Internal Audit Procedure of One Bank Ltd

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Chapter 1

INTRODUCTION

1.1 Introduction to topic in hand:

Internal Audit Department of ONE Bank Ltd. is one the most vital functional departments which involves with the monitoring, checking, reporting and advising activities of their banking system. More than forty auditors are working in ONE Bank Ltd. Dhanmondi branch. To ensure the security of the whole banking system and to keep running the operations of the organization smoothly the involved employees of this department are working dedicatedly. The Audit department is consistently working to make a boundaries against fraud, misrepresentation, miscalculation and any kind of errors. The Internal Audit Department try to keep a good communication and keep in touch with the other divisions employees in order to keep them updated. They always keep knocking and informing the other division's employees to doing their work properly and according to rules and regulation which is given by the Bangladesh Bank. The Auditors maintain professionalism and expertise in the entire commercial activities of OBL.

OBL Internal Audit Department deals with some documents in terms of their regular checking and findings activities. Some of them are as follows:

I. Deposit Slip
II. Checks
III. Debit vouchers
IV. Credit vouchers etc.

It may also include Special Conditions. These documents help in accurate checking of the operations of the whole banking procedures. Bangladesh Bank gives a few rules for this internal control. In this report focus is given to the general activities and exercises of "Internal Audit of Regulatory and Internal Control Department of One Bank Limited"

1.2 A Brief Introduction of the Organization:

ONE Bank Limited was fused in May, 1999 With the Registrar of Joint Stock Companies under the Companies Act. 1994, as a commercial bank in the private segment. The name 'ONE Bank' is gotten from the knowledge and since a long time ago supported sentiments of the promoters to contact the general population of all kinds of different backgrounds and advance together towards thriving in a spirit of oneness. It is a Third generation private commercial bank. In the industrial segment, the significant centralization of the bank is on the textile and RMG sector. With the expansion presentation to RMG, bank has expanded its non-financed business significantly. Bank has stepped up with regards to expand introduction in SME for widening the entrance of little business visionaries to bank credit. With condition of art technology, OBL has real time on-line banking facility and has launched Visa debit and credit card, ATM facility, E-Banking, Mobile banking etc. An undeniable Disaster Recovery (DR) focus has been built up in Sirajgonj to guarantee business congruity of the bank. OBL has presented Centralized Loan Administration and Trade Processing center at Dhaka and Chittagong zone.

1.3 Objectives of the Report

A work can't be done without any objective. Targets of my report are pre-chosen, with the goal that focused on what I have done in this report. As per my goals I have divided my objectives in two broad parts. Those are as follows:

I. **Broad Objectives:**
   a) To know about the Internal Control Department activities in OBL

II. **Specific Objectives:**

a) To understand the control structure of OBL practically.
b) To cut up the exercises of this department on which the audit is guiding.
c) To explore the Audit Terms of References and Audit Checklists.
d) To find out the Internal Control Policy and Bangladesh Bank rules.
e) To identify the obstacle of audit exercises.
f) To suggest Recommendation to the Internal Control Department.

1.4 Rationale of the Study

This report is on "Internal Audit Procedure of ONE Bank Ltd." commence as it is a part of my Internship Program which is required by the Bachelor of Business Administration in Accounting Information System to perform a practical knowledge in any organization. For this requirement to fulfill I have done 3 months internship program in ONE Bank Ltd, Dhanmondi, Dhaka. This report is made under the guidance of Mhammad Tariq Hasan, Assistant Professor, Department of Business & Administration, United International University.

1.5 Scope of the Study:

As I discussed with bank employees and with the Internal Audit people groups this report I have been prepared. I had an awesome chance to gain fundamental information of all the keeping money and inner review exercises honed by the "ONE Bank Ltd". It has additionally helped me to obtain a firsthand viewpoint of a private Bank in Bangladesh. The scops of this report was limited to the overall description of the organizational structure, management policies and other analysis. This report will give an outline of internal audit procedure of OBL as follows:

i. To study on the Internal Control exercises which are planned.
ii. To assembled required data effectively.
iii. The supervisors of my workplace are very much helpful.
iv. In any occurrence related to findings of information got a support.

1.6 Limitations of the study:

i. Most of the information are confidential.
ii. Sufficient books, distributions and journals are not accessible.
iii. Did not get enough time to know more about Internal Audit activities to the depth.
iv. Could not involve in all the activities of internal audit department.
v. Some information could not be gathered for the long time being.

This part depicts the rationale, objectives, scopes, limitations of the study. This part gives a reasonable thought regarding the general study.

Chapter 2

Methodology of the study

Methodology is a set of practice. The study requires an orderly methodology from determination of the subject to make the report. The information and data are accumulated and divided into certain category. All the data is gathered from related sources and other sources and others information collected from the bank and related sources.

2.1 Primary Data:

i. Some primary information have been accumulated through discussion with the audit team.
ii. Some are collected by participating in audit activity on different occurrences.
iii. Some information was collected from practical desk work in my specific position in OBL.
iv. Data are collected through observations of other audit official of bank.
v. Informal conversation with the other divisions employees.

2.2 Secondary Data:

There are different internal and external sources for secondary information and those are:

i. Annual report of ONE Bank Ltd.
ii. Relevant Record considers
iii. Related articles and leaflet of ONE Bank Ltd.
iv. Some information was given by my supervisor in ONE Bank as hard copy.
v. Website of One Bank
vi. Various publications from Internet.

2.3 Sample Design:

The Sample of this study comprise of the Audit Procedures of OBL. I have gained some knowledge and on the basis of that the usual sample is selected for this report. Arbitrarily I collect data from OBL Audit Department. I used some table of data to get the easy discussion of this topic.

Chapter 3

Organizational Background and Industry Perspective

3.1 Banking Industry Scenario in Bangladesh:

After the liberation, Bangladesh went through a very weak phases of development in banking sector. In the post liberation period to nationalize the banks that already has been instituted Bangladesh Bank (BB) take measures to keep them safe. As a result, six nationalized banks emerged under Bangladesh bank (Nationalization) order, 1972 replacing banks owned by Pakistani and Bangladeshi owners. When the banks were becoming the burden through some elements of irregularities as the role of central bank, the BB started adopting measures to drawing banking institutions on right track. Until now the prevalence of public sector management of banks left some gloomy effects in the money market and in the economy. But the scenario is changing day by the. BB is taking more tactic for decreasing the bad loan. The banks are also helping in the economy by adopting smart techniques and decision to reduce the bad loan and investing in more secure place. These initiatives are not only good for banks but also good for Bangladesh economy as investors are improving their business decision and constructing more innovative business plan.

For the improvement of banking sector, BB took some changes in Banking Company Ad in the recent year and some changes also in progress which are as follows-

3.2 Banks Contributions to the economy:

Recently there are 48 (Forty eight) banks in Bangladesh. Banking is the backbone of national economy. All types of economic and financial activities are to be connected with the bank. The banks create and controls money-market and promotes formation of capital just like a manufacturer industry produce its goods and commodities.

This is fully classified that: (According to BB)

8 State-owned banks
40 privately-owned banks
9 foreign-owned banks
} Non performing loans (NPLs) > Tk. 80,397 crore as of September 2017

This is representing that 10.67% of all outstanding loans.

These banks also have some more status-

Capital shortfall of > Tk. 12,683 crore > at the end of June 2017

Received from taxpayers } Tk. 2,000 crore / on top of 116.6 billion handouts } between fiscal year 2011-12 and 2016-2017

Economists and other experts are worrying about this wealth transferring problem in the banking sector has actually been getting worse rather being prolonged for this long.

3.3 Scope of Internal Audit:

The scopes of internal auditing inside bank is expansive and may include subjects, for example, the-

i. Efficacy of activities

ii. The dependability of financial reporting
iii. Investigating and Preventing fraud
iv. Safeguarding resources and
v. Compliance with laws and regulations

3.4 Bangladesh Bank Guidelines:

The guidelines provided by the BB gives a clear idea about how the regulatory and internal control department of bank should work. In the guidelines every single issue of ICD is clearly discussed and specific instructions were made.

3.5 Industry Scenario of OBL:

ONE Bank Limited (OBL) is a private commercial bank in Bangladesh. It is in the business of taking deposits from public through various saving schemes and lending the fund in various sectors at a higher margin. ONE Bank has been roused to give "We Make Things Happen" administrations to its differing arrangement of clients spread the nation over under an on-line managing an account dais.

In this report I gave an overall idea about OBL banking system and policy related to the Internal Control System and Audit Procedure.

3.6 Contribution to the Economy of OBL:

ONE Bank Ltd. plays a important role in the economy in terms of balanced, sustainable growth, employment generation, development entrepreneurial skills and contribution to GDP. ONE Bank strongly believes that SME sector is one of the main driving forces of economic growth and it is a market of huge potential. Remittance is another service through which ONE Bank plays a vital role in economy. By distributing Savings certificate which is confined by the Bangladesh Bank ONE Bank serving its customer and keeping place in economy.

3.7 Historical Background of OBL:

ONE Bank Limited (OBL) was accustomed in May, 1999 With the Registrar of Joint Stock Companies under the Companies Act. 1994, as a commercial bank in the private segment. The Bank is will undoubtedly serve the clients and the group with most extreme commitment. The prime focus is on effectiveness, transparency, accuracy and inspiration with the spirit and conviction to exceed expectations as ONE Bank in both esteem and picture. The name 'ONE Bank' is gotten from the knowledge and since a long time ago supported sentiments of the promoters to contact the general population of all kinds of different backgrounds and advance together towards thriving in a spirit of oneness. It is the third generation private commercial bank. In the industrial segment, the significant centralization of the bank is on the textile and RMG sector. With the expansion presentation to RMG, bank has expanded its non-financed business significantly. Bank has stepped up with regards to expand introduction in SME for widening the entrance of little business visionaries to bank credit.

3.7.1 Corporate Vision:

i. To play a role model in the Banking Sector of Bangladesh.
ii. To take care of the issues of Customers.
iii. To provide customer satisfaction.
iv. To increase Shareholders Value.

3.7.2 Corporate Mission:

i. Consistently look for approaches to serve customers better.
ii. Fulfill the Social Responsibilities properly.
iii. Survey all business line regularly to pick up the opportunities and help the economy.
iv. Try to keep best practice in banking business.
v. Build up a strong Teamwork working condition.
vi. Empowering the employees to perform their best.

3.7.3 Board of Directors:

3.8 Operational Activities of the Organization:

OBL has been started its Internal Control Department from the very earliest starting point of its establishment. Without an Audit Department a bank cannot run its operational activities. It is obliged by the Bangladesh Bank (BB) to set up Internal Control Department in every bank. Internal Control Department set up for "Managing Core Risks (Credit risk Management, Asset Liabilities management, Foreign Exchange Risk Management, Prevention of Illegal Tax Avoidance and Internal Control and Compliance Risk) in banking sectors.

3.8.1 Objectives of Internal Control Department:

The main objective of ICD is to mitigate the operational activities of the bank perform better by assessing associated risks. ICD suggest the probable ways of improvement of those risks which may hamper in the bank activities and other applicable zones. Through internal control framework bank recognizes its weaknesses and takes suitable measures to beat the same. The objectives are as follows:

1. Performance Objectives: Improve the efficiency and effectiveness of activities.
2. Information Objectives: Financial and management information should have reliability, completeness and timeliness.
3. Compliance Objective: Compliance with material laws and regulations.

3.8.2 Internal Audit Activities:

1. Establish a goal for audit by which they can ensure a proper administration.
2. Audit team arrange a yearly audit plan by reviewing Terms of Reference and audit checklist which are approved by the Head of Internal Control and Compliance.
3. After approving the yearly audit plan, audit team prepared for audit engagement.
4. Auditors review the important documents, flowcharts, accounts and develop knowledge about the business territory and do some analysis respect to the audit area.
5. Auditors describe the key dangers of the business exercises.
6. They identify the control process of risk and observation process.
7. The finds out is the critical controls are working as planned.
8. Report to the management to address the issues they found and design control activity with the management.
9. Follow-up on the findings and keep subsequent database.

3.8.3 Internal Audit Report:

After finishing the audit activities Internal Auditors issue a report toward the management which is a compress file of findings, suggestions and any actions or reactions of plan. An audit report may have some parts; for example, body of the report which may consist of particular issues or findings and suggestions or action plans; supplement data like diagrams, outlines etc. The body of the report may contains five components, sometimes called the "5C's" :

1. Condition: What is the specific issue identified?
2. Criteria: What is the Standard that was not met?
3. Cause: Why did the issue happen?
4. Consequence: What is the risk/negative outcome (or opportunity) due to the findings?
5. Corrective action: What should management do about the finding? What have they consented to do and by when?

3.8.4 Performance of Internal Audit Department:

The performance of internal audit department is very commendable. Audit department keep regular evaluation on the overall banking activities and in all departments. The arrange surprise audit sometimes and they normally keep their evaluating and assessing process quarterly in a year. They maintain audit seasons according to the rules of BB. They follow the obligations of BB. When I was in the practice of auditing as an intern there I observed they check each and every single fact and keep notifying the respective peoples. They don't even allow a silly single mistake. They inform the management immediately for any type of occurrence. They discussed first with the related employee if any error or suspicious fact arise. They try to understand what's the reason behind. They are very careful and strict about any aspect. They don't allow any type of consideration. So I can say the overall performance of audit department are truly praiseworthy.

3.9 SOWT Analysis of OBL

According to the SWOT analysis of Internal Control Department in OBL can give us a clear and compact picture of the circumstance and it will likewise help a considerable measure to abridge the study and its results. Based on the working experience in the bank, the SWOT analysis on Internal Control department of OBL is as follow-

Chapter 4

Findings and Analysis

Findings are from the real life experiences that gained from day to day activities in the audit department. The practical situation have been drawn to taking responsibilities for new tasks that accelerated the learning process in a corporate environment. The corporate environment enables to gain practical experiences, skills and valuable insights from the company.

It was my first time experience working as corporate officer in an office. It was a great deal for me to work there as I didn't know what I have to do or what will be my task there and how I will have to perform in a the office. I kept my strength and confidently I show my ability to work. My supervisor rotated my work. He showed me my work that how to do and discussed details about that, I have worked in audit department. The task in this department was findings the errors of documents, check the vouchers, take actions for the correction, make communication with the other departments where necessary, keep informing my supervisor, checking the excels , prepare statements, match the documents with the database information, match the amounts etc.

4.1 Positive Findings of the Study:

i. OBL has presented risk based audit matrix in banking sector. It helps ICD to find out any misrepresentation in Branch level operation.

ii. OBL is doing their activities professionally. I have noticed it that all employees complete their task professionally and they maintain all the rules and regulation given by the higher authority. They keep all the proof of their work and documents.

iii. Internship is a great opportunity of getting experience for every fresh graduate to enter into a corporate dimension. In OBL, I had experienced how to work under pressure and what is called work load. Almost every day I had to work 10am to 8pm, almost 10hours a day. I think audit department is a place where the most pressure roams around. Once a task started my desire will not allow me to leave that until it finished. I think this a best learning sector for accounting major intern people. The internal audit team has such a great knowledge and experiences in their professional life. So an intern can get great knowledge from them.

iv. When I did a lot of task within a day or an hour or I was able to complete my given task before the time limit or within the time limit they appreciated me a lot, let others to know

how well I performed. Sometimes they gave me treat as well. It work a great motivation for an intern and make more interested about work. The good comments and praised can drive a intern to give his/her best effort on given task.

v. OBL has build up a audit committee to observe the entire internal control systems and compliance. The head of ICD report the audit committee and they properly supervise the whole control system.

vi. Sometimes the auditors visit the branches surprisingly which helps to find out any discrepancy of branch banking from its guidelines.

vii. ICD suggest the management to take actions against those employees and departments which are carelessly disobeying the banking guideline.

4.2 Negative Findings of the study:

i. ICD uses manual techniques at the time of data processing. It doesn't use any technology that keeps up and investigate information properly. The analysis procedure is done through findings the archives, documents and manual computation. They don't have latest and updated framework.

ii. All employees are not ethical. Each single employees has a disappointment about his/her compensation and other facilities. Absence of speed, skill and co-ordination are the main confinement of ICD.

iii. During 3 months of my internship period I have observed that there are some mismanagement in some position. Employee who needs an assistant is not provided and assistant. As a result employee will find him or her in an unsatisfied condition.

iv. The Core Risk Concept is not clear to all employees of the bank. They require more training.

v. The ultimate result of ICD is branch wellbeing. There is no fixed configuration for all branches because of their distinctive management.

Chapter 5

Recommendations & Conclusion

Recommendations:

It is very common to have some good sides and also problematic sides of an organization. As an intern from my little knowledge it is quite difficult to give recommendation such a developing organization. Still from my learning and observation some recommendations are as follows-

i. The management should make a proper rotation plan for the interns.

ii. The supervisors should arrange a meeting after couple of weeks and make plans of the works also gives directions of works and give a feed back about good or bad.

iii. Management should focus on every employees work activity, help them if they were facing any difficulties. They should keep eyes on employees that who has more jobs and who has less. Management should recruit assistant for those employees who used to have work load always.

iv. As Internal Control is a very crucial fact of a bank, proper training and instruction of the employees of all departments and branches are expected to build up.

v. Proper documentation is needed by the branch. So that auditors can prepare authentic report and bring out the true picture of the branch health in front of the management.

vi. OBL should upgrade their computer, software and other resources. It should bring updated facilities, tools, software and devices to speed up the work and to keep everything more accurate.

Conclusion:

ONE Bank Ltd. is a leading financial institution. It already has 95 branches from which it has 59 SME service center. As OBL is growing its banking business it has 6 more proposed branches everywhere throughout the country. OBL is the first bank which brings out the internet banking service in the market. Recently, OBL has improved it business and customer service for which effectively it made a strong position in stock market.

In this report, it has been tried to recognize the current scenario of Internal Control System of OBL. In this study just related facts were considered which are connected to the control and compliance activities performed by ICD. In any strategy of banking system , it is fundamental to maintain the efficient regulatory and internal control system.

OBL is trying to promote its features, and trying to enhance a collaborative working process through which the ICD can carries out its responsibilities more dynamically and without facing any hindrances. However, updating and modernizing any system within a company is now provided the same importance like modernizing it products as well as services and also the whole infrastructure.

Internship is a part of BBA program. After completing of all courses, internship program is assigned by the department in some particular organization to give practical knowledge. Such practical knowledge along with the theoretical knowledge is very much helpful for business students. I have worked under Audit Department. Through this working, I have learnt a great deal about auditing. This going to mark a great value in my future career as I am a student of Accounting major.

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