INTERNSHIP REPORT ON

“Functions & Process Flows of Internal Control Department in BRAC Bank Limited”

[BRAC BANK LIMITED]
[1 Gulshan Avenue, Dhaka, Bangladesh]
Study on “Functions and Process Flows of Internal Control Department in BRAC Bank Limited”

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[Date of Submission: February 15, 2014]
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The successful accomplishment of this Internship Report is the outcome of the contribution and involvement of a number of people, especially those who took the time to share their thoughtful guidance and suggestions to improve the report. At the beginning I would like to pay my gratitude to the Almighty Allah for giving me the ability to work hard under pressure.

I have the deepest gratitude to my respectable supervisor and mentor Mahmudul Haq, Associate Professor, BRAC Business School, BRAC University. I am very much thankful to him for his support and supervision, suggestions and providing me with valuable information that was very much needed for the completion of this report.

Finally my sincere gratitude goes to my family, friends, classmates and colleagues who helped me whenever I needed.

I would like to specially acknowledge the support provided by the following people:

**S M Rasheduzzaman**
Senior Manager
Internal Control Department
BRAC Bank Limited

**Md. Mahmood Ali Noor**
Manager
Internal Control Department
BRAC Bank Limited
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BRACK Bank Limited (BBL) is one of the largest and fastest growing banks in the country. The Bank operates under a "double bottom line" agenda where profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh. To ensure customer satisfaction, its professionalism, its efficiency and corporate governance, the “Internal Control department (IC)” of the bank plays the vital role. It is immense responsibility for the IC department to guide and monitor a massive. Therefore, this report aims to provide a clear picture of the different activities and practices of IC department of BRAC Bank Limited.

At the first part of the report, a brief introduction of the study is given. In this part the rationale, objective and most importantly the methodology is clearly described, which help to understand the study properly. After that in part two, three and four the organization profile, literature review and Bangladesh Bank’s guidelines of IC is given respectively. Next comes the part of IC department. In these chapters the focus is given to the different activities and practices by the IC department. A thorough analytical discussion on IC provides a clear and concrete picture of BBL’s attitudes towards the importance of independent auditing, corporate governance and responsibilities to the investors. In this report, it has been tried to identify the existing Internal Control system of BRAC Bank Ltd. In the study only those relating facts were considered which were linked to the control and compliance activities performed by IC.

Internal Control Department has been restructured to focus more on Regulatory Issues and Internal Control Mechanism. The main objective of this Internal Control function to put the bank in a balanced position of Risk and Return, and no Risk should be unidentified and non-calculative. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Risk is the potential of losing something of value, weighed against the potential to gain something of value. Values (such as physical health, social status, emotional wellbeing or financial wealth) can be gained or lost when taking risk resulting from a given action, activity and/or inaction, foreseen or unforeseen.
Finally, based on the study and working experience in BBL some positive and negative findings along with SWOT analysis are given. The analysis is in brief and simple so that it can be easily understand. At last some clear short term and long term recommendations are given based on the findings of the study and the SWOT analysis on the IC department of BBL.

Based on the findings of the study it can be said that BBL performs an moderate to excellent job in minimizing the six core risk (credit risk, assets liability risk, foreign exchange risk, internal control & compliance risk, money laundering risk, information communication technology risk ) and compliance with applicable rules and regulations regarding banking services, provided by regulatory bodies.
CHAPTER 1

INTRODUCTION TO THE STUDY
1.0 INTRODUCTION TO THE STUDY

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In the recent years internal control has become very important for all organization. It helps us to evaluate our work performance. Specially, for the banking organization internal control is a must doing tasks as banks are dealing with others money. That’s why Bangladesh Bank gives some guidelines for this internal control. In this study main concentration is given to the overall activities and operations of “Internal Audit of Regulatory and Internal Control Department of BRAC Bank Limited”

1.1 Rationale of the Study

Commercial Bank is one of the fastest growing sectors in Bangladesh’s economy. Commercial banks play a major role in the overall development of the society as well as in the development of the country. Therefore, the expectations of the customers have also increased than ever before. Realizing the present condition, banks, especially the commercial banks are trying to elevate their daily, quarterly, monthly and yearly performance. For smooth Banking operations, reduce the corruption and to ensure proper governance, Bangladesh Bank has provided a guideline “The Internal control and compliance Division” act as an intermediary to adopt applicable rules and regulations. According to this act along with own systems, rules and regulations every commercial bank has to operate their internal audit and control. Considering such facts it is very much important for “BRAC BANK LIMITED” to make sure that every steps and operations are taken according to the law.

1.2 Significance of Study Area

Financial institutions are very essential for the overall development of a country. Especially banks play an important role in the field of promotion of capital, encouragement of entrepreneurship, generation of employment opportunities etc. To perform effectively it needs effective “Internal Control System”. Banking has a diversified and complex financial activity which is no longer limited within the geographic boundary of a country. Since its activity involves high risk, the issue of effective internal control system, corporate governance, transparency, accountability has become significant issues to ensure smooth performance of the banking industry throughout the world. In many banks internal control is identified with internal audit; the
scope of internal control is not limited to audit work. It is an integral part of the daily activity of a bank, which on its own merit identifies the risks associated with the process and adopts a measure to mitigate the same. Internal Audit on the other hand is a part of Internal Control system which reinforces the control system through regular review.

1.3 Objectives of the Report

A work cannot be progressed accurately and smoothly without clearly defined objectives. Objectives should be pre-decided, so that one can focus on what he/she is doing. Again, one has to be very careful to determine the objectives as it guides the work through. My objectives to do this study are as follows-

1.3.1 Broad Objective:

- To analyze the Activities Internal Control Department of BRAC Bank Ltd.

1.3.2 Specific Objectives:

- To assess the control structure of the bank in practice
- To analyze the Departments activities on which audit is conducted.
- To analyze the Audit Terms of References and Audit Checklists
- To compare the Internal Control Policy with Bangladesh Bank guideline
- To know about compliance policy
- To analyze the limitations of internal audit activities
- To make Recommendation to the Internal Control Department.

1.4 Methodology

The study requires a systematic procedure from selection of the topic to final report preparation. To perform the study, data sources are to be identified and collected. They are to be classified, analyzed, interpreted and presented in a systematic manner and key points are to be found out. So, all the information is collected from primary sources and secondary sources. Most of the necessary information has been collected by practically conducting the audit activity and others data from the bank and related sources.
1.4.1 Primary Data

- Primary data was gathered by conducting audit on various outlets and departments of BRAC Bank Limited. Practical deskwork in my specific position by the bank.
- Observations of other audit officials of bank.

1.4.2 Secondary Data

There are various internal and external sources for secondary data and those are:

- Annual report of BRAC Bank Ltd;
- Relevant file study;
- Some brochures and related articles of BRAC Bank Ltd;
- Some hard copy form of data as given by my supervisor in BRAC Bank and
- Publications obtained from the Internet and from the website of BRAC Bank.

1.5 Scope and limitation of the Study

Through extensive discussion with bank employees and with the Internal Audit peoples this report has been prepared. I had a great opportunity to acquire basic knowledge of all the banking and internal audit activities practiced by the “BRAC Bank Ltd”. It has also helped me to acquire a firsthand perspective of a leading private Bank in Bangladesh.

1.5.1 Scopes

- Internal control activities are prospective topic to study on.
- Data needed for the interpretation can be gathered easily.
- Supervisors in the workplace are very helpful in case of data analyzing.

1.5.2 Limitations

- The main limitation of this report is that it is based on the total internal control activities of BRAC Bank Limited, some of which I did have practical involvement.
- Sufficient books, publications and journals are not available.
- There is insufficient time to do this report.

This chapter describes the rationale, objectives, scopes, limitations and most importantly the methodology of the study. This chapter gives a clear idea about the overall study, its possible outcomes and limitations of the study.
CHAPTER 2
PROFILE OF THE ORGANIZATION
2.1 An Overview of BRAC Bank Limited

BRAC Bank Limited is a full service scheduled commercial bank. It has both local and International Institutional shareholder. The bank is primarily driven with a view of creating opportunities and pursuing market niches not traditionally meet by conventional banks. BRAC Bank has been motivated to provide “best-in-the-class” services to its diverse assortment of customers spread across the country under an on-line banking dais.

Today, BRAC Bank is one of the fastest growing banks in the country. In order to support the planned growth of its distribution, network and its various business segments, BRAC Bank is currently looking for impressive goal oriented, enthusiastic, individuals for various business operations.

The bank wants to build a profitable and socially responsible financial institution. It carefully listen to the market and business potentials, It is also assisting BRAC and stakeholders to build a progressive, healthy, democratic and poverty free Bangladesh. It helps make communities and economy of the country stronger and to help people achieve their financial goals. The bank maintains a high level of standards in everything for our customers, our shareholders, our acquaintances and our communities upon, which the future affluence of our company rests.

2.2 About BRAC Bank

BRAC Bank (BRAC) is a fully operational commercial bank that was founded in July 2001 by BRAC NGO, one of the largest development finance institutions in the world. The bank’s objectives include providing comprehensive commercial banking services, building a profitable and modern, full-service financial institution, and pursuing profitable market niches in the Small and Medium Enterprise (SME) business sector not traditionally met by conventional banks.

The bank’s main portfolio products include loans for small and medium sized entrepreneurs; personal loans, credit cards and multiple deposit accounts for retail customers; and specialized retail products tailored to religious restrictions. The bank also provides corporate deposit and loan products as well as non-resident Bangladeshi remittance services. BRAC's distribution network of 88 branches, 69 SME sales center, 400 small and medium enterprise unit offices, and 300+ ATMs across Bangladesh and now reach more than 1,200,000 customers. The Bank is
constantly coming up with new products. Recently BBL has introduced Visa Silver and Visa Gold both Local and International credit cards; and furthermore, the Bank is in the process of introducing VISA Debit card. In the years ahead, BRAC Bank expects to introduce many more services and products as well as add a wider network of SME unit offices, Retail Branches and ATMs across the country.

The Banks operate under a “Double Bottom Line” agenda where profit and social responsibility to hand in hand as it strives towards a poverty free, enlightened Bangladesh.

2.3 Corporate Vision

Building profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh”.

2.4 Corporate Mission

- Sustained growth in Small & Medium Enterprise sector
- Continuous low-cost deposit Growth with controlled growth in retail assets.
- Corporate Assets to be funded through self-liability mobilization. Growth in Assets through syndications and investment in faster growing sectors.
- Continuous endeavor to increase non-funded income
- Keep our debt charges at 2% to maintain a steady profitable growth
- Achieve efficient synergies between the bank’s branches, SME unit offices and BRAC field offices for delivery of remittance and Bank’s other products and services
- Manage various lines of business in a full controlled environment with no compromise on service quality
- Keep a divers, far flung team fully controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully motivated and driven towards materializing the bank’s vision into reality
2.5 Core Values

The Bank’s Strength emanates from its owner - BRAC. This means, it will hold the following values and will be guided by them as it does its jobs.

- Value the fact that we are a member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth
- Work as a team to serve the best interest of our owners
- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Responsible, trustworthy and law-abiding in all that we do.

Values – CRYSTAL

C stands for being Creative, Be a person of innovative ideas in solving issues, thinking different ideas to reach one destination; do new associations between existing ideas or concepts for the organization’s overall growth.

R stands for being Reliable, Be worthy of reliance or trust at work so everyone could depend on you.

Y stands for remaining Youthful, Be a person of freshness and vibrant characteristic at work. Feel young at HEART and project enthusiasm during performing duties.

S stands for being Strong be a person of willing to move forward and apply conscious choice, willpower, discipline and passion at work.

T stands for being Transparent, Be transparent at work at all level both internally and externally. Show openness and honesty through communication to bring transparency
Astandsfor being Accountable, Be accountable for own actions and take responsibilities for the outcome of the actions; be responsible and answerable towards customers, organization, regulatory bodies as well as the society.

Lstandsfor being Loyal, Be loyal to the organization by being compliant at work, taking ownership and create belongingness which will carry your brand as your pride.

2.6 Corporate Goals

BRAC Bank will be the absolute market leader in the number of loans given to small and medium sized enterprises throughout Bangladesh. BRAC Bank's goal is to provide superior service even to the remotest regions of Bangladesh, so that by enabling this service any one can send money to his/her relatives from abroad within maximum of 72 hours as BRAC Bank has a vast network of BRAC Remittance outlets all over the country. In order to deliver the services efficiently, it is using branches, correspondence banks and especially 1200 BRAC NGO offices. The remittance network is electronically connected over 1000 BRAC NGO offices throughout the country to provide fast and expeditious service.

2.7 Board of Directors

The Board of Directors of BRAC Bank Limited includes:

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<tr>
<td>Sir Fazle Hasan Abed</td>
<td>Chairman</td>
</tr>
<tr>
<td>Mr. Muhammad A. (Rumee) Ali</td>
<td>Director</td>
</tr>
<tr>
<td>Ms. Nihad Kabir</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Dr. Hafiz G.A. Siddiqi</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Ms. Zahidalspahani</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Mr. Syed Mahbubur Rahman</td>
<td>Managing Director and CEO</td>
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2.8 Financial Review

The trends of assets and liabilities growth of BRAC Bank Limited are mentioned below:

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<th>Dec-10</th>
<th>Dec-09</th>
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<td>Cash and Bank balances</td>
<td>28,902</td>
<td>15,670</td>
<td>13,474</td>
<td>13,513</td>
</tr>
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<td>Fixed &amp; Other Assets</td>
<td>15,778</td>
<td>12,510</td>
<td>8,506</td>
<td>7,088</td>
</tr>
<tr>
<td>Investments</td>
<td>25,373</td>
<td>14,199</td>
<td>12,856</td>
<td>10,375</td>
</tr>
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<td>Loans &amp; Advances</td>
<td>103,624</td>
<td>90,822</td>
<td>82,461</td>
<td>64,151</td>
</tr>
<tr>
<td>Total Assets</td>
<td>173,677</td>
<td>133,201</td>
<td>117,298</td>
<td>95,127</td>
</tr>
<tr>
<td>Borrowing from Banks</td>
<td>9,556</td>
<td>4,112</td>
<td>7,250</td>
<td>2,450</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>19,420</td>
<td>15,761</td>
<td>12,472</td>
<td>9,307</td>
</tr>
<tr>
<td>Client Deposits</td>
<td>134,646</td>
<td>103,726</td>
<td>88,158</td>
<td>75,220</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>10,055</td>
<td>9,603</td>
<td>9,418</td>
<td>8,151</td>
</tr>
<tr>
<td>Total Liability &amp; Equity</td>
<td>173,677</td>
<td>133,201</td>
<td>117,298</td>
<td>95,127</td>
</tr>
</tbody>
</table>

2.9 Focuses of BRAC Bank

To serve the “Missing Middle”, BRAC Bank was founded in 2001 with institutional shareholding of BRAC, ShoreBank and IFC. BRAC Bank is now 11+ years old and it has pioneered the small and medium enterprise (SME) banking.
BRAC Bank’s think of the financial pyramid, there are corporate institutions (local and multinational) at the top of the pyramid and there are low income individuals at the bottom. Those at the top are served by all public & private commercial banks and other financial institutions while those at the bottom are served by Micro Finance Institutions (MFIs), e.g. NGOs. But Small and Medium size Enterprises (SMEs) in Bangladesh did not have access to banks and financial institutions like the big multinational & local corporate and that’s where BRAC Bank has filled the gap.
CHAPTER 3

REVIEW OF RELATED LITERATURE
3.0 REVIEW OF RELATED LITERATURE

3.1 Introduction

Banking has a diversified and complex financial activity which is no longer limited within the geographic boundary of a country. Since its activity involves high risk, the issue of effective internal control system, corporate governance, transparency, accountability has become significant issues to ensure smooth performance of the banking industry throughout the world. Internal control is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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

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

3.2 Definition of Internal Control

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

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

3.3 Objective of Internal Control

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

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

### 3.4 Scope of Internal Audit

The scope of internal auditing within an organization is broad and may involve topics such as the-

- Efficacy of operations,
- The reliability of financial reporting,
- Deterring and investigating fraud,
- Safeguarding assets and
- Compliance with laws and regulations.

Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

Publicly-traded corporations typically have an internal auditing department, led by a Chief Audit Executive ("CAE") who generally reports to the Audit Committee of the Board of Directors, with administrative reporting to the Chief Executive Officer.

The profession is unregulated, though there are a number of international standard setting bodies, an example of which is the Institute of Internal Auditors ("IIA"). The IIA has established Standards for the Professional Practice of Internal Auditing and has over 150,000 members representing 165 countries, including approximately 65,000 Certified Internal Auditors.
3.5 Organizational Independence

To perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of management activities and personnel. Although internal auditors are part of company management and paid by the company, the primary customer of internal audit activity is the entity charged with oversight of management's activities. This is typically the Audit Committee, a sub-committee of the Board of Directors. To provide independence, most Chief Audit Executives report to the Chairperson of the Audit Committee and can only be replaced with the concurrence of that individual.

3.6 Obligation of Independence

According to the Institute of Internal Auditors, the Internal Auditor's obligation of Independence refers to:

➤ The reporting line or status of the CAE-

The Chief Audit Executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

➤ Attitude of auditors, procedures of the internal audit department-

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

➤ Communication right-

The chief audit executive must communicate and interact directly with the Board of Directors.

3.7 Role in Internal Control

Internal auditing activity is primarily directed at improving internal control. Under the COSO Framework, internal control is broadly defined as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following internal control categories:
Management is responsible for internal control. Managers establish policies and processes to help the organization achieve specific objectives in each of these categories. Internal auditors perform audits to evaluate whether the policies and processes are designed and operating effectively and provide recommendations for improvement.

3.8 Role in Risk Management

Internal auditing professional standards require the function to monitor and evaluate the effectiveness of the organization's Risk management processes. Risk management relates to how an organization sets objectives, then identifies, analyzes, and responds to those risks that could potentially impact its ability to realize its objectives.

In larger organizations, major strategic initiatives are implemented to achieve objectives and drive changes. As a member of senior management, the Chief Audit Executive (CAE) may participate in status updates on these major initiatives. This places the CAE in the position to report on many of the major risks the organization faces to the Audit Committee, or ensure management's reporting is effective for that purpose.

Internal auditors may help companies establish and maintain Enterprise Risk Management processes.

3.9 Role in Corporate Governance

Internal control and auditing activity as it relates to corporate governance is generally informal, accomplished primarily through participation in meetings and discussions with members of the Board of Directors. Corporate governance is a combination of processes and organizational structures implemented by the Board of Directors to inform, direct, manage, and monitor the organization's resources, strategies and policies towards the achievement of the organizations objectives. The internal auditor is often considered one of the "four pillars" of corporate governance, the other pillars being the Board of Directors, management, and the external auditor.
A primary focus area of internal auditing as it relates to corporate governance is helping the Audit Committee of the Board of Directors (or equivalent) perform its responsibilities effectively. This may include reporting critical internal control problems, informing the Committee privately on the capabilities of key managers, suggesting questions or topics for the Audit Committee's meeting agendas, and coordinating carefully with the external auditor and management to ensure the Committee receives effective information.

3.10 Nature of the Internal Audit Activity

Based on a risk assessment of the organization, internal auditors, management and oversight Boards determine where to focus internal auditing efforts. Internal auditing activity is generally conducted as one or more discrete projects. A typical internal audit project involves the following steps:

- Establish and communicate the scope and objectives for the audit to appropriate management.
- Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This involves review of documents and interviews. Flowcharts and narratives may be created if necessary.
- Describe the key risks facing the business activities within the scope of the audit.
- Identify control procedures used to ensure each key risk and transaction type is properly controlled and monitored.
- Develop and execute a risk-based sampling and testing approach to determine whether the most important controls are operating as intended.
- Report problems identified and negotiate action plans with management to address the problems.
- Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

Project length varies based on the complexity of the activity being audited and Internal Audit resources available. Many of the above steps are iterative and may not all occur in the sequence indicated.
By analyzing and recommending business improvements in critical areas, auditors help the organization meet its objectives. In addition to assessing business processes, specialists called Information Technology (IT) Auditors review information technology controls.

### 3.11 Internal Audit Reports

Internal auditors typically issue reports at the end of each audit that summarize their findings, recommendations, and any responses or action plans from management. An audit report may have an executive summary; a body that includes the specific issues or findings identified and related recommendations or action plans; and appendix information such as detailed graphs and charts or process information. Each audit finding within the body of the report may contain five elements, sometimes called the "5 C's":

1. **Condition**: What is the particular problem identified?
2. **Criteria**: What is the standard that was not met? The standard may be a company policy or other benchmark.
3. **Cause**: Why did the problem occur?
4. **Consequence**: What is the risk/negative outcome (or opportunity foregone) because of the finding?
5. **Corrective action**: What should management do about the finding? What have they agreed to do and by when?

The recommendations in an internal audit report are designed to help the organization achieve its goals, which may relate to operations, financial reporting or legal/regulatory compliance. They may relate to effectiveness (i.e., whether goals were met or compliance with standards was achieved) or efficiency (i.e., whether the outputs were generated with minimum inputs).

Audit findings and recommendations also relate to particular assertions about transactions, such as whether the transactions audited were valid or authorized, completely processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements.

For any study or research, review of related literature is very significant. In this chapter all the all the key issues and topic of regulatory and internal control are discussed which gives basic idea about the issues latter discussed on the study.
CHAPTER 4

BANGLADESH BANK'S POLICY

GUIDELINES FOR INTERNAL CONTROL
4.0 BANGLADESH BANK’S POLICY GUIDELINES FOR R&IC

4.1 Introduction

Bangladesh Bank (BB) is the central bank of Bangladesh. It works as a guardian for all the banks and financial institutions in Bangladesh. Especially all the commercial banks are highly obligated to follow every single rules and regulations of BB. To ensure proper operations and policy to run the commercial banks, BB always gives standard guidelines which must be followed by all. As regulatory and internal control is a very important issue of a commercial bank, BB provides specific policy and guidelines for internal control. The guidelines for Internal Control by BB is given below-

4.2 Responsibility of the Board of Directors

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

4.3 Responsibility of the Senior Management

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

The MANCOM will review on a yearly basis the overall effectiveness of the control system of the organization and provide a certification on a yearly basis to the Board of Directors on the effectiveness of Internal Control policy, practice and procedure.

4.4 Risk Recognition and Assessment

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

4.5 Control Activities and Segregation of Duties

- Effective internal control system requires that an appropriate control structure is set up with control activities defined at every business level, i.e. top level review; appropriate activity controls for different departments or divisions; physical controls; checks for compliance with exposure limits and follow-up on non-compliance; a system for approvals and authorizations and system pf verification and reconciliation.
- Control activities involve two steps: (1) the establishment of control policies and procedures and (2) verification that the control policies and procedures are being complied with.
- Senior management should ensure that adequate control activities are an integral part of the daily functions of all relevant personnel; this enables quick response to changing conditions and avoids unnecessary costs. Control activities are most effective when they
are viewed by management and all other personnel as an integral part of daily activities rather than an addition to it.

➤ One of the most important aspects of internal control system requires that there is appropriate segregation of duties and personnel are not assigned conflicting responsibilities.

➤ Furthermore the employees must also be provided with necessary authority which will enforce segregations of duties.

➤ For employees to carry out their responsibilities properly each employee should have appropriate job description

➤ Areas of potential conflicts of interest should be identified, minimized and subject to careful independent monitoring.

4.6 Management Reporting System

➤ Effective internal control system requires that there is an effective reporting system of information that is relevant to decision making. The information should be reliable, timely accessible and provided in a consistent format.

➤ Information would have to include external market information about events and conditions that are relevant to decision making. Internal information include financial, operational and compliance data.

➤ There should be appropriate committees within the organization which would evaluate data received through various information systems. This will ensure supply of correct and accurate information to the management.

➤ Internal information must cover all significant activities of the bank. These systems including those that hold and use data in electronic form must be secure, monitored independently and supported by contingency arrangements.

➤ Most importantly the channels of communication must ensure that all staff fully understand and adhere to policies and procedures effecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.
4.7 Monitoring Activities and Correcting Deficiencies

- Effectiveness of the Bank’s internal controls should be monitored on an ongoing basis. Key/high risk items should be identified and monitored as part of daily activities. In addition there should be periodic evaluation by the business lines and internal audit team.

- There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff specially designated by the management. The significant deficiencies identified by the audit team should be reported to the board on a periodic basis. The Audit Committee of the board should be the cell to whom such report should be forwarded for review.

- Preferably the internal control team should be reporting to the board of directors or its audit committee. If practical considerations do not permit internal control team to directly report to the board of directors then it can report directly to the MD.

- Internal control deficiencies, whether identified by business lines, internal audit or other control personnel should be reported in a timely and prompt manner to the appropriate management level and addressed immediately.

- Material internal control deficiencies should be reported to senior management and board of directors with recommendations where necessary. Each bank should set out its own guideline regarding what should be considered as major branches. However, it should be noted that consideration should be given to major financial exposure or loss, significant process lapses, serious employee misconduct etc.

4.8 Role of External Auditors in Evaluating Internal Control System

- External Auditors by dint of their independence from the management of the bank can provide unbiased recommendation on the strength and weakness of the internal control system of the bank.

- They can examine the records, transactions of the bank and evaluate its accounting policy, disclosure policy and methods of financial estimation made by the Bank; this will allow the board and the management to have an independent overview on the overall control system of the bank.
4.9 Regulatory Compliance

- For the banks Central Bank is the primary regulator, who governs the activities of banks. In addition Tax Authority, Registrar of Joint Stock Company, Finance Ministry etc. are different types of regulatory bodies whose directives have significant impact of bank's business.

- The internal control system should always take into account the bank’s internal processes to meet the regulatory requirement before conducting any operation.

- The internal control system of the bank must be designed in a manner that the compliance with regulatory requirements is recognized in each activity of the bank. The bank must obtain regular information on regulatory changes and distribute among the concerned department, so that they can take necessary action to adapt to such changes.

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

4.10 Establishment of a Compliance Culture

- Organization employees are encouraged to comply with policies, procedures and regulation. Even an individual at the lowest echelon should be empowered to speak up without the fear of reprisal if she/he identifies something noncompliant.

- The board of directors and the senior management must establish a compliance culture within the banking organization that emphasizes and demonstrates to all levels of personnel the importance of internal control.

- In order to establish a compliance culture the board of directors and senior management must promote a high ethical and integrity standard.

- In reinforcing ethical values the banking organization should avoid policies and practices that provide inadvertent incentive for inappropriate activities. Examples of such policies and practices include undue emphasis on performance targets or operational results, particularly short term ones that ignore long term risks and compensation schemes that overly depend on short term performance.

- The board of directors and the senior management may establish a ‘Code of Ethics' that all levels of personnel must sign and adhere to.
4.11 Organizational Structure

4.11.1 Structure for Internal Control System

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

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

In cases where such segregation is not possible, there must be certain monitoring mechanism which should be independently reviewed to ensure all policies and procedures are followed at the branch level.

4.11.2 Structure of the Internal Control Unit

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

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

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

The following organization structure for the internal control unit is based on the basic tasks that are to be performed by this department. Depending on the size of the bank and its requirement this may vary. A brief discussion of the structure has also been provided.
The head of the internal control will be responsible for the both compliance and control related tasks which include compliance with laws and regulation, audits and inspection, monitoring activities and risk assessment. The head of internal control will report directly to the MD and also have an indirect reporting line to the Audit Committee of the Board.

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

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

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

4.12.1 Departmental Control Function Checklist (DCFCL)

The guideline/procedure deals with matters relating to review/verifications of departmental functions to ensure that prescribed procedures are being followed by each department.

All departments are required to check that prescribed controls are being observed and laid down procedures are not overlooked & relaxed.

Departmental Managers, Line Managers, Branch Managers will review the DCFCL to ensure that control functions are performed and documented in the control sheets at the prescribed frequencies i.e. daily, weekly, monthly and quarterly.

The DCFCL Checklist should be retained with the branch/departments for future inspection by Internal Control and Senior Management.

4.12.2 Loan Documentation Checklist

The checklist deals with matters relating to security documentation for sanctioning and drawdown credit facilities to ensure that prescribed documentation is being obtained to safeguard bank’s legal charge

4.12.3 Quarterly Operations Report

This guideline/procedure relates to reporting of operational functions of each branch/center under the following heads on the enclosed format:

◆ Policies, Procedures and Controls
◆ Protection of Valuables
◆ Proofs/Verifications and Internal Checks
◆ Personal and Supervision and
◆ Premises Management
◆ Confirmation on Regulatory Compliance

A report will be prepared in duplicate copies by each branch / center in the prescribed format; one copy is to be dispatched to the Line Management and another copy to the
Internal Control Team by 10th of the following month i.e. 10th April, July, October and January each year.

- The items which are not applicable for individual Branch or Department should be marked as N/A and no signature is required against the items marked as N/A.

- All concerned are advised to adhere to the requirements as outlined in each of the above head for review by the Line Management quarterly and by Internal Control / Audit as and when they visit the branch / center.

### 4.12.4 Risk Analysis of Control Functions

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

- **Impact**
  
  Before taking into account the mitigation (i.e. insurance) what is the impact of the lapse/omission.

- **Probability**
  
  After taking into account of the mitigation what is the likelihood of the event occurring.

### 4.12.5 Monitoring & follow-up

- The Internal Control Team (ICT) will review the Quarterly Operations Report and Exceptions Report (if any); in addition to the line management the internal control team will instruct the branch/unit to rectify the exception and report the same. If deemed necessary the ICT will instruct the Audit & Inspection Team (A&IT) to carry out an inspection on the specific deviation.

- Depending upon the gravity of the deviation the ICT will report the matter to the Managing Director with a copy to the Audit Committee of the Board for necessary action and rectification.

- A copy of the Loan Documentation Checklist would be sent by each branch/unit to the ICT, who will review the same. On a quarterly basis ICT will submit a report to the MD/Audit Committee on the type/nature of the discrepancies in credit documentation.
In addition to the above the ICT will send out the A&IT routinely but on surprise dates to branches/departments to carry out sample checks on the items mentioned in the DCFCL.

4.12.6 Reporting

The Bank will design a reporting structure for ICT on the following reporting structure.

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

4.12.7 Compliance Process

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

4.12.8 Audit Procedure

- Each Year the Head of Internal Control will set out an audit plan for the year. This would be a high level plan, which will be approved by the Managing Director and should have concurrence of the Audit Committee.
- This will be a risk based plan where sensitive areas will be provided with priority.
- The deficiencies identified by during the audits should be notified to the appropriate level and significant audit findings should be reported to the Managing Director level.
- At the end of the year there should be a summary report on the audit findings and corrective actions taken which should be forwarded to the Audit Committee of the board and the Managing Director.
- Based on the review of monitoring reports the audit team should also conduct surprise check on the branches where regular gaps are identified.

The guidelines provided by the BB bank gives a clear idea about how the regulatory and internal control department of bank should work. In the guidelines every single issues of IC is clearly discussed and specific instructions were made. This chapter will help to match and analyze the practices of BRACK Bank.
CHAPTER 5
FUNCTIONS & PROCESS FLOWS OF INTERNAL CONTROL DEPARTMENT
5.0 INTERNAL CONTROL ATA GLANCE

5.1 Background of Internal Control (IC) Department of BBL

To comply with the recommendation of Bangladesh Bank as suggested in “Managing Core Risks (Credit risk management, Asset Liabilities management, Foreign Exchange risk management, Prevention of money laundering and Internal Control & Compliance risk) in Banking” BRAC Bank Limited Constituted this Division named Internal Control Department from the beginning of its journey. Branches Control Department and Special Audit Team were also merged with since functions of these two are included in Internal Control Department.

5.2 Internal Control

All of the financial, operational and other control systems which are carried out by internal controllers and which involve monitoring, independent evaluation and timely reporting to management levels systematically in order to ensure that all the bank activities are performed by management levels in accordance with current policies, methods, instructions and limits. Internal control means not only internal check and internal audit, but the whole system of the control. It is established by management in order to carry on the business in an orderly manner as a safeguard of assets and secures the accuracy and reliability of its records.

5.3 Objectives Internal Control Department

The core objective of the IC is to help the bank to perform better through identifying assessing associated risks in operation and other relevant areas and recommend probable ways of improvement of those risks.

The major dimensions of this objective are:

- Performance Objectives- Efficiency and effectiveness of activities
- Information Objective- Reliability, completeness and timelines of financial and management information
- Compliance Objective: Compliance with applicable laws and regulations
5.4 Functions of Internal Control Department

To achieve the objectives of IC and in line with the Guidance of Core Risk Management as suggested by Bangladesh Bank the Division is divided into the following functionalities:

![Diagram showing the relationship between Internal Control and its functionalities: Compliance & Monitoring, Internal Audit & Inspection, IT Audit & System.]

5.4.1 Audit Engagement

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The general definition of an audit is a planned and documented activity performed by qualified personnel to determine by investigation, examination, or evaluation of objective evidence, the adequacy and compliance with established procedures, or applicable documents, and the effectiveness of implementation.[1] The term may refer to audits in accounting, internal controls, quality management, project management, water management, and energy conservation. Auditing is defined as a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing the auditor perceives and recognizes the propositions before him for examination, collects evidence, evaluates the same and on this basis formulates his judgment which is communicated through his audit report.[2] The purpose is then to give an opinion on the adequacy of controls (financial and otherwise) within an environment they audit, to evaluate and improve the effectiveness of risk management, control, and governance processes.
5.4.2 Declaration of Risk

Risk is the potential of losing something of value, weighed against the potential to gain something of value. Values (such as physical health, social status, emotional wellbeing or financial wealth) can be gained or lost when taking risk resulting from a given action, activity and/or inaction, foreseen or unforeseen. Risk can also be defined as the intentional interaction with uncertainty. Risk perception is the subjective judgment people make about the severity of a risk, and may vary person to person. Any human endeavor carries some risk, but some are much riskier than others.

5.4.3 Internal Control

Internal Control Department has been restructured to focus more on Regulatory Issues and Internal Control Mechanism. The main objective of this Internal Control function to put the bank in a balanced position of Risk and Return, and no Risk should be unidentified and non-calculative.

Internal Control functions ensures subject related to Regulatory Bodies are handled correctly. IC is the point of contact for regulatory inspection/query on the operation of the bank. Being in the middle of Regulatory Bodies and internal Departments; it serves as a connection between Regulatory authorities and the Bank. For all the banks, Central Bank (Bangladesh Bank) is the primary regulator, who governs the activities of the banks. TAX authority, Finance Ministry, Commerce Ministry, Security Exchange Commission etc. are the other regulatory bodies, whose directives have significant impact on banks business.

The Head of Internal Control reports to Board Audit Committee. The Wings of Regulatory & Internal Control Department are:

- Internal Audit & Inspection (Head Office Audit Wing, Retail Banking Audit Wing & SME Banking Audit Wing)
- IT Audit & System Security
- Compliance & Monitoring

Internal Audit & Inspection unit conducted Risk Based Audit and award ratings for the branches. Other than the regular Control Activity, Fraud and Forgeries are investigated through this department as advised by the management.

Compliance and Monitoring Unit undertakes periodic and special review of the branches and departments of the head office for identifying and correcting operational lapses.
5.4.3.1 Six Core Risks Identified by Bangladesh Bank

- Credit Risk
- Assets Liability Risk
- Foreign Exchange Risk
- Internal Control & Compliance Risk
- Money Laundering Risk
- Information Communication Technology (ICT) Risk.

5.4.3.2 Internal Control holds the Ownership of-

- **Internal Control and Compliance Risk**

  Internal Control function ensures the Bank manages its Internal Control and Compliance Risk in accordance to the guidelines of Regulatory Bodies and Bank's it self's. The Internal Control System of the Bank enforces checks in all possible way to minimize risk exposure towards internal and external factor. This system ensures all the Departmental process and procedure are as per Guideline provided and also maintains ethical standard, accounting rules, and efficiency in Business Process and safeguarding of assets are ensured.

  All Departments and Branches are audited periodically and when and as required by the management. Instant recommendations are provided to concern Departments and Branches. These Audit Reports are submitted to the MD, & CEO, Board Audit Committee and Board of Directors. Moreover SME Loans are audited prior disbursement and numbers of loans disbursed having adverse comment by the auditor is post visited. All SME Loans are disbursed on the conformity of the Auditor upon verification of the validity of data provided in account and loan documentation.

5.4.4 Compliance and Monitoring

Compliance & Monitoring Team Ensures the Bank is operated as per the guideline provided by the Regulators and Internal Management. Compliance means Operations in accordance with instructions, laws, rules or regulations from time to time. The compliance unit is responsible for ensuring that bank complies with all regulatory and internal requirements in
conducting its business. This unit maintains a liaison with the regulators at all levels and notifies the other units about the regulatory changes. Moreover Compliance Unit provided Day-to-Day Support to all Business, Operation and Support Department to establish diligent process and procedure, and sends reply to queries received from regulators.

Monitoring means to check record or test regularly for a period of time. The monitoring unit is responsible to monitor operational functions of branches/departments against tools like DCFCL, Quarterly Operations Report, Instructions, Circulars, etc. Monitoring can either be onsite or offsite.

DCFCL stands for Departmental Control Function Checklist. This guideline/procedure deals with matters relating to review/verifications of departmental functions to ensure that the prescribed procedures are being followed. Departmental manager, line manager and Branch manager review the DCFCL to ensure that control functions are being performed and documented in the control sheets at the prescribed frequencies i.e. daily, weekly etc. The departments/branch keeps the DCFCL with them for future inspection by Bangladesh Bank, internal inspection team, and senior management, and sends one of the copies to IC department for their review and inspection, if required. Copy of DCFCL is sent to IC Department monthly/quarterly.

All guidelines from regulatory authority are received by IC department and disseminated among the relevant departments. Once the inspection report is received, IC coordinates for the corrective measures and the appropriate response on a timely fashion.
5.4.5 Process of Internal Audit and Inspection

**PROCESS**

- **START**
  - Audit Planning
  - Terms of References (TOR)
  - Audit Checklist

**EXECUTION**

- Audit Execution
- TOR Communicated with Auditees
  - Audit Closure
  - Audit Response from Auditee

**AUDITEE REPORTING**

- Dissemination of Audit Report
- Audit Rating
- Audit Report Finalizing
  - SME Management Feedback

**FEEDBACK**

- SME Management Feedback
  - Management Discretion on Reporting Issues

**MANAGEMENT REPORTING**

- Report to Audit Review Committee
  - Report to Board Audit Committee

**FOLLOW-UP**

- Directives from Audit Review Committee & Board Audit Committee
- Directives Communicated

**STAKEHOLDERS**

- Yearly Audit Plan, TOR & Checklist are approved by HoRMD and sends to HoSME & MD
- Corresponding between Auditor & Auditee (UIC) at SME Unit Office
- Report finalized by Audit Coordination Team and circulate to SME Unit Office, BRC SME, SME Monitoring & SME Head Office
- Response provided by SME Banking Management on Audit Observations
- Report to Board Audit Committee and Audit Review Committee
- Management discretion on reporting issues
- Follow-up actions as per directives of Committees with SME Banking Management
Audit team formulates a yearly audit plan, review Terms of Reference (TOR) and audit checklist which are approved by Head of Internal Control & Compliance. After approving the yearly audit plan, audit team prepared for audit engagement. They communicated the audit TOR to respective department or outlet for conducting audit engagement. In the meantime audit, concern auditors do some analysis regarding the audit area. They formulate Risk based audit structure; by introducing the system the lapses pertaining to possible risks are instantly referred to the BM/concerned officers for their opinions confirming spot rectification. Afterwards, auditors are conducting audit activities and arranged a closing session to share audit findings with auditees. In closing session department head or in charge of audit area provided their response against audit findings. Then audit team finalizes audit report, grade the report accordingly and disseminate the audit report to concern stakeholders. A Management response has been taken for audit observations. Finally, audit reports are accumulated and submitted to Board Audit Committee (BAC). Major findings of audit reports are placed before Audit Review Committee for necessary actions. Directives of BAC and ARC are shared accordingly with concern stakeholders.

5.4.6. Technology and System Audit

The Policy on Government Security (PGS) requires departments to conduct active monitoring and periodic internal audits of their IT security programs. A comprehensive and coherent approach to IT security inspections and audits is essential; to achieve meaningful results for comparative analysis.

The auditor must plan and conduct the audit to ensure their audit risk (the risk of reaching an incorrect conclusion based on the audit findings) will be limited to an acceptable level. To eliminate the possibility of assessing audit risk too low the auditors follow the following steps:

- **Obtain an Understanding of the Organization and its Environment:** The understanding of the organization and its environment is used to assess the risk of material misstatement/weakness and to set the scope of the audit.

- **Identify Risks that May Result in Material Misstatements:** The auditors evaluate an organization’s business risks.

- **Evaluate the Organization’s Response to those Risks:** Once the auditor has evaluated the organization’s response to the assessed risks, the auditor then obtain evidence of management’s actions toward those risks.

- **Assess the Risk of Material Misstatement:** Based on the knowledge obtained in evaluating the organization’s responses to business risks, the auditor then assesses the
risk of material misstatements and determines specific audit procedures that are necessary based on that risk assessment.

Evaluate Results and Issue Audit Report: At this level, the auditors determine if the assessments of risks were appropriate and whether sufficient evidence was obtained. The auditor will issue either an unqualified or qualified audit report based on their findings.

5.5.7 Compliance Official’s Job

Policy/Procedure/Guidelines-

- Development and implementation of new internal policies, procedure and guidelines as required by management and regulatory bodies.
- Ensure circulation and interpretation of related policies, procedure, guidelines and instruction to respective departments and branches.
- Implementing regulatory compliance in the banking system.
- Support in review policies, process, and guideline.

Compliance Issue-

- Assists in ensuring compliance of business, operation and support function as required by the management and regulatory bodies.
- Preparation of report for senior management as per regulatory requirement.
- Support in ICC Audit procedure by Bangladesh Bank Support in ensuring External Auditor’s management Audit compliance.

Training and Development-

- Keep management updated of Bangladesh Bank IT compliance guidelines.
- Assist in conduction of formal and informal internal training among BBL staff in regards to regulatory and internal control as required by the management.

Bangladesh Bank Compliance-

- Co-ordinate Bangladesh Bank inspection from time to time.
- Follow up and compilation of Audit findings.
- Ensure compliance of Audit comments within the stipulated time.
- Follow up the progress of the implementation of the decision of the ERMC meeting.

At the end of the discussion of this chapter it is very much clear to us that the BRAC Bank is managing its internal control department. By analyzing their practices and comparing it with the guidelines of Bangladesh Bank it can be said that BRAC Bank is doing a great job. In every single issues they tries to follow the guidelines of Bangladesh Bank along with its own rules and regulations so that the department performs its best and meet the expectations of the board and investors.
CHAPTER 6
ANALYSIS AND FINDINGS OF THE STUDY
6.0 ANALYSIS AND FINDINGS OF THE STUDY

6.1 SWOT Analysis of Internal Control Department

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. It is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

Therefore, the SWOT analysis on Internal Control Department can give us a clear and compact picture of the situation and it will also help a lot to summarize the study and its outcomes. Based on the working experience in the bank, the SWOT analysis on Internal Control department of BBL is given below-

6.1.1 Strengths

- Large size of auditors-

BBL currently has over 70 auditors who work in different levels and positions of the IC department. This huge number gives BBL a corporate advantage and ensures timely auditing in its all branches and departments in the country.
Performance Evaluation-

Performance evaluation by the IC is another strength of BBL. This performance evaluation helps both the management and the employees. Evaluation reports help the management to take necessary steps and actions to improve the situation and on the other hand it helps employees to understand their performance, their strengths and weaknesses and find out ways to improve their efficiency.

WBS (Work Breakdown Structure) deployed-

In IC, the role of every employee is clearly specified. Therefore, in managerial hierarchy everyone knows his/her duties very well. It helps them to better understand and perform their jobs in an efficient manner. Moreover, this work breakdown structure helps employees to do perform their jobs smoothly and quickly.

Employee empowerment is ensured-

Not only in the IC department, in every department of BRAC Bank is employee empowerment ensured. Employees are allowed to make his/her own decisions in specific work-related situations. The decisions can be big or small, and the size and effect of the decision is up to the employer. This employee empowerment increases the employee’s responsibility, employee’s morale and improves their overall quality.

Recognition according to performance-

Every human being wants recognition for their work. Appropriate recognition can make employees more efficient because it drives them hard to perform their level best. In BBL, every single employee gets recognized according to their performance. This practice by the management helped BBL to reach such a leading position in the market.

Friendly environment-

In every business organization, working environment plays a vital role for its success. If the working environment is not good enough it demotivates the employees in great manner. In IC the working environment is very friendly. Both seniors and juniors respect each other and help in each other’s work. It ensures an effective and good team work which is the primary key of success.

Chain of command is ensured-

In the IC department the chain of command is perfectly ensured. Everybody in the department knows his/her position, jobs and responsibilities clearly. This strong chain
of command helps the department and its employees to achieve their desired goals and objectives.

- **Individual goals are set**-

  In the department, every individual is assigned with specific goals and objectives. So they can take necessary steps and actions to reach and achieve those goals and objectives. Specifically auditors know what are they looking for and where to get it.

- **Qualified top management**-

  For the success of a business or a department the top management must be qualified enough. Because they makes strategies, plans, goals and objectives for the organization. If they miscalculate, the whole organization will suffer. Considering this fact it can be said the top management of IC is well qualified. Under their proper guidance and monitoring this large department is performing up to the mark job since day 1.

- **Whole department is diversified according to audit areas as different wings**-

  To ensure efficiency and speed up the work the whole department is divided into many wings like- SME Audit team, Branch Audit team, IT audit Team, compliance team etc. each wings performs their job separately as well as collectively. This practice gives top management a clear and specific picture of the performance of the bank.

- **Well communication media**-

  Another strength of the IC is the communication among the top, mid and field level officers. Messages and information can easily pass both upward and downward. It gives advantages to make and implement immediate actions in such situations.

- **Continuous training programs**-

  Job of an auditor is not so easy. It requires extensive hard work, mental and physical strength and most importantly up to the mark training. Considering such fact IC regularly arranged different training programs for their employees both in-the-job and out-the-job. These training programs educate employees on different issues of regulatory and internal control.
6.1.2 Weakness

➤ Quality gaps among employees-

There is a quality gap among the employees of the department. Often this gap creates problems for the smooth operations and to implement different tasks. Several times this quality gap leads to misunderstanding among the officials and reduced the speed of the work.

➤ Inadequate performance measurement tools-

The performance measurement tools used in BBL is not modern standard. The tools are inadequate to measure the actual performance and as a result it makes the actual scenario very hard to get. Therefore, employees often do not get their desired recognition in time. Such situations can easily demotivates employees and ultimately the effect will be seen in their decreasing performance.

➤ Lack of total quality management-

In IC, the chain command and both way communication is ensured but it lacks from the total quality management which is one of the key factors of success in modern highly competitive business environment.

➤ High internal politics-

High internal politics is one of the biggest weakness of any organization. Unfortunately, in the IC department this internal politics is so high and it often creates discomfort for the employees. Such internal politics is leading to employee dissatisfaction and hampering the working relations among the employees in the department.

➤ Lack of employee qualification-

Not every employee in the department is well qualified for their job. Every employee always tries to give their level best but often due to lack of proper knowledge and education they faced several problems in the job. As a result they fail to do their job properly and it creates problems to achieve desired goals of the organization.

➤ Training programs are not effective-

Both centrally as well as departmental wise training are arranged to educate the employees but these programs are not very effective. As a result, the desired outcomes from the employees are not coming. These training programs lack from proper focus on the selective issues and make the participant understand their responsibilities and job properly.
Less employee satisfaction-
Compared to the other departments of the BBL, the employees of IC department are less satisfied from their job. This less satisfaction from the job is big negative side for the bank.

Higher employee turnover-
Due to many reasons such as improper performance evaluation, higher internal politics, less job satisfaction etc. the employee turnover rate of the IC department is very high in bank.

6.1.3 Opportunities

Proper internal control and audit makes the operations more acceptable-
It is very much important for BBL as a financial institution to ensure a proper internal control and audit system. Because a proper internal control and audit system can makes the operation of the bank more acceptable to the board of directors, investors, clients and regulatory authorities.

Banking regulatory bodies now emphasizing on internal audit-
As internal audit is the primary source of evaluating the performance of the bank, now it is getting more importance from the different regulatory bodies of both inside and outside the bank. As a result the IC of BBL is now getting adequate number of man power, tools and equipment’s and most importantly the support from all the departments.

Quality audit ensures quality service-
Through internal audit banks measure their performances. If the quality of the audit is not good enough it will fail to identify the issues for which problems were created. As a result employees will not get a chance to correct themselves to provide higher quality service. So quality auditing is much needed to provide quality service to customer as well as for the operations of the bank.

Audit can bring customer satisfaction by increasing quality service and less errors-
As mentioned earlier, quality audit ensures quality service and quality service ensures customer satisfaction in the bank. It is very important for banks to keep their customer satisfaction level high by evaluating their performance regularly by auditing and take
necessary steps according to that. Because customer loyalty depends on their satisfaction.

6.1.4 Threats

➢ **All banks are increasing and improving their internal control policy**-

In recent years all banks are focusing high on their internal control policy. They are putting a lot of effort to improve and redesign their internal control department to compete with others.

➢ **Most of the banks are implementing modern banking technologies**-

To improve their operations most of the banks are using high tech facilities. Compared to that, the IC of BBL lack behind in the use of modern banking technologies.

➢ **Low salary structure**-

Compared to the other banks, the salary structure of the BBL is quite low. This low salary structure is one of the reasons of employees’ dissatisfaction in BBL.

➢ **Performance evaluation is better in other banks**-

Proper performance evaluation is one of the key for quality service. Compared to the other banks, the performance evaluation process of BBL is not so good which is a big threat for BBL to ensure its quality service.

➢ **Low employee turnover in other banks**-

Low employee turnover of other banks is direct threat for BBL. Because by having a high employee turnover rate every year BBL loss a big amount of money to train and educate its new employees. Moreover, it also suffers from the adequate and lack of experience of the employees.

➢ **Less quality employees are employed**-

In recent years, less quality employees are employed from other banks for filling up gaps for employee turnover.
6.2 Positives Findings of the Study

6.2.1 Introduce Risk Based Matrix

BRAC Bank is also one of the Private Commercial Bank which has introduced risk based audit matrix in banking sector. Most of the factors are considered here and IC is trying to cover more risk areas in every year. It helps IC to find out any fraud in Branch level operation.

6.2.2 Reporting Structure

Any employee of the bank can directly inform the bank management if he finds out any inconsistency in bank operation.

6.2.3 Education and Experience

The internal audit team is so much experienced in their professional life. They have also acquired audit knowledge. It is a strong side of IC.

6.2.4 Audit Committee

BRAC bank has established an audit committee to supervise the whole internal control and compliance. The head of IC report to the audit committee. The audit committee properly supervises the whole system.

6.2.5 Data Analysis Process

IC uses scientific method at the time of data processing. It uses some software that helps to maintain and analyze data properly. The analysis process is done through computer. So, chances of error are very low.

6.2.6 Proper Implementation of DCFCL, QOR and LDCL

BRAC Bank has no customized DCFCL, QOR & LDCL so far. But it starts to prepare user friendly DCFCL, QOR & LDCL. IC takes initiatives for implementing common DCFCL, QOR & LDCL which is provided by Bangladesh Bank.
6.2.7 Effective Compliance Culture

IC properly monitors any circular from regulatory body that is implemented on a certain branch. IC looks after all circulars that are to be implemented on BRAC bank.

6.2.8 Surprise Audit

The surprise audit team uses surprise visit check list at the time of their surprise audit. It helps to find out any discrepancy of branch banking from its guidelines. The surprise visit checklist is healthier and IC is trying to improve it on regular basis.

6.2.9 Recommendation to Management

IC strongly recommends the management to take action against those outlets and departments which are not following banking guidelines.

6.3 Negative Findings of the Study

6.3.1 Lack of Proper Knowledge

Internal Control & Compliance is a new concept in the Banking sector. So, sufficient knowledge is absent. Most of the internal auditor’s educational background is not business studies. So, audit concept is not clear to them.

6.3.2 Absence of customized DCFCL, QOR and LDCL

Due to absence of customized DCFCL, QOR & LDCL branches are facing various problems. Most of the items in DCFCL, QOR & LDCL are not clear to them. Some items are necessary but not found in it and some are unnecessary.

6.3.3 Employee’s Attitudes

All employees are not ethical. Each single employee has a feeling of dissatisfaction about his/her salary and other benefit. Lack of speed, skill and co-ordination are the prime limitation of the internal control & compliance division.

6.3.4 Concept of Core Risk

The Core risk concept is not clear to all employees of Bank. They need training to know about this risk and the policy that BRAC bank has taken to minimize it.

6.3.5 Grading System
The grading system that used by IC to find out risk level of the branch is not universal. Everyone cannot understand this grading.

6.3.6 Branch Health Report Format

The final outcome of IC is branch health report. There is no common format for all branches. The format is different from branch to branch due to their different services.

It is the most crucial chapter of the study. In this chapter the findings of the overall study is discussed thoroughly. The SWOT analysis gives us a clear idea about the strength, weakness, opportunities and threats about the IC department of the BRAC Bank Limited. Moreover, the discussion regarding the positive and negative findings of the study explains the outcomes of the study very plainly.
CHAPTER 7

RECOMMENDATIONS
7.0 RECOMMENDATIONS

Since this an exploratory research, hence the recommendation given are not decisions rather they are only suggestions to improve the control system. The recommendations given below are made on the basis of findings.

- **Central Bank should take proper actions for ensuring internal control system guidelines**-
  To ensure proper internal control system, the BB can make surprise visit to the audit department of the bank and ask for regular reports to analyze the performance of the audit team.

- **Internal Control needs to prepare customized DCFCL, QOR as soon as possible**-
  Customized DCFCL and QOR are needed to improve the performances of the individual branches. It will help the audit team to get the relevant information, papers and documents in quick time.

- **Arrange a training and workshop with branch employee for informing about internal control**-
  Internal control is very significant issue of a bank. Proper training and education of the employees of all departments and branches are needed to establish a sound internal control system in the bank.

- **Ensuring proper documentation of branch by using different immediate actions**-
  In many branches audit teams often suffers due to lack of proper documents supplied by the branches. It creates problems for the teams to make an authentic report. So a proper and implementable punishment system should be there to ensure proper documentation.

- **Management should work on interpersonal relationship**-
  Top management should work on interpersonal relationships among employees. If these relationships become more harmonized, the rate of coordination and cooperation will rise that eventually will cause a significant increase in servicespeed.

- **Ensuring sufficient infrastructural capacity for surprise audit**-
  BRAC Bank has a high number of auditors but the bank cannot support these auditors through its infrastructural resources like- transport, IT Support etc.
Quality officials should be recruited-

More and more competent personnel must be recruited to reduce the weakness of internal control system. Competent executives will ensure the effective internal control.

The employee of IC needs to know about concurrent audit concept clearly-

The concept of audit is not an easy thing to understand. There are many auditors to whom concurrent auditing concept is not very clear, that creates obstacle for the bank to ensure proper internal control in the bank. Therefore, regular training programs and interpersonal discussions should be arranged to make the audit concept clear to everybody.

Ensuring proper implementation of ‘Branch Operation Guidelines’, provided by Head office-

Often it has been observed that, many branch offices do not follows the guidelines provided by the Head office, it is a big violation of the rules and regulation. To stop such situation necessary steps should be taken immediately.

Encourages the bank employee to be more ethical-

As a financial institution bank plays with others money. Therefore, the ethical and moral standard of the bank employees should be high. Also this high ethical and moral view of the employees will drive them to follow rules and regulations properly and ultimately help the organization. To improve ethical and moral view of the employees some workshop can be arranged.
CHAPTER 8

CONCLUSION
8.0 CONCLUSION

BRAC Bank Ltd. is a leading financial institution and it has eighty branches, sixty nine SME service center operating and ten proposed branches all over the country. Recently, BBL has successfully reformed and made a strong position in stock market. The Bank is earning profit as its shareholders expectation. Profitability & good reputation depends on responsibility, accountability and transparency of the bank operations.

In this report, it has been tried to identify the existing Internal Control system of BRAC Bank Ltd. In the study only those relating facts were considered which were linked to the control and compliance activities performed by IC. Based on the findings of the study it can be said that BBL performs an moderate to excellent job in minimizing the six core risk (credit risk, assets liability risk, foreign exchange risk, internal control & compliance risk, money laundering risk, information communication technology risk) and compliance with applicable rules and regulations regarding banking services, provided by regulatory bodies.

In any strategy of banking service development, therefore, it is essential to emphasize on the efficient regulatory and internal control system. In conclusion it can be suggested a number of recommendations in order to overcome the problems and how to remove the causes of weakness in internal control system.
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