

Case Study

on

Role of Internal Control Systems & Internal Audit in a  
Micro Finance Institute: Case study of Manab Mukti  
Sangstha (MMS)

By

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12104099

An internship report submitted to Brac Business School in partial  
fulfilments of the requirements of the degree of  
Bachelor of Business Administration

Brac Business School

Brac University

May 2022.

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## **Declaration**

It is hereby declared that

The case study submitted is my own unique work while completing degree at Brac University.

The report does not hold material previously published or written by a third party, except where this is properly cited through full and accurate referencing.

The report does not contain material which has been recognized, or submitted, for any other degree or diploma at a university or other institution.

I have acknowledged the main sources of help.

### **Student's Full Name & Signature:**

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### **Co-Supervisor's Full Name & Signature:**

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## **Letter of Transmittal**

Dr. Md. Kausar Alam

Assistant Professor

BRAC Business School

BRAC University

66, Mohakhali, Dhaka-1212

### **Subject: Submission of Case Study.**

Dear Sir.

It is my pleasure to submit my case study regarding “Role of Internal Control Systems & Internal Audit in a Micro Finance Institute: Case study of Manab Mukti Sangstha (MMS).”

I have tried my best to finish the case with the important data and recommended plan in a significant, compact and inclusive manner as possible.

I trust that the report will meet the requirements.

Sincerely yours,

---

Zehin Ahmed

ID: 12104099

BRAC Business School

Brac University

Date:

## **Non-Disclosure Agreement**

This agreement is made and entered into by and between Manab Mukti Sangstha (MMS) and the undersigned student at BRAC University named Zehin Ahmed for the commitment of avoiding the unlawful disclosure of privileged data of the organization.

.....

Manab Mukti Sangstha (MMS)

.....

Zehin Ahmed

## **Acknowledgement**

I would like to express my gratitude toward Almighty Allah for giving me the opportunity and ability to complete my internship program through developing a case study on Manab Mukti Sangstha (MMS)

I am expressing my thankfulness for the assistance and support of my respected supervisor Dr. Md. Kausar Alam, Assistant Professor, Brac Business School, Brac University. I am also thankful to my co-supervisor Tania Akter, Lecturer, Brac Business School, Brac University. It is his professional advice and encouragement that I have helped me to complete the case study.

I feel grateful to giving me access for availing the information and conducting a survey among the employees of the organization.

Finally, the case would not have been possible without the persons who helped me with significant data and queries related to the report.

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## **Chapter 1 – Introduction:**

This study is all about the internal control system and internal audit of the microfinance institutions, taking a case of MMS. MMS is a microfinance institution, registered as a non-profit organization based in Sirajganj from NGO Affairs Bureau (NGOAB) on 28<sup>th</sup> January 1990 and got the license for the microfinance program from Micro Credit Regulatory Authority (MRA) on 9<sup>th</sup> October 2016. The mission of MMS is to enhance the process of socio-economic development through empowering people and building a Climate-resilience Community. To achieve the mission the organization aims to contribute to the poverty reduction by availing savings and lending services and contribute to the economic development of the underprivileged community by strengthening entrepreneurship among population and elevation of human dignity.

MMS is a local microfinance institution which is mostly focused on micro loans targeting the poor rural people where the main mechanism is the group lending. MMS offers different saving and lending services along with some humanitarian support. Different loans financed by MMS are agriculture, livestock, enterprises, Fisheries, Manufacturing & Processing, Services, Trade, Others. MMS works both in rural and urban area with 28 Branches.

MMS is running the programs since a longer period of time. The microfinance program of this organization was started since 1992. After a longer period of time MMS did not get a remarkable achievement whereas the other institution of the industry has done quite well in the business. Researched doubted there might be some gap in the internal control system of MMS and hope that the problems can be identified thoroughly to make a decision with the internal audit.

This case pursues to study if the internal control system of a Microfinance Institution that could be a tool to positively increase their financial performance. Moreover, the internal audit also plays and important role in Microfinance institution. In this case the researched focused on a medium size microfinance institution where there is existence of the scope of development in the internal control and the internal audit. At the end of the vigorous analysis of several research question the researcher will recommend some solution or suggestion for the development of the gap would be found in the study.

## **Chapter 2 – Background of the Case:**

### **Background of the Organization:**

Manab Mukti Sangstha (MMS) is emerged as a local level Non-Government Organization is started its activity at 15<sup>th</sup> January of the year 1984 at Chauhali Upazila in Sirajganj which is most vulnerable area for natural disaster and poverty with the vision of a society which would free from poverty, inequality and risk of natural disasters. At the beginning, MMS worked in Chauhali in small scale but now we are working in whole Sirajganj, Tangail, Pabna, Jamalpur as well as some part of Bogra Districts specially covering the chars and river basin areas.

### **Vision**

“Establish a Discrimination-free Climate-resilience Society”

### **Mission**

“Enhancing the process of socio-economic advancement through empowering people and building a Climate-resilience Community”.

### **Objectives**

- Growing households’ capacity for plummeting food insecurity and poverty for livelihood and economic development;
- Empowering the women for reducing Gender discrimination and bring Gender equality;
- Protecting women and children, especially girls from any kind of violence and reducing Gender Based Violence (GBV);
- Improve health status of Mother and Child, improve WASH facilities including hygiene promotion;
- Improve excellence Education in formal and non-formal education institute;
- Supporting the most vulnerable communities and households who are affected by disaster;
- Establishing a climate resilience environment in the community for adopting the climate effects;
- Sensitizing the high way drivers for safe driving and for reducing the road accident;
- Increasing organizational capacity and improve Governance system.



### **MMS Beliefs and Values:**

- MMS upholds some specific “Beliefs” and “Values” which is the bases of maintaining program quality and earned certain specialized competencies to work with people.
- MMS believes in peoples’ empowerment and “integrated approach for sustainable development” to ensure “active community participation and grow ownership among the people towards fetching the projected changes”.
- MMS inherits high trust on the employees and associate professionals’ capacity, beliefs, culture, practice and also expects to promote organizational ethics & values, and effective use the resources, position-power and keeping up organizational reputation in any situation;
- MMS treats people justly and fairly irrespective to culture, race, religion, disability, gender, sexual orientation, ethnicity, inclusiveness, equality or any other social classifications and promote to practice;
- MMS beliefs in quality rather than quantity in every steps of its works including the program implementation.

### **MMS Principles:**

- MMS follows the principles of Result Based Management, Team Cohesiveness, Transparency & Accountability, Cost Effectiveness, Customers’ Satisfaction and shows ‘Zero Tolerance’ on the issues of Terrorism, Sexual Harassment, Direct Political Involvement and any fraud of Financial Transactions;
- MMS provides utmost importance to ensure that all human & non-human resources are used in an suitable and effective way following the procedures and guidelines of MMS;

### **Competency:**

- MMS is equipped with a team of Expert Workforce having a considerable amount of professional experience with the River-basin Char Community and earned the “Professional Specialization” to address the issues of Climate Change.

## **Major Areas of Focus:**

### **Women Empowerment:**

Women empowerment is one of the core strategic issues. Moreover, it's a crosscutting issue for all kinds of programmatic interventions. The organization has given high importance to women empowerment both at organization and community levels. Women empowerment is measured as one of the cross-cutting issues in evolving policy guidelines, program implementation and at all level of organizational capacity. MMS considers women as the vital primary stakeholders of intervention allocations, enrollment as primary stakeholder with a view to creating enabling environment for women to develop their leadership abilities, decision making capacity, negotiation skill, management capacity and economic development which will lead the to women empowerment. More than 5000 representatives form 2500 village groups (samity) are managing under the leadership of women at community level. They are taking important roles in the primary groups for running group activities and social development activities. Community women leaders are now representing as MMS General Committee and Executive Committee.

### **Climate Change Adaptation (CCA) – Disaster Risk Reduction (DRR):**

Basically, the organization implements its activities with the community of hazard-prone areas, the disaster management issue has been collaborated with the programs MMS implementing accordingly. The organization has been implementing its all interventions focusing on disaster preparedness along with disaster risk reduction and executing climate change adaptation (CCA) and disaster risk reduction (DRR) projects giving high emphasis. The CCA-DRR is one of the cross-cutting factors and incorporated in the process of all MMS program implementation. In developing the project plans and its implementation, geographic location specific disasters have been considered and based on that a 'Disaster Contingency Plan (DCP)' have been developed. An emergency savings and material unit has been prepared by gathering funds from various sources for sound implementation the disaster contingency plan. At any local natural disasters, the organization display an important role in preparedness and emergency responses with its experienced manpower in the working areas. When a catastrophic national/international disaster occurs, organization extent its supports with its skilled roster of experienced and expert human resources based on the demand of government or non-government national and international humanitarian actors. MMS introduced climate-adaptive technologies in the development and humanitarian sectors of agriculture, livestock, water & sanitation, developing market-chain and in constructing housing.

**Education:**

One of the priority areas of the organization is to enhance the quality education by uphold the literacy rate within the vulnerable char communities. To enhance the quality education for the children of underprivileged families specially who live in the Char areas, the organization inducted both Formal and Non-formal Primary and Secondary education. With this aim organization has provide both reading and writing materials, activate and sensitize School Management Committees (SMC), form Teachers and Parents Forums (TPF) and provide assistance to infrastructural development in order to continuation of education during and after the disasters. During the reporting period, formal education was closed but we have distributed High Energy Biscuit with the financial support of WFP and Department of Primary Education. We also provided Personal hygiene materials for Primary school children and their families in Char areas.

**Health and Nutrition:**

MMS tries to develop a system of providing smooth health services to the community so that they can get easy access to these services at any time for their family members. Families are considered as the unit for providing all sort of medical services in a all-inclusive approach. In order to develop the overall nutritional status of Char community, MMS works to improve the overall WATSAN services and promotion of Hygiene practices at community level.

**Institution Development of Grassroots and MMS:**

Initially, MMS forms “Village Primary Group” and ultimately turn into “Community Based Organization (CBO)”. MMS provides support to the CBOs for implementing the community-based development initiatives, disaster responses and establishing linkage with GO-NGOs and also developing capacity to take part in local level decision making process. Number of 25 CBOs are under the process of getting registration from the Department of Social Welfare and Cooperatives. A “Branch Management Committee” has been formed at all Branch level with the representation of all primary groups under the concerned Branch. Central level “Federation” formed at MMS organization level and they nominate their representatives for General Committee of MMS. The CBO members are now representing in the “General Committee” as well as in the “Executive Committee”. The CBO established a functional relationship with the government and non-government service providers at Union, Upazila and District levels and they are now considered as the valuable and important persons to the government departments. The CBO members have been nominated/selected as the members of related committees and forums at UP, Upazila and District levels.

### **Humanitarian Response and Emergency Support:**

MMS is a humanitarian organization. Humanitarian response programs get high priority considering the disaster-risks and level of vulnerabilities. MMS has developed a “Disaster Contingency Plan-DCP” to address the vulnerabilities and recovery of disasters in emergency basis. The DCP is being updated every year incorporating the learning and latest knowledge gained. MMS collected the vulnerability information in 675 high risky villages that approved by local Administration. MMS has got capacity to response disasters and management of preparedness as well. We updated the disaster policy and formed an “Emergency Response Teams (ERT)”. The team is equipping with necessary skilled human resources and materials with specific roles and functions of the team. A group of Volunteers have been developed consisting of the youths of local community who are always standby to come forward to work for the affected people. MMS developed an emergency fund and an emergency stock of disaster-equipment to quick response of the disasters.

### **Microfinance Program of MMS**

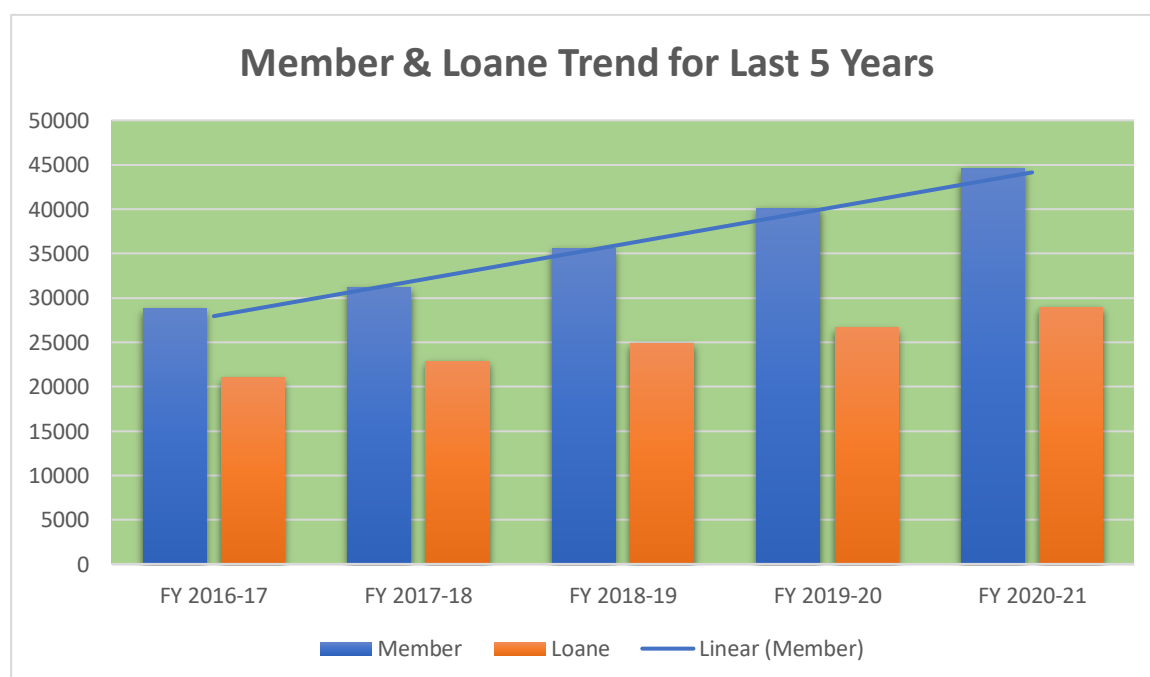
MMS runs the microfinance program with the name of Income Generating Program (IGP). MMS starting the Micro-financing program 1991 with the financial support of PKSF. The main focused areas of the program are reduce poverty through entrepreneurship development, creation of employment opportunities, reduce gender discrimination and enhance women empowerment. Initially, MMS started the program as micro-Credit manner as small scale, now the program expended as medium scale and covering Sirajganj, Pabna and Tangail districts.

Total 44,551 families have been supported through the program. All the beneficiaries were organized into 2,408 groups; each group was formed with 20-25 members. The program has been covering almost 827 villages of 92 Unions under 15 Upazila of Sirajganj, Pabna and Tangail district. The maximum number of the beneficiaries are poor, hardcore poor and marginal farmers as well as the small entrepreneurs.

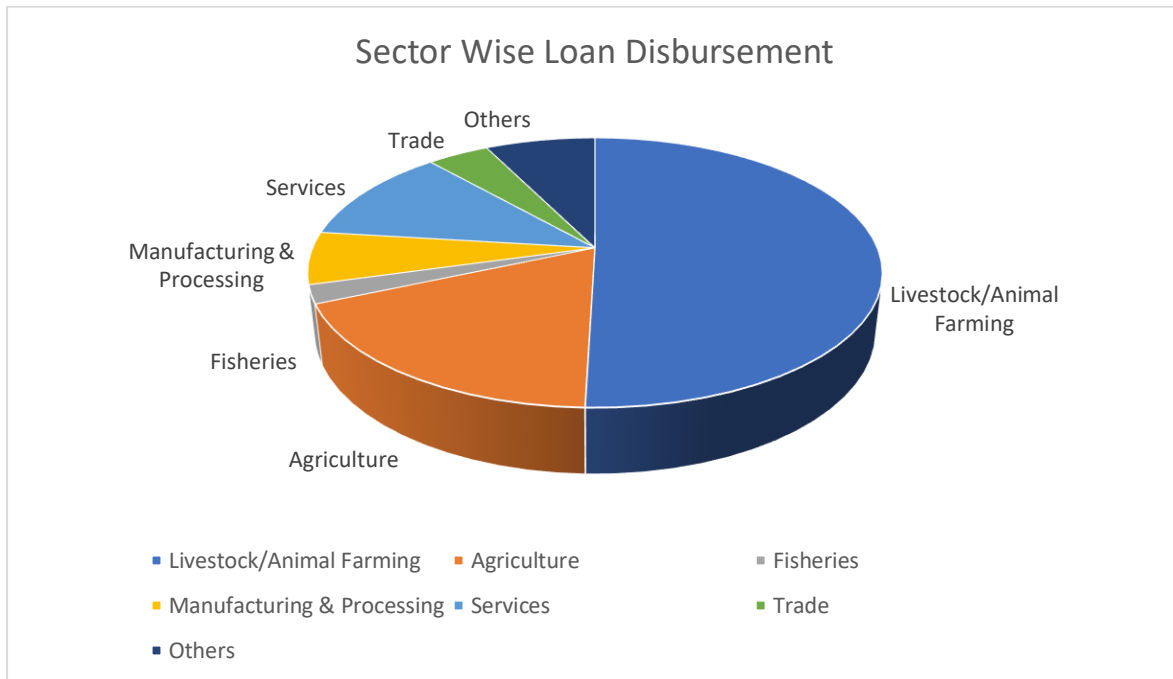
Major activities of the program are group formation, employment opportunity creation through income generating activities, savings creation, increasing awareness among the community and capacity building, skill development and financial support through Buniyad, Jagoron, Agrosor loan products. The micro finance program of the is being implemented with 28 branch offices of the organization.

A brief picture of borrowers and outstanding based on the Components are mention bellow:

Sl.	Component of the Loan	No. of Borrowers	Loan Outstanding (BDT)
01.	Jagoron	23000	387,314,440
02.	Agrosor	1268	58,053,619
03.	Agrosor-MDP	1538	86,861,806
04.	Buniad	850	9,790,594
05.	LRL	1795	22,272,195
06.	Sufolon	2850	116,833,761
07.	Sufolon-KGF	328	11,930,500
08.	Sanitation Development Loan (SDL)	43	219,276
09.	ENRICH-IGA	326	11,278,272
10.	ENRICH-LIL	20	92,423
11.	ENRICH-ACL	59	1,169,702
12.	HIS	507	30,303,895
Total		32584	73,61,20,483



## MMS Sector Wise Loan Disbursement FY 2020-21



### Human Resource Management Practices of MMS

#### Recruitment:

Recruitment in the organization is done by following a certain process and the criteria that are required for the candidate to be able to apply for the post are clearly mentioned. There is recruitment committee of five members who take the decisions and approve the process of the recruitment activities.

#### Staff Appraisal:

Preparation of appraisal plan, review of work achieved according to prescribed format, quality analysis, strategic position analysis, identification of areas for development. In order to develop the employees, the competence of the workers will be checked first. The comparative analysis of the level achieved against the target, the quality analysis of the work performed and the behavioral characteristics of the employee will be used to assess the competency of the employee and identify the aspects of employee development in the future. In the appraisal process, the employee will make his own assessment and his supervisor will verify it and the officer in charge will review and finalize the assessment by the employee and supervisor. The first phase will be briefly evaluated from the time of recruitment till the end of the apprenticeship period. Staff will be evaluated on the basis of project year / financial year after completion of 1 year of regular employment.

**Staff development:**

Provide training, conduct sessions at meetings, provide feedback, provide opportunities to work with skilled staff, exposure visits, help-books, articles, publications, higher education, advanced training, deputation. To enhance the proficiency of each employee Action will be taken as required. Necessary steps will be taken to develop ideas, perspectives and skills / experience as per the opinion of the concerned officers.

**Financial Management Practices:**

A smooth functional system has been developed by introducing a set of controlling mechanism and keeping the principle of Zero tolerance for effective financial management within the organization. The mechanism helps the organization to defend the fraud and corruption and maintains the process of cost effectiveness. MMS follows the principles of Bangladesh Financial Management Standard and shows high level of commitment to maintain the transparency and accountability in the whole process of financial transaction. The financial information system includes a package of set guidelines on financial operations including finance principles and effective resource management which is the basis of all financial transaction. The process of financial management in every step is clearly mentioned in MMS financial policy. Review of financial guidelines is continuing process for updating the financial system for effective uses of resources. According to Delegation of Authority (DoA) chart, more than two persons are assigned to put evidence of review in every single payment.

**Financial Controlling Mechanism:**

A Unique 'Financial Information System (FIS)' has been developed that support MMS management through providing finance and accounts related information from the fields in a regular basis, which assistances taking management decisions in financial transaction. The Internal Audit Team of the organization provide periodical audit support to all the projects after every four months in a regular basis. To maintain transparency and accountability in financial transactions, 'External Audit Firm' is nominated by the respective donor and MMS executive committee once a year. The members of management team make frequent visits to the project areas for supervision and monitoring which supports maintaining fair transactions and support to reviewing the financial transactions and to prepare periodical financial statements for analyzing by monthly budget and expenditure plan. The following steps and principles which are practiced in regular basis to maintain each and every transaction that directed MMS to efficient and effective utilization of total financial resources.

### **Basic Accounting System:**

The 'Books of Accounts' of the organization maintains on accrual basis. The organization also follows the guideline and instructions of the donor agencies with regard to record keeping in accordance with the 'Terms of the agreement'. MMS maintains separate set of 'Books of Accounts' for recoding all financial transactions or operations exclusively incurring within the organization. MMS follows the principle of 'Double Entry' system on 'Accrual Basis'. At the end of each financial year, the entire financial operations and the final accounts of MMS integrated with the relevant program/Project accounts.

### **Accounting Software System:**

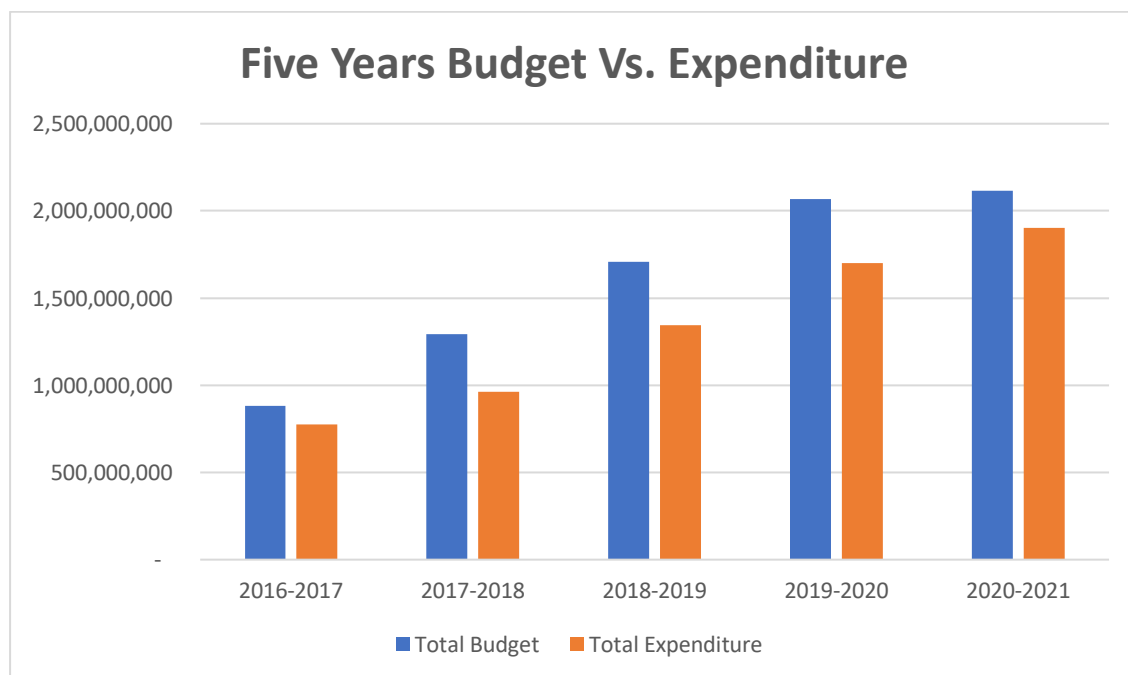
The organization uses computer-based accounting system for book keeping in TALLY – ERP for individual programs and Micro Fin 360 for the microfinance program. This computer based systems support to maintain accounting of all income and expenses and preparing need based report.

### **Delegation of Authority (DoA):**

MMS developed a inclusive 'Delegation of Authority (DoA)' chart and follows the chart in every step of all sort of transections for proceeding the transections easy and defaults. This method helps to save time and reduces the cost of transections.

### **Financial Position of MMS:**

#### **Budget vs Expenditure:**





## Consolidated Financial Position of MMS

**HUDA HOSSAIN & CO.**  
CHARTERED ACCOUNTANTS

**Manab Mukti Sangstha(MMS)**  
**Khas Bora Shimul, Saydabad, Sirajganju**  
**Consolidated Statement of Financial Position**  
**As at June 30, 2021**

Particulars	Note	Figures in Tk.	
		30 June 21 Amount in BDT	30 June 20 Amount in BDT
<b>Property &amp; Assets</b>			
<b>Non-current assets</b>			
Property , Plant & Equipments	6	68,210,336	66,618,607
<b>Total Non-current assets</b>		<b>68,210,336</b>	<b>66,618,607</b>
<b>Current Assets</b>			
Loan to Members	7	736,220,483	727,445,623
Loan Account	8	3,636,478	41,300,016
Investment in FDR	9	128,113,466	55,613,317
Advance & Pre-payment	10	1,371,285	643,196
Livestock and other assets	11	-	1,834,530
Bill Receivable	12	2,990,650	3,087,239
Security for VGD Program	13	100,000	-
Cash & Bank Balance	14	210,858,079	42,188,855
<b>Total Current Assets</b>		<b>1,083,290,441</b>	<b>872,112,776</b>
<b>Total Property &amp; Assets</b>		<b>1,151,500,777</b>	<b>938,731,383</b>
<b>Fund And Liabilities</b>			
<b>Fund &amp; Reserves</b>			
Capital Fund	15	186,767,121	167,429,550
Reserve Fund	16	18,743,710	16,516,855
<b>Total Fund &amp; Reserve</b>		<b>205,510,831</b>	<b>183,946,405</b>
<b>Non Current Liabilities</b>			
PKSF Loan	17	236,234,999	129,966,653
I H S Loan	18	10,000,000	26,250,000
<b>Total Non Current Liabilities</b>		<b>246,234,999</b>	<b>156,216,653</b>
<b>Current Liabilities</b>			
PKSF Loan	19	263,314,996	190,927,509
I H S Loan	20	22,500,000	17,187,500
Loan Account ( Other)	21	3,200,056	23,367,211
Savings Fund	22	266,358,105	224,033,044
Reserve & Provision	23	58,105,315	52,080,281
Others Fund & Liabilities	24	86,276,475	90,972,780
<b>Total Current Liabilities</b>		<b>699,754,947</b>	<b>598,568,325</b>
<b>Total Fund &amp; liability</b>		<b>1,151,500,777</b>	<b>938,731,383</b>

The accompanying notes form an integral part of these financial statements and are to be read in conjunction therewith.


  
**Head of Finance & Accounts**

  
**Executive Director**

Signed in terms of our separate report of even date annexed

Dated: 28 July, 2021  
Place: Dhaka, Bangladesh



  
**(M. AMINUL ISLAM, FCA)**  
**HUDA HOSSAIN & CO.**  
Chartered Accountants

### **Statement of the problem:**

Manab Mukti Sangstha (MMS) is a local NGO who operates Micro Finance Program along with some development programs in Sirajganj, Pabna & Tangail District. The organization has been established at 15<sup>th</sup> January 1984 and started microfinance program since 1991. After 38 years of establishment and after 30 years of starting the Micro Finance Program, the progress of this organization's microfinance program is not satisfactory compared to the other MFIs of same age.

Along with the other factors, the absence of enough internal control procedures discloses certain intimidations such as loss of the organization's assets, mismanagement of organizational vital information which may be done by an dishonest or irresponsible employee to take unnecessary advantage, inappropriate and defective accounts keeping may lead to decrease the organizational integrity, non-implementation of financial policies and procedures in consistent with the proper regulation appropriate in presentation of the financial statement, faulty systems, fraud, theft or poor financial management. A strong and independent Internal Audit team can easily find out the problems or gaps on the internal controls systems to minimize those risks for the organization.

On the case study, researcher is working on this area to subsidize to enlightening internal control system of the organization to improve the quality of their performance and lead the organizations to positive growth through the operations of internal audit. Therefore, it is from this background that the researcher was inspired to analyze the roles of internal control system and how the internal audit can contribute to MFI's performance and growth focusing on the operations of Manab Mukti Sangstha (MMS).

### **Objectives:**

1. To assess the existing internal control system components practiced by a Microfinance Institute.
2. To explore the present internal audit system and necessary qualities to improve the operational activities, performance and compliance process of a Microfinance Institute.

### **Research questions:**

1. What are the existing internal control system components practiced by a Microfinance Institute?
2. What are the present internal audit system and what qualities needed to improve the operational activities, performance and compliance process of a Microfinance Institute?

## Methodology:

- 1. Design:** Researcher will be using qualitative research method with a case study approach. Consideration the research objectives and problems of this study that was focused on a local microfinance institute named Manab Mukti Sangstha (MMS). Information will be collected using both primary and secondary sources in a less complicated and cost-effective way.
- 2. Population:** The populations will be the respective staffs of finance departments, internal audit departments, and loan departments, admin department, IT department, HR Department, accounting departments, operation department and other staff. A specific list of the numbers of direct population will be prepared before starting the study.
- 3. Data Collection:** The study will use primary and secondary data. Secondary data will be collected from the published reports or documents by the organization. Primary data will be collected by interview with some predesigned questionnaires.
- 4. Data processing and Analysis:** Most of the data will be descriptive and will be used by analyzing the data from interviewee through questionnaire. Statistically those descriptive data will be presented by percentages and frequencies.

## Chapter 3 - Evaluation and Analysis of the Case

The overall analysis is based on the survey with 30 respondents. The respondents were chosen randomly from various level of management and operations who have active participation on decision making for running the Microfinance Program of the organization. The female respondents are 20% and the male respondents are 80%. They were asked specific questions about the internal control system and internal audit. The analysis of their answers are as follows:

### 1.1 Does the internal control systems of the organization are aligned with the industry regulatory bodies?

The microfinance industry is regulatory body called Microcredit Regulatory Authority (MRA). They set some standards or rules of the operations of Microfinance Program. The researched initially wanted to analyze the alignment of the organizations policy procedures with industry regulations.

SI No.	Response	Frequency	Percentage
--------	----------	-----------	------------

1	Very Great Extent	19	63%
2	Great Extent	5	17%
3	Moderate Extent	4	13%
4	Little Extent	2	7%
5	No Extent	0	0%
Total		30	100%

Thorough the answers of the respondent is very clear that, 63% of responded agrees that the organizations policy and procedures are very much in-line with the rules and regulations of the regulatory bodies of the industry. Although there were few respondents who think that the incorporation of the regulations is quite low.

### **1.2 What are the components of internal control you see in your organization?**

The respondents were asked to point out the major internal control systems the organization is using for its Microfinance Program and answers summaries as below table

<b>SI No.</b>	<b>Components</b>	<b>Frequency</b>	<b>Percentage</b>
1	Internal Audit	12	40%
2	Monitoring	7	23%
3	Supervision	8	27%
4	Reports Analysis	3	10%
Total		30	100%

The table state that the organization rely on internal audit, monitoring supervision, supervision and data analysis as the more frequent means of to keep the internal control system functional so that the microfinance program operates fluently. In this table it is clear that most of the respondent use internal audit as major means of tracking internal control system with 40%. Followed by that, 27 % respondent choose supervision, 23% monitoring and 3% report analysis. Although, report analysis should complement all other component of internal control system.

### **1.3 What extent the employees know about the policy and procedures of the organization?**

The respondents were asked how much they know about the policy and the procedures of the organization. The answer of the question come like the table:

SI No.	Answer	Frequency	Percentage
1	Very Great Extent	4	13%
2	Great Extent	8	27%
3	Moderate Extent	13	43%
4	Little Extent	5	17%
5	No Extent	0	0%
Total		30	100%

With the information of above table, overall respondent knows the organizational polices in some extent. Only 4% of responded knows the policy very well. It is also alarming that 17% of respondent know about the policy in a little extent. It is quite difficult that when employees of the organization does not know the policy and guideline better to keep the internal control in line.

#### **1.4 Management closely looks up to the execution of internal control systems of the organization?**

Researcher made a question for the respondent to find the out whether the management feels the importance of implementation of internal control system of the organization and found the result in table

SI No.	Response	Frequency	Percentage
1	Very Great Extent	3	10%
2	Great Extent	4	13%
3	Moderate Extent	12	40%
4	Little Extent	10	33%
5	No Extent	1	3%
Total		30	100%

The table shows that around 40 % of the respondents emphasizes the issue. The respondent think that the management has moderate attention on the implementation of internal control

system of the organization. Its definitely a weakness of the management that could create some potential risk for the organization.

**1.5 Does the organization has clear separation of roles and duties of specific staffs?**

Understanding the distribution of the duties or responsibilities among the different level of staffs was the motive of the researcher through this question

SI No.	Response	Frequency	Percentage
1	Very Great Extent	18	60%
2	Great Extent	6	20%
3	Moderate Extent	5	17%
4	Little Extent	1	3%
5	No Extent	0	0%
Total		30	100%

Through the above table, It can be understand that the ratio of 60% respondents stated that the organization has cleared the specific roles and responsibilities for each level of the staffs. Furthermore, 3% of the respondents says there in little distribution of duties.

**1.6 Is there any existing process by which all the employees can come to know about the components of internal control system?**

To implement the internal control system, it is very important to disseminate the knowledge of the internal control system with the stakeholders.

SI No.	Response	Frequency	Percentage
1	Very Great Extent	3	10%
2	Great Extent	4	13%
3	Moderate Extent	9	30%
4	Little Extent	12	40%
5	No Extent	2	7%
Total		30	100%

The table shows a blur picture about the situation. Majority of the respondent think that there is very opportunities has been created for the employees by which they can come to know about the components of internal control system they have to maintain, even 2% of the respondent think that they have no chance of knowing the internal control systems.

### **2.1. Organization internal audit team is competent enough according to the size and nature of the organization?**

By asking this question to the respondents, researcher tried to get the idea about the competency of the internal audit team.

SI No.	Response	Frequency	Percentage
1	Very Great Extent	13	43%
2	Great Extent	8	27%
3	Moderate Extent	7	23%
4	Little Extent	2	7%
5	No Extent	0	0%
Total		30	100%

By analyzing the answers of the respondents, it can be interpreted that the internal audit team is competent enough to perform the internal audit of the microfinance program. 43% of the respondent shows their strong agreement about the competency of the internal audit team. On the other hand, 7% of the respondents has little bit confusing about the matter. There might be a little scope of improvement.

### **2.2 Does audit reports are timely reviewed by the management?**

Whether the management review the audit report timely to take necessary actions to resolve the non-compliance issues, the researcher wanted to know through the question

SI No.	Response	Frequency	Percentage
1	Very Great Extent	10	33%

2	Great Extent	7	23%
3	Moderate Extent	9	30%
4	Little Extent	3	10%
5	No Extent	1	3%
Total		30	100%

The table describes a complex type answer from the different levels of respondents. Over all, maximum percentage of respondents agree that the audit reports are reviewed timely. But there are different opinion like, 10% of respondents think that timely review is not occurring and 3% of the respondents think that the audit reports are not reviewed timely.

### **2.3 Does management take appropriate initiative to any kind of misappropriation of the organizations Financial Management System?**

The researcher wanted to understand the managements perception on the misappropriation of the process, policy and procedures of financial management of the organization. The outcome of the questions is as below:

SI No.	Response	Frequency	Percentage
1	Very Great Extent	11	37%
2	Great Extent	9	30%
3	Moderate Extent	8	27%
4	Little Extent	2	7%
5	No Extent	0	0%
Total		30	100%

The researcher found through the answers that 37% agrees the fact that the organization take any kind of misappropriation of the financial management systems very seriously. In on average maximum respondents agrees in a same fact that the organization take steps against dishonesty, fraud or any kind of misuse of the policy procedures of the organization.

### **2.4 Is the internal audit team independent of any kind of influence?**



The researcher asked the above question to analyze the independency of the MMS's internal audit team.

Sl No.	Response	Frequency	Percentage
1	Very Great Extent	18	60%
2	Great Extent	7	23%
3	Moderate Extent	3	10%
4	Little Extent	2	7%
5	No Extent	0	0%
Total		30	100%

The result on table shows a satisfactory picture that the organization's auditors are independent from any kind of influences and 60 % of the respondents strongly agree the statement. Very few percentages of respondents think that there might be a little influence for the internal audit team.

### **2.5 Does the internal audit impacted to the organization's overall performance positively?**

In some extent, the effectiveness of internal audit can be measured with the overall performance of the performance of the organization. The researcher wanted to know the answers from the respondent and the answers was as below:

Sl No.	Response	Frequency	Percentage
1	Very Great Extent	1	3%
2	Great Extent	4	13%
3	Moderate Extent	14	47%
4	Little Extent	10	33%
5	No Extent	1	3%
Total		30	100%

Although the majority of the respondent voted that in some extent the overall performance of the organization was improved because of the internal audit, there are a significant respondent think that the positive impact of the internal audit to the overall performance of the microfinance program is less that it should be. Organization should take review the audits functionality towards the organizational welfare.

#### **Chapter 4 - Recommendation**

First of all, if an organization wants to improve the proper implementation of the internal control system, the organization should enlighten its employees about the systems and the policy-procedures the employees need to follow. The evaluation shows that MMS has not taken enough initiatives to enlighten the staffs about the policy procedures. MMS can provide the copies of the policies and procedures during the employment of any staff. Moreover, MMS can organize training or workshops to disseminate the policies and the procedures to the employees and the other stakeholders to maintain a sound internal control system within the organization.

Employees or stakeholders' knowledge about the implementation of the internal control system is not enough. The manage should look after the proper execution of the internal control system. Several type of monitoring mechanisms can be adopted by the management to look up to the execution of internal control system like, monitoring, audit, data analysis etc.

Internal audit plays a very important role as mirror of an organization's internal control systems performance. With a competent and independent internal audit department management can find easily find out the scope they need to improve or take necessary action to reduces the irregularity.

The audit reports must be review in a timely manner. When auditors do their task timely and efficiently but the management give less impotency to use the report to address the finding by reeving the report in time. With the analysis in this case researcher found that management give less priority for reviewing the audit reports timely. There should be a responsible person from the management who will review the report timely and recommend the actions should be taken to the decision maker.

The immediate action needed to be taken to any kind of misappropriation of the organizations Financial Management System. Although, MMS has declared zero tolerance rule for any financial corruption or fraud the system of should be well developed to make accountable the persons who does the misappropriation of the financial management system.

Finally, the questions are pointed to the effectiveness of the internal audit of the organization. The internal audit did not play proper role to increase the performance of the organization. Management should reconsider the capacity and the efficiency of the internal audit. If necessary, MMS should focus on improving the knowledge and the mechanisms of the internal audit with the different staff development measures.

## **Chapter 5 - Recommendation / Conclusions:**

### **Recommended Actions:**

- Keep the organizational internal control system in line with the MRA guidelines.
- Organize workshops/training for the staffs and stakeholder to enlighten them about the organizational policy and procedures.
- The execution of internal control system should closely be monitored by different sector like Admin, HR, IT, Finance etc.
- Segregate the duties of respective staffs by updating details Delegation of Authority Chart to specify the responsibilities.
- Hire a highly qualified internal auditors or build the capacity of the existing auditor by giving them learning opportunities.
- Review the audit reports with in 7 working days and take necessary initiatives as early as possible to reduce any risk of breach of internal control system.
- Management should take a strong stand against any staffs who misappropriate the organizations financial management system.
- Keep the internal audit independent from any kind of influence.

### **Conclusion:**

In this study the researcher investigated the findings in the field of internal control systems and internal audit of local medium sized microfinance institution. The researcher assessed the reasons why the organizations growth was not in the expected level. The study confirmed that there is some gap existed in the internal control system as well as in the internal audit. Overall, this study emphasizes the idea that the proper implementation of internal control systems and effective use of the internal audit can bring some change to the organizational growth of this type of microfinance institutions.

In the line with the first objective, the study discovered that most MMS use such components as internal audit, supervision, information review and monitoring. However, it is clear that MMS gave more importance to the internal audit. On the other hand, for the second research question, the study give answer to the scope of improvement of internal audit to contribute efficiently and effective towards the organizational growth. Finally, researched state that proper internal control system and a effective internal audit can change any organizations development quite a good extend.

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## Annexure 1

### Questioners for Case Study Give a (✓) mark on your stated opinion

#### Designation of the Respondent:

**1.1 Does the internal control systems of the organization are aligned with the industry regulatory bodies?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**1.2 What are the components of internal control you see in your organization?**

1. Internal Audit      2. Monitoring      3. Supervision      4. Reports Analysis

**1.3 What extent the employees know about the policy and procedures of the organization?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**1.4 Management closely looks up to the execution of internal control systems of the organization?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**1.5 Does the organization has clear separation of roles and duties of specific staffs?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**1.6 Is there any existing process by which all the employees can come to know about the components of internal control system?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**2.1. Organization internal audit team is competent enough according to the size and nature of the organization?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**2.2 Does audit reports are timely reviewed by the management?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**2.3 Does management take appropriate initiative to any kind of misappropriation of the organizations Financial Management System?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**2.4 Is the internal audit team independent of any kind of influence?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent

**2.5 Does the internal audit impacted to the organization's overall performance positively?**

1. Very Great Extent      2. Great Extent      3. Moderate Extent      4. Little Extent      5. No Extent