF INTEREST RATE EXPOSURES

#### DESCRIPTION

Interest rate risk management (IRRM) looks at the Bank as a portfolio of interest bearing securities, funded predominantly by actual or potential interest-bearing obligations. The net return of such a portfolio will normally be sensitive to changes in market interest rates - depending on the overall re-pricing structure of the net portfolio, discrepancies between the terms at which market rates can be passed on to the various products subject to adjustable pricing and unexpected volume changes e.g. fixed rate loan repayments and deposit withdrawals induced by changes in market rates. The objective of IRRM is to maintain a balance, in accordance with the Bank's overall tolerance of risk, between current income and potential for future gain or loss. The Bank may, for instance, accept a temporarily low level of profitability to "carry" a rate-sensitivity profile that expects a temporarily inverted yield curve to return to normal shape via a steep decline in short-term rates and a much smaller one in long-term rates. The risk in this strategy, is of course, that the Bank's expectations may not be realised.

For proper IRRM, the bank needs to be familiar with the exact future "cash flows" of its portfolio, both those determined because re-pricing terms of the underlying assets and liabilities are fixed and cash flows that are sensitive to interest rates such as early withdrawals and repayments and interest-rate induced movements in, for example, demand deposit volumes. In addition, two other requirements for IRRM are an interest rate forecast and a planning horizon.

- ≡ "mismatch" gap or "re-pricing" - the potential for unexpected gain or loss caused by the possibility that outstanding balance sheet components with interest rates fixed for a certain term have yet to be "matched" at terms which may vary
- ≡ "mix" risk - the potential for unexpected gain or loss caused by the supply of balance sheet components behaving in an interest-elastic manner, forcing the Bank, for example, to replace savings deposits in its funding mix with more costly money market liabilities
- ≡ "basis" risk - the risk that a widely used "administered" rate will behave differently from the Bank's subjective funding mix.

### OBJECTIVES

1. To ensure that the interest rate exposures are in keeping with the bank's authorities and guidelines.
2. To ensure that interest rate risk is monitored on a regular basis and that senior management are aware of the situation.
3. To ascertain whether the reported exposures are correct and that there are any major exposures to interest rate risk.

### AUDIT PROCEDURES

1. Obtain the latest funding reports. These reports should be prepared at least monthly. There should be one report for each currency in which the Bank has interest bearing assets and/or liabilities and one report for all currencies consolidated in local currency i.e. Crowns. If no reports are being prepared, the auditor may consider preparing his own reports.

It is usual to show interest rate risk on a "*reverse*" or "*reverse cumulative*" basis.

2. By reference to the prime accounting records verify that all interest bearing assets and liabilities are included.
3. By reference to the contingent account balances in the prime accounting records verify that all future assets and liabilities have been included.
4. By reference to deal slips, incoming confirmations etc. verify, on a test check basis, that the transactions have been included on the "*interest roll-over*" date and not the final maturity date.

For example, if the interest rate on a two year loan is reviewed/re-priced every six months, then the transaction will be included in the six months rather than the two year ladder.

5. Verify that the outstanding funding gaps are in line with the Bank's approved guidelines. If any over limits are noted, verify that these have been adequately approved.
6. Review the reports for a previous period and identify any over limit situations. Verify that these were adequately approved.

7. Ascertain whether there are any major exposures to interest rate movements - either short-funded or long-funded. Follow-up and comment.
8. Obtain market rates independent of the dealers and calculate the probable effect on the Bank's future earnings.
9. Discuss the findings with the Treasurer and senior management.
10. Obtain the profit and loss accounts for a selected period. Identify the figures for the gross interest from interest bearing assets (e.g. interest income) and interest bearing liabilities.
11. Obtain the analysis of the profit and loss accounts for a selected period. Identify the figures for the net spread earned.
12. Follow-up and comment on any major trends - either upward or downward.

Please note that a reduction in net interest income and net spread might be indicative of a reduction in lending activity but a reduction in net spread or gross margin might be indicative of funding exposures including pricing policies.

13. Obtain details of the "interest rate formulae" used in determining pricing. Comment as appropriate.

**FUNDING REPORT as at CLOSE OF BUSINESS**  
----- 1995

**CURRENCY:** All Currencies Consolidated in Czech & Slovak Crowns

<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<i>Account Category</i>	<i>Balance</i>	<i>Account Category</i>	<i>Balance</i>
- Nostro Balance	2,000,000	- Interest Bearing Liabilities	36,000,000
- Interest Bearing Assets	33,000,000		
<i>Sub-Total</i>	35,000,000	<i>Sub-Total</i>	36,000,000
- Other Assets	1,100,250	- Other Liabilities	100,250
<i>Grand Total</i>	36,100,250	<i>Grand Total</i>	36,100,250
<b>Balance Per General Ledger</b>	<b>36,100,250</b>	<b>Balance Per General Ledger</b>	<b>36,100,250</b>
<b>Difference</b>	<b>Nil</b>	<b>Difference</b>	<b>Nil</b>

<b>CONTINGENT ASSETS:</b>		<b>CONTINGENT LIABILITIES:</b>	
<i>Account Category</i>	<i>Balance</i>	<i>Account Category</i>	<i>Balance</i>
- Forward Loans	5,000,000	- Forward Money Market Deposits Taken	15,000,000
- Forward Money Market Placements	10,000,000		
<i>Sub-Total</i>	15,000,000	<i>Sub-Total</i>	15,000,000
- Other Contingent Assets	25,000,000	- Other Contingent Liabilities	25,000,000
<i>Grand Total</i>	40,000,000	<i>Grand Total</i>	40,000,000
<b>Balance Per General Ledger</b>	<b>40,000,000</b>	<b>Balance Per General Ledger</b>	<b>40,000,000</b>
<b>Difference</b>	<b>Nil</b>	<b>Difference</b>	<b>Nil</b>

FUNDING REPORT as at CLOSE OF BUSINESS  
----- 1995

CURRENCY: Czech & Slovak Crowns

ASSETS:		LIABILITIES:	
<i>Account Category</i>	<i>Balance</i>	<i>Account Category</i>	<i>Balance</i>
- Nostro Balance	1,900,000		
- Interest Bearing Assets	31,000,000	- Interest Bearing Liabilities	34,000,000
<i>Sub-Total</i>	32,900,000	<i>Sub-Total</i>	34,000,000
- Other Assets	1,100,250	- Other Liabilities	250
<i>Grand Total</i>	34,000,250	<i>Grand Total</i>	34,000,250
Balance Per General Ledger	34,000,250	Balance Per General Ledger	34,000,250
Difference	Nil	Difference	Nil

CONTINGENT ASSETS:		CONTINGENT LIABILITIES:	
<i>Account Category</i>	<i>Balance</i>	<i>Account Category</i>	<i>Balance</i>
- Forward Loans	5,000,000		
- Forward Money Market Placements	10,000,000	- Forward Money Market Deposits Taken	15,000,000
<i>Sub-Total</i>	15,000,000	<i>Sub-Total</i>	15,000,000
- Other Contingent Assets	25,000,000	- Other Contingent Liabilities	25,000,000
<i>Grand Total</i>	40,000,000	<i>Grand Total</i>	40,000,000
Balance Per General Ledger	40,000,000	Balance Per General Ledger	40,000,000
Difference	Nil	Difference	Nil

FUNDING REPORT as at close OF BUSINESS  
----- 1995

CURRENCY: X (at 1/1 to the Crown)

ASSETS:		LIABILITIES:	
<i>Account Category</i>	<i>Balance</i>	<i>Account Category</i>	<i>Balance</i>
- Nostro Balance	100,000	- Interest Bearing Liabilities	2,000,000
- Interest Bearing Assets	2,000,000	<i>Sub-Total</i>	2,000,000
<i>Sub-Total</i>	2,100,000		
- Other Assets	0	- Other Liabilities	100,000
<i>Grand Total</i>	2,100,000	<i>Grand Total</i>	2,100,000
<b>Balance Per General Ledger</b>	2,100,000	<b>Balance Per General Ledger</b>	2,100,000
<b>Difference</b>	Nil	<b>Difference</b>	Nil

CONTINGENT ASSETS:		CONTINGENT LIABILITIES:	
<i>Account Category</i>	<i>Balance</i>	<i>Account Category</i>	<i>Balance</i>
- Forward Loans	0		()
- Forward Money Market Placements		- Forward Money Market Deposits Taken	0
<i>Sub-Total</i>	0	<i>Sub-Total</i>	0
- Other Contingent Assets	0	- Other Contingent Liabilities	0
<i>Grand Total</i>	0	<i>Grand Total</i>	0
<b>Balance Per General Ledger</b>	0	<b>Balance Per General Ledger</b>	0
<b>Difference</b>	Nil	<b>Difference</b>	Nil

BEST AVAILABLE DOCUMENT

FUNDING REPORT as at CLOSE OF BUSINESS  
----- 1995

CURRENCY: All Currencies Consolidated in Czech & Slovak Crowns

	INTEREST BEARING ASSETS	Average % Rate	INTEREST BEARING LIABILITIES	Average % Rate	NET FUNDING GAP	Net Break Even % Rate	Current Market Rate	Current Cost of Closing Gap
<i>Balance Sheet</i>	33,000,000		36,000,000		3,000,000			
<i>Contingents</i>	15,000,000		15,000,000		0			
<b>Total</b>	<b>48,000,000</b>		<b>51,000,000</b>		<b>3,000,000</b>			

Maturity Date	Maturity Period							
31 December 1994	1 Month	48,000,000	11.6875	51,000,000	10.25	3,000,000		
30 June 1995	2 Months	48,000,000	11.6875	51,000,000	10.25	3,000,000		
31 July 1995	3 Months	48,000,000	11.6875	34,000,000	10.50	<14,000,000>		
31 August 1995	4 Months	18,000,000	12.00	17,000,000	10.75	<1,000,000>		
31 September 1995	5 Months	18,000,000	12.00	0		<18,000,000>	12.00	
31 October 1995	6 Months	18,000,000	12.00	0		<18,000,000>	12.00	
31 January 1996	9 Months	12,000,000	11.75	0		<12,000,000>	11.75	
30 April 1996	12 Months	0	0	0		0		

FUNDING REPORT as at CLOSE OF BUSINESS  
----- 1995

CURRENCY: All Currencies Consolidated in Czech &amp; Slovak Crowns

	INTEREST BEARING ASSETS	Average % Rate	INTEREST BEARING LIABILITIES	Average % Rate	NET FUNDING GAP	Approved Funding Gap Limit	Overlimit Yes/No	If Yes Approval Sighted
<i>Balance Sheet</i>	33,000,000		36,000,000		3,000,000			
<i>Contingents</i>	15,000,000		15,000,000		0			
<b>Total</b>	<b>48,000,000</b>		<b>51,000,000</b>		<b>3,000,000</b>			

Maturity Date	Maturity Period							
31 May 1995	1 Month	48,000,000	11.6875	51,000,000	10.25	3,000,000		
30 June 1995	2 Months	48,000,000	11.6875	51,000,000	10.25	3,000,000		
31 July 1995	3 Months	48,000,000	11.6875	34,000,000	10.50	<14,000,000>		
31 August 1995	4 Months	18,000,000	12.00	17,000,000	10.75	<1,000,000>		
31 September 1995	5 Months	18,000,000	12.00	0		<18,000,000>		
31 October 1995	6 Months	18,000,000	12.00	0		<18,000,000>		
31 January 1996	9 Months	12,000,000	11.75	0		<12,000,000>		
30 April 1996	12 Months	0	0	0		0		

## **INVESTMENTS AND SECURITIES**

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**INVESTMENTS & SECURITIES**

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**INVESTMENTS & SECURITIES**

**COMPLIANCE WITH BANK POLICIES & PROCEDURES**

**DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

**AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. For example, it is usual for banks to place a restriction on which individuals can authorise the purchase and disposal of investments made on behalf of the Bank. It is also usual practice that the Treasurer should be involved in this operation since he has a responsibility for funding and liquidity.
  
7. During the examination the following specific items should be considered:
  - ☐ Bank Operating Directives
  - ☐ Bank Accounting Manual
  - ☐ Credit Authorities Manual
  - ☐ Bank Investment Policy Directive(s) including a list of approved or un-approved investments and securities
  - ☐ Policies for Trading Account Securities (if any)
  - ☐ Any Other Directives (specify)

## **INVESTMENTS & SECURITIES**

### **COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

#### **DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

#### **AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):
  - ⇒ Czech & Slovak regulations may place a restriction on the type of instruments which banks can purchase as investments;
  - ⇒ regulations may specify special accounting treatment e.g. investments may be required to be booked as to lower of cost or market
  - ⇒ there may be restrictions on the transfer of investment securities to a trading portfolio and vice versa
  - ⇒ investments may be required to be held for a minimum of x years

## **INVESTMENTS & SECURITIES**

### **REVIEW OF INTERNAL CONTROL & PROCEDURES**

#### **DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine.. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### **OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### **AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of investment & securities transactions which were effected during the past 12 months and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:
  - i) **Income:**
    - ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
    - ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
    - ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
    - ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e. correct level
  - ii) **Management Reports:**
    - ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
    - ☐ review and comment on each report. Consider such matters as:
      - timely production of reports
      - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
      - report format and adequacy
      - where applicable, do the reports agree to the accounting records
      - adequate distribution i.e. distributed to the appropriate individuals or managers
    - ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
    - ☐ are there too many reports

*iii) Systems (Technology):*

- ☐ is the system in use automated or manual
- ☐ if automated, is it adequate and are there any weaknesses. Consider such matters as:
  - system capacity and utilisation (over/under)
  - system flexibility
  - operating costs
  - processing costs
  - system and data security issues
  - error rates

*iv) Staffing (Human Resources):*

- ☐ is the overall organisational structure adequate
- ☐ is the departmental organisational structure adequate
- ☐ is the departmental management structure adequate
- ☐ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?.
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ? .
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

**INVESTMENTS & SECURITIES**

**TRIAL BALANCE & PROVE**

**DESCRIPTION**

The only effective method of ensuring that all investments and securities purchased are accounted for is to perform a physical count in which all instruments, held in the vault or in safe custody at an approved custodian, are counted and agreed to the safe custody records, and the Subsidiary and General Ledgers.

The operating department responsible for purchasing and disposing of investments and securities should count the instruments held in the vault or elsewhere on a periodic basis, i.e. at least every three months and Departmental or Branch management should carry out a surprise check at irregular intervals.

**OBJECTIVES**

1. To ensure that the Bank's investment or securities instruments are kept under dual control at all times and that no items are missing from the vault.
2. The physical count of investments and securities agrees with the control records and the subsidiary and general ledgers.
3. To ensure that no bad or problem loans are being concealed from management by being booked as investments or investment securities.
4. To ensure that interest income on the coupon, where applicable, is diarised and collected when due.
5. The market values of investments are regularly obtained from an independent market source and reviewed by management
6. To ensure that the Bank's title to the instruments is good and not impaired.

**AUDIT PROCEDURES**

1. Obtain the latest copy of the subsidiary and general ledgers. Ensure that all currencies are included.
2. Review and identify all accounts which relate to investment or securities activities.
3. Obtain the prime departmental and safe custody records relating to investments and securities activities.
4. Verify that the investment and securities instruments held are in agreement with the accounting records.
5. Verify that all investments and securities purchased have been approved in accordance with the Bank's investment and securities policy.
6. Verify that all purchases have been checked for correct approval.
7. Verify, by reference to the local Stock Exchange, Reuters, Telekurs or other appropriate pricing service, that the purchase price was in keeping with market prices. Refer any out of line prices to management.
8. Verify that all purchases are within the established limit guidelines i.e. issuer limits, final maturity etc.
9. If appropriate, verify that all transfers between portfolio and trading account are in keeping with the Bank's investment policies.
10. Review the safe custody procedures and verify that instruments are kept under dual control at all times.
11. Select a number of sales transactions and verify that the decision to sell has been/is in keeping with the investment policy and has been properly approved.
12. Follow through to the Nostro account(s) and verify that the proceeds of sales have been received by the Bank i.e. not diverted elsewhere.
13. Verify, by reference to the local Stock Exchange, Reuters, Telekurs or other appropriate pricing service, that the sale price was in keeping with market prices. Refer any out of line prices to management.

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14. Review the outstanding instruments and verify that these are bona-fide investments and securities instruments rather than credits or loans which have been booked to the investment account to conceal the fact that the debtors are in arrears etc.
15. By reference to the coupon % on the instruments carry out an independent calculation of the interest due and verify receipt by reference to the income & expense accounts.
16. Obtain current market prices for the outstanding instruments e.g. Reuters, local stock Exchange etc. and revalue the instruments. Comment on any material losses.
17. Verify that market prices are obtained at least every 6 months and that the current market values are reviewed by management.
18. By reference to broker's confirmations etc. check the ownership of the instruments and verify that the Bank's title is complete and un-encumbered.

**INVESTMENTS & SECURITIES  
PER ACCOUNTING RECORDS**

Name of Issuer or Other Details	Currency	Nominal Value	Cost Price	Issue %	Date Purchased	Approved By	Approval OK Yes/No	Verified to Investment Policy Guidelines Yes/No
<b>TOTAL</b>								

INVESTMENTS & SECURITIES  
DISPOSALS (SALES)

Name of Issuer or Other Details	Currency	Nominal Value	Cost Price	Sale Price	Date Sold	Approved By	Approval OK Yes/No	Sale Price Verified to an Independent Source Yes/No	Proceeds Verified to Nostro Account(s) Yes/No
<b>TOTAL</b>									

**AUDIT PROCEDURES**

**LOANS & ADVANCES**

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LOANS & ADVANCES

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## LOANS & ADVANCES

### GLOSSARY OF TERMS GENERALLY USED

➤ *Line of Credit:*

A Line of Credit enables a borrower to make individual borrowings up to the borrowing limit. Lines of Credit are not legally binding on the Bank and can be cancelled at any time. At the expiration date, Lines of Credit cannot be used unless they are extended or renewed.

If a customer is informed of a Line of Credit, it is called an *advised line*. If the Bank develops a line of credit for internal purposes, it is termed a *guidance line*. On such lines, there are no loan agreements or contracts. The terms and conditions under which credit is extended can be of three types:

- good until cancelled - the bank may terminate the line at will.
- annual review - the line automatically terminates at the end of one calendar year.
- as offered - the Bank must be consulted prior to each drawing.

Sometimes a Line of Credit may have sub-lines for Overdrafts, Bills Discounted, Acceptances, Letters of Credit etc.

➤ *Lines of Credit:*

Once a line of credit is established an 'offering ticket' or similar document provides the internal authority for and evidences draw downs. Offering tickets can also be used for borrowings on a one-time or temporary basis.

➤ *Advances Against Collections:*

These are short-term advances obtained against the expected collection of funds due to the borrower from the sale and shipment of goods. Any funds due are utilised to repay the advance.

➤ ***Bills, Notes, Drafts Discounted:***

Extensions of credit can be made to a customer by purchase of negotiable notes and other instruments that are the debt of another party. The Bank can discount the instrument or take its fee in advance. The customer is held responsible for any losses unless the discount is done "without recourse". Bankers acceptances arising from drafts issued on a Letter of Credit are often handled by discounting.

➤ ***Contingent Liabilities:***

Contingent liabilities are potential liabilities that arise from the sale, transfer, endorsement or guarantee of negotiable instruments. For example, contingent liabilities occur from:

- discount, sale or transfer of acceptances, bankers acceptances and foreign drafts
- endorsement of commercial letters of credit
- forward foreign exchange contracts

➤ ***Demand Loan & Call Loan:***

These are loans that do not have a maturity date and are subject to call by the Bank for principal payment or for interest rate adjustment.

➤ ***Guarantee:***

A promise by a third party to complete the terms of a contract if/when the borrower cannot.

➤ ***Legal Commitment:***

An agreement that is binding on both parties and describes the terms and conditions of a loan.

➤ ***Legal Commitment:***

Loans that are secured by negotiable instruments such as stocks, bonds, certificates of deposit or any other marketable securities. Loans that are used to purchase stock may be subject to local regulations. Such securities are revalued on a periodic basis to determine whether its value has fallen below that called for in the security agreement.

➤ ***Loan Participation Sold:***

Participations in the Bank's loans may be sold to a correspondent bank or third party without notification to the borrower.

➤ ***Loan Participation Bought:***

When the borrowing needs of a correspondent bank's customer exceeds the lending limit of that customer they may ask the Bank to participate in a loan. Limits on these transactions may be determined by Czech & Slovak Banking Laws or internal Bank policy.

➤ ***Overdrafts:***

An overdraft line is an agreement between the bank and a customer to allow the customer to overdraw his/her/its account. Generally, there is a limit to the amount of the overdraft and a customer may be required to make repayment within a certain time limit. In some instances, there may be a restriction on the use of the funds.

➤ ***Time Loans:***

A time loan is a loan having a fixed maturity. On this type of loan the borrower has use of the funds until the agreed maturity and is not subject to any demand for repayment of principal or interest.

➤ ***Unsecured Loans:***

These loans are normally made on the strength of a borrower's financial position

➤ ***Secured Loans:***

Secured loans are made by using collateral to back up the repayment of the loan. Any form of negotiable securities e.g. land, buildings can be used as long as the security is readily marketable.

➤ ***Guaranteed Loans:***

Personal or corporate guarantees can be used for a specific borrowing or for all borrowings of a customer.

➤ ***Revolving Credit:***

A revolving credit is a legal commitment that is binding on the Bank, whereby the Bank agrees to make advances, at the borrower's request, up to a specified amount and is available for a stipulated period. This permits the borrower to "arrange" the timing of the advances and repayments to suit his needs and to minimise his interest expense.

This type of financing is used when the borrower is not sure of the amount and length of his financing needs and sometimes pre-ceeds a term loan. Banks normally charge a commitment fee on the unused portions.

➤ ***Standby Commitment:***

This is a commitment similar to a revolving credit except that re-payments and re-borrowing are not allowed during the commitment period. At the end of the commitment period the outstanding debt is normally converted to a term loan.

➤ ***Roll-overs:***

These are loans that are granted an extension or are re-negotiated at maturity rather than being repaid.

➤ ***Loan Fees:***

A fee may be charged on the unused portion of credit, on commitments where the Bank is required to reserve funds for a borrower. The Bank may also collect fees for arranging loans.

➤ ***Accounts Receivable/Inventory Financing:***

These are advances secured by the pledge of Accounts Receivable or inventory. The advance is reduced as the pledged receivables are reduced.

➤ ***Country Exposure:***

These are total assets exposed to risk in any one country.

➤ ***Country Risk:***

These are risks which are not related to the credit worthiness of any particular borrower. These risks derive from the economic, political and social circumstances of a foreign country.

➤ ***Sovereign Risk:***

These are credits to a country that has the backing of that country's government.

**LOANS & ADVANCES**

**COMPLIANCE WITH BANK POLICIES & PROCEDURES**

**DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

**AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. During the examination the following specific items should be considered:

- Bank Operating Directives
- Bank Accounting Manual
- Expenses Control Guidelines
- Credit Authorities Manual
- Any Other Directives (specify)

## **LOANS & ADVANCES**

### **COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

#### **DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

#### **AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate.

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

For example there may be restrictions on lending.

**LOANS & ADVANCES**

**REVIEW OF INTERNAL CONTROLS & PROCEDURES**

**DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

**OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

**AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of actual transactions and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:
  - i) *Income:*
    - ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
    - ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
    - ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
    - ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e. correct level
  - ii) *Management Reports:*
    - ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
    - ☐ review and comment on each report. Consider such matters as:
      - timely production of reports
      - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
      - report format and adequacy
      - where applicable, do the reports agree to the accounting records
      - adequate distribution i.e. distributed to the appropriate individuals or managers
    - ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
    - ☐ are there too many reports

iii) *Systems (Technology):*

≡ is the system in use automated or manual  
≡ if automated, is it adequate and are there any weaknesses. Consider such matters as:

- system capacity and utilisation (over/under)
- system flexibility
- operating costs
- processing costs
- system and data security issues
- error rates

iv) *Staffing (Human Resources):*

≡ is the overall organisational structure adequate  
≡ is the departmental organisational structure adequate  
≡ is the departmental management structure adequate  
≡ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ?
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

**LOANS & ADVANCES**

**DEFINITION OF RESPONSIBILITIES**

**DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

**USUAL RESPONSIBILITIES OF THE LENDING (ACCOUNT) OFFICER**

1. Preparing loan application forms for credit approval.
2. Presenting the loan package for approval.
3. Ensuring that proper credit approval has been obtained.
4. Obtaining all the proper documentation and financial statements.
5. The timely handling of all forms and documents.
6. The validity and adequacy of documentation.
7. The control of the documentation.
8. Obtaining legal opinion, from in-house and/or external counsel, if necessary.
9. Ensuring that adequate current credit information is maintained in the customers credit file.

**USUAL RESPONSIBILITIES OF THE CREDIT OFFICER**  
(If this department does not exist then the duties may be performed  
by the Loan Administration Department)

1. Ensuring that the proper documentation is obtained and is in order.
2. Referring any documentation exceptions to the Loan (Account) Officer.
3. Reviewing the loan agreement.

4. An independent review of all loan proposals.
5. Establishing a procedure to continually review the documentation file for:
  - ≡ current signing authorities
  - ≡ ensuring that proper documentation has been obtained for any changes
  - ≡ borrowing resolutions are in order and current
  - ≡ legal documentation is in order

**USUAL RESPONSIBILITIES OF THE CREDIT (LOAN)  
ADMINISTRATION DEPARTMENT**

1. Verifying the existence of a credit line.
2. Preparing the offering ticket and obtaining approvals.
3. Preparing and processing of the loan advice form.
4. Notifying the Treasurer of any funding requirements.
5. Processing the accounting entries.
6. Proofs - carrying out regular proofs of the loan outstandings etc.
7. Preparation of periodic loan outstanding reports and reports of bad/suspense loans for senior management.

**LOANS & ADVANCES  
TRIAL BALANCE & PROVE**

**DESCRIPTION**

The work of the back-office department begins as soon as they receive/collect copies of the original loan tickets that are prepared by the loan/account officers. The initial act of the back-office operations is to record the loan by inputting it into the computer. Once the loan is input, the computer will generate the necessary records.

**OBJECTIVES**

1. To ensure that all the various accounting reports are self-balancing and to trial balance and prove the outstanding loans.

**AUDIT PROCEDURES**

1. Obtain the latest copy of the IBIS produced foreign currency balance sheets, subsidiary ledgers and general ledgers.
2. Review and highlight the accounts which are loans & advances related.
3. Schedule and prove to the General Ledger. See attached Schedules.
5. Obtain the latest copy of the 'Credit Outstanding Report' produced by the Loan Administration Department.
6. Review and test check to ensure that the Report is complete and agrees with the General Ledger.
7. Select a number of loans for further examination. It would be preferable if the selection was as representative as possible including a selection from each category of loan account and from each currency.
8. Review the loan application and carry out an independent analysis.

9. Verify that the borrower rating i.e. the measure of loss possibility based on the financial characteristics of the borrower is realistic.
10. Verify that the risk rating i.e. the measure of collectibility of the credit is realistic.
11. Verify that the credit does not exceed the maximum amount approved for the borrower and, if appropriate, the maximum amount approved for the group.
12. Verify that the credit approval is adequate and in accordance with the approval authorities contained in the Bank's Credit Approval Guidelines.
13. Verify that the credit line is current i.e. not expired.
14. Verify that the credit line has been diarised for renewal.
15. Review the loan agreement and make a list of the required documentation.
16. Verify that all original documentation has been received and is held by the Bank.
17. By reference to the vault register verify that original documentation is held in safe custody in the vault.
18. Verify that there is a credit file containing all available information and documentation pertinent to the loan.
19. Verify that, as a minimum, the following information is on file:
  - ☐ Complete name and address of the borrower
  - ☐ Country Code, Geographic Code and Geographic Risk Code
  - ☐ National Bank Industry/Borrower Type Code, if applicable
  - ☐ Borrower Risk Rating
  - ☐ Value Date of the loan
  - ☐ Interest Payment Date, Roll-over date and/or final maturity date
  - ☐ Loan amount and Currency
  - ☐ Loan Type i.e. Time, Demand, Revolving, Overdraft
  - ☐ Secured or Unsecured
  - ☐ Gross Interest Rate and interest rate formula
  - ☐ Spread
  - ☐ Basis i.e. 360, 365 day basis etc.
  - ☐ Documentation - type of documents and whether enclosed or to be received
  - ☐ Guarantor's name and address, if applicable

20. Verify that the loan does not exceed any legal or other limits e.g. some countries restrict the maximum lending to any one individual or group of individuals to no more than 15 % of the Bank's capital.
21. Review and comment on the procedures for informing the Treasurer of all new or pending loans so that the appropriate funding can be provided.
22. Review the procedures in the loan administration department and verify that all transactions are booked correctly.
23. On a test check basis verify that the correct interest accrual is established and that interest income is billed and collected on the due date. If appropriate, review the billing procedures.
24. By reference to the customer account verify that the loan proceeds were credited to the account.
25. By reference to outgoing telexes and/or SWIFT messages verify that the loan proceeds were paid away in accordance with the customer's instructions.
26. Make a selection of loans for circularisation and independently verify that the loans are genuine by performing an audit confirmation. Note: this may be done as part of an annual exercise in conjunction with the external auditors. However, it is recommended that positive confirmation be carried as often as possible.
27. Review the outstanding loans and identify any loans which have been made to Directors and Officers or shareholders of the Bank and their families and business activities and/or business associates.
28. Verify that the loans have been properly approved i.e. not approved by the Director/Officer concerned.
29. Verify that the loans have been reported to the Board of Directors and Supervisory Committee.
30. Verify that the loans have been made using normal commercial criteria, are arms length transactions and that all documentation is adequate and held.



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**LOANS & ADVANCES OUTSTANDING**  
as at Close of Business-----

Currency: Local Currency (CKC)

IBIS A/C No.	Loan Account Title	Balance in CKC
	- - - - - - - -	
	<b>TOTAL</b>	<b>**</b>

\*\* = Carried Forward

505





**PROBLEM LOANS  
(Bad, Doubtful & Suspense)**

**DESCRIPTION**

The loan/account officers should monitor their loans to inform themselves of any substantial deterioration that would result in a loan being classified as a problem loan. If a loan falls into one of the following categories notification should be made to senior management:

- ☐ a trend of rapidly declining profits or consistent losses
- ☐ a decline in liquidity
- ☐ significant increase in liabilities
- ☐ classification by any regulatory examining authority
- ☐ material adverse change in borrower's industry and/or markets

**OBJECTIVE(S)**

1. To ensure that all loans are regularly monitored by the appropriate loan/credit officers.
2. To ensure that all doubtful loans have been identified and have been accounted for in accordance with the Bank's and/or regulatory requirements.
3. To ensure that senior management are aware of all doubtful loans and that these have been approved.

**PROCEDURES**

1. Obtain the latest list of "watch-list" loans i.e. loans which should be monitored closely to ascertain whether they are in the preliminary phase of being doubtful. Consider such indications as interest overdue and not paid on the due date, principal repayment overdue, customer not responding to letters and/or phone calls.
2. Obtain the list of "watch-list" loans for a previous period and ascertain whether any of these are on the current list or whether any have now been classified as problem loans.

3. Review the interest accruals and independently verify that all instances of overdue interest are recorded on the "watch-list".
4. Review the nostrro account reconciliations and ascertain whether any principal amounts are outstanding and verify that all such instances are recorded on the "watch-list".
5. Review the currency, subsidiary and general ledgers and ascertain whether any principal and/or interest due amounts have been rolled over. A good indication of this is a loan outstanding for odd amounts i.e. not a whole amount.
6. Verify that loan/credit officers are familiar with the Bank's and/or the regulatory problem loan accounting procedures. Generally speaking, a loan is classified as a problem loan if principal and/or interest is overdue for 90 days or more.
7. Verify that all problem loans have been correctly identified and properly accounted for i.e. removed from the normal loan account categories and transferred to the "problem" loan category in the accounting records.
8. Select a number of loans for further review. Obtain the credit/loan files and ascertain that correspondence is current, indicating that the loan is being monitored properly.
9. Ascertain that all problem loans have been reported to senior management and that they have been adequately approved.
10. Discuss with the loan/credit officers their methodology for identifying problem loans i.e. receipt and monitoring of current financial information from the customer, reading business journals, discussions with peer groups in other banks etc.
11. Ascertain from the files that the Bank's legal department and/or counsel have reviewed the Bank's collateral for adequacy and that this is held in a secure place.
12. Ascertain that the customer is following and abiding by the terms of any loan work-out agreements.

**AUDIT PROCEDURES**  
**LEASE RECEIVABLES**

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LEASE RECEIVABLES

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## **LEASE RECEIVABLES**

### **COMPLIANCE WITH BANK POLICIES & PROCEDURES**

#### **DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVE**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

#### **AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. During the examination the following specific items should be considered:

- ☐ Bank Operating Directives
- ☐ Bank Accounting Manual
- ☐ Expenses Control Guidelines
- ☐ Credit Authorities Manual
- ☐ Any Other Directives (specify)

**LEASE RECEIVABLES**

**COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

**DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

**AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

(For example, there may be special accounting requirements for leasing transactions.)

## **LEASE RECEIVABLES**

### **REVIEW OF INTERNAL CONTROL & PROCEDURES**

#### **DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### **OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### **AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of account opening transactions which were effected during the past 12 months and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:
  - i) **Income:**
    - ⇒ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
    - ⇒ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
    - ⇒ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
    - ⇒ Identify and review any debits to the income accounts and ensure that these have been approved at i.e. correct level
  - ii) **Management Reports:**
    - ⇒ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
    - ⇒ review and comment on each report. Consider such matters as:
      - timely production of reports
      - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
      - report format and adequacy
      - where applicable, do the reports agree to the accounting records
      - adequate distribution i.e. distributed to the appropriate individuals or managers
    - ⇒ are there any missing reports i.e. are there reports which are not prepared but which should be
    - ⇒ are there too many reports

iii) *Systems (Technology):*

≡ is the system in use automated or manual  
≡ if automated, is it adequate and are there any weaknesses. Consider such matters as:

- system capacity and utilisation (over/under)
- system flexibility
- operating costs
- processing costs
- system and data security issues
- error rates

iv) *Staffing (Human Resources):*

≡ is the overall organisational structure adequate  
≡ is the departmental organisational structure adequate  
≡ is the departmental management structure adequate  
≡ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ?
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

**LEASE RECEIVABLES**  
**TRIAL BALANCE & PROVE**

**DESCRIPTION**

The work of the back-office department begins as soon as they receive/collect copies of the original loan/leasing tickets that are prepared by the loan/account officers. The initial act of the back-office operations is to record the lease receivables by inputting it into the computer. Once the lease ticket is input, the computer will generate the necessary accounting records.

The normal accounting for leasing transactions is to debit the asset account entitled "Gross Lease Receivables" for the cost of the equipment *and* the projected earnings for the duration of the lease transaction. The contra entries are credits to the Nostro account for the payment of the purchase cost of the equipment and "Unearned Income - Leases".

Each month or quarter, the nostro account is debited for the value of the lease rental and the contra entry will be the asset account "Gross Lease Receivables". Also, each month, the "Unearned Income - Leases" account will be debited for the month's portion of income and the profit account credited for the same amount.

**OBJECTIVES**

1. To ensure that all the various accounting reports are self-balancing and to trial balance and prove the outstanding leases to the accounts.

**AUDIT PROCEDURES**

1. Obtain the latest copy of the IBIS produced foreign currency balance sheets, subsidiary ledgers and general ledgers.
2. Review and highlight the accounts which are lease receivables related.
3. Schedule and prove to the General Ledger. See attached Schedules.

4. Obtain the copies of all outstanding "lease proof worksheets". Trial balance and prove the balances to the "Gross Lease Receivables" asset account and "Unearned Income - Leases" account. See attached schedules. Follow-up and comment on any discrepancies.
5. Select a number of lease transactions for further review.
6. Obtain the lease/credit file and verify that the equipment has been marked with the Bank's name as beneficial owner.
7. Verify that an insurance policy covering the leased asset is held, is valid and is for the correct amount.
8. Verify that, in the case of new equipment leased, a control is made to ensure that the price of the equipment is checked to the suppliers and/or manufacturers published price list.
9. Verify that, where appropriate, the Bank benefits from any supplier and/or manufacturers discounts.
10. Verify, if appropriate, that an independent valuation is taken of any second hand equipment that is being leased.
11. Verify that the renewal date has been diarised.
12. Verify that there is an active program of inspection of lease assets. Review the reports of the inspections and ascertain whether any equipment is missing. Follow up and comment.
13. Review and comment on the procedures for preparing and mailing periodic (monthly, quarterly, half-yearly invoices).
14. Review and comment on the procedures for following up on the non receipt of the rentals.
15. Verify that the total amount of the periodic invoices is correct.
16. Select a number of debits to the Gross Lease Receivables account and verify these to the original lease proof worksheets.
17. Select a number of credits to the Gross Lease Receivables account and verify that these agree to the entries relating to the periodic rentals.

18. Select a number of any other entries (debit or credit) to the Gross Lease Receivables account and verify that these are bona-fide.
19. Verify that the total amount of monthly lease income is correct.
20. Select a number of debits to the Unearned Lease Income account and verify that these relate to the monthly transfer of income to the profit and loss account.
21. Identify if there are any other entries over the account. Select a number of other entries (debit or credit) and verify that these are bona-fide.
22. Review and comment on the procedures for the disposal of equipment.
23. Verify that, if appropriate, the residual values are collected and booked to income.
24. Refer LA procedures for bad/doubtful accounts procedures.

**LEASE RECEIVABLES**

- Name of Customer:
- Currency: CKC
- Cost of Equipment: CKC 480,000-00
- Total Earnings: CKC 120,000-00
- Gross Lease Receivables: CKC 600,000-00
- Value Date: 1st January 1992
- Maturity Date: 31st December 1995
- Rentals: CKC 37,500-00
- Rental Period: Quarterly

Period	Date	Rental	Lease Receivables	Lease Income	Balance Outstanding
01/01/92		37,500-00	480,000-00	120,000-00	600,000-00
01.	31/03/92	37,500-00	450,000-00	112,500-00	562,500-00
02.	30/06/92	37,500-00	420,000-00	105,000-00	525,000-00
03.	30/09/92	37,500-00	390,000-00	97,500-00	487,500-00
04.	31/12/92	37,500-00	360,000-00	90,000-00	450,000-00



**AUDIT PROCEDURES**  
**GUARANTEES ISSUED**

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## **GUARANTEES ISSUED**

### **COMPLIANCE WITH BANK POLICIES & PROCEDURES**

#### **DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

#### **AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. During the examination the following specific items should be considered:

- ☐ Bank Operating Directives
- ☐ Bank Accounting Manual
- ☐ Expenses Control Guidelines
- ☐ Credit Authorities Manual
- ☐ Any Other Directives (specify)

## **GUARANTEES ISSUED**

### **COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

#### **DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

#### **AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

## **GUARANTEES ISSUED**

### **REVIEW OF INTERNAL CONTRGL & PROCEDURES**

#### **DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### **OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### **AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of actual transactions and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:
  - i) **Income:**
    - ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
    - ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
    - ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
    - ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e correct level
  - ii) **Management Reports:**
    - ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
    - ☐ review and comment on each report. Consider such matters as:
      - timely production of reports
      - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
      - report format and adequacy
      - where applicable, do the reports agree to the accounting records
      - adequate distribution i.e. distributed to the appropriate individuals or managers
    - ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
    - ☐ are there too many reports

iii) *Systems (Technology):*

☐ is the system in use automated or manual  
☐ if automated, is it adequate and are there any weaknesses. Consider such matters as:

- system capacity and utilisation (over/under)
- system flexibility
- operating costs
- processing costs
- system and data security issues
- error rates

iv) *Staffing (Human Resources):*

☐ is the overall organisational structure adequate  
☐ is the departmental organisational structure adequate  
☐ is the departmental management structure adequate  
☐ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ?
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

**GUARANTEES ISSUED  
OVERALL REVIEW AND ANALYSIS**

**DESCRIPTION**

By conducting an overall review of the Standby L/Cs issued, a general understanding of the "portfolio mix" can be ascertained. A recent trend has been for banks to issue Standby L/Cs in support of bond issues, guaranteeing payments of interest and principal. In addition banks may issue a guarantee on behalf of importers to enable them to take delivery of goods pending arrival of the covering documentation.

**OBJECTIVE(S)**

1. To identify any possible areas of over commitment by the Bank to any one customer, industry, financial obligation etc.

**AUDIT PROCEDURES**

1. Review (test check according to volumes) copies of guarantees issued to identify the reason for issuance. Prepare schedules identifying customer versus underlying obligation i.e. trade / bond issue etc.
2. Discuss GI / LC development with appropriate senior bank/departmental officers.
3. Identify and comment on any apparently heavy commitments to any one sector.
4. Review outstanding departmental records and verify that no guarantee type transactions have been booked/filed as commercial LCs.

**GUARANTEES ISSUED**

**GUARANTEES ISSUED & COUNTER INDEMNITIES**

**DESCRIPTION**

A guarantee is an undertaking to answer for the non-performance of another party. The liability of the guarantor becomes direct when the principal obligor does not pay or perform regardless of his ability or inability to do so. Therefore, from the point of view of the beneficiary, the credit risk has been transferred away from the borrower to the guaranteeing party. Guarantees are booked as contingent liabilities with the offset, customers liability on all guarantees issued by the Bank reflected in the Balance Sheet.

**OBJECTIVES**

1. To prove outstanding guarantees issued to the contingent liability account.
2. To ensure correct credit approval has been given, the documentation is in order, and the Bank's position protected.
3. To prove that all income arising from the issue of guarantees has been collected and booked to the profit & loss accounts.

**AUDIT PROCEDURES**

1. Trial balance and prove the departmental record of guarantees issued to the General Ledger. The department record may consist of copies of the guarantees, together with counter indemnities. It may also be a tickler card system which contains details of the guarantee. Comment if the department filing system is not adequate.
2. Check to see that the contingent liability account agrees with the contingent asset account "Customer's Liability A/C Guarantees".

3. Verify that the departmental records are proved to the General Ledger on a monthly basis. It is normal for this to be made by someone normally solely responsible for the Guarantees.  
  
Note: All unused L/Cs should be recorded as "Customers' Liability - Unused L.C" pending issue and recording as Standby L/Cs/Guarantees Issued.
4. Ensure that the records used for central liability purposes contain all guarantees and that the department proves this on a regular basis. (Note - it may be that these records will be the same as proved in 1 above).
5. Obtain the latest Report of Credits Outstanding and verify that the guarantees are reported correctly.
6. On a full population or test check basis, select some guarantees for further examination. The attached schedules and check lists should be utilised.
7. The auditor may wish to review the credit files to ascertain that there are no unrecorded guarantees evident.
8. In instances where guarantees have been issued upon instructions of other branches/subsidiaries/affiliates, verify that:
  - Written confirmation, signed by an authorised signatory of the originating unit is held.
  - Proper credit approval is held at the originating unit.
9. Where guarantees have been issued in support of third-party public debt e.g. municipal bond issues, ensure that following credit approval, the transaction has been authorised as appropriate.

**GUARANTEES ISSUED**

**GUARANTEES ISSUED & COUNTER INDEMNITIES**

**CREDIT LINE TICKET - CHECK LIST**

Answer - Yes, No or Not Applicable (N/A). If "No", further supporting worksheets should be attached and referenced.

	Obtain a photocopy of the line ticket.	Yes or No
01.	Are there sufficient number of initials for approval on the line ticket?	
02.	Is the line limit approval current?	
03.	Where the line has been extended is it in accordance with the Bank's Credit Authorities ?	
04.	Has the line been extended for valid reasons:( ) the extension signed by the credit officer, and approved in the "Line Change Bulletin" or similar?	
05.	Where the credit extended is denominated in a foreign currency and due to exchange rate change the credit facility exceeds 110% of the original local currency (CKC) equivalent, had the credit been submitted for re-approval?	
06.	Are the credit ratings realistic?	
07.	Where the line ticket is still circulating and has been outstanding for more than 120 days after the recorded date of circulation has the line ticket been resubmitted for approval?	
08.	Are the outstanding liabilities within the approved limit?	
09.	Has the line ticket been initialed by the Group Account Officer, if the responsibility for the credit lies in another branch, if borrower is domiciled in another territory?	
10.	If Q.9 is not applicable, and the aggregate maximum group credit including the new credit, exceeds the lesser of 10% of the previously approved total, have the signatures appropriate for the new aggregate amount been obtained on the line ticket?	
11.	If the Credit or Group Credit exceeds CKC --has it been reported to the Board of Directors or the Executive Credit Committee for their approval in accordance with the Bank's Credit Authorities Guidelines ?	
12.	If the Guarantee is in excess of one year (or any extension of credit, evidenced in writing) has the approval of the Credit Supervisor been obtained?	

GUARANTEES ISSUED

GUARANTEES ISSUED & COUNTER INDEMNITIES

*CREDIT OFFERING TICKET - CHECK LIST*

Answer - Yes, No or Not Applicable (N/A). If "No", further supporting worksheets should be attached and referenced.

Obtain photocopy of line ticket		Yes or No
01.	Has a photocopy of the latest offering ticket been taken by auditor?	
02.	Is the offering ticket(s) signed in accordance with the Credit Authorities Manual ?	
03.	Do offering tickets cover the outstanding guarantee liabilities?	
04.	If this facility is held on an offering basis should it remain on this type of approval. e.g. should a proper line be established because it is a term loan or a recurring facility?	

**GUARANTEES ISSUED**

**GUARANTEES ISSUED & COUNTER INDEMNITIES**

**GUARANTEES ISSUED - CHECKLIST**

- For Account:**
- Amount:**
- Issued To:**
- Issue Date:**
- Maturity Date:**

Answer - Yes, No or Not Applicable (N/A). If "No", further supporting worksheets should be attached and referenced.

	Obtain photocopy of line ticket	Yes or No
01.	Was guarantee issued & signed in accordance with Bank signature authorities? State the name of signatories.	
02.	Is the guarantee issued by the Bank specific and the exact amount determined?	
03.	Are the terms of the guarantee issued satisfactory? (i.e. no unusual features or covenants)	
04.	Was a standard guarantee issued?	
05.	Where a non-standard/specific guarantees were issued was local attorney consulted regarding terms?	
06.	Has the guarantee an expiry date? If so give state date.	
07.	Is guarantee in the currency of the issuing branch? i.e. in CKC	

**GUARANTEES ISSUED**

**GUARANTEES ISSUED & COUNTER INDEMNITIES**

*GUARANTEES ISSUED - CHECKLIST - Continued*

	Obtain photocopy of line ticket	Yes or No
08.	Does the text of the guarantee issued agree with the wording contained in the customer's written instructions?	
09.	Does the branch hold a written instruction, of the customer for each extension of the guarantee, on file?	
10.	Do the customer's instructions agree to the amended (extended) guarantee?	
11.	Has the original guarantee document been recovered following expiry/cancellation?	

**GUARANTEES ISSUED  
GUARANTEES ISSUED & COUNTER INDEMNITIES  
COUNTER INDEMNITY - CHECKLIST**

- For Account:**
- Amount:**
- Issued To:**
- Issue Date:**
- Maturity Date:**

Answer - Yes, No or Not Applicable (N/A). If "No", further supporting worksheets should be attached and referenced.

<b>Obtain photocopy of line ticket</b>		<b>Yes or No</b>
<b>01.</b>	Has indemnifier the means to pay if the Bank is called upon under the guarantee? (i.e. is statement of means & up-to-date balance sheet satisfactory)	
<b>02.</b>	Has evidence of Incorporation been sighted (i.e. Certificate of Incorporation or equivalent)?	
<b>03.</b>	Is the certified copy of the company's statutes held on file?	
<b>04.</b>	Is the company trading within its objectives clause?	
<b>05.</b>	Is the issuing of a counter indemnity or instructions within the company's and the Director's powers?	
<b>06.</b>	Has the Bank's standard mandate form been used and correctly completed?	
<b>07.</b>	Have the signatures on the indemnity been verified?	

**GUARANTEES ISSUED**  
**GUARANTEES ISSUED & COUNTER INDEMNITIES**  
*COUNTER INDEMNITY - CHECKLIST*

Obtain photocopy of line ticket		Yes or No
<b>08.</b>	Does the counter indemnity cover the guarantee issued from issuing date to maturity date?	
<b>09.</b>	Is the counter indemnity on a standard Bank form? If not, has counsel's opinion been obtained?	
<b>10.</b>	If the counter indemnity has not been reviewed by counsel are there any limitations evident?	
<b>11.</b>	Has regulatory approval been obtained if necessary (refer to compliance manual)?	
<b>12.</b>	Is the counter indemnity held in the vault or other secure area?	
<b>13.</b>	Does the counter indemnity/application contain an indemnity against the assessment of any reserves imposed by the Regulatory Authorities?	
<b>14.</b>	If the guarantee has been subsequently extended did the branch obtain a new counter indemnity form for this time period?	

**GUARANTEES ISSUED**  
**GUARANTEES ISSUED & COUNTER INDEMNITIES**  
*COMMISSION OR FEE INCOME - CHECKLIST*

- For Account:
- Amount:
- Issued To:
- Issue Date:
- Maturity Date:
- Commission Rate Agreed:

Answer - Yes, No or Not Applicable (N/A). If "No", further supporting worksheets should be attached and referenced.

Obtain photocopy of line ticket		Yes or No
01.	Is the commission in line with fixed scale rates at the time the guarantee was given?	
02.	Have commission/fees been received on due date? (Follow through to Income Account)	
03.	Has commission collection date been properly diarised?	
04.		
05.		
06.		
07.		



**CASH & VAULT**

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**CASH & VAULT**

**COMPLIANCE WITH BANK POLICIES & PROCEDURES**

**DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

**AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. For example, it is usual for banks to place a limit on the amount of cash which can be held by each individual cashier and in the vault (till limit & vault limit).

Obtain details of the latest approved till and vault limits.

7. Make a determination as to which limits will be checked for compliance. For example, the auditor may wish to check all tills for compliance or may wish to limit his examination to Till No. # 1.

8. Obtain details of the accounting records for Till No. # 1 for, say, a 3 month period.

9. Review the balances held and compare against the approved limits.

10. Identify any over limit situations.

11. Follow through and identify how the over limit situation was corrected.

*Note:* Frequent violations of the Till Limits may indicate that the Bank Policy is not being followed.

12. During the examination the following specific items should be considered:

- ≡ Bank Operating Directives
- ≡ Bank Accounting Manual
- ≡ Expenses Control Guidelines
- ≡ Credit Authorities Manual
- ≡ Any Other Directives (specify)

**CASH & VAULT**

**COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

**DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

**AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

## **CASH & VAULT**

### **REVIEW OF INTERNAL CONTROL & PROCEDURES**

#### **DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### **OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### **AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.

4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of actual transactions and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.

6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.

7. Carry out an operational overview of the area as follows:

i) *Income:*

- ≡ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
- ≡ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
- ≡ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
- ≡ Identify and review any debits to the income accounts and ensure that these have been approved at i.e. correct level

ii) *Management Reports:*

- ≡ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
- ≡ review and comment on each report. Consider such matters as:
  - timely production of reports
  - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
  - report format and adequacy
  - where applicable, do the reports agree to the accounting records
  - adequate distribution i.e. distributed to the appropriate individuals or managers
- ≡ are there any missing reports i.e. are there reports which are not prepared but which should be
- ≡ are there too many reports

iii) *Systems (Technology):*

- ≡ is the system in use automated or manual
- ≡ if automated, is it adequate and are there any weaknesses. Consider such matters as:
  - system capacity and utilisation (over/under)
  - system flexibility

- operating costs
- processing costs
- system and data security issues
- error rates

iv) *Staffing (Human Resources):*

- ☐ is the overall organisational structure adequate
- ☐ is the departmental organisational structure adequate
- ☐ is the departmental management structure adequate
- ☐ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ?
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

**CASH & VAULT**

**COUNT OF CASH**

**DESCRIPTION**

The only effective method of ensuring that no cash is missing from the tills or vault is to perform a physical cash count in which all cash on hand is counted and agreed to the control records, cashiers records and the Subsidiary and General Ledgers.

The cashiers should count the cash in their respective till each evening. Departmental or Branch management should carry out a surprise cash count at irregular intervals of each cashier's till and the reserves held in the vault.

**OBJECTIVES**

1. To ensure that no cash is missing from the tills or vault.
2. The physical cash counted agrees with the control records and the subsidiary and general ledgers.
3. To ensure that no cash differences i.e. overages or shortages, are being concealed by errors or falsification of the cashiers' records.

**AUDIT PROCEDURES**

1. Before the morning vault opening or last thing at night, ascertain the number and approximate size of tills to be reviewed. Ensure that adequate auditing resources are available to count the cash expeditiously
2. Take full control of the tills including any cash reserves in the vault.
3. The cashiers should always be present whilst the auditor(s) have control of their tills.
4. If a cashier is absent, his/her till should be counted in the presence of an officer of the Bank or Branch.

5. Count and list the cash on hand without any reference to the cashiers' proofs:
  - ☐ all notes to be counted 100 %
  - ☐ all loose coin to be counted 100 %
  - ☐ packaged coin should be counted on a random sample basis
  - ☐ All uncounted packages should be examined to determine if the size and weight are approximately similar to counted packages and should be checked to ensure that they contain the denominations indicated
  - ☐ rolls of coin may be accepted without breaking the roll
  - ☐ examine the dates on the packages of notes and coin to establish whether they were being used on a "first in" and "first out" basis
  - ☐ examine to ensure that currencies and denominations are properly segregated
6. Agree the cash counted to the cashiers' proofs and follow through to the subsidiary and general ledgers.
7. If there are any differences (over or short) inform the auditor in charge immediately.
8. Review the accounting records and general ledger and make a list of all cash and cash related accounts. Ensure that all appropriate accounts have been identified.
9. Trial balance amounts on computer produced printouts. Schedule and prove to printout control totals.
10. Prove control totals on schedules to currency balance sheets in Czech & Slovak and any other appropriate currency.
11. Calculate and consolidate local currency amounts for each appropriate General Ledger line according to Chart of Accounts and prove to daily reported General Ledger.

**CASH & VAULT**

**CASH COUNT**

Branch: _____		Branch: _____	
As at: _____		As at: _____	
Till No. _____		Till No. _____	
Cashier: _____		Cashier: _____	
<b>Notes:</b>	<b>Value:</b>	<b>Notes:</b>	<b>Value:</b>
5000 x		5000 x	
1000 x		1000 x	
500 x		500 x	
100 x		100 x	
50 x		50 x	
<b>Total</b>		<b>Total</b>	
<b>Coin:</b>		<b>Coin:</b>	
20 x		20 x	
10 x		10 x	
5 x		5 x	
<b>Total</b>		<b>Total</b>	
<b>TOTAL CASH</b>		<b>TOTAL CASH</b>	
<b>Per Cash Book</b>		<b>Per Cash Book</b>	
<b>Difference</b>		<b>Difference</b>	
<b>Per Ledgers</b>		<b>Per Ledgers</b>	
<b>Difference</b>		<b>Difference</b>	

## **CASH & VAULT**

### **SECURITY - CASHIERS'S AREA/CASH CONSIGNMENTS**

#### **DESCRIPTION**

Cash is the most liquid asset of the Bank and, therefore, a high degree of security is required in the cashiers' working area and over the vault. Also, on a regular basis cash will be consigned to and from the Bank. Thus, the level of security should reflect the level of risk & exposure.

#### **OBJECTIVES**

1. To ensure that security over the cash is adequate.
2. To ensure that the alarms are functioning properly and that the cashiers are familiar with their operation.
3. To ensure that the cashiers' records, keys etc. are secure.

#### **AUDIT PROCEDURES**

1. During the cash count in CA 4, examine the cashiers' area, including drawers and cabinets:
  - be alert to any excesses to established limits as these might indicate withheld transactions or to any record which might indicate mis-appropriation.
  - be alert to keys and records left unsecured contrary to operating instructions
  - check the cash drawers and access door to ensure that they are fitted with properly functioning self-locking locks
2. Request the cashiers to explain how they would activate the alarm in an emergency.
3. Ascertain when:
  - the alarm was last inspected and or serviced by the security company
  - the alarm system was last tested by branch personnel
4. Review the procedures governing cash consignments. Is the security company reputable ? Is the insurance coverage adequate ?

## **CASH & VAULT**

### **VAULT OPENING PROCEDURE**

#### **DESCRIPTION**

Cash is stored in the vault. Dual control must be observed over access to the vault at all times. Certain staff are appointed vault custodians and are issued with keys/lock combinations to the vault. At no time should any one person have sole access to the vault.

#### **OBJECTIVES**

1. To ensure that cash, duplicate keys and access to the vault are under dual control
2. To ensure that cashiers have access only to their own cash.

#### **AUDIT PROCEDURES**

1. Observe vault opening or closing procedures and verify that dual control is maintained.
2. Review the list of vault key/lock combination holders and key numbers and verify that the distribution of keys provides adequate dual control - preferably by an officer and a clerk.
3. Verify the key holdings with the key holders.
4. Sight duplicate vault/cashiers' keys and ensure that they are kept under dual control.
5. Ensure that cashiers have access only to their own tills.
6. Review the vault register and verify that each opening and closing session has been evidenced by two different signatures, indicating that dual control procedures were observed.

## CASH & VAULT

### CASHIERS RECORDS & AGREEMENTS

#### DESCRIPTION

To maintain adequate control over physical cash on hand, regular agreements must be made between the physical cash and the underlying control records.

1. *Daily* - each cashier should initial his cash book to evidence that the cash in each currency in which there has been a transaction has been counted and agreed.
2. *Daily* - the Chief Cashier should summarise all cash on hand and sign the cash records as evidence that the cash summary agrees with the accounting records and that cash holdings are within the prescribed limits
3. *Weekly* - each cashier should initial his cash book to evidence that the cash has been counted and agreed to the accounting records, irrespective of whether there have been any transactions or not.
4. *Weekly* - an officer should sign the daily cash summary sheet to evidence that he has agreed the summary to the accounting records independently of the cashiers. He should also verify that the cash holdings are within the prescribed limits.
5. *Monthly* - an officer should fine count all cash and certify that it agrees to the underlying control records and general ledger.

#### OBJECTIVES

1. To ensure that proper control is being maintained over cash and that certain daily and periodic agreements are being made.

#### AUDIT PROCEDURES

1. Obtain the daily cash summary sheets for a selected period (say 3 months).
2. Verify that each has been signed/initialled evidencing agreement to the accounting records

3. Verify a selection to the accounting records.
4. Verify that the cash holdings were maintained within the prescribed limits
5. Examine the cash books for authorised initials against "in" and "out" entries.
6. Examine the cash records for a selected period for evidence of monthly independent counts of the cash.

*Note:*

It is recommended that on any day on which there has been a cash difference, (over or short), a full independent cash count should be performed. This count should be additional to the required monthly count.

**CASH & VAULT**

**CASH OVERS & SHORTS**

**DESCRIPTION**

Whenever a cashier has a cash difference, over or short, a full examination of that cashier's cash and control records should be undertaken. The cashier's cash book should be signed off by the officer undertaking the cash count and a memorandum, detailing the circumstances of the difference and steps taken to effect recovery or repayment, should be placed on file. Cash shortages should be debited to an asset account entitled "Difference Account" (Debit) and cash overages should be credited to a liability account entitled "Difference Account" (Credit).

Once each quarter the difference accounts should be reviewed and unresolved items taken to the profit and loss accounts or whenever as required by local laws & regulations.

**OBJECTIVES**

1. To ensure that subsidiary ledgers of Difference Account (Debit) and Difference Account (Credit) agree to controls and the General Ledger.
2. To verify that there are adequate records detailing the circumstances of cash differences and that adequate steps have been taken to effect recovery or repayment and to prevent a recurrence of similar differences.

**AUDIT PROCEDURES**

1. Prove the subsidiary ledgers for "Difference Account Debit" and "Difference Account Credit" to the controls and General Ledger.
2. Transcribe from the accounting records details of cash differences for a selected period.
3. Investigate the circumstances for the differences by reference to the internal reports.

4. Review the steps which have been taken to effect recovery or repayment and determine whether these steps have been reasonable.
5. Verify that the differences have been marked in the cash book and that there is evidence that an independent cash count was performed.
6. Follow through "write off" to the Profit & Loss accounts.
7. Follow up any trend or regularly recurring pattern of differences.

**APPENDIX**

<b>Branch:</b>			<b>As at:</b>			
<b>Period From:</b>			<b>Period To:</b>			
<b>Over or Short</b>	<b>Till No.</b>	<b>Cashier</b>	<b>Circumstances and Details of Difference</b>	<b>Documentation and Remarks</b>	<b>Date booked to P &amp; L</b>	<b>Cashiers Cash Book</b>

**Review:**

1. Accounting records for details of cash differences over a selected period.
2. Record of differences maintained.
3. The adequacy of steps taken to recover funds or effect repayment and to avoid similar occurrences.

SIGNED: \_\_\_\_\_

**CASH & VAULT**

**EXAMINATION OF CASHIERS TRANSACTIONS**

**DESCRIPTION**

The Bank operates a bureau de change function as well as a retail banking operation. Accordingly, it is important that the rates of exchange used are authorised and that all commissions charged to customers are received and booked to the appropriate income accounts.

**OBJECTIVES**

1. To ensure that commissions charged to customers are at set bank scales and are booked to the appropriate income accounts.
2. To verify that exchange rates used are at market and in line with rates set by management.

**AUDIT PROCEDURES**

1. Select a number of transactions over a period - say 3 months including transactions which are normally subject to commissions and fees.
2. Independently calculate the fees due and verify that fees and commissions have been charged and charged at the correct scale.
3. Follow through and verify that the fees and commissions have been booked to the income accounts.
4. Select a number of foreign currency transactions. Ensure that authorised rates have been used by reference to the dealers' rate sheets or other official bank record.

**NOSTRO ACCOUNT RECONCILIATION**

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NOSTRO ACCOUNT RECONCILIATIONS

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**NOSTRO ACCOUNT RECONCILIATIONS**

**COMPLIANCE WITH BANK POLICIES & PROCEDURES**

**DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

**AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. For example, it is usual for banks to place a restriction on which individuals can open bank accounts at correspondent banks and also to restrict accounts to certain correspondent banks in certain cities/countries, and to certain currencies.

It is usual practice that the Treasurer should not be involved in this operation other than indicating what accounts he would like in which cities and in what currencies.

7. It is also good banking practice that all statements of account should be sent to the department responsible for reconciling the account and not to the Treasurer or traders. Yes, the Treasurer and/or traders need to know the balance of the accounts for liquidity and funds management purposes. But, the prime recipient of the bank statements should be an individual or individuals not involved in booking accounting entries or making/approving transactions involving the pay-away of funds.

8. During the examination the following specific items should be considered:

- ☐ Bank Operating Directives
- ☐ Bank Accounting Manual
- ☐ Expenses Control Guidelines
- ☐ Credit Authorities Manual
- ☐ Any Other Directives (specify)

**NOSTRO ACCOUNT RECONCILIATIONS**

**COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

**DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

**AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

(For example, it may be illegal for the Bank to hold bank accounts in certain cities/countries and/or in certain currencies).

## **NOSTRO ACCOUNT RECONCILIATIONS**

### **REVIEW OF INTERNAL CONTROL & PROCEDURES**

#### **DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine.. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

#### **OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

#### **AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date.
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of account opening transactions which were effected during the past 12 months and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:
  - i) *Income:*
    - ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
    - ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
    - ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
    - ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e correct level
  - ii) *Management Reports:*
    - ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
    - ☐ review and comment on each report. Consider such matters as:
      - timely production of reports
      - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
      - report format and adequacy
      - where applicable, do the reports agree to the accounting records
      - adequate distribution i.e. distributed to the appropriate individuals or managers
    - ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
    - ☐ are there too many reports

iii) *Systems (Technology):*

- ☐ is the system in use automated or manual
- ☐ if automated, is it adequate and are there any weaknesses. Consider such matters as:
  - system capacity and utilisation (over/under)
  - system flexibility
  - operating costs
  - processing costs
  - system and data security issues
  - error rates

iv) *Staffing (Human Resources):*

- ☐ is the overall organisational structure adequate
- ☐ is the departmental organisational structure adequate
- ☐ are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?.
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ? .
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios.

Make comments if appropriate.

## **NOSTRO ACCOUNT RECONCILIATIONS**

### **CONTROL OVER BANK ACCOUNTS**

#### **DESCRIPTION**

The only effective method of ensuring that all Nostro Bank Accounts are independently controlled and reconciled is to perform a physical matching of all incoming bank account statements to the Subsidiary Accounting records and General Ledgers.

The reconciliation clerk(s) should maintain a control list of all accounts to be reconciled and this list should be checked on a periodic basis to the accounting records to ensure that any new accounts opened are taken into account and the list updated as appropriate.

#### **OBJECTIVES**

1. To ensure that all nostro bank accounts are controlled and reviewed independently of individuals operating the accounts.
2. To ensure that the department responsible for reconciling the account maintains a control list evidencing all accounts which should be reconciled.
3. To ensure that the list is checked to the accounting records on a periodic basis and that the control list is updated as appropriate.

#### **AUDIT PROCEDURES**

1. Obtain the control list of all nostro accounts which are being reconciled.
2. Obtain the records of all in-coming bank account statements.
3. Review the subsidiary accounting and general ledger records and make an independent list of all Nostro accounts. Make sure that all foreign currencies are reviewed to identify all accounts.

**REF: REC 4**

**Date: 12/94**

4. Check the control list of accounts which are being reconciled to the list prepared in 3). above.
5. Identify any nostro accounts which are included in the accounting records but which do not appear on the control list. This might indicate that not all nostro accounts are being controlled and reconciled independently of the persons operating the accounts.
6. Check the incoming bank statements to both the accounting records and the control list of accounts which are being reconciled.
7. Make a list of all nostro accounts for which a bank statement has been received but which do not appear either in the control list of accounts being reconciled or in the accounting records.
8. Follow through, identify and comment on any discrepancies.
9. Review the accounting records and incoming statements and determine whether the bank statement frequency is commensurate with the volume of transactions.
10. Review the accounting records and incoming statements and determine whether the account reconciliation frequency is commensurate with the volume of transactions.

**Ceskoslovenska Obchodni Banka A.S.**

REF: REC 4

Date: 12/94

CONTROL LIST/SCHEDULE of NOSTRO ACCOUNTS to be RECONCILED			ACCOUNTING RECORDS		CORRESPONDENT BANK STATEMENT		
<i>Bank Name</i>	<i>Location</i>	<i>Currency</i>	<i>Date Checked</i>	<i>Checked By</i>	<i>Last Statement Date</i>	<i>Date Received</i>	<i>Statement Frequency</i>
							D = Daily
							W = Weekly
							F = Fortnightly
							M = Monthly
							Q = Quarterly
							OM = On Movement

## **NOSTRO ACCOUNT RECONCILIATIONS**

### **MATCHING OF ENTRIES and OUTSTANDING RECONCILING ITEMS**

#### **DESCRIPTION**

The only effective method of ensuring that all Nostro Bank Accounts are independently controlled and reconciled is to perform a physical matching of all incoming bank account statements to the Subsidiary Accounting records and General Ledgers.

The reconciliation clerk(s) should maintain a control list of all accounts to be reconciled and this list should be checked on a periodic basis to the accounting records to ensure that any new accounts opened are taken into account and the list updated as appropriate.

#### **OBJECTIVES**

1. To ensure that all entries over the accounting records are promptly and properly matched to the entries on the incoming correspondent bank statements as to correct amount, currency, value date and pertinent details.
2. To ensure that all outstanding reconciliation items are bona-fide reconciling items.

#### **AUDIT PROCEDURES**

1. Obtain the latest nostro account reconciliations and select a number for detailed review. (It would be preferable if the reconciliations selected included a number of accounts which have a heavy volume of transactions including the local bank clearing accounts).

2. Check to ensure that the reconciliations include the following columns/sections:
  - ☐ We Debit (They do not Credit)
  - ☐ They Debit (We do not Credit)
  - ☐ We Credit (They do not Debit)
  - ☐ They Credit (We do not Debit)
  - ☐ Balance per our Ledgers
  - ☐ Balance per Correspondent Bank Statement
3. Carry out a mathematical check and ensure that the reconciliations are self-balancing in the natural currency i.e. that the total debits equal total credits.
4. Check that the ledger balance recorded on the reconciliation agrees with the actual ledger balance in the natural currency.
5. Verify that a debit balance per the ledgers has been recorded on the credit side of the reconciliation schedule and, conversely, that a credit balance has been recorded on the debit side.
6. Check that the statement balance recorded on the reconciliation agrees with the actual balance per the correspondent bank statement.
7. Verify that a debit balance per the correspondent bank statement has been recorded on the credit side of the reconciliation schedule and, conversely, that a credit balance has been recorded on the debit side.
8. From each section of the reconciliation select a number of outstanding reconciling items for further review, either on a full population or test check basis.
9. Follow the items through to the ledgers or correspondent bank statement and verify that the items are bona-fide i.e. that these items exist in amount, detail, value date debited or credited etc.
10. From the ledgers select a number of items which have been marked-off as matched against corresponding items on the incoming statements.
11. Verify that these items have been matched correctly as to amount, value date, details etc.
12. From the correspondent bank statements select a number of items which have been marked-off as matched against corresponding items on the ledgers.

13. Verify that these items have been matched correctly as to amount, value date, details etc.
14. Verify that the proper manner for matching of items is :
- ⊖ We Debit entries are only matched to They Credit entries
  - ⊖ We Credit entries are only matched to They Debit entries and conversely,
  - ⊖ They Debit entries are only matched to We Credit entries
  - ⊖ They Credit entries are only matched to We Credit entries

It is not usual to match a we debit entry with a we credit entry, for example.

15. Comment and follow-up on any items which prima-facie, appear to have been mis matched. Pay particular attention to regular whole amounts. For example, 1 million. Sometimes, it is possible that there may be 5 separate debits for 1 million and only 4 credits. It is therefore extremely important that the correct debits are matched to the credits and that the genuine outstanding item for 1 million is correctly identified. Otherwise, a lot of time can be wasted in following-up with the wrong correspondent or remitter.
16. Select a number of reconciling items which were outstanding on previous reconcilements but which have since been cleared.
17. Follow through the clearance of these items and verify that they have been matched properly.

**Ceskoslovenska Obchodni Banka A.S.**

REF: REC 5  
Date: 12/94

<b>WE DEBIT (They do not Credit)</b>	<b>THEY CREDIT (We do not Debit)</b>
--------------------------------------	--------------------------------------

Entry Date	Value Date	Details	Amount	Entry Date	Value Date	Details	Amount
Sub-Total				Sub-Total			

<b>THEY DEBIT (We do not Credit)</b>	<b>WE CREDIT (They do not Debit)</b>
--------------------------------------	--------------------------------------

Entry Date	Value Date	Details	Amount	Entry Date	Value Date	Details	Amount
Sub-Total				Sub-Total			

- Total We Debit \_\_\_\_\_  Total They Credit \_\_\_\_\_
- Total They Debit \_\_\_\_\_  Total We Credit \_\_\_\_\_
- Our Credit Balance \_\_\_\_\_  Our Debit Balance \_\_\_\_\_
- Their Credit Balance \_\_\_\_\_  Their Debit Balance \_\_\_\_\_

GRAND TOTAL DEBITS: \_\_\_\_\_ GRAND TOTAL CREDITS: \_\_\_\_\_

Prepared By:  
Date:

Reviewed By:  
Date:

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**NOSTRO ACCOUNT RECONCILIATIONS**

**FOLLOW-UP OF OUTSTANDING ITEMS  
AND UNDERLYING DOCUMENTATION**

**DESCRIPTION**

The only effective method of ensuring that all reconciliation items are cleared promptly is adequate follow-up. All follow-up action taken should be clearly evidenced and documented in the form of copies of memos, telexes etc.

The outstanding reconciliation items should be regularly reviewed to ensure that there are no items affecting the Bank's Income and Expenses i.e. no outstanding credits which represent interest or other income received but not booked or outstanding debits representing overdraft interest or other expenses not booked.

In addition, all value date discrepancies should be followed-up to ensure that the Bank is properly compensated for loss of use of funds which had not been credited to it's account on the correct value date.

**OBJECTIVES**

1. To ensure that all outstanding reconciliation items are follow-up promptly and that all follow-up action taken is fully documented.
2. To ensure that all value date discrepancies are followed-up and resolved satisfactorily.
3. To ensure that the Bank is properly compensated in instances where the Bank's account has been out of funds due to delays caused by another party.
4. To ensure that there are no outstanding items affecting the Bank's Income & Expenses.

**AUDIT PROCEDURES**

1. Obtain the latest nostro account reconciliations and select a number for detailed review. (It would be preferable if the reconciliations selected included a number of accounts which have a heavy volume of transactions including the local bank clearing accounts).
2. Obtain the documentation relating to the follow-up action and review for completeness.
3. Review and comment on the adequacy of the underlying documentation.
4. Verify that items are followed-up on a regular and periodic basis. Please note that large gaps in the dates between records might indicate that no follow-up action was taken for a lengthy period.
5. Review and comment on the adequacy and effectiveness of the follow-up action taken.
6. Pay particular attention to items which may be related to interest and/or other income and expenses. For example, a debit entry might be booked to the ledgers in anticipation of an incoming payment for interest on a loan to a customer. If, after a long period of follow-up the funds still have not been received, then consideration should be given to the transfer of this and similar items to the overdue interest/bad loans account.
7. Identify a number of value date discrepancy situations i.e. instances where the Bank's account was credited one, two, three or more days later than the agreed value date.
8. Review and comment on the procedures for resolving value-date discrepancies.
9. Verify that, in instances where the customer or correspondent bank has to pay penalty interest for late payment of funds, the Treasury department is consulted to ensure that the penalty interest % is in keeping with market rates.

## NOSTRO ACCOUNT RECONCILIATIONS

### AGEING SCHEDULES

#### DESCRIPTION

The only effective method of ensuring that all reconciliation items are cleared promptly is adequate follow-up. The longer a reconciliation item remains outstanding, the more difficult it becomes to clear and the possibility of monetary loss to the Bank becomes higher.

Senior management should be aware of the status of outstanding items on a regular basis.

#### OBJECTIVES

1. To ensure that all outstanding reconciliation items are follow-up promptly and that on a periodic basis, say at least monthly, senior management are given an ageing schedule documenting the status of the outstanding items.
2. To ensure that the ageing schedule is used as the central tool by management to monitor the progress of the outstanding items and that continuous stimulus is given to clear items on a logical basis. For example, the items with the largest monetary value should be followed-up first, then the longest outstanding etc.

#### AUDIT PROCEDURES

1. Obtain the latest ageing schedules for all outstanding nostro account reconciliations. Normally, there should be 2 different schedules - 1 summary schedule showing the total status of the reconciliation function and a 2nd schedule showing the status of the individual nostro accounts.
2. If there are no schedules available, the auditor should prepare appropriate schedules. See schedules attached.

**REF: REC 7**

**Date: 12/94**

3. Review the status of the outstanding items and comment on any items which have been outstanding for an undue length of time or outstanding items with a high monetary value.

Please note that a large number of outstanding items might indicate problems in the operating departments.

4. Obtain the ageing schedule for the prior 3 month period and compare the number and value of outstanding items with the latest ageing schedules.
5. Pay particular attention to items which have aged further. For example, items which have moved from the 60 days outstanding category to the 90 days outstanding category. This might indicate that insufficient follow-up action is being taken.
6. Verify that senior management are receiving ageing schedules on a regular, i.e. monthly, basis.



NOSTRO ACCOUNT AGEING SCHEDULE

- NOSTRO ACCOUNT \_\_\_\_\_
- CURRENCY \_\_\_\_\_

AGEING PERIOD	NUMBER OF OUTSTANDING ITEMS	VALUE
> 30 Days		
30-60 Days		
60-90 Days		
90-120 Days		
Over 120 Days		
TOTAL		

**INTERNAL ACCOUNT RECONCILIATION  
(HOUSE ACCOUNTS)**

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INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)

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**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**COMPLIANCE WITH BANK POLICIES & PROCEDURES**

**DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

**AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of transactions for checking that the policies and procedures are being complied with.

6. For example, it is usual for banks to place a restriction on which individuals can open and/or approve the opening of internal accounts. In addition, each account opened should be assigned to a specific department and should be reconciled regularly and controlled in the same manner as nostro accounts.

It is usual practice for the Chief Auditor and/or Chief Financial Officer to be involved in this operation.

7. It is also good banking practice that all statements of account should be sent to the department responsible for reconciling the account.

8. During the examination the following specific items should be considered:

- Bank Operating Directives
- Bank Accounting Manual
- Expenses Control Guidelines
- Credit Authorities Manual
- Any Other Directives (specify)

**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**COMPLIANCE WITH CZECH & SLOVAK LAWS & REGULATIONS**

**DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

**AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate.

6. Select a number of transactions for checking that the laws and regulations are being complied with.
7. Review the transactions in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):

**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**REVIEW OF INTERNAL CONTROL & PROCEDURES**

**DESCRIPTION**

The Bank has defined the controls and procedures which must be followed to protect the Bank's assets and to provide proper care and custody of customers' deposits and valuables and to promote operational efficiency.

A fundamental principle to be followed is the Separation of Duties concept which stipulates that, to the extent possible, no one individual should control a transaction from inception to completion. Or in other words, the maker and checker routine. This principle is designed as a prudent measure to protect the Bank against loss through carelessness, negligence or fraud.

**OBJECTIVES**

1. To ensure that adequate separation of duties exists and that operating controls and procedures are adequate.

**AUDIT PROCEDURES**

1. Obtain flow charts, if available, and review with departmental personnel to ensure that they are current and up-to-date
2. If flow charts are not available, prepare same with reference to actual procedures which are operative.
3. Ensure that the flow chart covers all transaction types and all aspects of the areas activities.
4. Review and identify any missing controls or control weaknesses.

If appropriate, prepare a model flow chart and compare this with the actual work flows.

5. Select a number of account opening transactions which were effected during the past 12 months and follow these through the system to verify that the system in operation agrees with what was discussed and documented. Highlight any weaknesses either in the or non-compliance with the procedures.
6. Identify any periodic proofs of prime departmental records to the accounting records and ensure that these are carried out independently and accurately.
7. Carry out an operational overview of the area as follows:

i) *Income:*

- ☐ identify all sources of income such as commissions, fees, interest etc. and ensure that these are being collected and credited to the appropriate accounts.
- ☐ review the Statement of Income & Expenses for a selected period and identify any missing income balances by reference to i) above.
- ☐ carry out an overall analysis of the income booked and make a determination as to whether the amount booked is consistent with asset balances, volumes, turnover etc.
- ☐ Identify and review any debits to the income accounts and ensure that these have been approved at i.e. correct level

ii) *Management Reports:*

- ☐ identify and list all reports produced for management and/or the Czech & Slovak Regulatory Authorities
- ☐ review and comment on each report. Consider such matters as:
  - timely production of reports
  - procedural controls and checks to ensure the quality of the reports i.e. accuracy, correctness of data
  - report format and adequacy
  - where applicable, do the reports agree to the accounting records
  - adequate distribution i.e. distributed to the appropriate individuals or managers
- ☐ are there any missing reports i.e. are there reports which are not prepared but which should be
- ☐ are there too many reports

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REF: HS 3

Date: 12/94

*iii) Systems (Technology):*

- is the system in use automated or manual
- if automated, is it adequate and are there any weaknesses. Consider such matters as:
  - system capacity and utilisation (over/under)
  - system flexibility
  - operating costs
  - processing costs
  - system and data security issues
  - error rates

*iv) Staffing (Human Resources):*

- is the overall organisational structure adequate
- is the departmental organisational structure adequate
- is the departmental management structure adequate
- are all staff fully trained and equipped to perform their duties efficiently

8. Make a determination as to whether efficiencies and productivity can be improved.
9. Are all personnel fully occupied ?
10. Are there any automation possibilities or enhancements that would prove cost-beneficial ?
11. Are any functions being duplicated
12. Compare current departmental volumes with historical data and calculate and compare staff/transactions ratios

Make comments if appropriate

**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**CONTROL OVER INTERNAL ACCOUNTS**

**DESCRIPTION**

The only effective method of ensuring that all internal accounts are independently controlled and reconciled is to perform a periodic reconciliation of all outstanding items and to ensure that adequate and original documentation exists to support the outstanding items.

It is usual practice that the department utilising the account should also reconcile the account on the basis that it is familiar with the underlying transactions and also that it has the underlying documentation.

However, in keeping with the Separation of Duties concept, the individual(s) reconciling the account should not be the same as the individual(s) booking entries over the account.

**OBJECTIVES**

1. To ensure that all internal accounts are reconciled, controlled and reviewed independently of individuals operating the accounts on a regular/periodic basis.
2. To ensure that the departments responsible for reconciling the various accounts maintain a control list evidencing all accounts which should be reconciled.
3. To ensure that the list is checked to the accounting records on a periodic basis and that the control list is updated as appropriate.
4. To ensure that there is a master list of all accounts to be reconciled and that the list is independently checked to the accounting records on a periodic basis and updated as appropriate.

**AUDIT PROCEDURES**

1. Obtain the latest departmental control lists of all internal accounts which are being reconciled on a department-by department basis.
2. Obtain the latest accounting records and/or subsidiary ledgers.
3. Review the subsidiary accounting and general ledger records and make an independent list of all internal accounts. Make sure that all foreign currencies are reviewed to identify all accounts.
4. Ensure that the list includes all inter-company, inter-branch, intra-company accounts and especially all suspense accounts.
5. Check the control list of accounts which are being reconciled to the list prepared in 3) & 4) above.
6. Identify any internal accounts which are included in the accounting records but which do not appear on the control list. This might indicate that not all accounts are being controlled and reconciled independently of the persons operating the accounts.
7. Check the departmental list of accounts to the list produced following a review of the accounting records.
8. Follow through, identify and comment on any discrepancies.

DEPARTMENTAL CONTROL LIST/SCHEDULE of INTERNAL CCOUNTS to be RECONCILED			ACCOUNTING RECORDS			RECONCILEMENT FREQUENCY	
<i>Account Name/Title</i>	<i>Department</i>	<i>Currency</i>	<i>Date Checked</i>	<i>Checked By</i>	<i>Last Ledger Statement Date</i>	<i>Date Received</i>	<i>Account Reconciliation Frequency</i>
							D = Daily
							W = Weekly
							F = Fortnightly
							M = Monthly
							Q = Quarterly
							OM = On Movement

**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**MATCHING OF ENTRIES  
and  
OUTSTANDING RECONCILING ITEMS**

**DESCRIPTION**

The only effective method of ensuring that all internal accounts are independently controlled and reconciled is to perform a physical matching of all debit and credit entries and to prepare a list of reconciling(outstanding) items.

Each department should maintain a control list of all accounts to be reconciled and this list should be checked on a periodic basis to the accounting records to ensure that any new accounts opened are taken into account and the list updated as appropriate.

**OBJECTIVES**

1. To ensure that all debit and credit entries over the accounting records are promptly and properly matched as to correct amount, currency, value date and pertinent details.
2. To ensure that all outstanding reconciliation items are bona-fide reconciling items.

**AUDIT PROCEDURES**

1. Obtain the latest account reconciliations and select a number for detailed review.
2. Carry out a mathematical check and ensure that the reconciliations are self-balancing in the natural currency i.e. that the total debits equal total credits.
3. Check that the ledger balance recorded on the reconciliation agrees with the actual ledger balance in the natural currency.

**REF: HS 5**  
**Date: 12/94**

4. Select a number of outstanding reconciling items for further review, either on a full population or test check basis.
5. Follow the items through to the ledgers and verify that the items are bona-fide i.e. that there these items exist in amount, detail, value date debited or credited etc.
6. Comment and follow-up on any items which prima-facie, appear to have been mis-matched. Pay particular attention to debit entries.



**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**FOLLOW-UP OF OUTSTANDING ITEMS  
AND UNDERLYING DOCUMENTATION**

**DESCRIPTION**

The only effective method of ensuring that all reconciliation items are cleared promptly is adequate follow-up. All follow-up action taken should be clearly evidenced and documented in the form of copies of memos, etc.

The outstanding reconciliation items should be regularly reviewed to ensure that there are no items affecting the Bank's Assets and Income or Expenses i.e. no outstanding debits which represent assets but which cannot be substantiated; other debits which represent interest or other income received but not booked or outstanding debits representing overdraft interest or other expenses not booked to the P & L accounts.

**OBJECTIVES**

1. To ensure that all outstanding reconciliation items are follow-up promptly and that all follow-up action taken is fully documented.
2. To ensure that all value date discrepancies are followed-up and resolved satisfactorily.
3. To ensure that there are no outstanding items which are fraudulent or which affect the Bank's Income & Expenses.

**AUDIT PROCEDURES**

1. Obtain the latest account reconciliations and select a number of outstanding items for detailed review.
2. Obtain the original documentation relating to the outstanding items including original invoices, accounting tickets etc. as appropriate.

**REF: HS 6**  
**Date: 12/94**

3. Review and comment on the adequacy of the underlying documentation.
4. Verify that items are followed-up on a regular and periodic basis. Please note that large gaps in the dates between records might indicate that no follow-up action was taken for a lengthy period.
5. Review and comment on the adequacy and effectiveness of the follow-up action taken.
6. Pay particular attention to debit items which in effect represent assets and other items which may be related to interest and/or other income and expenses. For example, a debit entry might be booked to the ledgers indication that the amount was due from another branch. But this debit may be fraudulent.
7. Select a number of outstanding items which are due from other branches.
8. Confirm in writing from the branch that the amount(s) in question are contractually due.

**INTERNAL ACCOUNT RECONCILIATIONS  
(HOUSE ACCOUNTS)**

**AGEING SCHEDULES**

**DESCRIPTION**

The only effective method of ensuring that all reconciliation items are cleared promptly is adequate follow-up. The longer a reconciliation item remains outstanding, the more difficult it becomes to clear and the possibility of monetary loss to the Bank becomes higher.

Senior management should be aware of the status of outstanding items on a regular basis.

**OBJECTIVES**

1. To ensure that all outstanding reconciliation items are follow-up promptly and that on a periodic basis, say at least monthly, senior management are given an ageing schedule documenting the status of the outstanding items.
2. To ensure that the ageing schedule is used as the central tool by management to monitor the progress of the outstanding items and that continuous stimulus is given to clear items on a logical basis. For example, the items with the largest monetary value should be followed-up first, then the longest outstanding etc.

**AUDIT PROCEDURES**

1. Obtain the latest ageing schedules for all outstanding internal account reconciliations. Normally, there should be 2 different schedules - 1 summary schedule showing the total status of the reconciliation function and a 2nd schedule showing the status of the individual internal accounts.
2. If there are no schedules available, the auditor should prepare appropriate schedules. See schedules attached.

**REF: HS 7**  
**Date: 12/94**

3. Review the status of the outstanding items and comment on any items which have been outstanding for an undue length of time or outstanding items with a high monetary value. Pay particular attention to debit entries.

Please note that a large number of outstanding items might indicate problems in the operating departments.

4. Obtain the ageing schedule for the prior 3 month period and compare the number and value of outstanding items with the latest ageing schedules.
5. Pay particular attention to items which have aged further. For example, items which have moved from the 60 days outstanding category to the 90 days outstanding category. This might indicate that insufficient follow-up action is being taken.
6. Verify that senior management are receiving ageing schedules on a regular, i.e. monthly, basis.



INTERNAL ACCOUNT AGEING SCHEDULE

- ACCOUNT TITLE \_\_\_\_\_
- CURRENCY \_\_\_\_\_
- RESPONSIBLE DEPT \_\_\_\_\_

AGEING PERIOD	NUMBER OF OUTSTANDING DEBIT ITEMS	VALUE	NUMBER OF OUTSTANDING CREDIT ITEMS	VALUE
> 30 Days				
30-60 Days				
60-90 Days				
90-120 Days				
Over 120 Days				
TOTAL		DR		CR
	NETT DR/CR			
	LEDGER BALANCE	DR		CR
	DIFFERENCE			

**AUDIT PROCEDURES  
FOR  
DATA PROCESSING DEVELOPMENTS**

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DATA PROCESSING DEVELOPMENTS

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## DATA PROCESSING DEVELOPMENTS

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## DATA PROCESSING DEVELOPMENTS

### GENERAL DESCRIPTION

Computer processing is achieved by means of computer programs or software which are sets of coded instructions to the machine. The coded instructions need to be organised into a logical and efficient design to ensure that data is processed correctly and in accordance with pre-set requirements.

It is essential that adequate controls be exercised over the design of any system and the writing and testing of the programs prior to their implementation and operational use. Each system should be rigorously tested, firstly for individual programs and then for the whole system, including the related clerical controls to be utilised in the user departments.

It is of the utmost importance that the auditor be fully informed and/or regularly inform himself of all plans for acquiring new computer systems/equipment, for introducing accounting applications for new business activities and for amendments to existing applications. This will allow the auditor to establish and assess the administration controls that are proposed over the computer operations and the system implementation controls for the individual applications - before the system becomes operational.

The auditor's first task would then be to identify and assess those particular standards and procedures to be used by the development/implementation group which, if complied with, would enable the auditor to opine that the system will be implemented in a control manner. Also, the extent of formalised procedures will enable the auditor to determine the degree of his involvement and the level of test-checking required.

## **DATA PROCESSING DEVELOPMENTS**

### **BUSINESS EVALUATION & OBJECTIVES DOCUMENTS PRELIMINARY REVIEW OF DATA PROCESSING DEVELOPMENTS**

#### **DESCRIPTION**

System development audits should be a consistent and on-going feature of the examination of each function and/or operating unit and should be carried out as part of the audit subject being examined e.g. Foreign Exchange, Accounting etc.

The amount of audit effort required should be based on the risk and probability of exposures likely to occur during the particular development.

Summarised objectives for System Development audits are as follows:

- ☐ to understand the design of the proposed system with particular emphasis on system protection and data control
- ☐ to ensure, at an early stage, that programmers do not have an opportunity to in-corporate fraudulent and/or disruptive coding within the system
- ☐ to determine the adequacy of the proposed procedures and control structure appertaining to the project and to conclude on the probability of the system being secure, satisfactory and efficient

#### **OBJECTIVES**

1. To ensure that an effective evaluation of the automation requirements has been carried out and has been approved by management.
2. To determine the timing and extent of audit involvement.

### AUDIT PROCEDURES

1. Obtain a copy of the Business Evaluation & Objectives document(s).
2. Comment on the technical and/or other suitability and objectivity of the personnel involved in the preparation of the document(s) in 1. above.
3. Verify that senior management have signed-off on the project.
4. Comment on the Automation Standards and Procedures utilised in the preparation of the documents and comment on adherence to such standards and general quality of the documentation e.g. specifications, flow charts etc.
5. Identify the salient features of the proposed system and consider and comment, as appropriate, on such matters as:
  - ☐ existing requirements of the Bank's Manual of Procedures, Bank's counting Manual, Credit Authorities etc.
  - ☐ attention paid to Czech & Slovak regulatory requirements
  - ☐ possible duplication of facilities already provided by other existing applications
  - ☐ maintenance and support of proposed system e.g. in-house knowledge or programming language or reliance on third-parties
  - ☐ any known security or other weaknesses of the proposed system
  - ☐ system hardware requirements
  - ☐ expected useful life of proposed system
  - ☐ estimated development and implementation costs
6. Determine the monetary value of the balance sheet which is being automated and the number of accounts affected.
7. Determine the estimated value of transaction data per processing run and the estimated number of transactions.
8. Determine the value of funds to be paid-away and the number of pay-away transactions.
9. Determine the amount of audit involvement required i.e. the need to undertake a development audit as opposed to a system security audit after the system has been implemented.

10. Review and comment on the development procedures which are to be utilised.
11. Review and comment on the control structure of the control group and make a determination as to whether there is a high probability that the Bank's Development Standards and Procedures will be adhered to.
12. Calculate whether the estimated development costs including all ancillary costs for hardware, peripherals, extra staffing etc. will exceed 15 % of the balance sheet.
13. Verify whether the proposed system has been implemented elsewhere and whether it received any unsatisfactory audit comments.
14. Determine whether the proposed system will require any fundamental changes in accounting practice or requirements as required by the Bank's Accounting Standards.
15. Determine whether the proposed system will require any fundamental changes in input or output controls as required by the Bank's Operating Procedures.
16. By reference to the system documentation, make a determination as to whether there is any risk to the integrity of data.

**DATA PROCESSING DEVELOPMENTS**

**PROJECT ORGANISATION STANDARDS  
&  
SEPARATION OF DUTIES**

**DESCRIPTION**

It is essential that the organisation of the project be established on a formal basis - regardless of whether the software is being developed in-house or by a software house.

The project team should work to acceptable development standards which should include the principle of independent controls with adequate separation of duties. All reporting lines should be clearly defined.

**OBJECTIVE(S)**

1. To ensure that system developments are carried out in a controlled environment and with adequate separation of duties.

**AUDIT PROCEDURES**

1. Obtain or prepare a list of all persons involved in the development. Identify the "management" levels, reporting lines and, if applicable, the composition of all project teams.
2. Determine and comment on the ratio of Bank personnel to outside personnel. Where applicable, make a distinction between contract personnel employed by the Bank and contract personnel employed by third parties.

3. Verify that no single individual is completely responsible for the development work. Pay particular attention to ensure that there is a distinct separation of duties between the systems and programming function, the librarian function and the computer operations function.
4. Prepare or obtain flow charts of the proposed development from user request to implementation into the live system.
5. Review and highlight any weaknesses noted.
6. Identify each risk element within the flow chart i.e. each stage of development and establish what controls exist for each element e.g. sign-offs, independent reviews etc.
7. Comment on missing or inadequate controls.
8. Indicate on the flow chart who is responsible for each stage of development.
9. Prepare or obtain a flow chart for program writing and testing. Highlight in the flow chart and comment on:
  - ☐ how does the project manager ensure that all programs required are written and subject to adequate review
  - ☐ what are the criteria for determining an unacceptable product - both software and documentation
  - ☐ how and by whom is an unacceptable product determined. Ensure that there is an independent review procedure for programs with documentary evidence of the review
  - ☐ what control action is taken when the product has been determined as unacceptable. Explain and comment
  - ☐ how does the project leader ensure that the program as tested is not changed, without authority, prior to implementation
10. Flow chart the software control procedures to be used during the development stages and verify that dual control is adequate. Pay particular attention to how program/system amendments are handled.
11. Obtain or prepare a flow chart of the testing procedures, beginning with the stage when the programmer(s) have written the program(s). Identify and comment on the control areas.
12. Highlight the method used for controlling errors and amendments. Comment on the effectiveness of the control and ensure that there is provision for ensuring that corrected versions of programs have been subjected to the complete testing sequence.

13. Describe and comment on the procedures in force for ensuring that program documentation is adequately maintained.
14. Obtain a copy of the system development procedures and verify that these procedures comply with the Bank's Automation Standards.
15. Comment on the adequacy of the following:
  - ☐ system specification
  - ☐ program specification
  - ☐ program writing and testing
  - ☐ acceptance testing
  - ☐ program documentation
  - ☐ implementation schedule & procedures

**DATA PROCESSING DEVELOPMENTS**

**USER/FUNCTIONAL SPECIFICATIONS  
REVIEW OF FACILITIES & CONTROLS**

**DESCRIPTION**

The first step in the development of a computerised system is usually the user or functional specification. This document should normally be prepared and authorised by the user and should clearly state the functional requirements.

The purpose of the user/functional specification is to convey to the system designers what the user expects from the system. The main emphasis, therefore, should be on the definition of the output and then determining what input is required to produce the desired output.

The processing techniques are usually left to the systems analysts to define, but reference should be made, within the specification, to the minimum levels of controls desired over the updating of files etc. and to the methodology to be used in all types of calculations etc.

The user/functional specification should contain sufficient detail to enable the following:

- ☐ production of System Specification
- ☐ identification of revised work flows and/or re-organisation of operating departments
- ☐ production of departmental operating procedures, as applicable
- ☐ production of acceptance testing criteria

**OBJECTIVE(S)**

1. To ensure that an adequate user/functional specification has been prepared by ensuring that controls are adequately specified, with particular emphasis on the separation of duties with regard to input/output, effectiveness of file update criteria and adherence to accounting standards and policies on such matters as currency conversions, interest calculations, revaluations etc.

**AUDIT PROCEDURES**

1. Obtain a copy of the user/functional specification. Ensure that the document has been signed off by senior user management.
2. Verify that the specification has been prepared in accordance with the Bank's accepted Automation Standards and that there is evidence of an independent review for adherence to the standards.
3. By reference to existing documentation e.g. departmental instruction manuals, work-flows, organisation charts, Policies & Instructions Guidelines etc. describe the main control features of the existing systems in respect of:
  - ☐ management reports
  - ☐ Czech & Slovak regulatory reports
  - ☐ checking functions
  - ☐ balance verifications
  - ☐ credit control - limits, reports etc.

Check with the principal users to establish their additional requirements and main objectives. Add to the above list as appropriate. and prepare flow charts as necessary.
4. Utilising the information in 3. above, review the user specification to determine that the existing control features are included, together with any additional requirements of the user. You may need to produce:
  - ☐ a brief summary of the system e.g. types of transactions and/or information to processed
  - ☐ functions required e.g. standing orders
  - ☐ reports and displays required e.g. control reports, regulatory reports, exception reports etc.
5. Select a number of system facilities for a detailed analysis. Pay particular attention to access controls and input/output controls.
6. Prepare overview flow charts or schematics for facilities selected and highlight any control weaknesses noted.
7. By reference to the Bank's Accounting Manual verify that calculation formulae have been correctly specified.
8. By reference to the Czech & Slovak Accounting Requirements verify that calculation formulae have been correctly specified.

**REF: DPD 4**

**Date: 11/94**

9. By reference to the Bank's Operating Procedures Manual, Credit Authorities Manual and other operating procedures, verify that proper attention has been paid to the separation of duties where required controls necessitate a change to existing operating organisation or procedures.
10. Review and comment on file update criteria, if any have been specified e.g. debit entries to be accepted only if funds available

**DATA PROCESSING DEVELOPMENTS**

**EXAMINE PROJECT BUDGET APPROVAL**

**DESCRIPTION**

Capital expenditure approval should be obtained from senior management in keeping with the Bank's approval authorities and guidelines to cover all aspects of a project before development is underway.

**OBJECTIVE(S)**

1. To ensure that all new system developments have received the appropriate budget approval.

**AUDIT PROCEDURES**

1. Establish the total cost of the project.
2. Make a detailed breakdown of the total costs. Ensure that all ancillary costs such as feasibility studies, consultancy, documentation, package tailoring, terminals, hardware, storage media, data centre environment, special stationery, additional staff etc. have been included.
3. Obtain a copy of the approved document and verify, by reference to the Approval/Expenses Authorisations, that the correct level of approval has been obtained for the total cost of the project.
4. Examine the appropriate expenses and capital accounts and verify that no payments have been made prior to the granting of proper budget approval.
5. Verify that annualised expense forecasts have been accurately prepared in relation to the expected life of the system and payment dates for hardware/software etc.

## **DATA PROCESSING DEVELOPMENTS**

### **THIRD PARTY CONTRACTS REVIEW CONTRACTUAL LIABILITIES**

#### **DESCRIPTION**

A formal contract, signed by both parties, should always be established when a third party is involved in the production of software - . regardless of the degree of involvement.

The contract should be both precise and comprehensive in relation to the software - regardless of whether the software is a package requiring tailoring or new software to be written.

It must be emphasised that a contract for software development is only as good as the professionalism and financial position of the third party.

Contracts may also be signed for other computer services such as the supplying of hardware, terminals, time-sharing, leasing of equipment, maintenance of hardware/software, back-up arrangements, computer bureau etc. and it must be assured that these contracts are enforceable.

#### **OBJECTIVE(S)**

1. To ensure that all third party involvement, in the context of data processing developments, is governed by a meaningful and enforceable contract.

#### **AUDIT PROCEDURES**

1. Establish and schedule the services to be provided by all third parties in system development projects.
2. Verify that the contracts have only been signed after budget approval and only by authorised personnel. Refer to Bank signing authorities.

## DATA PROCESSING DEVELOPMENTS

### SYSTEM SPECIFICATION

1. REVIEW OF SYSTEM DESIGN & CONTROL
2. REVIEW OF OPERATING SYSTEM

### DESCRIPTION

The system specification can be regarded as the document which links the user's requirements with the programming techniques. As such the document both interprets the user/functional specification into data processing terminology and documents the design and structure of the system.

The specification should address all the control aspects mentioned in the user specification, together with details of those editing and validity checks, common to all computers, which will be embodied in the system.

The format and content of the system should comply with agreed standards as contained in either the automation standards and procedures manual or the third party contract.

The specification should be available for review before programming begins.

### AUDIT PROCEDURES(S)

1. Obtain a copy of the system specification. Verify that the specification has been signed off by the appropriate level of management, prior to the commencement of programming.
2. Verify that the specification has been prepared in accordance with the Bank's automation standards and procedures and that there is independent review for adherence to these standards.
3. From the review of the user/functional specification, obtain or prepare a control list of required functions, facilities, reports etc.

4. From the system specification obtain or prepare a control list of programs and/or suite of programs, giving names, reference numbers and brief descriptions/purposes etc.
5. Cross check the requirements of the user/functional specification to the system specification and verify that programs or suites of programs are detailed. Reconcile any exceptions noted.
6. Select a number of facilities for detailed examination and comment on the adequacy of system controls. Refer to the overall organisation and structure (main and other file layouts) of the system and obtain or prepare flow charts of programs or suites of programs for selected facilities.

**Processing Controls:**

- i). edit and access security features which should ensure that:
  - users are not able to by-pass security
  - input/output routines handle all system access
  - all file access is via data management software
  - user or application programs are not able to access or modify supervisory programs
  - supervisor memory area is protected from user read or writes
- ii). review control mechanisms as requested in the user/functional specification
- iii). review control checks in the program which ensure batch or other control totals are in agreement
- iv). review production of error reports if program checks do not agree the run-to-run totals
- v). review controls to prevent data corruption if different system users can amend standing data held on common master file
- vi). review audit trail where output from one system is automatically input to other systems. Verify control total and individual item checks

**Restore Ability:**

- i). review provision of program checkpoints in lengthy processing runs

- ii). review program or manual re-start instructions in case of failure of check point agreement
- iii). verify that the controls are adequate for re-creating data, transaction and program files in the event of file corruption
- iv). verify that the approach for re-processing work in the event of processing failure is uniform e.g. use of run books, operating instructions etc. regardless of the stage at which the processing failure occurs

☐ **Audit Trail:**

- i). verify that there is evidence of every input and amendment to data including system generated amendments, during the complete processing cycle
- ii). verify that there is sufficient information on the computer printouts to trace source documents and to verify totals generated
- iii). verify that control totals (e.g. general ledger line balances agree to subsidiary ledgers) are checked manually with control totals established prior to processing (proof of batch sheets/listings) or checked by computer during editing run (brought forward balance equals net debits/credits plus/minus previous day's balance)
- iv). verify that the system for controlling entries generated by programs from standing data held on master files is adequate e.g. interest payments, standing orders
- v). historical data - is the retention period in computer readable form adequate ? What is to be retained and for how long ?
- vi). exception reports - at what stage of the processing are they produced ? Verify the mechanism which ensures production e.g. sequentially numbered by the computer

7. Describe in brief detail the main features of the operating system.

8. Describe the control features that are available in the operating system and comment on their suitability for the application system. Consider:
  - user identification
  - authorisation checking
  - alarm mechanisms
  - violation logging capability
  - inherent design integrity
  - software control facilities
  
9. Establish what arrangements have been made for the bank to receive enhanced versions of the operating system.

## DATA PROCESSING DEVELOPMENTS

### PROGRAM SPECIFICATION

1. REVIEW APPLICATION PROGRAMS & UTILITIES
2. REVIEW OPERATING SYSTEM

### DESCRIPTION

There are three types of programs in any computer system:

- ☐ operating system programs
- ☐ application programs
- ☐ utility programs

In all cases, a program is a set of coded instructions which are followed by a computer to make it perform specified activities. Since a computer cannot think for itself, and is entirely dependent on instructions supplied to it by its users, it cannot be expected to perform any task adequately unless the problem and objectives have been specified correctly. The programmer produces the program based on guidelines prepared by the analyst, from the system specification. These guidelines are called program specifications and should contain sufficient detail to ensure that the program meets the requirements of the user.

### OBJECTIVE(S)

1. To ensure that adequate program specifications have been prepared, independently reviewed and signed off.

### AUDIT PROCEDURES(S)

1. From the review of the system specification obtain or prepare a control list of all programs and verify that a program specification has been prepared for each. Verify that there is evidence that program specifications are independently reviewed and signed off by the project manager or senior programmer analyst. All amendments to program specifications should be similarly controlled.

2. Select a number of program specifications for examination.
3. Comment on adherence to program specification standards by reference to the Bank's automation Standards and procedures.
4. Compare the application program specifications to the user/functional specifications and comment on the content of the program specification.
5. Compare the utility program specifications to the system specification and comment on the content of the program specification.
6. If it is established that there is a high incidence of inconsistency between the functional requirements and the program specifications, establish the cause(s) and comment.

## **DATA PROCESSING DEVELOPMENTS**

### **PROGRAM WRITING & TESTING**

- 1. COMPLIANCE WITH PROCEDURES & SEPARATION OF DUTIES**
- 2. EXAMINE CODING OF APPLICATION PROGRAMS, UTILITIES & OPERATING SYSTEM**

### **DESCRIPTION**

The programmer is responsible for testing his programs and completing the documentation before handing both over for an independent review for accuracy and compliance with standards and controls.

This dual control of program development should be evident no matter whether the software is produced in-house or not and is necessary to prevent spurious coding being included in the live software. (This control should not be confused with acceptance testing).

It is essential to ensure that the version of the program that is implemented is the same one that the programmer issued i.e. that no one has tampered with the program during the review, testing and implementation stages.

### **OBJECTIVE(S)**

- 1. To ensure that the writing and testing of programs complies with the Bank's established procedures and standards.**
- 2. To ensure that programs and documentation are reviewed independently for accuracy and conformity to established standards and controls.**

**AUDIT PROCEDURES(S)**

1. Obtain a copy of the programming standards and prepare a schedule with headings for the significant standards.
2. Prepare or obtain a list of all programs.
3. Verify that there is documented evidence of an independent review of adherence to programming standards for each program. Comment on how the integrity of each program is preserved.
4. Select a number of programs and examine the adequacy of the relevant copies of the review documentation.
5. Obtain coding listings from the latest version of the selected programs and review program documentation for accuracy and adherence to programming standards. Using the schedule, detail per program the degree of adherence to standards. Comment on compliance and accuracy.  
  
If there is a high degree of non-compliance with standards, determine and comment on the cause(s).
6. Review programming standards and comment as appropriate on the suitability of the standards.
7. Using the programs selected in 4. above obtain source code listing and verify that these are current.
8. Obtain and comment on basic documentation and as appropriate.
9. Determine the input/output files used.
10. Compare system variable and array definitions and/or data division details to the documentation.
11. Be alert for and investigate any differences or variations.
12. Examine closely the use of and reason for "redefines/renames".
13. Compare file documentation to the contents of the file as shown on a dump file.
14. Look at "run" and "stop" statements.

15. Scan "if" statements.
16. Review "go to" commands.
17. Look for and verify the use of the verbs:
  - input
  - read
  - write
  - wait
  - look
  - code
  - load
  - dump
  - print
  - return
  - delete

## **DATA PROCESSING DEVELOPMENTS**

### **PROGRAM DOCUMENTATION**

- 1. TRIAL BALANCE**
- 2. REVIEW & VERIFY DETAIL**

### **DESCRIPTION**

The programme documentation is the source from which the software can be maintained and enhanced. It is, therefore, essential that the documentation is both complete and clearly informative.

The format and content of the documentation should comply with agreed standards as contained in either the Bank's Documentation Standards and Policies or the third party contract.

### **OBJECTIVE(S)**

- 1. To ensure that programme documentation exists and is up to the level required by the Bank's Standards and policies.**

### **AUDIT PROCEDURE(S)**

- 1. From the review of system and/or program specification work papers, obtain or prepare a control list of programs. If applicable, include the inventory of programs for existing sub-systems in the control list.**
- 2. Prima facie verify that documentation files are held for each program.**
- 3. Test check documentation files for evidence of independent review.**

4. Review the documentation for a selection of programs. Is the programme documentation sufficient to allow accurate maintenance and enhancements to the system ? If not, list exposures and exceptions.
5. Verify that the documentation file includes:
  - problem statement
  - system flowchart
  - transaction and activity codes
  - record layouts
  - run book or operating instructions
  - program flowchart
  - program listing
  - approval and change sheet
6. Obtain coding listings and briefly compare each listing produced to the listing held in the documentation file. Comment on all differences.
7. Check the details in the program documentation with the information contained in the system specification: e.g. program descriptions, file usage etc. and verify agreement.

## DATA PROCESSING DEVELOPMENTS

### ACCEPTANCE TESTING

1. REVIEW SCOPE & CONTROLS
2. REVIEW RESULTS

### DESCRIPTION

The acceptance testing of programs is in many the most important phase of any system development. This is the first point, within the development phase, where the design and overall reliability can be proven.

The programs should be destruction tested to include all special and error conditions, in a controlled environment, using criteria determined from the user/functional specification. This method of testing should ensure that the data will be processed correctly and consequently produce reliable output in the required format.

### OBJECTIVE(S)

1. To ensure the adequacy of system and program testing.

### AUDIT PROCEDURE(S)

1. Verify that the acceptance testing has been pre-defined and that the scope of testing has been independently reviewed to provide a consistent and co-ordinated approach to the evaluation.
2. Obtain a copy of the project teams testing schedule and a directory listing of the test pack. Verify that all programs detailed on the system specification are included.

3. For each program verify that test results have been reviewed and independently signed off by the project manager and/or senior programmer analyst.
4. Verify that control records have been established which ensure that all required facilities have been tested. Test check the accuracy of the control records by reference to the system specification work papers and cross check system controls identified to test control records.
5. Using the testing schedule, identify all established errors, from project team records and verify that the corrected versions have been subject to the complete testing sequence i-e. it is not just tested for the correction of errors.
6. Comment on the number of errors identified, making a distinction between major and non-major errors. Document the date or the error status and the planned date for the commencement of parallel run. Review the number of errors established in relationship to the number of programs and average errors per program.
7. Verify that a full system dress rehearsal including implementation routines, volumes and timings has been undertaken. Schedule average timings for batch runs, real-time responses etc. for all programs or suite of programs and verify that the user requirements have been satisfied in relation to the volumes tested. Comment on time margins available for restart and re-runs in the event of processing failure. Briefly describe standard of results.
8. Verify that no tests have been run against the live files. (Duplicate copies of live files may be used providing confidentiality is maintained over the data). Explain how the test bed was constructed and maintained.
9. Verify that equipment is not operated by the programmers.
10. Select program tests for examination. Determine whether the test data has been devised so as to extend the variety of transactions beyond normal expectations and thus exhaustively test the logic of programs. Refer to the user/functional specification work papers (DPD 4) for the list of fundamental control requirements with the conditions which must be found for the control to be effective.

Consider the following:

- does data include tests on the input validation routines to include check digits, alpha characters in numeric fields, associated data elements ?

- have tests been conducted with the purpose of measuring the accuracy of data notwithstanding an increase in the volume of transactions and the use of re-start procedures ?
- does the test data examine the integrity of master files, controls over transaction files and the availability and purging of working files ?
- are tests performed on the control system to ensure that no records are lost, there is no duplication of data, input is read correctly, that control totals are verified by the system, arithmetic and overflow controls are working and external cross-footing checks are fully effective ?
- does the test data examine and verify controls to prevent the overflow of data fields, limit checks on calculations, re-setting of counters and the clearing of main storage ?
- are internal labels, control records and control fields tested for effectiveness ?

DATA PROCESSING DEVELOPMENTS

ACCEPTANCE TESTING CHECKLIST

EXAMINE SCOPE OF TEST DATA

- ☐ State the Function Selected \_\_\_\_\_
- ☐ For each dfunction selected ensure that the scope of the test data will fulfill the following criteria:  
(Yes answers are expected. Not Applicable and No answers should be explained and commented on).

		Yes/No
01	Has the test data been formally prepared to: - ensure that all possible conditions will be handled ? - include all unreasonable actions ?	
02	Does the data include tests on the input validation routines, to include: - check digits ? - alpha characters in numeric fields ? - essential data elements ? - associated data elements ?	
03	Are tests conducted on the hardware conditions designed to measure the accuracy of data notwithstanding: - an increase in volume of transactions ? - the use of re-start procedures ?	
04	Are the following file controls employed and effective: - internal labels ? - control records ? - control fields ?	
05	Does the test data examine: - integrity of master files ? - control over transaction files ? - availability and purging of working files ?	

		Yes/No
06	<p>Are tests performed on the control system to ensure:</p> <ul style="list-style-type: none"> <li>- no records are lost ?</li> <li>- no duplication ?</li> <li>- input is correctly read ?</li> <li>- control totals are verified - output back to input ?</li> <li>- arithmetic and overflow controls are working ?</li> <li>- pccross-footing checks are fully effective ?</li> </ul>	
07	<p>Are the following system controls verified:</p> <ul style="list-style-type: none"> <li>- overflowing of data fields ?</li> <li>- limit checks on calculations ?</li> <li>- re-setting of counters ?</li> <li>- clearing of main storage (core) ?</li> </ul>	
08	<p>Is a complete system test performed to ensure that an audit trail is provided that will:</p> <ul style="list-style-type: none"> <li>- satisfy users ?</li> <li>- satisfy auditors ?</li> <li>- satisfy management ?</li> <li>- satisfy historical requirements ?</li> <li>- report computer generated data ?</li> </ul>	

DATA PROCESSING DEVELOPMENTS

ACCEPTANCE TESTING CHECKLIST

EXAMINE SCOPE OF TEST DATA

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		Yes/No
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02	Does the data include tests on the input validation routines, to include: - check digits ? - alpha characters in numeric fields ? - essential data elements ? - associated data elements ?	
03	Are tests conducted on the hardware conditions designed to measure the accuracy of data notwithstanding: - an increase in volume of transactions ? - the use of re-start procedures ?	
04	Are the following file controls employed and effective: - internal labels ? - control records ? - control fields ?	
05	Does the test data examine: - integrity of master files ? - control over transaction files ? - availability and purging of working files ?	

		Yes/No
06	Are tests performed on the control system to ensure: - no records are lost ? - no duplication ? - input is correctly read ? - control totals are verified - output back to input ? - arithmetic and overflow controls are working ? - pcross-footing checks are fully effective ?	
07	Are the following system controls verified: - overflowing of data fields ? - limit checks on calculations ? - re-setting of counters ? - clearing of main storage (core) ?	
08	Is a complete system test performed to ensure that an audit trail is provided that will: - satisfy users ? - satisfy auditors ? - satisfy management ? - satisfy historical requirements ? - report computer generated data ?	

## DATA PROCESSING DEVELOPMENTS

### PARALLEL RUN PLANNING - REVIEW

#### DESCRIPTION

In normal circumstances, before a system is allowed to run live it should be run in parallel with all phases of the existing system. It may not be always possible to duplicate live data during the course of the working day but the final test sequence should always be undertaken in actual operating conditions, using live data. The live data should be supplemented by test data containing special error conditions and combinations of error conditions to ensure full testing. Where possible, it is recommended that parallel runs be undertaken using newly created master files.

The actual programs used by the computer are not the only part of the system to be tested. Procedures used by the data centre operators, the data control group and source and user departments must also be tested. These procedures should be set out in operating manuals which should have been prepared at the same time as the computer programs.

Programmers should not directly participate in the testing. In this way it will be possible to ascertain whether the system can operate without programmer direction or assistance.

Although the above refers specifically to new systems, the same principles apply to program changes.

#### OBJECTIVE(S)

1. To ensure that it will be possible to determine, during the final test phase, the ability of the new system to process data correctly within the hardware and time constraints established by the Bank.

AUDIT PROCEDURE(S)

1. Describe and comment on the nature and scope of the parallel run.
2. If no parallel run is planned, state and comment, as appropriate on the following:
  - nature and scope of the final test
  - rationale behind the decision
  - parties to the decision
3. Comment on the validity of the decision using the following procedures and substitute the final test for parallel run, as appropriate:
  - i). using the schedule of reports prepared for the system specifications procedures (DPD 7) verify that the frequency, number of copies and distribution details have been recorded for every report
  - ii). establish the duration of the parallel run. State the projected start and end dates. Determine from the operating departments the peak work load periods. Verify that, as a minimum, the period of the parallel run covers the peak work load periods and at least one cycle of all reports.
  - iii). Verify that a system dress rehearsal, to include set-up routines, has been planned prior to commencement of the parallel run
4. Verify that every effort is being made to correct, in a controlled manner, the outstanding errors prior to the start of parallel run. Determine how many major errors remain outstanding. Itemise and comment as appropriate.
5. Determine the pre-parallel run criteria. Verify that, if the criteria are fulfilled, it will be possible to determine the ability of the new system to process data correctly within the hardware and time constraints set by the Bank.
6. Verify that there is a clear definition of the criteria which have to be satisfied before the end of the parallel run. Prepare or obtain a copy of the parallel run criteria and detail the individuals who will sign-off for the commencement of live running. Comment as appropriate.
7. Obtain and record the users views relating to their ability to conduct the parallel run. Do they feel that sufficient training has been given ?

8. Prepare or obtain a copy of the System Build Plan. Has the branch agreed to the plan ?
9. Comment as appropriate on the method and controls of the Build Plan. Demonstrate how the data will be updated with amendments. Do the plans call for recovery to existing records, if the need arises ?
10. State who will be undertaking and who will be controlling the loading of the static and accounting data. Briefly review the method of control and comment as appropriate.
11. Establish how the project team has determined what data has to be loaded in order to provide the required facilities.
12. Verify that sufficient data has been planned to be loaded to provide all the required facilities.
13. Determine any facilities that will not be available at the commencement of parallel run and/or live running. State and comment on the reason.  
  
Verify that the project team and users are aware of any omissions and that, where appropriate, interim manual control procedures have been devised. Comment as appropriate.
14. Verified that amended operating procedures, as necessary, have been prepared prior to the commencement of the parallel run.

## DATA PROCESSING DEVELOPMENTS

### DATA LOADING - EXAMINE CONTROLS

#### DESCRIPTION

A system needs two factors to function - the programs and the data file. The programs allow fresh data to be input to the system to update the existing files and to produce new accounting and other information.

Thus whilst the technicians are preparing the programs for the system, the users should be preparing all current data for loading to the system. Data can be defined as static data (such as addresses, interest rates, codes etc.) which is not changed frequently and accounting data e.g. transactions, balances.

Both types of data must be introduced into the system before the start of parallel run and should be loaded and checked under dual control by the users.

#### OBJECTIVES

1. To ensure that all necessary data has been correctly loaded into the system and checked under dual control by the users.

#### AUDIT PROCEDURES

1. **Static Data:**
  - i). Verify that at least two persons were involved in the loading of static data and that the checker was from a user area.
  - ii). Verify that master records were printed out in their entirety and that the printout was checked to the original records.

- iii). If there is no evidence of an independent check comment as appropriate.
- iv). Spot check the static data input to the hard-copy proof to determine the accuracy of the input.
- v). Establish what controls there are over amendments to the static data once it has been entered and signed-off by the user

**2. Accounting Data:**

- i). Describe or obtain a copy of the controls exercised over the bringing forward of accounting data from the old to the new system. Comment on the adequacy of these controls.
  - ii). Review the actual loading and checking of brought forward data and assess whether the controls were followed. Were pre-list totals of quantities and values on the original records checked against corresponding totals produced by the computer from the relevant master records immediately after the latter was created ? Are the two systems in balance ?
  - iii). Independently check the trial balances as at take-over produced by the old and new systems, to ensure agreement. Follow-up any corresponding entries that were required.
  - iv). Test check individual records on the data files to prove accuracy of input
  - v). Determine the feasibility of using a controlled positive statement despatch or similar confirmation programme, to test the accuracy of the data files
3. Verify that the static data was loaded onto the new system under sufficient control to enable the user to operate the system under live conditions.

## DATA PROCESSING DEVELOPMENTS

### RUN BOOKS

1. TRIAL BALANCE
2. REVIEW & VERIFY DETAIL

### DESCRIPTION

As part of the overall program documentation, run books should have been produced and they should contain everything the computer operations staff need to know regarding the running of each program within the system, with particular reference to:

- ≡ type of program - real time, batch, utility etc.
- ≡ disks/files to be loaded
- ≡ start, run and stop procedures
- ≡ stationery requirements
- ≡ recovery procedures
- ≡ run times

The run books should be used in conjunction with the training of the computer operators in the handling of the system and should be available in the data centre for reference purposes.

### OBJECTIVES

1. To ensure that finalised run books are available for the computer operations staff and that they are adequate to enable them to operate the system in any situation, particularly when faults occur.

### AUDIT PROCEDURES

1. Verify that run books are available in the data centre for the use of the operators during the parallel run.
2. Refer to DPD 10 - Program Documentation for an inventory of all programs in the system. Check this list to the contents of the run book to verify that all programs are included.
3. Obtain a copy of the standards for run books as contained in the Bank's Automation Standards and Procedures. Verify that run books are independently reviewed for adherence to procedures and selectively test check the information for compliance. Comment as appropriate on instances where important information is not available. Consider the following:
  - recovery procedures
  - disk files to be mounted
  - start, run and stop instructions
4. Verify that the computer supervisor is satisfied that his/her staff can operate the new system whatever the circumstances e.g. machine fault, program error etc. If not, comment on the effect any deficiencies in the run book could have on the decision to commence live running.
5. Verify that adequate manuals exist explaining all the functions of all hardware and operating system.

## DATA PROCESSING DEVELOPMENTS

1. COMPLIANCE WITH PROCEDURES & SEPARATION OF DUTIES
2. REVIEW USER SIGN-OFF

### DESCRIPTION

Regardless of how well a system is controlled from a design and technical point of view, it cannot be said to be fully controlled until adequate manual procedures have been developed to handle the system. For instance, a system might be designed so that A should always equal B - with all exceptions to this rule to be reported on hard copy print-out. However, if there are no manual procedures in force to ensure that someone reviews and responds to this exception report, the system as a whole cannot be regarded as being fully controlled.

In this context the following documents should be considered:

- ☐ Bank's Manuals of Procedures
- ☐ User Manuals
- ☐ Standard Policy and Operating Instructions

### OBJECTIVE(S)

1. To ensure that adequate manual control procedures have been documented, have been used effectively during the parallel run and that the parallel run was carried out in accordance with the Bank's established policies and procedures.

### AUDIT PROCEDURES

1. Refer to previous audit work papers concerning user/functional specification and system specification and determine what additional manual controls or modifications to existing manual controls are required to handle the system.
2. Obtain a copy of the documented manual control procedures relating to the system and establish that all the necessary controls have been included. Refer to the work papers for parallel run planning. Verify that, as a minimum, there are procedures for those areas where the user is checking the accuracy and functional ability of the system.
3. By use of flow charts and discussions with bank personnel and by reference to operating procedures, comment on the adequacy of controls and separation of duties. Review and comment on dual control over transactions.
4. Verify that users are following documented procedures during the parallel run and that the procedures are proving to be effective.
5. Verify that adequate software control is being maintained throughout the parallel run. Flow chart the control procedures, including changes and temporary fixes and highlight any weaknesses noted.
6. Obtain a copy of the user's sign-off (acceptance) of the system. If the system has not been accepted, detail the user's reasons for non-acceptance. Review and comment on sign-off or non-acceptance.

## DATA PROCESSING DEVELOPMENTS

### USER STAFF TRAINING - REVIEW

#### DESCRIPTION

An important aspect of any system implementation is the training of staff in the handling of the system. Staff in both the user departments and EDP operations need to receive verbal instruction in the use of the system as well as documented user manuals and run books.

#### OBJECTIVE(S)

1. To ensure that adequate user staff training has taken place.

#### AUDIT PROCEDURES

1. Comment on the scope and extent of training given to both user departments and EDP operators.
2. **User Departments:**
  - ☐ are department heads satisfied that their staff have received sufficient training to enable them to handle the system adequately, particularly when the implementation team has left ?
  - ☐ have user manuals been distributed as a reference document ?
  - ☐ have the user manuals been reviewed for adequacy by the users ? What are their comments ?
3. **EDP Operators:**
  - ☐ is the supervisor satisfied that the operators have been given enough instruction to enable them to operate the machine in all modes e.g. real time, batch etc.
  - ☐ are the operators familiar with the run-books ?
  - ☐ are the books available at all times the system is running ?

### OBJECTIVE(S)

1. To ensure that, in the event of a system or computer failure, the user can continue to conduct business with the minimum of risk and inconvenience, by following documented recovery procedures.

### AUDIT PROCEDURES

1. Describe the official recovery procedures to be followed in the event of a system and/or computer failure. Distinguish between procedures for parallel run and on-going operating.
2. Ascertain from the principal users of the system their views on how dependent they will be on the live system and how they would manage if the system were not available for a 1,2,3,5 and more than 5 day period.
3. Consider the resources available to each user department to continue working should the system be in-operative.
4. Comment on the adequacy and practicality of the procedures in respect of:
  - ≡ programs
  - ≡ data files
  - ≡ hardware
5. Comment on whether the recovery procedures are adequate enough to allow the system to begin live operations.
6. Verify that back-up procedures have been tested prior to the commencement of live running. As a minimum, back-up copies of program files and data files should be used at least once during the parallel run.
7. Verify that recovery procedures include the testing of back-up arrangements at regular future intervals.

**AUDIT PROCEDURES  
FOR  
DATA PROCESSING SYSTEM SECURITY**

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**DATA PROCESSING SYSTEM SECURITY**

**COMPLIANCE WITH BANK POLICIES & PROCEDURES**

**DESCRIPTION**

Bank Policies & Procedures will exist which cover several areas of the Bank's operations. These policies & procedures are normally documented in a Policies Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

**OBJECTIVES**

1. To ensure that the area, department or function which is being audited is familiar with bank policies and procedures affecting their operations.
2. To ensure that any changes in the policies and procedures are disseminated.
3. To ensure that the policies and procedures are being followed.

**AUDIT PROCEDURES**

1. Obtain the department's copy of the latest policies and procedures affecting their area.
2. Identify any missing policies or procedures including recent updates.
3. Discuss the policies and procedures with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
4. Identify and follow through the procedures for disseminating new and or amended policies and procedures covering the Bank as a whole and make a determination as to whether these are adequate
5. Select a number of systems or sub-systems for checking that the policies and procedures are being complied with.

6. During the examination the following specific items should be considered:

- Bank Operating Directives
- Bank Accounting Manual
- Expenses Control Guidelines
- Data Processing Standards & Procedures
- Any Other Directives (specify)

## **DATA PROCESSING SYSTEM SECURITY**

### **COMPLIANCE WITH NOVEMBER 1994 LAWS & REGULATIONS**

#### **DESCRIPTION**

Local Laws and Regulations will exist which cover several areas of the Bank's operations. These laws and regulations are normally documented in a Local Laws & Regulations Manual and copies of the manual should be distributed to all appropriate areas of the bank including any up-dates.

#### **OBJECTIVES**

1. To ensure that the area, department or function, which is being audited is familiar with local laws and regulations affecting their operations.
2. To ensure that any changes in the laws and regulations are disseminated.
3. To ensure that the laws and regulations are being followed.

#### **AUDIT PROCEDURES**

1. Identify the particular laws and regulations affecting the area, department or function which is being audited.
2. Obtain the department's copy of the latest laws and regulations affecting their area.
3. Identify any missing copies of laws and regulations including recent updates.
4. Discuss the laws and regulations with the department head and other personnel as appropriate and make a determination as to whether they are familiar with them.
5. Identify and follow through the procedures for disseminating new and or amended laws and regulations covering the Bank as a whole and make a determination as to whether these are adequate

6. Select a number of recent system implementations for checking that the laws and regulations are being complied with.
7. Review the systems in the context of the requirements of the relevant laws and regulations.
8. Identify any non-compliance situations.
9. Follow through and identify how the situation was corrected.
10. Identify, review and comment on departmental procedures for ensuring compliance with all appropriate local laws and regulations.
11. During an examination of this area the following Czech & Slovak laws and Regulations must be considered (make a list):
  - ☐ Data Protection & Secrecy Laws
  - ☐ Cross Border Data Transmission Flows
  - ☐ Copyright Protection Laws
  - ☐ Data Encryption Requirements
  - ☐ Data Ownership and Data Access Regulations

## DATA PROCESSING SYSTEM SECURITY

### SOFTWARE CONTROL

#### DESCRIPTION

The existence of effective software controls is a part of the overall environment which should ensure the integrity of the Bank's systems. A lack of adequate access or physical security controls could also have a major impact on the effective of software controls. (See Audit Procedures DPS 4, 5 & 6).

To minimise the Bank's exposure to losses which may arise from erroneous, malicious or fraudulent software, it is essential that all software be adequately controlled and protected.

To achieve adequate protection only authorised software should be resident in live systems and procedures need to be in place to ensure that new software is implemented in a controlled manner. In addition, there must be a mechanism which detects, on a timely basis, the existence of unauthorised software.

#### OBJECTIVES

1. To ensure that only authorised programs are resident on the live system.
2. To ensure that strict control procedures are in operation to prevent unauthorised program changes and that unauthorised software would be detected on a timely basis.

#### AUDIT PROCEDURES

1. *Written Operating Procedures:*

Review and comment on the adequacy of the written operating procedures concerning software inventories and the controls over software changes.

2. *Inventory Controls:*

The system inventory is the means by which additions to the system contents can be identified and through which good housekeeping may be achieved. It does not of itself ensure the integrity of the software or data.

- i). Obtain a copy of the master inventory of system contents.
- ii). Verify that the inventory includes all facets of the system e.g.
  - ⇒ application programs
  - ⇒ utilities
  - ⇒ data files
  - ⇒ procedures
- iii). Verify that the inventory has been authorised by the responsible individual(s) who are independent of the software control process.
- iv). Verify that the inventory is periodically proved by an independent individual such as an EDP Controller.
- v). Verify the inventory by independently obtaining listings of the contents of the live system. (N.B. if standard utilities are to be used, consider the need for an independent technical review of utility coding)

3. *System Changes/Modifications:*

- i). Verify that all system change requests are sequentially logged and adequately documented.
- ii). Review and comment on the method by which change requests are prioritised and evaluated.
- iii). Verify that the appropriate approvals have been obtained and recorded.
- iv). Review and comment on the method by which the ongoing status of change requests is monitored.
- v). Review the outstanding change requests to ensure that any with control, security or significant business implications are being addressed with a sufficient degree of priority.

4. *Acceptance Testing of System Changes/Modifications:*

- i). Review the written test plans for completeness and approval.
- ii). Review the test documentation to determine that tests were carried out as planned and that the results were successful.
- iii). Verify that the appropriate personnel, e.g. EDP Controller, Chief Accountant etc., have reviewed and approved the test results prior to the implementation of the changes.
- iv). Review the system change logs to determine whether there is any trend in new requests which would suggest deficiencies in previous acceptance testing.

5. *Installation of System Changes:*

- i). Flowchart the procedures used during the installation of system changes.
- ii). Verify that personnel responsible for effecting system changes are not development personnel.
- iii). Verify that software is only transferred to the live system with the authorisation of the appropriate user and personnel.
- iv). Verify that the system provides adequate hard copy logs of all system change activity and that such activity is identified and reviewed daily by the appropriate personnel.
- v). Verify that there is a procedure for updating all appropriate logs, inventories etc. and that the procedure is operative.
- vi). If appropriate, verify that new versions of programs are transferred to tapes or disks so that the responsible person can perform regular system integrity checks.
- vii). Verify that the procedures provide for the ability to revert to a previous version of the system in the event of non-performance of the new software.

6. *Systems' Integrity:*

Review and test the procedures by which the appropriate individual ensures that no unauthorised system changes have been made:

i). *Interpretative Systems:*

Review and comment on the effectiveness of the procedures by which the appropriate individual compares the live system to his secure copy. Comparisons should be made at least quarterly.

ii). *Compiled Systems:*

Review and comment on the effectiveness of the procedures by which the appropriate individual ensures that the compiler and source code are adequately controlled.

Note:

Compilers and source code should only be available on live systems in exceptional circumstances.

7. *Emergency Fixes:*

Review and test the procedures for identifying and verifying the validity of emergency fixes.

**DATA PROCESSING SYSTEM SECURITY**

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<b>DPS</b>						
<b>3.1</b>	<b><u>Written Operating Procedures</u></b> Software control procedures should be comprehensively documented in policy manuals					
<b>3.2</b>	<b><u>Inventory Control</u></b> An independently approved inventory of software and data files comprising the live system should be maintained and periodically verified					
<b>3.3</b>	<b><u>System Changes/Modifications</u></b> Procedures to monitor and control the requests for system changes/modifications should exist and a complete chronological record of all changes should be kept. This process must cover all changes regardless of whether they are the result of errors or new user requirements					

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<b>DPS</b>						
3.4	<u><b>Acceptance Testing of System Changes/Modifications</b></u> New software should be comprehensively tested by the user and results reviewed prior to installation					
3.5	<u><b>Installation of System Changes</b></u> Appropriate separation of duties should be maintained during the installation of system changes					
3.6	<u><b>Systems Integrity</b></u> The integrity of the system should be periodically verified by the appropriate individual					

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<b>DPS</b> <b>3.7</b>	<u><b>Emergency Fixes</b></u> Emergency fixes should be comprehensively reviewed and independently authorised within 24 hours of their introduction into a system					

## DATA PROCESSING SYSTEM SECURITY

### SYSTEM ACCESS CONTROLS

#### DESCRIPTION

To protect the Bank against unauthorised activity on its computers there must be an effective system of access controls. Access to the system should be restricted to specified personnel who are permitted defined facilities which ensure adequate separation of duties. There should be a clear distinction within both the system and operating procedures between the key functions such as programming, computer operations, data input etc.

Systems should be designed and implemented to take maximum advantage of security facilities provided by the operating system and should include the use of passwords, user identification, menus, libraries etc.

#### OBJECTIVES

1. To ensure that system access controls are adequate and that there is appropriate separation of duties.

#### AUDIT PROCEDURES

1. *Responsibility for Access Control:*
  - i). Responsibility for monitoring the system security should be defined clearly in the Data Processing Standards Policy and in job descriptions etc.
  - ii). Review the organisation structure to determine whether the electronic data processing control function is independent of computer operations.
2. *System Access Controls:*
  - i). Flow chart and describe the method by which system access control is achieved.

- ii). Verify that a list of authorised system users is maintained by the appropriate individual and that the list is approved by management.
- iii). Verify that schedules of permitted activity for each user are maintained by the appropriate individual.
- iv). Review the above documentation to determine whether the allocation of functions does not compromise access security or separation of duties.
- v). Verify that each user is required to identify himself/herself to the system through the use of a personal identification number, password known only to himself/herself etc.
- vi). Verify that password standards are being adhered to i.e.
  - ☐ passwords should not be printed/recorded on terminals or hard copy devices
  - ☐ password files should be encrypted
  - ☐ passwords should be a minimum of 6 characters
  - ☐ password changes should be forced at regular intervals
  - ☐ users should have the ability to change their own passwords
  - ☐ passwords should be changed when staff have been transferred to other departments or on the termination of employment
- vii). Verify the accuracy of the access control records.
- viii). Verify that access to the computer is controlled through appropriate procedures for linking terminals to the computer e.g. consider the use and control over matrix pin panels and dial-up facilities.
- ix). Verify that there are no system or operating functions e.g. control C or equivalent facilities which, in themselves, override any system distinction between key activities e.g.
  - ☐ systems and programming
  - ☐ library
  - ☐ computer operations
  - ☐ data base amendments
  - ☐ passing of entries
  - ☐ transaction confirmation by contract notes or customer statement
  - ☐ control and reconciliation
  - ☐ audit trailing

If appropriate, document and comment on file/program dependencies.

- x). Obtain a list of all system users and identify and comment on which users are privileged.
  - xi). For all users:
    - ⇒ identify those individuals holding the passwords to each user ID.
    - ⇒ request one user of each menu to sign-on and when the initial menu is displayed, obtain a screen print of the menu
    - ⇒ examine the menu and ascertain from the user whether any of the options on the menu present a further menu. If further menus exist, request the user to enter those menus and obtain a screen print of each one
  - xii). Obtain a list of user identities from the system security officer. The list should display the user names and passwords.
  - xiii). Verify that each user profile has a password.
  - xiv). Obtain from the system security officer a description of each user profile. If there are a large number of users, make a selection of user profiles which should be listed.
  - xv). From the listings verify that.
    - ⇒ an initial program exists for workstation users
    - ⇒ workstation users have no special authority i.e. save system or job control
    - ⇒ all users are restricted to using certain screens only
    - ⇒ any development work in progress is taking place in test libraries with test data files and that access to production libraries is strictly controlled
3. Control Review of Access Controls:
- Review and comment on the procedures employed by the appropriate individual for ensuring that access controls are being strictly followed.
4. Terminal Security Controls:
- i). Identify and review the procedures concerning the monitoring and recording of terminal activity, identification of failed log-on attempts, terminal lock-out etc.

ii). Prove by selective test checks that the computer console log is being independently reviewed. How is the review evidenced ? Make comment on:

- ☐ is the log continuous
- ☐ the blocking and un-blocking of terminals
- ☐ program coding and the reason for the coding
- ☐ program listings taken
- ☐ program copies
- ☐ renamed and deleted programs
- ☐ log-ins other than the operator user code
- ☐ transfers to other user codes
- ☐ running of non-real-time or batch programs
- ☐ disk copies
- ☐ re-run of batch
- ☐ identity of disks loaded
- ☐ illegal knowledge of confidential passwords

iii). Review the history logs and verify that:

- ☐ the activities of all privileged users are recorded on the history log
- ☐ all pages of the history log bear the evidence of review by a person who does not have privileged access to the system
- ☐ all unusual events have been investigated and annotated accordingly
- ☐ all access by the Master Security user has been investigated and signed off by the appropriate individual

### DATA PROCESSING SYSTEM SECURITY

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<b>DPS</b> <b>4.1</b>  <b>4.2</b>  <b>4.3</b>  <b>4.4</b>	<u><b>Responsibility for Access Control</b></u> Responsibility for access control should be assigned to an EDP Controller/Security Officer reporting to management and independent of computer operations  <u><b>System Access Controls</b></u> Access to computer resources should be controlled to protect them against unauthorised use, damage, loss or modifications  <u><b>Control Review of Access Controls</b></u> Access controls should be periodically reviewed to ensure that no movements have occurred which have weakened the control system  <u><b>Terminal security Controls</b></u> Access should be controlled					

## DATA PROCESSING SYSTEM SECURITY

### INPUT/OUTPUT AND PROCESSING CONTROLS

#### DESCRIPTION

To ensure the integrity of information held in a computer system there must be effective controls over the quality of data input into and accepted by the computer. In addition, there should be procedure in place to ensure that all information input has been properly authorised.

Input, output and processing controls are the means whereby the quality, integrity and authenticity of information held on a system is assured. Normally, for all data input into a system there will be appropriate output to evidence the activities which have taken place and to document the authorisation for such activity. Some systems achieve the same effect through the use of dual keying of input and automatic processing checks.

#### OBJECTIVES

1. To ensure that all information processed is complete, accurate and authorised.

#### AUDIT PROCEDURES

1. *Written Operating Procedures:*
  - i). Review and comment on the adequacy of written operating procedures covering input, output and processing controls.
2. *Edit and Validation Checks on Input:*
  - i). Review and comment on the effectiveness of validity checks. Determine whether:
    - ☐ pre-programmed keying formats are used to ensure that data is entered in the proper field, format etc.

- pre-programmed keying formats are used to ensure that data is entered in the proper field, format etc.
  - prompting is built-in to facilitate data entry and reduce the number of data entry errors
  - data validation and editing procedures are performed on all fields of an input record, even though an error may have been detected in an earlier field of the input record
- ii). Consider the use of test data on an off-line copy of the live system.
- iii). Determine whether data validation and editing procedures perform the following checks:
- individual and supervisor authorisation or approval code
  - check digits on all identification keys
  - check digits at the end of a string of numeric data that is not subject to balancing
  - validity of codes
  - alphanumeric or numeric values
  - field sizes
  - combination of fields
  - signs
  - record matches or mismatches
  - sequences
  - cross-footing
  - data validation e.g. account number, valid date etc.
  - acceptable ranges e.g. interest rate more than x %
  - rate checks e.g. amount of currency #1 x rate = amount of currency #2
  - dual input of key fields
- iv). Check and determine whether anyone is able to override or by-pass data validation and editing errors. If supervisors are allowed this facility, verify that an automatic log records these functions and that the log is independently reviewed daily for appropriateness.
- v). Ascertain whether the user departments use batch control totals generated by the system to validate the completeness of batch inputs.

3. *Input/Output Controls:*

- i). Verify that the input and/or source documents evidence the initials of the individuals who:
  - ⇒ raised the document
  - ⇒ input the data into the system
  - ⇒ checked and authorised the input
- ii). input which is subject to front-end controls only and is therefore entirely dependent on control of the input function, with no subsequent check of the output, should include.
  - ⇒ dual input of all details i.e. at level 1 and 2
  - ⇒ adequate separation of duties between level 1 and level 2 input
  - ⇒ full dual input of corrections of any item rejected at level 2
- iii). In instances where input control is dependent on the checking and authorisation of output reports, verify that such reports are generated automatically within reasonable time-frames.
- iv). Verify that all system generated entries produce an output control report.
- v). Verify that output reports are in a suitable format for checking to source documents and identify the individual(s) responsible for performing the input.
- vi). Verify that control reports are available to the responsible individual to carry out a verification that all data input has been subject to an output check. Test compliance with this.

4. *Processing Controls:*

Verify that the system provides adequate control over all activities taking place within the system.

- i). Verify that all terminal data processing is undertaken in a controlled manner. Verify that applications running on a terminal cannot be interrupted or abnormally terminated by the user.

5. *Batch Processing Controls:*

Review the controls over the batch output. Consider:

- ⇒ whether a control program is used for this purpose
- ⇒ whether data file back-ups are taken automatically as part of the batch run
- ⇒ the use of batch control totals, balance checks, transaction controls or counts, hash totals, serial numbers etc.
- ⇒ whether controls are in place to ensure that there is no duplication or missed processing when a re-run is necessary
- ⇒ there are particular provisions in existence for the execution of special requests

6. *Interface Controls:*

- i). Where data is automatically input into the system e.g. via tape, review the controls which ensure the accuracy and completeness of the data. Consider:
  - ⇒ internal header/trailer labels
  - ⇒ control totals and individual item checks
- ii). Verify whether disks, programs and files are given generation numbers to ensure correct disks are used etc.

7. *Identification of Errors:*

- i). Verify that there are procedures in place for the identification, correction and re-submission of rejected data and that the procedures are adequate.
- ii). Verify whether errors are displayed or printed immediately upon identification to facilitate prompt correction. Consider:
  - ⇒ generation and reporting of control totals during processing e.g. opening balance + day's debits/credits = closing balance
  - ⇒ production of error reports if program checks do not agree with the run-to-run totals
  - ⇒ procedures for agreeing manually produced totals to the system generated control totals
  - ⇒ facilities which detect corruption of individual data files e.g. file headers which include record count and hash total of amounts on file
  - ⇒ database integrity checks to ensure that all data files on the system are in agreement e.g. account balances agree to general ledger balances

- iii). Evaluate whether error messages are clear and easily understood so that corrective measures can be taken.
- iv). Verify that, before re-entry, all corrections are reviewed and approved at the appropriate level.

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<b>DPS</b>						
<b>5.1</b>	<b><u>Written Operating Procedures</u></b> Input, output and processing controls should be comprehensively documented in written operating procedures					
<b>5.2</b>	<b><u>Edit &amp; Validation Check on Input</u></b> The system should provide adequate controls to ensure that information entered is valid and accurate					
<b>5.3</b>	<b><u>Input/Output Controls</u></b> All information entered into the system should be checked back to source documents and authorised					

### DATA PROCESSING SYSTEM SECURITY

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<b>DPS</b> <b>5.4</b>	<u><b>Processing Controls</b></u> The processing of data by individual application programs should be controlled to ensure that no information is added, removed or altered during processing					
<b>5.7</b>	<u><b>Identification of Errors</b></u> The system should ensure that all processing errors are detected and reported automatically					

## DATA PROCESSING SYSTEM SECURITY

### DATA CENTRE PHYSICAL & ENVIRONMENTAL CONTROLS

#### DESCRIPTION

The Data Centre plays a key role in the efficient running of any organisation and security arrangements and environmental conditions are of paramount importance.,

The auditor's concerns revolve around the protection of a cash investment in machinery ( an investment which is often substantial) and the protection of information (programs and data files) which is present in the physical form of disks, tapes etc. The latter often represents a cash investment considerably in excess of the hardware and which should be considered some of the most important assets of the Bank. In addition to physical security, environmental condition requirements are important for example, dirt on a disk can corrupt data and render a system unusable).

All data centre personnel should be aware of the importance of their roles and procedures should be clearly documented and disseminated.

#### OBJECTIVES

1. To ensure that appropriate operating procedures and practices are in place and adequately protect the Bank's data processing assets.

#### AUDIT PROCEDURES

1. *Written Operating Procedures:*
  - i). Review and comment on the adequacy of written operating procedures covering all activities within the Data Centre.
  - ii). By reference to the software inventory, prove that there are comprehensive run instructions for all programs on the live system. refer to DPS 3.

2. *Access to the Data Centre:*

- i). Review and comment on the effectiveness of the screening process for prospective employees.
- ii). Verify that access to the data centre is restricted to authorised data centre personnel.
- iii). Verify that data centre personnel who are released or resign are immediately released or transferred to a non-sensitive area.
- iv). Determine and comment on the procedures for granting access to visitors . Consider:
  - ☐ are all visitors identified before being allowed access
  - ☐ are engineers' visits recorded in a visitor's book
  - ☐ are visitors adequately monitored and controlled when in the data centre
- v). Are all entrances/exits to the data centre adequately secured ? Consider:
  - ☐ are computer room entrances restricted by the use of locks, card keys, badges or other automated security devices
  - ☐ are doors ever left ajar
  - ☐ are door alarms functioning
  - ☐ ideally there should be a single entrance door with alternative exits
  - ☐ is the entrance under observation at all times e.g. by use of a video or TV screen
- vi). Determine what security arrangements are in operation outside normal business hours. Consider:
  - ☐ is the door to the street locked
  - ☐ is there a security guard on duty
  - ☐ is there a regular surveillance of the area or is the area alarmed to an outside agency
- vii). Verify that shift manning levels provide adequate protection against malicious damage.

3. *Data Centre Environment:*

- i). Determine whether regular recordings of environmental conditions are maintained. Consider:
  - ☐ temperature (normally 18 C - 24 C)
  - ☐ humidity (normally 40 % - 50 %)
- ii). Verify that the data centre is regularly and thoroughly cleaned.
- iii). Verify that water lines do not pass through the computer room.
- iv). Verify that data centre personnel are adequately trained in the use of fire fighting equipment and procedures for handling fires.
- v). Ascertain the type of fire prevention/detection system in use. Consider:
  - ☐ does the system cover the whole data centre and magnetic media storage
  - ☐ is the fire fighting equipment prominently displayed and easily accessible
  - ☐ is the fire fighting equipment regularly serviced
  - ☐ if a gas flood system is in use, are personnel fully aware of this
- vi). Verify that fire alarms and evacuation procedures are tested regularly.
- vii). Verify that the data centre does not assist in the spread of fire:
  - ☐ smoking should not be permitted in the data centre
  - ☐ only paper necessary for immediate use should be stored in the data centre
  - ☐ are furniture and furnishings fire resistant
  - ☐ is the data centre designed to resist the spread of fire originating outside of the area
  - ☐ is there a master control switch to cut off power to the computer equipment and air conditioning units
  - ☐ are inflammable solvents stored in the area

4. *Magnetic Media Library Control*

- i). Verify that inventories of all tapes, disks and diskettes are maintained.
- ii). Verify that inventory records specify usage and the age of the storage devices.

- iii). Consider whether:
  - ☐ tapes/disks are placed under inventory control on receipt
  - ☐ faulty media is clearly identified
  - ☐ the location of individual items is clearly identified
  - ☐ the inventory is complete and accurate
- iv). Verify that all magnetic media is clearly labelled with correct serial numbers and volume labels.
- v). Describe and comment on the procedures which ensure that disks, tapes etc. are not in-advertently overwritten.
- vi). Determine whether physical control over the magnetic media storage is adequate to eliminate unauthorised access to and inappropriate use of data.
- vii). Verify that all media is used and stored according to manufacturers' recommendations.
- viii). Verify whether periodic cleaning is undertaken.
- ix). Ascertain and verify adherence to the policy for withdrawing and removing faulty disks, tapes etc. e.g. with excessive read/write errors.

5. *Computer Hardware Maintenance:*

- i). Verify that all computer hardware is covered by adequate maintenance contracts. Consider:
  - ☐ terms of maintenance contracts
  - ☐ is cost in line with market rates
- ii). Review and comment on the adequacy of maintenance records.
  - ☐ are separate records kept for each major component of hardware
  - ☐ are all engineers' visits recorded including visits for standard maintenance
  - ☐ are engineers' service reports maintained with the records
  - ☐ can re-current faults be readily identified from the records

6. *Management of System Performance:*

- i). Verify that the responsibility for the collection and production of statistics relating to system performance has been clearly identified by management.

- ii). Verify that a plan exists which provides for the continuous review of equipment performance and requirements. The review should include use of the following performance statistics:
  - ☐ hardware fault frequency
  - ☐ software fault reports
  - ☐ machine usage - response times
    - batch processing times
    - storage availability
- iii). Verify that appropriate action is taken when problem areas are identified.
- iv). Request staff and management to provide views and comments on system performance, response times, adequacy of functionality etc.
- v). Verify that current systems performance is being taken into account in connection with planning for any future business expansion or increases in business volumes.

**DATA PROCESSING SYSTEM SECURITY**

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<b>DPS</b>						
<b>6.1</b>	<b><u>Written Operating Procedures</u></b> All aspects of data centre operations should be clearly documented in written operating procedures					
<b>6.2</b>	<b><u>Access to Data Centre</u></b> Access to the data centre should be authorised by management and strictly controlled and monitored					
<b>6.3</b>	<b><u>Data Centre Environment</u></b> The data centre environment should be adequately controlled in respect of cleanliness, temperature, humidity, fire and flood suppression etc.					
<b>6.4</b>	<b><u>Magnetic Media Library Control</u></b> All magnetic media should be strictly controlled and logged					

**DATA PROCESSING SYSTEM SECURITY**

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<b>DPS 6.5</b>	<b><u>Computer Hardware Maintenance</u></b> All major components of computer hardware should be subject to adequate maintenance					
<b>6.6</b>	<b><u>Management of System Performance</u></b> System performance statistics and information should be maintained and reviewed by management					

## DATA PROCESSING SYSTEM SECURITY

### PROCESSING RECOVERY PROCEDURES

#### DESCRIPTION

The more the Bank depends on computer systems to process its accounting and business transactions, the more important is the need to ensure that the computer system continues to be operational in any out of the ordinary circumstances.

It is usual for on-going recovery procedures to be incorporated within the design of the system to enable processing to continue without loss or distortion of data following power, program, hardware, peripheral and media failure.

Where on-going recovery procedures are not relevant to the circumstances, disaster plans and back-up arrangements should be evident to ensure continued processing. For example, on-going recovery procedures would not normally apply in circumstances such as fire, long term hardware or software failure, tape/disk erasure, damaged disk records and total destruction of the computer room and/or building.

#### OBJECTIVES

1. To ensure that there are adequate processing recovery procedures which will provide for the continued operation of the computer system following any eventuality or mishap.

#### AUDIT PROCEDURES

1. *Written Operating Procedures:*
  - i). Review and comment on the adequacy of written operating procedures covering error re-start/recovery.
2. *System Recovery facilities:*
  - i). Verify that re-start/recovery instructions are available for each program.
  - ii). Verify that there are program checkpoints in lengthy processing runs and that adequate instructions are provided to aid re-start/recovery.
  - iii). Determine whether duplicated files are created prior to major updates or whether before and after images of data are maintained.

3. *Back-up copies of Data:*

- i). Verify that copies of data files are taken daily at the end of processing and maintained on-site.
- ii). Verify that copies of data files are taken daily at the end of processing and removed to secure off-site storage.
- iii). Verify that a copy of all software (applications and operating system) is maintained both on-site and off-site and is updated at regular intervals or whenever software is amended.
- iv). Verify that copies are maintained under dual control and that computer operators do not have ready access to "last resort" copies.
- v). Determine what procedures are in force for the recall of out of sequence back-up copies. Verify that only designated individuals are authorised to recall back-up media.
- vi). Verify that off-site locations provide an environment which complies with manufacturers' specifications and is secure.
- vii). Verify that copies are tested periodically to confirm their ability to provide adequate back-up.

4. *Disaster Recovery Plan:*

- i). Determine that responsibility for ensuring that the disaster plan is current and complete has been assigned by management.
- ii). Verify that the disaster recovery plan is complete and current.
- iii). Verify that a copy of the disaster recovery plan is maintained up-to-date in an off-site location
- iv). Verify that the plan identifies at least the following:
  - ☐ key personnel and allocation of responsibilities
  - ☐ prioritisation of applications
  - ☐ files required for recovery
  - ☐ provision for a back-up CPU and other hardware resources
  - ☐ provision of stationery and supplies required to run critical systems
  - ☐ periodic testing of the back-up plan including back-up hardware

- procedures for the re-construction of the data centre
  - reports required if a manual system is to be used
  - manual procedures
  - duplicate copies of key procedures held off-site
- v). Verify that the plan is tested and that users are aware of their responsibilities.

5. *Disaster Back-up Arrangements:*

- i). Determine what provisions have been made for the off-site back-up of hardware. Consider:
- are back-up arrangements in writing
  - are the facilities tested periodically
  - confidentiality of the Bank's data
- ii). Determine what provisions have been made for the on-site back-up of hardware. Consider:
- availability of complete duplicate system
  - sharing facilities with another in-house system
  - do maintenance contracts provide an adequate level of assurance
  - are back-up facilities tested periodically
- iii). Determine whether a stand-by generator is available in the event of disruption in the power supply.
- iv). Determine whether items such as air-conditioning are modular in design to reduce the risk of complete failure.

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<b>DPS</b>						
7.1	<u><b>Written Operating Procedures</b></u> Procedures to be followed in the event of hardware malfunction, error recovery and restart should be clearly documented					
7.2	<u><b>System Recovery Procedures</b></u> The system should provide sufficient facilities to enable the recovery of files without loss of information should the files be corrupt or destroyed during processing					
7.3	<u><b>Back-up Copies of Data Files and Software</b></u> Back-up copies of all data files and software should be maintained both on-site and off-site in regular cycles					

## DATA PROCESSING SYSTEM SECURITY

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<b>DPS</b>  7.4        7.5	<p><b><u>Disaster Recovery Plan</u></b>                  A comprehensive plan for providing processing capabilities in the event of major hardware or software failures or permanent destruction of the data centre should be clearly documented</p> <p><b><u>Disaster Back-up Arrangements</u></b>                  All data centres should have back-up arrangements for the computer equipment</p>					

## DATA PROCESSING SYSTEM SECURITY

### MICROCOMPUTER (PC) CONTROLS

#### DESCRIPTION

Microcomputers are used for a variety of activities including word processing, spreadsheets and databases from data down-loaded from the mainframe. In the rapidly expanding microcomputer environment, management should continually be reviewing the use of microcomputers to ensure adherence to generally accepted standards especially as microcomputer activities are prone to abuse.

#### OBJECTIVES

1. To ensure that the use of microcomputers is in accordance with the written policies and standards.

#### AUDIT PROCEDURES

1. *Management Policies:*
  - i). Review and comment on management's policies for the acquisition and use of microcomputers.
  - ii). Determine whether the written policies address issues such as the following:
    - ☐ the type of applications appropriate for microcomputers when used in a stand-alone mode
    - ☐ the type of applications appropriate for microcomputers when data in the organisation's other computer facilities need to be accessed, and the type of approval that is required before such access is permitted
    - ☐ cost benefit analysis
  - iii). Verify whether the written policies have been disseminated to user departments in the Bank.

2. *Software Development & Purchase:*

- i). Review and comment on the procedures relating to the development and/or purchase of application software.
- ii). Determine whether management has designated specific personnel in the Bank to develop application software and/or evaluate application software packages offered by suppliers.
- iii). Determine whether any cost/benefit analysis has been performed before deciding whether application software should be developed or purchased.
- iv). Determine whether user departments are required to provide program documentation for approval by management prior to using application software developed in-house.
- v). Determine whether the necessary approval from management has been obtained before application software packages are modified.
- vi). Verify that the policy regarding the infringement of software copyright has been disseminated to all staff using microcomputers.
- vii). On a test check basis review diskette libraries and contents to ascertain whether any "pirated" software exists.
- viii). Evaluate adherence to the written standards regarding software development documentation.

3. *Physical Security:*

- i). Verify that adequate controls exist to prevent the theft or damage of microcomputer hardware. Consider:
  - ≡ the locking of rooms in which microcomputers are located
  - ≡ whether microcomputers are bolted or locked onto tables/desks
  - ≡ whether all identification numbers, serial numbers and equipment descriptions are recorded and stored in a secure place.

- ii). Verify that software and data files are adequately protected. Consider:
  - ☐ the use of fireproof cabinets
  - ☐ whether users of critical or sensitive information securely lock on all diskettes when they are away from the microcomputer
  - ☐ whether all identification numbers, serial numbers and equipment descriptions are recorded and stored in a secure place.
- iii). Determine whether there are guidelines for backing up programs and files, and assess their adequacy

4. Access Security:

- i). Review and comment on access security procedures where microcomputers are used to access data in the Bank's other computer facilities.
- ii). Verify that the risks associated with microcomputer use and control features have been assessed and comment on the results.
- iii). Ascertain there is an assessment of risks associated with microcomputer use by performing the following:
  - ☐ classify applications into type e.g. accounting, analytical, word processing and office automation
  - ☐ measure the sensitivity and vulnerability of data in each classification of applications
- iv). In instances where accounting data is down loaded and massaged to prepare reports etc. verify that there are adequate controls to prevent the data from being subsequently up-loaded.

**DATA PROCESSING SYSTEM SECURITY**

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<b>DPS</b>						
<b>8.1</b>	<b><u>Management Policies</u></b> Management should establish policies and standards regarding the acquisition and use of microcomputers					
<b>8.2</b>	<b><u>Software Development &amp; Purchase</u></b> Management should establish written standards relating to application software development and acquisition					
<b>8.3</b>	<b><u>Physical Security</u></b> There should be adequate controls to ensure that microcomputer hardware and magnetic storage media is not stolen or vandalised					

### DATA PROCESSING SYSTEM SECURITY

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DPS 8.4	<u>Access Security</u> Access controls should be established commensurate with the risks associated with the confidentiality of data being accessed					
8.5	<u>Management Overview</u> There should be periodic management overview of microcomputer usage					

**INTERNAL AUDITING DEPARTMENT  
SKILLS & TRAINING REQUIREMENTS**

**SKILLS & TRAINING PROFILE  
INTERNAL AUDITING DIVISION**

◆ **JOB FUNCTION:** \_\_\_\_\_

◆ **PRESENT INCUMBENT:** \_\_\_\_\_

◆ **RATING SYSTEM:** [ Goal = G (Good) = 3 Points]

G = Good = 3 Points

S = Satisfactory = 2 Points

P = Poor = 1 Point (Urgent Training Needed)

**Date Prepared:** \_\_\_\_\_

**Prepared By:** \_\_\_\_\_ **Reviewed By:** \_\_\_\_\_

**SKILLS PROFILE SUMMARY  
INTERNAL AUDITING DIVISION**

◆ TOTAL NUMBER OF POINTS REQUIRED  
TO FULFIL PRESENT JOB FUNCTION: \_\_\_\_\_

◆ SKILLS AVAILABLE: (Points) \_\_\_\_\_

◆ SKILLS AVAILABLE: (%) \_\_\_\_\_

◆ ◆ SKILLS SHORTFALL: (Points) \_\_\_\_\_ (%) \_\_\_\_\_

Date Prepared: \_\_\_\_\_

Prepared By: \_\_\_\_\_ Reviewed By: \_\_\_\_\_

SKILLS REQUIREMENTS						
<b>➤ AUDITING:</b>	<b>REQUIRED YES/NO</b>	<b>AVAILABLE YES/NO</b>	<b>RATING</b>	<b>POINTS</b>	<b>TRAINING NEEDS</b>	<b>HOW CORRECTED</b>
- <i>Principles of Auditing</i>						
- <i>Conducting an Audit</i>						
- <i>Assessment of Systems of Internal Controls</i>						
- <i>Flow Charting</i>						
- <i>Audit Programmes</i>						
- <i>Risk Analysis</i>						
- <i>Trend Analysis</i>						
- <i>Financial Auditing</i>						
- <i>Operational Auditing</i>						
- <i>Audit Sampling Techniques</i>						
- <i>Automated Systems Auditing</i>						
- <i>Audit Planning</i>						
- <i>Workpaper Presentation</i>						
- <i>Circularisation Programmes</i>						
- <i>Audit Interrogation Programmes</i>						
- <i>Controlled Errors</i>						
- <i>Audit Procedures</i>						
<b>➤ ACCOUNTING/BANKING:</b>	<b>REQUIRED YES/NO</b>	<b>AVAILABLE YES/NO</b>	<b>RATING</b>	<b>POINTS</b>	<b>TRAINING NEEDS</b>	<b>HOW CORRECTED</b>
- <i>General Principles of Accounting</i>						
- <i>IAS Accounting Standards</i>						
- <i>Czech Accounting Requirements</i>						
- <i>Slovak Accounting Requirements</i>						
- <i>Thorough knowledge of Banking Operations</i>						

SKILLS REQUIREMENTS						
➤ ACCOUNTING/BANKING (Cont'd):	REQUIRED YES/NO	AVAILABLE YES/NO	RATING	POINTS	TRAINING NEEDS	HOW CORRECTED
- <i>Thorough knowledge of Banking Procedures</i>						
- <i>Above Average knowledge of Banking Products &amp; Services incl:</i>						
- <i>Cashiering</i>						
- <i>Lending</i>						
- <i>Overdrafts</i>						
- <i>Letters of Credit</i>						
- <i>Bills Purchased &amp; Discounted</i>						
- <i>Acceptances</i>						
- <i>Guarantees Issued</i>						
- <i>Securities - Trading</i>						
- <i>Securities - Investments</i>						
- <i>Money Market Activities</i>						
- <i>Foreign Exchange</i>						
- <i>Derivative Instruments esp. FRAs, Currency Options</i>						
- <i>Funding</i>						
- <i>Liquidity</i>						
- <i>Retail Banking</i>						
- <i>Communications &amp; Payments Systems</i>						
- <i>Personnel Dept &amp; Payroll Systems</i>						
- <i>Accrual Accounting</i>						
- <i>Security of Premises</i>						
➤ EDP SYSTEMS:	REQUIRED YES/NO	AVAILABLE YES/NO	RATING	POINTS	TRAINING NEEDS	HOW CORRECTED
- <i>Systems Access Controls</i>						

SKILLS REQUIREMENTS						
<b>➤ EDP SYSTEMS (Cont'd):</b>	<b>REQUIRED YES/NO</b>	<b>AVAILABLE YES/NO</b>	<b>RATING</b>	<b>POINTS</b>	<b>TRAINING NEEDS</b>	<b>HOW CORRECTED</b>
- <i>Software Amendments &amp; Changes</i>						
- <i>Disaster Back-up &amp; Recovery</i>						
- <i>Special Passwords, Privileged Functions</i>						
- <i>Data Archiving, Off-Site Storage</i>						
- <i>Inventories</i>						
- <i>Controls Over Emergency Fixes</i>						
<b>➤ MANAGERIAL/PERSONAL SKILLS:</b>	<b>REQUIRED YES/NO</b>	<b>AVAILABLE YES/NO</b>	<b>RATING</b>	<b>POINTS</b>	<b>TRAINING NEEDS</b>	<b>HOW CORRECTED</b>
- <i>Strong Inter-personal Skills</i>						
- <i>Self Starter, Ability to work without close supervision</i>						
- <i>Ability to Manage Staff at various levels</i>						
- <i>Strong Analytical Skills</i>						
- <i>Strong Time Management Skills</i>						
- <i>Good at Planning, Organising und Scheduling Work</i>						
- <i>Good at Communicating Ideas</i>						
<b>➤ OTHER SKILLS (Can be Optional):</b>	<b>REQUIRED YES/NO</b>	<b>AVAILABLE YES/NO</b>	<b>RATING</b>	<b>POINTS</b>	<b>TRAINING NEEDS</b>	<b>HOW CORRECTED</b>
- <i>Word Processing (Word, WordPerfect or Other)</i>						
- <i>LOTUS 123</i>						
- <i>EXCEL</i>						
- <i>WINDOWS</i>						
- <i>PC Skills</i>						
- <i>Foreign Language(s) - e.g. English, Slovak</i>						

**AUDIT PROCEDURES**  
**NEW PRODUCTS PROCESS**

## **INTERNAL CONTROL QUESTIONNAIRE**

### **CONTROLS OVER THE INTRODUCTION & IMPLEMENTATION OF NEW PRODUCTS (NEW PRODUCTS PROCESS)**

#### **DEFINITION OF A NEW PRODUCT**

A new product can be described simply as any service which the Head Office or a branch is offering to its customers for the first time or any business activity which the Head Office or a branch is undertaking for its own account for the first time.

Let us look at a number of scenarios:

- **Scenario 1:**

XYZ Bank was established in 1989. The Bank has a Head Office in the centre of the city and 2 branches in the suburbs. Whenever they need cash, the customers of the Bank can withdraw cash at any of the 2 branches and Head Office on presentation of suitable identification. The management of the Bank has decided to install Automatic Teller Machines (ATM's) in the lobby and walls of the Head Office and the 2 branches and, as a first step, to issue Cash Cards to the customers of the Head Office only. Thus, the customers of the Head Office can now withdraw cash in 3 locations and have the option of joining the queue for the teller's counter at the Head Office & branches or of utilising the automatic cash dispensing machine in the lobbies of the Head Office and 2 branches. The Bank recently computerised the entire operations. The Head Office and branches are all linked together in real-time. However, due to infra-structural problems, the ATM's located in the branches are not on-line but rather stand-alone machines and are not linked to the Bank's computerised systems.

- **Scenario 2:**

XYZ Bank was established in 1989. The Bank has a Head Office in the centre of the city and 2 branches. At the time the Bank was formed, the management had decided to develop its retail banking activities as a niche business. Accordingly, the business plan included the issuance of Cash Cards to customers of the Head Office from day one, to customers of Branch #1 in 1990 and Branch #2 in 1991.

• **Scenario 3:**

XYZ Bank was established in 1989. The Bank operates only from a Head Office. In 1991 the Bank obtained a full banking licence and is now able to engage in any banking activity authorised under the Banking Act of 1989. Management of the Bank have decided to engage in investment banking. As a first step, the Bank plans to buy and sell international securities as trading instruments for its own account or as investments.

*As can be seen from our definition given above, a new product is involved in all three scenarios as follows:*

- *scenario 1* - cash cards have not been issued previously by the Bank. Thus, *Cash Cards are a New Product for the Head Office but not the 2 branches.*
- *scenario 2* - cash cards have been issued previously by the Head Office but not by the branches. *Thus, cash Cards will be a New Product for Branch #1 in 1990 and for Branch #2 in 1991 - but not for the Head Office.*
- *scenario 3* - the Bank has not been involved in Securities Activities until 1991. *Thus, the buying and selling of Securities as a trading or investment instrument is a New Product for the Bank.*

## **RESPONSIBILITIES FOR A NEW PRODUCT**

The question arises "*Who is responsible for a new product ?*" Is it the Chairman of the Bank, the Business Development Officer, the Chief Lending Officer, the Chief Accountant ? The real answer to the question is "*a number of individuals share responsibility for all aspects of a New Product*".

In the first instance, *a detailed analysis and assessment* has to be made *of the financial and other risks* to which *the Bank* is being exposed. *Also*, a proper determination has to be made *of which individuals should be involved*. Thus, it follows that *one of the first requirements in developing and launching a New Product is the preparation of a detailed definition and description of the Product*. In other words, a draft working paper.

Normally, *the sponsor of the New Product* is responsible for preparing the detailed description and definition and for distributing the New Product Document to all Heads of Functions within the Bank.

For example, in Scenario 1 the sponsor might be the Head of Retail Banking or the Head of New Business Development. In Scenario 2 it might be either or both individuals and/or the Branch Managers. In Scenario 3 it might be the Treasurer.

Secondly, it follows that all Functional Heads have a responsibility to read and digest the New Product Document so as to determine what Role & Responsibilities, if any, they may have and to develop a plan of action for carrying out their role and responsibilities so as to ensure the success of the New Product.

Clearly, it follows from the above that the next stage should be the establishment of an Ad Hoc New Products Committee to identify, discuss and resolve all the issues arising therefrom.

Let us now review the 3 Scenarios previously described and determine, in broad terms, which functional areas should be involved in our New Products as follows:

- New Product #1 - Issuance of Cash Cards to the customers of the Head Office;
- New Product #2 - Issuance of Cash Cards to the customers in Branch 1 in 1990
- New Product #3 - Issuance of Cash Cards to the customers in Branch 2 in 1991
- New Product #4 - Securities Activities;

#### **SUMMARY OF RESPONSIBLE INDIVIDUALS**

In summary, and after an initial review of the 3 scenarios described, we have determined that a number of individuals/Heads of Functions may have a responsibility for our New Products. The list of tasks given below is not meant to be exhaustive but only to point the individual in the right direction:

- ***The Chairman or Board of Directors*** - in addition to budget issues, Bank Policy Guidelines are required in a number of areas:
  - i) ***a Bank Policy Guideline & Statement regarding Cash Cards***
    - who can have them i.e. all customers or only those earning above a certain amount each year, or those maintaining a minimum account balance of X;
    - fees/commissions and whether to charge a one-off joining fee and/or an annual fee etc;
  - ii) ***a Bank Policy Guideline & Statement concerning the activities in Securities***
    - establishment of long & short positions;
    - which securities can be dealt in i.e. perhaps e.g only securities issued by a AAA issuer;
    - longest maturity should not be more than say 5 years;
    - policy statement defining "trading positions" and securities bought as an "investment";
    - policy statement regarding transfers from the trading portfolio to the investment portfolio and vice-versa;

iii) *a Bank Accounting Policy Guideline & Statement*

- in some countries, for example, there are no regulatory rules & regulations for some treasury products and banks are left to decide based on what is reasonable and industry practice;

- *The New Product Sponsor:*

- new product definition & description;
- anticipated business volumes and number of accounts;

- *The Chief Credit Officer and/or Credit Committee:*

- credit lines are/may be required for the Issuer of the Securities and dealing counterparties and intermediaries such as brokers;
- customers may potentially overdraw their accounts and overdraft lines need to be established;
- staff training issues;

- *The Chief Financial Officer and/or Chief Accountant:*

- budget and other related issues;
- bank & regulatory accounting policies;
- chart & structure of accounts;
- opening-up of appropriate asset, liability and income & expenses accounts;
- accounting treatment for new product;
- staff training issues;

- *The Head of Systems:*

- a new computerised system may be required or there may be a need for enhancements to the existing;
- staff training issues;

- *The Head of Operations or Back-Office Personnel*

- changes in operating procedures may be required;
- additional cashiers and/or processing staff may be required;
- issuance of Cash Cards;
- issuance of Personal Identification Numbers (PIN);
- additional record keeping;
- staff training issues;

- *The Treasurer:*

- development of a dealing strategy for Securities;
- incorporating new product into existing limits etc;
- hiring of additional staff, if appropriate;
- establishment of sub-limits for traders;
- new and or amended procedures;
- additional dealing information e.g. Reuters;
- additional equipment e.g. dealing screens;
- staff training issues;

- ***The Personnel &/or Training Officer:***
  - hiring of additional staff;
  - changing staff job descriptions;
  - staff training requirements;
  
- ***Systems Security Officer:***
  - secure location for lobby and hole-in-the wall ATM's;
  - issuing new &/or amended user passwords;
  - providing new and/or amended user menus;
  
- ***The Head of General Services:***
  - printing of PR brochures;
  - handling of additional security mail;
  - mailing of high security items i.e. blank Cash cards and Personal Identification Numbers (PIN)
  
- ***The Chief Internal Auditor:***
  - risk analysis on new products;
  - amending audit programme to include audit of new product;
  - amending audit procedures;
  - staff training requirements;

#### **INDIVIDUAL RESPONSIBILITIES**

*The Head of each Function should review the New Product Document, prepare a written assessment of what is required from his/her Area or Group and prepare a detailed plan of action and execute the plan.* In the final analysis, before the new product is introduced each Functional Head should sign a document signifying that his/her area is fully equipped (i.e. equipment, systems, procedures, trained staff etc.) to handle that product.

#### **WORKING SESSION TO DISCUSS ISSUES ARISING & WALK THROUGH AN EXAMPLE OF THE NEW PRODUCT**

Finally, *before a New Product is introduced*, it is recommended that the *Functional Heads* of those areas affected by the New Product *should hold a Working Session or Seminar* to discuss fully all aspects of the product. In this session an example of the product would be given and each responsible individual would walk through all the processing stages and procedures for their respective area of responsibility. In this way, all aspects of the new product would be aired, discussed and explained in an open session. This session should continue to meet until such time that all issues are understood and resolved and all parties are in full agreement and fully au-fait with the product.

*The output from this working session would be a New Product Package containing details of all the identified risks, the procedures, systems, accounting treatment, income generated, reporting requirements etc. covering the product on a functional by functional area and a written sign-off from each Functional Head that his/her Group is fully equipped to handle the product in a controlled manner. The New Product Package is then passed on to senior management for final approval before the new product is introduced.*

#### **SENIOR MANAGEMENT APPROVAL**

*The New Product Package is then presented to Senior Management or the Board of Directors by a knowledgeable individual e.g. the Chief Financial Officer.*

*Management are free to ask appropriate questions and, if satisfied, can then give their written approval for commencement of activity in the product.*

## INTERNAL CONTROL QUESTIONNAIRE

### NEW PRODUCTS PROCESS

#### A. GENERAL:

1. Obtain the latest Organisation Charts on a bank-wide, branch-wide and departmental basis and identify those reporting lines which would ensure adequate and effective *Separation of Duties*. Consider such matters as:
  - *Are different senior officers responsible for:*
    - Lending/New Business/Business Development
    - Credit Administration
    - Trading/Treasury Activities
    - Operations i.e. Transactions Processing
    - Control Related Functions including the Preparation of Financial Statements, Income & Expenses Statements & Nostro Account Reconciliations
  - Do senior officers report directly to the General Manager, President or his Deputy?
  - Are reporting lines weakened in the case of the temporary absence of officers (i.e. on vacation or sick leave)?
  - *Personnel with responsibilities for functions of a control related nature* such as the preparation of General Ledger and Financial Statements including Profit & Loss and the preparation of nostro account reconcilements *should not have signing authorities for cheques, payments and the pay-away of funds*
  - Policies and practices relating to *the rotation of duties* and the *employment of inter-related parties* (e.g. husband & wife etc.)
2. Has the *sponsor* of the New Product *prepared a detailed definition* and description *of the New Product* ?
3. Is the *definition and description* of the New Product *sufficiently detailed* and, if appropriate, *with worked examples* to enable the Heads of Functions to assess fully all the risks and to specify and implement appropriate procedures, systems, training programmes etc. to ensure that the product is introduced and implemented in a controlled manner ?

4. Have *all the risks and exposures* in the New Product been fully identified by the Heads of Functions ? For example, in our new product Scenario 1 we mentioned that the *ATM's implemented in the branches were stand-alone and were not linked to the Bank's computerised systems*. This means that there is an especial exposure to the Bank.

*The especial exposure here is that, because of a systems constraint, withdrawals utilising the ATM's located in the branches will not be debited to the customer's account in real-time. Thus, by using these ATM's a customer can withdraw funds in excess of his/her balance or overdraft facility and this fact will only come to light when the entries are booked to the customer's account, presumably the following day. To overcome this exposure special measures will need to be taken.*

*The important point here is the assessment and identification of all the risks and exposures in the New Product prior to the product being introduced and to implement controls and procedures as appropriate.*

5. Has a *comprehensive list of all risks and exposures* been prepared ?
6. Has the *list* been *independently reviewed* for adequacy ?
7. Does the list give *full details of how each risk will be controlled* and monitored ?
8. Have *all the appropriate Heads of Functions reviewed the New Product Document* ?
9. Have all the appropriate *Heads of Functions prepared a comprehensive plan of action* including the preparation of new or amended procedures and a detailed list of staff training requirements ?
10. Have all requirements relating to *Bank Policy Guidelines* been identified, *defined* and disseminated ?
11. Have all *Bank & Regulatory Accounting Requirements* been identified, *defined* and disseminated ?
12. Have *all manual and/or automated processing requirements* been identified ?
13. Have appropriate *new system specifications* been *prepared* and planned for ?
14. *Have sample transactions been prepared and have these transactions been tested on all systems, manual or computerised, prior to the introduction of the New Product?* This is especially important in situations where existing computerised systems have to be amended or new computerised systems are being introduced.

15. Have all the *types of income and sources of income* to be derived from the New Product been *identified* ?
16. Where appropriate, have *accounting entries* been *prepared* and have *sample transactions* been *tested* to ensure that the *correct balances will appear in the required accounts* ?
17. Has the *Chart of Accounts* been *reviewed and amended* as appropriate to accommodate the New Product ?
18. Have the appropriate *asset, liability, income and expenses accounts* been *opened* ?
19. Have appropriate *management reports* been *specified* including the information and level of detail required, the report format, the frequency and the required distribution ?
20. Has a *working session/seminar* been *organised* and have all appropriate Heads of Functions walked-through the relevant aspects of the New Product ?
21. Has a *New Product Package* been prepared and *submitted* to the Chairman and/or Board of Directors *for approval* ?
22. Has the required *Board or other appropriate approval* been *obtained before* the *New Product* has been *introduced* ?

**B. BANK POLICY & CZECH & SLOVAK REGULATORY REQUIREMENTS:**

1. Has the Bank issued any *policy guidelines* or special instructions relating to the New Product to be introduced ?
2. If yes, are the *guidelines* or policies being *followed*?
3. Have the Czech & Slovak Regulatory Authorities issued any policy guidelines or special instructions relating to the particular product ?
4. If yes, are the guidelines or policies being followed?
5. Are there any *departmental operating procedures* covering the product?
6. Are the *procedures adequate*? Please give details.
7. Are the *procedures* being *followed*?

8. Are personnel familiar with the Bank Policy Guidelines, Czech & Slovak Regulatory Requirements and the Operating Procedures?

**C. INCOME:**

1. Are all *income accounts properly defined*, described and are they *segregated* from Asset, Liability and Expenses Accounts?
2. Are there *separate income accounts for each business product* and are all activity related accounts grouped together in a logical manner?
3. Are all *debits to income accounts independently reviewed*?
4. Are the *balances in income accounts reviewed for reasonableness*? In other words, does the *income booked properly reflect the level of the underlying assets, volume of business or turnover*?
5. Are all *debits to income accounts approved by senior management* and are all the debits checked for adequacy of approval prior to the booking of the entries?
6. Are all income accounts closed out to NIL and the balances transferred to Retained Earnings at least once a year?

**D. SYSTEMS (TECHNOLOGY):**

1. Is the *system* in use *manual* or *automated*?
2. *If automated*, is it adequate and are there *any weaknesses*? Consider such matters as:
  - . system capacity and over/under utilisation;
  - . system flexibility;
  - . operating costs versus manual system;
  - . processing costs - are they competitive;
  - . system and data security;
  - . error rates;
3. Is *access* to the computer system *effectively controlled* by means of passwords, user codes, mandatory menus limiting the availability of functions etc. ?

**E. STAFFING & HUMAN RESOURCES:**

1. Is the *overall organisational structure* adequate?
2. Are the *departmental organisational structures* adequate?
3. Are the *departmental management structures* adequate?
4. Are all *staff fully trained* and equipped to perform their duties?

**F. REPORTS:**

1. *Identify and list all reports* produced for management and/or the Czech & Slovak Regulatory Authorities.
  
2. Consider such matters as:
  - *timely production* of the reports;
  - procedures, checks and controls to ensure *quality* of the reports e.g. *accuracy*, correctness of data;
  - where applicable, do the *reports agree to the accounting records*;
  - report *frequency* - is it adequate;
  - report *format* and adequacy;
  - adequate *distribution* i.e. distributed at the right management level;
  - are there any *missing reports* i.e. are there reports which are not prepared but which should be;
  - are there *too many reports*;