Section 1
Introduction

1.0 **CENTER FOR COMMUNITY TRANSFORMATION (CCT) GROUP**

1.1 **CCT Vision**

"We hope to see Christ-centered faith communities where Jesus Christ is honored and worshipped and where people live with dignity and sufficiency in accordance with God's plan for a just, humane and caring society."

1.2 **CCT Mission**

"As followers of Jesus Christ, we join the Holy Spirit in God's work of building and transforming communities."

1.3 **CCT Core Values**

1.3.1 Compassion – based on Matthew 14:14 and 1 John 3:16-18

1.3.2 Excellence – based on 1 Corinthians 14:12, 12:31 and Philippians 4:13

1.3.3 Servant hood – based on Mark 10:45 and Philippians 2:5-7

1.3.4 Stewardship – based on Matthew 25:14-30 and Philippians 4:8-9

1.3.5 Integrity – based on Matthew 5:33-37 and Colossians 3:5

1.3.6 Humility – based on John 15:5 and Philippians 2:3-4

1.3.7 Holistic – based on Matthew 22:39 and Genesis 1:26-27

1.4 **Organizational Objectives**

1.4.1 To enable CCT partners to develop right relationship with God, self, family, and community and with the rest of creation,

1.4.2 To provide opportunities for partners to have regular sources of income, achieve economic self-sufficiency and meet their basic needs,

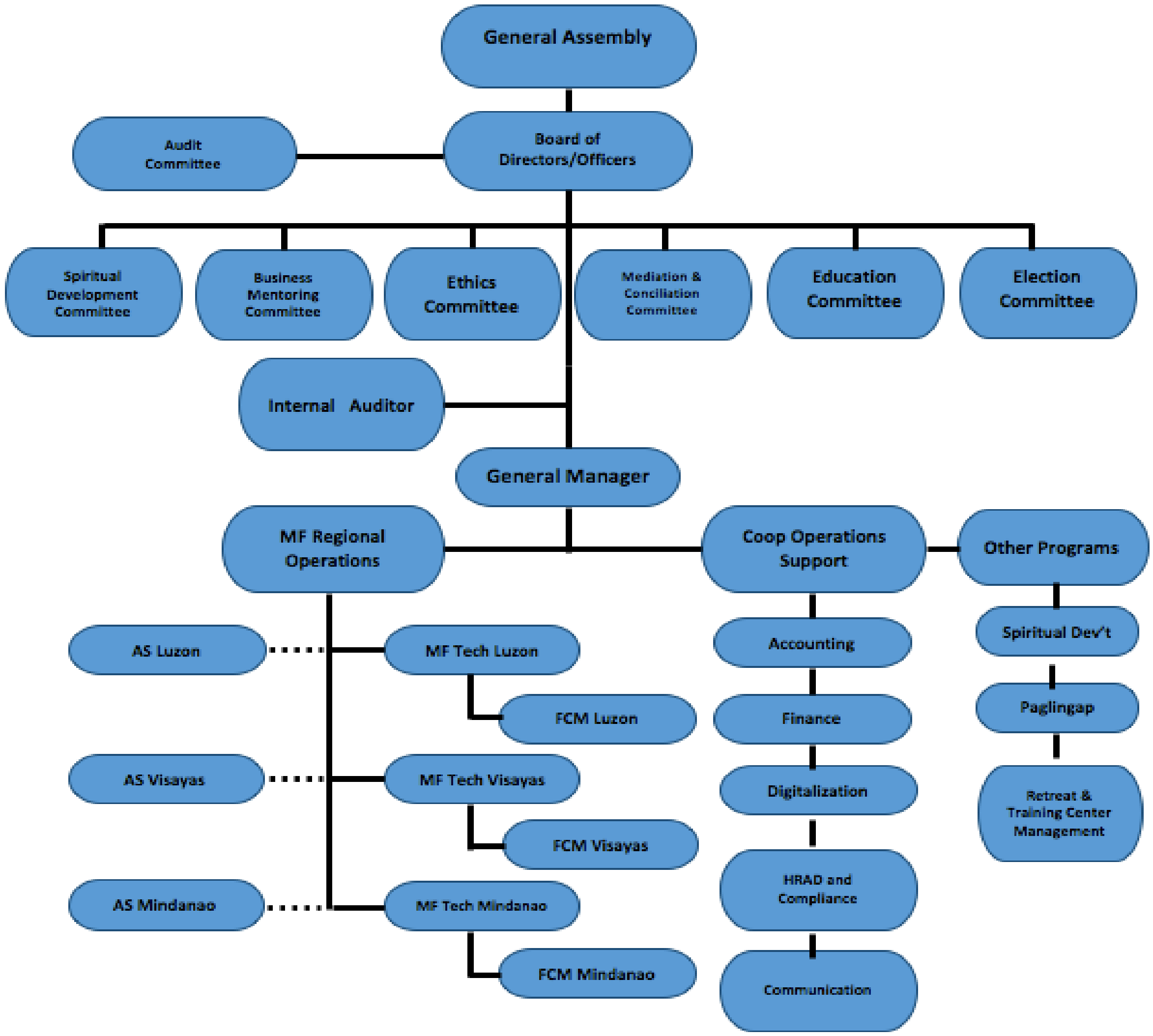
1.4.3 To reduce partners' vulnerability through the provision of basic social services and social security benefits,

1.4.4 To develop servant-leaders who will act as agents of change and transformation in their respective communities, and

1.4.5 To help children at risk in CCT assisted communities develop their potentials as human beings created in the image of God.

www.cct.org.ph 5/F Echelon Tower, 2100 A. Mabini Street, Malate, Manila, 1004, Philippines

1.5 Functional Structure



2.0 CCT MULTIPURPOSE COOPERATIVE

2.1 CCT Multipurpose Cooperative Vision

A sustainable Christ-centered cooperative engaged in wealth creation, community transformation, social justice and nation-building with members experiencing abundant life all for the glory of God.

2.2 CCT Multipurpose Cooperative Mission

As followers of Jesus Christ, we join the Holy Spirit in God's work of transforming lives and communities of the Filipino micro-entrepreneurs.

2.3 CCT Multipurpose Cooperative Goal and Objectives

Goal

Cost-effective and sustainable socio-economic development through community participation, which leads the target clientele towards self-reliance.

Objectives

- To support the target community in producing local income-earning goods and services
- To facilitate alternative income-generating activities at the micro level to improve the economic status of poor men and women and thus to establish the equality between man and woman in the society
- To establish the rights of women at all levels through their involvement in economic activities and to enhance their participation in decision-making process
- To help clients strive towards self-reliance by generating income and savings build-up
- To reduce dependency on local money markets
- To introduce an alternative banking system for the urban/rural poor to ensure easy access to credit
- To reduce dependency on charity and grants at all levels
- Socio-economic development through participation of the marginalized target community

2.4 Background

1. <u>History</u>

The Center for Community Transformation (CCT) was birthed in 1991. CCT's founder and president, Ms. Ruth Callanta, guided by the Holy Spirit, pursued the vision of *"seeing Christ-centered faith communities where Jesus Christ is honored and worshipped and where people live with dignity and sufficiency, in accordance with God's plan for a just, humane and caring society."*

Beginnings in Microfinance

CCT is a Christ-centered, faith-based development organization engaged in helping the poor through a holistic, transformational approach to development anchored on the Lordship of Jesus Christ. CCT was formally registered with the Securities and Exchange Commission as a non-stock, non-profit organization on February 8, 1992.

In 1994, CCT started the Urban Renewal Program in Tondo using microfinance as its main platform. Not long after, CCT expanded its microfinance operations to San Andres, Tatalon and Bacolod. By 1998, CCT realized the need to develop its expertise in microfinance as it pursued the strategic direction of using microfinance as a vehicle for the transformation of its community partners nationwide. At that time, the United Nations Development Programme (UNDP) was implementing the Micro-Start Project in the Philippines. The project was designed to assist microfinance institutions (MFIs) develop their capability in microfinance using the ASA methodology that originated in Bangladesh.

Pilot-testing and Mainstreaming ASA Methodology

CCT participated in the Micro-Start Project and piloted the ASA methodology in Bacolod and Novaliches. From those pilot areas, CCT's microfinance operations improved in terms of an increased outreach and high repayment rate. CCT was able to do well in microfinance without losing its primary identity as a Christian development organization giving equal importance to evangelism of its community partners through regular Bible studies with the fellowship groups.

CCT experienced exponential growth in 2000-2002 as a result of the shift from modified Grameen to the ASA methodology. During this period, other MFIs of the same NGO legal structure as CCT also made their strong presence felt in the microfinance industry, such as CARD, Inc., Tulay sa Pag-unlad, Alalay sa Kaunlaran, and others.

Contemplating the Legal Structure

Because of the rapid growth taking place, these NGO-MFIs expressed active interest in converting their organizational structure into a bank. However, after careful study and prayer, the CCT Board of Trustees decided that it was not within CCT's mandate to be involved in a bank since it was a ministry with the goal of evangelizing and transforming communities to bring them closer to our Lord Jesus Christ.

The CCT Board hired consultants to help them decide on the appropriate structure to adopt. The consultants (including Candelario Versoza, former head of the Cooperative Development Authority, and some financial experts) recommended the credit cooperative. The CCT Board studied the recommendation and got excited by the concept of a cooperative providing not only economic assistance to the community partners but economic empowerment as well since the partners were also co-owners of the enterprise in a cooperative setup.

Thus, in 2003, the Urban Renewal Program was formally registered with the Cooperative Development Authority (CDA) as the CCT Credit Cooperative under the umbrella of the CCT Group of Ministries.

In 2019, the Cooperative decided to expand its business/economic activities and was registered with the CDA as **CCT MULTIPURPOSE COOPERATIVE (CMPC).**

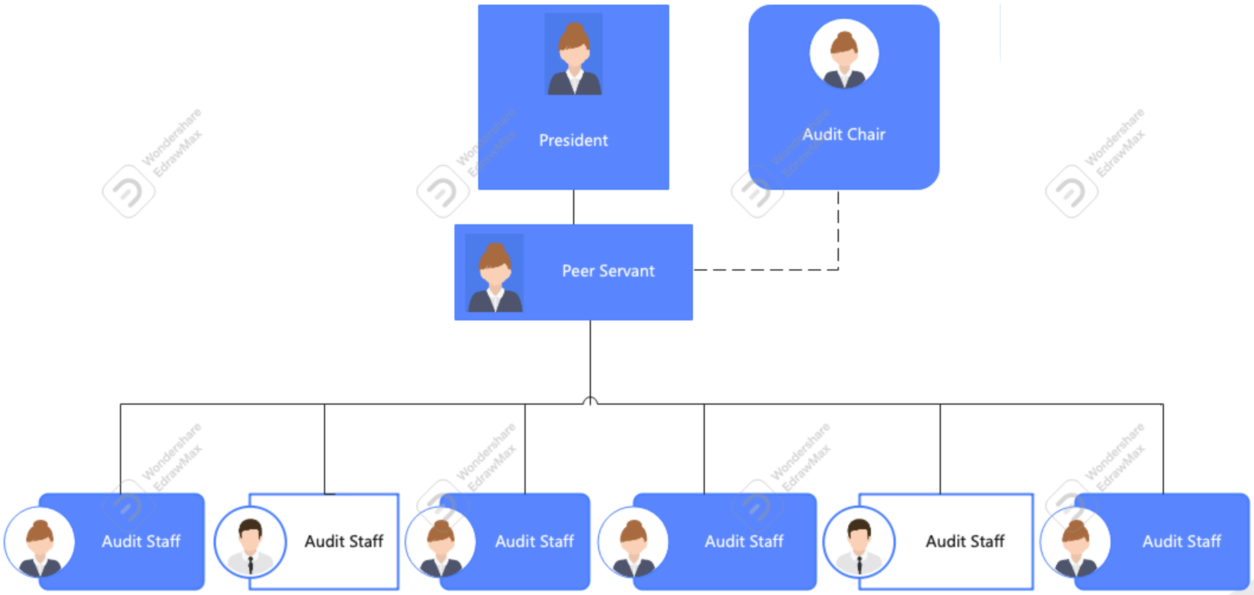
Section 2
Audit Department

1.0 CCT INTERNAL AUDIT

1.1 Definition

The CCT Internal Audit is an independent department reporting directly to the Audit Committee of the Board of Trustees and administratively under the Office of the President off the CCT Group. It conducts independent, objective assurance and consulting activity designed to add value and improve the operations of the CCT Group.

1.2 Functional Structure



2.0 MISSION STATEMENT

To provide independent, objective assurance and advisory services designed to add value and help the organization accomplish its goals by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3.0 OBJECTIVES

3.1 To provide the Audit Committee and Senior Management with an assessment of all risk assessable units in term of risk identification, control section and implementation and compliance to prescribed internal policies and procedures legal and regulatory and accreditation standards requirement.

3.2 To provide the Audit Committee and Senior Management and the managing officers of the implementing agencies or units with an assessment of the risk and control and compliance issues regarding changes in the following areas a result of new product or changes in the over-all objectives or implementation of agreed objectives or major acquisitions or purchases or major contracts:

3.2.1 Table of organization
3.2.2 Levels of approving authority
3.2.3 Process and documentation flow
3.2.4 Reporting requirements
3.2.5 Control points

3.3 To inform the Audit Committee and Senior Management of new laws or regulatory requirements or accreditation and professional standards or revisions thereto and its actual or potential impact to the organization.

3.4 To maintain a group of individuals who will make up the Internal Audit Group who will:

3.4.1 Act in accordance with the highest standards of personal and professional integrity in all aspects of their activities.
3.4.2 Possess sound knowledge of the accounting and auditing principles, internal policies and procedures, products and services and fair knowledge of legal and regulatory and accreditation requirements.
3.4.3 Comply with all laws, rules and regulations; and
3.4.4 Deter wrongdoing and abide with the Code of Ethics of the organization and other policies and procedures that were adopted to govern the conduct of the members of the organization.

4.0 SCOPE OF WORK

4.1 Corporate Governance

4.1.1 Conduct reviews, either as part of the assurance and compliance periodic tests or as part of the review on governance, that will ensure that the organization has clearly defined and written down organizational structure, functions of each business and support unit, levels of authority and responsibility, duties and responsibilities and that changes or revisions thereto were approved by the appropriate approving authority and is properly documented; and
4.1.2 As with the foregoing, either as part of the unit's assurance or compliance review or as part of the review of corporate governance, conduct periodic reviews that will ensure that the organization has clearly defined and written policies and procedures, end-to end process flows, documents, budgets, standards of operations, performance and behavior and periodic and regular reviews and that changes thereto were approved by the appropriate approving authority and are properly documented.
4.1.3 Conduct reviews of the financial reporting process, the systems of internal accounting and financial controls to ensure that the resulting financial reports are accurate, reliable and free from fraud or any misrepresentations.

4.2 **Risk Management and Controls**

4.2.1 Conduct risk reviews with the risk assessable units to ascertain the over-all risk condition of the unit by:

4.2.1.1 Identifying the key risk issues that are inherent to the various business activities and processes of the organization;

4.2.1.2 Determining if such inherent risks are addressed by control processes;

4.2.1.3 Establishing the actual presence or absence of such controls;

4.2.1.4 Ascertaining if the controls that are in place are suitable and adequate to fully address and reduce the possibility that the identified risk issues will occur and lessen the severity of its impact should there be breaches in controls;

4.2.1.5 Recommending, in cases where controls are either not in place or are not adequate to fully address the inherent risks, control processes that are suitable and cost effective; and

4.2.1.6 Ascertaining, on the other hand, in instances where control processes are in place, the level of compliance to the requirements of such processes

4.2.2 Conduct periodic assurance reviews of all the risk assessable units and their respective processes where the primary purpose are as follows:

4.2.2.1 Ascertain whether the control processes are in fact in place and are being implemented to minimize the impact or occurrence of identified risk elements;

4.2.2.2 Ascertain the level compliance to the policies and procedures of the organization;

4.2.2.3 Ascertain if the unit implemented changes to its table of organization, approving authorities and limits, manpower, required documents, review processes, control points and products and establish if such were approved by the proper approving authority prior to the implementation, control measures were instituted, the transaction and documentation flows were chartered and written down and training of the implementing staff was conducted prior to the launch of such changes;

4.2.2.4 Ascertain issues arising from the review and the corrective action plans and target dates for the implementation of such plans; and

4.2.2.5 Ascertain the over-all risk and control level of the unit

4.2.3 Conduct reviews of complaints and incidents involving fraud, violations of the Code of Ethics, losses and such other incidents that the Audit Committee or Senior Management may require to be reviewed.

4.3 **Compliance**

4.3.1 Conduct reviews to ascertain the compliance level of the organization to legal, regulatory, professional, accreditation and internal standards and requirements;

4.3.2 Inform the Audit Committee and Senior Management of new laws or regulations or standards or revisions thereto and its effect on the organization;

4.3.3 Follow-up the operating units concerned regarding the implementation of their corrective action plans and inform the Audit Committee and Senior Management of the status of their implementation; and

4.3.4 Review the implementation of the corrective action plans, and ensure that these were fully and correctly implemented.

5.0 **AUTHORITY**

The Chief Auditor and the members of the Internal Audit Group as designated by the Board of Trustees and/or the Audit Committee are authorized to:

5.1 Have unrestricted access to all departments, offices, processes, records and other documents, properties and employees of the organization that are relevant to the performance of the function of the Internal Audit Group;

5.2 Determine the scope of work and apply the techniques necessary to accomplish the objectives of the group;

5.3 Obtain the necessary assistance of the personnel in the various groups or departments or units in the performance of the audit; and

5.4 Obtain the assistance of subject matter experts from within or outside the organization when it is necessary and subject to the approval of the Audit Committee or the President.

6.0 **RESPONSIBILITY**

6.1 **The Designated Chief Auditor**

6.1.1 Formulate the annual audit plan in accordance with the directives and expectations of the Audit Committee and the recommendations of Senior Management;
6.1.2 Provide the Audit Committee, for its review and approval, upon prior consultation with Senior Management, its key results areas, key performance indicators and performance appraisal for the preceding fiscal year;
6.1.3 Implement the annual audit plan, including, where appropriate or directed, any tasks or projects that were not included in the scheduled reviews, as requested by regulatory authorities, Board of Trustees, Audit Committee or Senior Management;
6.1.4 Maintain a requisite level of professional audit staff with sufficient knowledge, skills, experience and professional qualifications to meet the requirements of the Charter;
6.1.5 Issue audit reports and updates on pending matters in previous audit reports as well as reports on issues on risk, controls, governance, internal policies, and procedures, professional and accreditation standards, financials, compliance on a timely basis to the Audit Committee and Senior Management;
6.1.6 Keep the Audit Committee and Senior Management informed of emerging trends and developments in best practices in risk management, controls and compliance and, when necessary, give recommendations to amend the Audit Charter and the appropriate manuals of operations;
6.1.7 Investigate fraudulent, illegal, unauthorized or unethical activities and notify the Audit Committee and Senior Management of the status of the investigation and the results thereof;
6.1.8 Ensure that the Internal Audit Group complies with sound internal audit standards;
6.1.9 Develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitor its effectiveness. The

program should be designed to ensure that the internal audit activity adds value and improve the organization's operations.

6.2 **The Designated Chief Auditor and members of the Internal Audit Group**

6.2.1 Follow the guidelines and methodology specified in the Audit Charter and plan;

6.2.2 Exercise due professional care in carrying out audit assignments; and

6.2.3 Maintain integrity and objectivity.

The internal audit process, however, does not relieve Senior Management and the Heads of the various units of the organization of their responsibility for the implementation, maintenance and improvement of controls in their respective areas.

7.0 ACCOUNTABILITY

The designated Chief Auditor, in the discharge of his or her duties, shall be accountable to the Audit Committee of the Board of Trustees.

8.0 INDEPENDENCE

8.1 To maintain the independence of the Internal Audit Group, its members shall report to the designated Chief Auditor who shall, in turn, report to the Audit Committee of the Board of Trustees.

8.2 The Internal Audit Group shall be independent of the activities audited. The group must also be independent from the every day internal control process.

8.3 The Internal Audit Group shall undertake its assignments on its own initiative.

8.4 The designated Chief Auditor is authorized to communicate directly, on his or her own initiative, to the members of the Audit Committee of the Board of Trustees, the President of the organization and other members of management.

8.5 The designated Chief Auditor is likewise authorized to discuss with regulatory authorities on issues or matters that have prior approval of the Audit Committee in consultation with Senior Management.

9.0 CONTINUITY AND IMPARTIALITY

9.1 The internal audit function shall be a permanent function

9.2 The Internal Audit Group shall be objective and impartial, in fact and in appearance, in performing its assignment.

9.3 Objectivity and impartiality entails that the Internal Audit Group itself seeks to avoid any conflicts of interest or the appearance that its members are involved in actual activities or relationships where there are potential conflicts of interest. To this end, assignments within the Internal Audit Group shall be rotated periodically, as ratified by the Audit Committee. Internally recruited auditors shall not audit activities or functions they performed in the past 2 years, unless covered by the provisions of the transition period below.

9.4 Impartiality requires that the Internal Audit Group is not involved in the operations of the organization or in selecting or implementing internal control measures. However, the Internal Audit Group may give its comments on issues involving risks, controls, compliance and governance, or as otherwise provided within a limited period of time and scope by the provisions of the transition period below.

10.0 TRANSITION PERIOD

10.1 For a period of no more than two (2) years following the approval of this Charter, the Board of Trustees can designate a period of transition in implementation.

10.2 During this period of transition, the internal audit function may be lodged in an existing executive staff unit. However, the designated staff members and the functional internal audit group shall be separated from the regular functions of the existing staff unit, and made administratively reporting to the President.

10.3 The President and the acting chief auditor shall be responsible for monitoring potential conflicts of interest and in check and balance of internally recruited or designated Internal Audit staff, as well as cross-functioning in implementation of internal control measures or operations by the executive staff unit temporarily housing the internal audit function.

11.0 CODE OF ETHICS

11.1 Integrity

The Internal auditors shall:

11.1.1 Perform their work with honesty, diligence and responsibility;
11.1.2 Observe the law and make disclosures expected by the law and the profession;
11.1.3 Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization;
11.1.4 Respect and contribute to the legitimate and ethical objectives of the organization.

11.2 Objectivity

The Internal auditors shall:

11.2.1 Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization;
11.2.2 Not accept anything that may impair or be presumed to impair their professional judgment;
11.2.3 Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

11.3 **Confidentiality**

The Internal auditors shall:

11.3.1 Be prudent in the use and protection of information acquired in the course of their duties;

11.3.2 Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

11.4 **Competency**

The Internal auditors shall:

11.4.1 Engage only in those services for which they have the necessary knowledge, skills and experience;

11.4.2 Perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing;

11.4.3 Continually improve their proficiency, effectiveness and quality of their services.

12.0 PERSONNEL

12.1 Job Descriptions

12.1.1 Chief Auditor / Peer Servant

12.1.1.1 Basic Function

Under the direction of the Audit Committee/President, the Chief Auditor is responsible for planning, organizing and control of the Internal Audit Group.

12.1.1.2 Duties and Responsibilities

- Provide direction to the Internal Audit Group
- Design policies and strategies with the staff based on the group's activities and performance
- Supervise all activities in the group to endure effective and efficient implementation of assigned task
- Coordinate and establish linkages with the other group particularly the operations and resource/training group
- Participate in the strategic planning and analyzes systems to ensure effective delivery of the program.
- Mentoring and discipleship of Audit Team Leaders
- Special guidance and mentoring of Audit Staff as the need arises

12.1.1.3 Qualifications

- A Certified Public Accountant, preferably
- Christian with good moral character and recommended by a member Church Pastor
- Has at least two (2) years experience as Accounting Officer or Auditing Officer
- Has at least five (5) years work experience in auditing or accounting unit from other reputable company but with thorough knowledge of CCT's Vision, Mission and Vision.

12.1.2 Audit Supervisor

12.1.2.1 Basic Function

Under the direction of the Chief Auditor, the Audit Supervisor is responsible for planning, organizing and control of specific audit engagements.

12.1.2.2 Duties and Responsibilities

- Prepare Audit Plan, budget and Audit Program for each assigned audit engagement
- Supervise Audit Staff during audit fieldwork
- Conduct audit on high risk areas and fraud cases
- Consolidate audit reports
- Ensure timely, relevant and accurate audit reports.
- Assist the Chief Auditor in ensuring good performance of the Internal Audit Group
- Mentoring and discipleship of Audit Staff

12.1.2.3 Qualifications

- Graduate of Bachelor of Science in Accounting
- Christian with good moral character recommended by a Church Pastor
- Has at least one month exposure at CCT branch operations
- Has at least two (2) years work experience in auditing or accounting unit from other reputable company but with thorough knowledge of CCT's Vision, Mission and Vision.

12.1.3 Audit Team Leader

12.1.3.1 Basic Function

Under the direction of the Audit Supervisor, the Audit Team Leader is responsible for planning, organizing and control of specific audit engagements.

12.1.3.2 Duties and Responsibilities

- Prepare Audit Plan, budget and Audit Program for each assigned audit engagement
- Supervise Audit Staff during audit fieldwork
- Conduct audit on high risk areas and fraud cases
- Consolidate audit reports
- Ensure timely, relevant and accurate audit reports.
- Assist the Chief Auditor in ensuring good performance of the Internal Audit Group
- Mentoring and discipleship of Audit Staff

12.1.3.3 Qualifications

- Graduate of Bachelor of Science in Accounting
- Christian with good moral character recommended by a Church Pastor
- Has at least one month exposure at CCT branch operations
- Has at least two (2) years work experience in auditing or accounting unit from other reputable company but with thorough knowledge of CCT's Vision, Mission and Vision.

12.1.4 Audit Staff

12.1.4.1 Basic Function

Under the direction of the Audit Team Leader, the Audit Staff is responsible for conducting audit fieldwork and other clerical task of the Internal Audit Group.

12.1.4.2 Duties and Responsibilities

- Conduct audit fieldwork
- Prepare audit report on the audited section of the branch or unit
- Maintain and ensure safekeeping of audit working papers, pertinent documents and unit supplies
- Perform other functions that may be assigned from time to time

12.1.4.3 Qualifications

- Graduate of Bachelor of Science in Accounting
- Christian with good moral character recommended by a Church Pastor
- Has at leas one week exposure at CCT branch operations

12.2 Performance Evaluation

12.2.1 Performance Evaluation Policy

All Internal Audit full time appointed employees will have an evaluation of their work performance semi-annually. The results of these evaluations will be the primary means for administrative decisions

12.2.2 Performance Evaluation Process

The evaluation process will be a twofold approach. Semi-annual evaluations will cover January 1 to June 30 and July 1 to December 31. These evaluations will be performed in July and January of the succeeding semester respectively. An annual appraisal will be completed by department administration each April.

12.3 Training And Professional Development

12.3.1 One aspect of professional development is obtaining professional certification as a Certified Public Accountant, Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, or Certified Fraud Examiner. Professional certification is a factor used in the department's annual employee performance appraisal.

12.3.2 Professional development through certification, membership, and participation in professional organizations is encouraged. Internal Audit Group funds may be available and budgeted to support this activity.

Section 3
Audit Process

1.0 **PLANNING**

1.1 **Rationale**

The assessment if audit risk is an integral part of our planning process. The audit planning process encompasses all activities related to the development of the internal audit plan and schedule and the determination of the audit scope and objectives, timing, design of detailed procedures, and audit recourse planning for the individual auditable entries. The primary objective of the audit planning process is to design our audit approach to ensure that audits are performed in the most effective and efficient manner. In undertaking this process, we attempt the following:

1.1.1 Define the potential audit in all CCT Credit Cooperative branches nationwide

1.1.2 Define factors to be used in assessing risks

1.1.3 Quantify the potential risk associated with each of the defined audit areas.

1.1.4 Schedule audits and allocate Internal Audit resources according to the priorities established and the current level and expertise of the auditors.

1.2 **Research and Scheduling**

Internal Audit's scheduling process begins with requests for audit services (requests or suggestions coming from several sources). One obvious source is our Internal Audit staff. Our in-depth knowledge of the organization gives us a unique perspective on the types of projects in which we can reduce the organization's risk. Hence, some of our projects originate in our own group or as a result of the annual audit of CCT as a whole.

Several factors influence the selection and scheduling of projects: the degree of risk or exposure to loss; type of audit; current and planned work in other major audit projects requiring substantial time commitments of Internal Audit staff; the availability of staff in auditee units selected for review; and the availability of Internal Audit staff with the appropriate skills.

An analysis will be performed annually in order to quantify risk and schedule audits. This analysis will combine factual information and Internal Audit administration's judgment in the selection, ranking and weighing of the various audit risk factors. It should be emphasized that the final determination as to which areas should be included in the audit plan cannot be based solely on the result of this audit risk assessment. Rather, the performance of the assessment is a tool for use by Internal Audit administration.

1.3 Types of Audits

1.3.1 Operational Audit

This refers to a comprehensive examination of an operating unit or a complete organization to evaluate its performance, as measured by management's objectives. An operational audit focuses on the efficiency, effectiveness, and economy of operations.

1.3.2 Financial Audit

This determines the accuracy and propriety of financial transactions.

1.3.3 Compliance Audit

The objective of this audit is to determine whether, and to what degree, an organization conforms to certain specific requirements of policy, procedures, standards, or laws and governmental regulations. The auditor must know precisely what policies, procedures, standards, etc. are required. Usually, compliance audits require little preliminary survey work or review of internal controls, except to outline precisely what requirements are being audited. The audit focuses almost exclusively upon detailed testing conditions.

1.3.4 Management Audit

The objectives of this audit are the following:

1.3.4.1 To constructively evaluate the level of supervision and over-all relationship between the manager/officers in-charge and staff.

1.3.4.2 To determine if the procedures are sound and appropriate to assure the compliance with the over-all organizational policies.

1.3.4.3 To be able to detect fraud.

1.3.5 Asset Verification

An independent appraisal of CCT Credit Cooperative operations is provided through the verification of accountability, physical safeguards, and valid use of distributed CCT Credit Cooperative assets. This is often performed in conjunction with an audit.

1.3.6 Fraud Investigations

This is conducted to determine existing control weaknesses, assist CCT Risk Management in determining the amount of loss, and assist the unit by recommending corrective measures to prevent subsequent recurrences. Investigation of allegations may also be conducted.

1.3.7 Information Systems Audit

The primary objective of the Information Systems audit function of Internal Audit is to support the internal audit function in the evaluation of the accuracy, effectiveness, and efficiency of the CCT information processing systems which are in production or under development.

1.3.8 Administrative Reviews

Pre-approved programs are used to audit accuracy and propriety of expenditures and payroll transactions. Income will be audited if the amount is material. These reviews may also include asset confirmations. Internal controls for income may also be reviewed if peso amount is material.

1.3.9 Follow-up Review

Follow-up reviews are performed to appraise management of post audit actions and provide assurance that implemented changes adequately resolved audit findings. These reviews also ensure that upper management has been properly notified of the CCT exposure related to unresolved audit findings.

1.3.10 Miscellaneous

1.3.10.1 Consultant Services – Information, encouragement and review will be provided on issues concerning CCT policies, procedures, and internal controls.
1.3.10.2 Computer System Design and Enhancement – Internal Audit actively participates in the development of new systems or enhancements to current systems to promote the design of adequate internal controls prior to implementation and reduce the need for corrective measures at a later date.
1.3.10.3 Other Departmental/Board of Directors Duties – such as organizing the annual retreat, preparing the annual Trustee's report, etc., as assigned by the General Manager.

1.4 Limitation of Audit

No internal control system can however be completely adequate and infallible. There are several reasons for this:

1.4.1 It would be too expensive and impractical to set up controls which can cover all transactions and embrace all possible sources of error and fraud.

1.4.2 Even if controls have been set up, they may not be functioning as expected. Internal controls have to be properly supervised to avoid breakdowns and to ensure their efficient operation.

1.4.3 Internal controls can be rendered ineffective by collusion or connivance among employees.

1.4.4 Top management itself may manipulate the accounting data when reporting to third parties.

1.4.5 In addition to an adequate an effective system of internal control, auditing is necessary.

2.0 AUDIT ASSIGNMENT

The area of operation of CCT is nationwide. Assignment of audit staff per region will be done. One auditor will handle a maximum of 12 branches in the area they are handling.

2.1 Scope

The scope section will define the limitations of the audit/task assignment. The scope will generally include a time period, and what records, processes, funds, transactions, policies, controls, etc. we will be reviewing. Scope limitations that very narrowly restrict audit work should be mentioned in the audit report.

2.2 Objectives

The objectives will explain what the audit is trying to accomplish. Audit objectives will generally include one or more of the following:

2.2.1 Determine the accuracy and propriety of financial transactions

2.2.2 Evaluate financial and operational procedures for adequacy of internal controls and provide advice and guidance on control aspects of new policies, systems, processes, and procedures

2.2.3 Verify the existence of CCT Credit Coop assets and ensure that proper safeguards are maintained to protect them from loss.

2.2.4 Determine the level of compliance with CCT Credit Coop policies and procedures, applicable laws and government regulations.

2.2.5 Evaluate the accuracy, effectiveness, and efficiency of the CCT's electronic information and processing systems.

2.2.6 Determine the effectiveness and efficiency of organizations in accomplishing their mission and identify operational opportunities for cost savings and revenue enhancement.

2.2.7 Provide assistance and a coordinated audit effort with external auditors

2.2.8 Determine if a loss occurred, and if so, the amount of loss and circumstances (control weaknesses) that contributed to it.

2.3 Letter of Authority to Audit

The auditee will be informed of the audit project through a letter of Authority to Audit (See Annex D) from the Chief Auditor. However, Internal Audit will not provide advance notifications for cash counts and fraud investigation. In addition, Internal Audit may not send an announcement letter for requested consulting services.

3.0 PRELIMINARY REVIEW

3.1 Rationale

The objective of the Preliminary Review is to gain sufficient knowledge of the unit being reviewed so the auditor can design an audit program to accomplish the assigned objectives. The review will help the auditor to determine if the assigned objectives are attainable with the allocated resources and what audit procedures should be performed, based on assessed risks and exposures, to achieve the objectives. Following are the phases of Preliminary Review:

3.1.1 Initial Research

3.1.2 Initial Risk Assessment

3.1.3 Evaluation of Internal Control

3.1.4 Planning the Detailed Audit

All phases of Preliminary Review should be completed prior to the preparation of the formal audit program and beginning of the fieldwork.

3.2 Initial Research

Prior to the meeting with the auditee, the assigned auditor(s) will obtain a basic understanding of the operation or system under review. This review will normally include:

3.2.1 Review of Permanent/Continuing Audit File

3.2.2 Review of previous Audit Working Papers, Reports and Management Letters

3.2.3 Review of CCT Credit Coop's financial statements including historical trends

3.2.4 Review of CCT Credit Coop's staffing (personnel listing)

3.2.5 Review of unit/branch equipment listing

3.2.6 Consultations with other Auditor who have been involved in similar audits or are familiar with this unit/branch

3.2.7 Review of unit's focus

3.2.8 Review of CCT Credit Coop's mission statement, organization chart and other information requested in the letter of Authority to Audit

3.2.9 Review and research for applicable laws, regulations, and departmental policies and procedures

3.2.10 Conduct the initial meeting with the branch

3.3 **Initial Risk Assessment**

Risk assessment is important in planning the individual audit. A risk analysis is necessary to provide the auditor a systematic method of determining which aspects of auditee operations can be eliminated from audit testing without compromising audit objectives. Concentration of moderate to high-risk activities will efficiently utilize internal audit resources while maximizing audit coverage. During the Initial Risk Assessment:

3.3.1 The auditor should conduct research to gain an understanding of the environment in which the auditee department operates.

3.3.2 A planning meeting should be held with the auditee to review the basic operations of the department under review.

3.3.3 Based on the background information obtained and the refinement by auditee management, the auditor should develop the audit scope description statement.

3.3.4 The standardized audit program contains general areas in which to include in the audit. The auditor, based on judgment, should assess the risk of each segment of the audit. If the risk is minimal, the standard section should be eliminated from the customized audit program. Documentation is to be provided in the working papers for any area that has been excluded from the audit program.

The Auditor documents the Initial Risk Assessment in the Risk Assessment Table (see Annex D).

3.4 **Review and Evaluation of Internal Control Environment**

The auditor will review the unit's internal control structure and will determine how much reliance can be placed on the entity's controls to protect its assets, assure accurate information, assure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results. In doing this, the auditor uses a variety of tolls and techniques including flowcharts, interviews, data gathering, and analysis. The review of internal controls helps the auditor design tests to be performed in the fieldwork section of the audit.

The evaluation of the system of internal controls should provide reasonable, but not absolute, assurance that the fundamental elements of the system are sufficient to accomplish their intended purpose. The study and evaluation should be adequately documented and properly supported by results of tests, observations, and inquiries. During the evaluation, the auditor should consider the following:

3.4.1 Types of errors and irregularities that could occur

3.4.2 Control procedures to prevent or detect such errors and irregularities.

3.4.3 Whether the procedures have been adopted and are being followed satisfactorily.

3.4.4 Weaknesses that would enable errors and irregularities to pass through existing control procedures.

3.4.5 The effect these weaknesses have on the nature, timing, and extent of auditing procedures to be applied.

3.4.6 Audit methods used to study and evaluate existing internal controls include:

3.4.6.1 Internal Control Questionnaires – guide the auditor to query responsible managers regarding specific or general internal controls. The questionnaires are designed so that a negative response indicated a potential internal control weakness. A negative response will cause the auditor to determine whether compensating controls are in existence which would offset the negative response. We have standardized questionnaires for revenue, custodial funds, expenditures, payroll, capital equipment, and loans receivable.

3.4.6.2 Narratives – describe the system of internal control

3.4.6.3 Flow Charts – visually depicts processes designed or intended for control purposes. Flow-charting provides the auditor with a good understanding of the process being evaluated.

3.4.6.4 Documentation supports the auditor's understanding of the internal controls. Audit working papers provide the support for the conclusions reached by the auditor regarding the study and evaluation of internal controls. Only those internal control functions, which are deemed critical or important to the strength within a particular transaction cycle, should be tested and evaluated. Working papers should be prepared to highlight the internal control attributes within the processes to be evaluated.

3.4.6.5 Tests of compliance are performed to obtain sufficient evidence that the system is operating in accordance with the understanding that the auditor obtained from the review. These are performed for those control procedures or methods upon which the auditor has chosen to rely. Conversely, when the auditor determines that certain controls are not reliable, tests of compliance are not ordinarily performed.

3.4.6.6 The nature, timing, and extent of tests of compliance are closely related to the control procedures and methods studied by the auditor. Additionally, the auditor must consider the availability of evidence and the audit effort required to test compliance. In considering the required audit effort, the auditor assesses whether precluding certain tests of compliance will reduce reliance significantly affects subsequent audit tests and procedures.

3.5 Planning the Detailed Audit

The elements of materiality and relative risk must be considered in performing the audit. The due professional care standards do not imply unlimited responsibility for disclosure of irregularities and other deficiencies. The auditor's principal effort should be in those areas where significant problems or deficiencies may exists, rather than in areas that are relatively unimportant. Time should not be spent examining or developing evidence beyond what is necessary to afford a sound basis for a professional opinion.

The results of the preliminary review should be analyzed to determine the need for a detailed audit and the specific areas to be covered. The detailed audit program should be prepared allocating the project budget time established for the fieldwork to the specific areas to be covered in the audit.

3.6 Permanent/Continuing Audit Files

A permanent file should give the auditor general knowledge about the unit. The information in the file is not expected to change significantly from year-to-year, but it is pertinent to the current year's audit. Prior year's financials would aid the auditor in gathering general knowledge about the unit. A permanent file should only be prepared for continuing audits or for specific critical areas such as information system, payroll, etc…

3.7 Audit Program

3.7.1 Preparation of the audit program concludes the Preliminary Review phase. The audit program outlines the necessary steps to achieve the objectives of the audit within the defined scope as listed on the assignment sheet. The audit program is a detailed plan for the work to be performed during the audit. A well-constructed program is essential to completing the audit project in an efficient manner.

3.7.2 A well-constructed program provides:

- 3.7.2.1 A systematic plan for each phase of the work that can be communicated to all audit personnel concerned.
- 3.7.2.2 A means of self-control for the audit staff assigned
- 3.7.2.3 A means by which the audit supervisor/manager can review and compare performance with approved plans
- 3.7.2.4 Assistance in training inexperienced staff members an acquainting them with the scope, objectives, and work steps of an audit.
- 3.7.2.5 An aid to supervisor/manager making possible a reduction in the amount of direct supervisory effort needed.
- 3.7.2.6 Assistance in familiarizing successive audit staff with the nature of work previously carried out.

3.7.3 The program consists of specific directions for carrying out the assignment. It should contain a statement of the objectives of the operation being reviewed. For each segment of the audit program should:

- 3.7.3.1 List the risks that must be covered in that segment;
- 3.7.3.2 Show for each risk the controls that exists or that are needed to protect against the indicated risk;
- 3.7.3.3 Show for each of the listed controls the work steps required to test the effectiveness of those controls, or set forth the recommendations that will be required to install needed controls; and
- 3.7.3.4 Provide space for referencing the related audit work papers.

3.7.4 Standardized audit programs for regular audit of CCT Coop are provided in Section 4 and should be used or modified to achieve the audit objectives. The auditor includes an estimate of the hours necessary to complete the project. The Audit Supervisor/Team Leader reviews the auditor's work-to-date and then discusses any concerns or proposed program changes.

3.7.5 The audit program should contain a statement of the objectives of the area being reviewed. The statement of objectives in the audit program should correspond with the audit objective stated in the assignment sheet. These objectives should be achieved through the detailed audit program steps.

3.7.6 A well-constructed audit program provides specific, detailed procedures for achieving the audit objectives. Standardized audit programs with specific audit procedures for achieving objectives area available and should be used or modified.

3.7.7 Time Budget

A project time budget provides overall guidelines for the performance of the audit. In addition, it enables the audit manager to control the audit work in process. It is essential that we control our time carefully in order that it may be utilized in the most effective manner possible. The detailed project time budget should be completed at the conclusion of the preliminary review.

Each project will have a time budget that will be approved by the Chief Auditor and Audit Supervisor. This budget will include all time necessary to complete the audit, from assignment through issuance of the final report.

The budget process will be broken down into two phases. A portion of the budget should be allocated for the planning process. This will provide the necessary control over this phase of audit work. Near the completion of the planning process, the remaining budget should be allocated for the rest of the audit and recorded on the Time Budget Summary (see Annex D). For purposes of overall control, the time budget should be broken down into the following general categories:

3.7.7.1 Budget Preparation and Approval
3.7.7.2 Audit Planning
3.7.7.3 Audit Fieldwork
3.7.7.4 Audit Report and Wrap-up
3.7.7.5 Budget Revisions – Any revisions to the project time budget should be discussed with audit administration at the earliest possible time and, when approved by audit administration, documented on the Time Budget Summary.

4.0 FIELDWORK

4.1 Evidential Matter

Evidential matter obtained during the course of the audit provides the documented basis for the auditor's opinions, findings, and recommendations as expressed in the audit report. As internal auditors, we are obligated by our professional standards to act objectively, exercise due professional care, and collect sufficient, competent, relevant, and useful information to provide a sound basis for audit finding and recommendation.

4.2 Audit Sampling

Audit Sampling is performing an audit test on less than 100 percent of a population. In sampling, the auditor accepts risk that some or all errors will not be found and the conclusions (i.e. all transactions were proper an accurate) may be wrong.

Types of sampling are:

4.2.1 Statistical or probability sampling – allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.

4.2.2 Attribute sampling – is used when the auditor has identified the expected frequency or occurrence of an event

4.2.3 Variables sampling – is used when the auditor samples for values in a population which vary item to item

4.2.4 Judgment sampling – is used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical, or necessary to use statistical sampling.

The type of sampling used and the number of items selected should be based on the auditors understanding of the relative risks and exposures of the areas audited. All audit testing will include sampling. The type and sample size will be described in the program and approved by audit administration.

4.3 Stating Findings/Conclusions

Upon the conclusion of the fieldwork, the auditor summarizes the audit findings, conclusions, and recommendations necessary for preparation of the audit report discussion draft. Each audit finding will have documented the following attributes:

4.3.1 Statement of Condition

The condition identifies the nature and extent of the find or unsatisfactory condition. It often answers the question “What is wrong”. Normally, a clear and accurate statement of condition evolves from the auditor’s comparison or results with appropriate evaluation criteria.

4.3.2 Criteria

This attribute establishes the legitimacy of the finding by identifying the evaluation criteria and answers the question “By what standards was it judged?” In financial and compliance audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

4.3.3 Effect

This attribute identifies the real or potential impact of the condition and answers the question "What effect does it have".

The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives (effectiveness), are appropriate measures of effect. These are frequently expressed in quantitative terms; e.g. dollars, number of personnel, units of production, quantities of material, number of transactions, or elapsed time. If the real effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

4.3.4 Cause

This attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question "Why did it happen". If the condition has persisted for a long time or is intensifying, the contributing causes for these characteristics of the condition should also be described.

Identification of the cause of an unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

4.3.5 Recommendations

This final attribute identifies suggested remedial action and answers the question "What should be done". The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. If a relationship exists, the recommended action will most likely be feasible and appropriately directed.

Recommendations in the audit report should state precisely what needs to be changed or fixed. How the change will be made is the auditee's responsibility. More generalized recommendations should not be used in the audit report but are sometimes appropriate in summary reports to direct top management's attention to compliance-type findings disclosed in several areas.

Unless benefits of taking the recommended action are obvious, they should be stated. The cost of implementing and maintaining recommendations should always be compared to risk. Recommendations should be directed to an individual capable of taking action.

4.4 Audit Project Quality Assurance

The purpose of quality assurance is to provide reasonable assurance that audit work performed by the Internal Audit Group conforms with the IIA's Standards for the Professional Practice of Internal Auditing, departmental standards, and where applicable, local auditing standards and guidelines.

Quality Assurance Policy

4.4.1 All working papers will be independently reviewed to ensure there is sufficient evidence to support conclusions, to document the extent of audit work performed, to ensure that all audit objectives have been met, as well as to substantiate compliance with applicable auditing standards.

4.4.2 A detailed review will be conducted by the Chief Auditor for assigned staff's working papers. A less comprehensive review will be conducted by audit administration or an assigned Quality Assurance staff person. If the Chief Auditor is the only staff member assigned to the audit/task then the detailed review will also be performed by department administration or an assigned Quality Assurance staff person.

4.4.3 Initialing (Director/Quality Assurance staff person and the Chief Auditor) working papers and completing the "Quality Assurance Review Form" will serve as documentation of the review process and will be filed with the working papers.

Auditors are encouraged to perform an informal self-review of their working papers. However, this review would be for their own benefit only and therefore this document will not be a part of the working papers.

4.5 Preparation of Audit Working Papers

The ability and skill of the audit staff are reflected in their working papers. During the course of the audit, the auditor should compile sufficient and relevant evidence and information to support the findings reflected in the audit report.

In all instances, the audit staff that performed the audit should be the one to prepare the audit working papers. For due diligence audit, the assistant should prepare the audit working papers, to be checked by the audit officer. For both types of audit, the Chief Auditor should review the audit working papers.

4.5.1 Purposes of Maintaining Audit Working Papers

Audit working papers should be adequately maintained to:
4.5.1.1 Link the audit and audit report
4.5.1.2 Validate the records of the conduit as audited and presented in the audit report
4.5.1.3 Serve as basis for findings, comments and recommendations
4.5.1.4 Serve as reference for future audits, reconstruction of records, etc.
4.5.1.5 Support the audit staff in defending its position in case of law suits

4.5.2 Preparation of Audit Working Papers

4.5.2.1 Care in the preparation of contents – In the audit, the audit staff may be bothered with the contents and scope of their audit working papers. Beginners are inclined to compile more working papers than necessary and may include materials that have no bearing to audit. Although it is better to have an excess of working papers than a lack of it, experience and adherence to all auditing conduit's regulatory principles and standards may determine the number of working papers in every audit. In preparing sufficient audit working papers, they must ask themselves the following:

4.5.2.1.1 Are the data necessary to support any item in the report?
4.5.2.1.2 Are the data necessary to the report?
4.5.2.1.3 Are the data necessary in the event of future investigation?
4.5.2.1.4 Are the data necessary in the verification of the correctness of the records and transactions?
4.5.2.1.5 Will the omission of these data have material consequences?

4.5.2.2 Care in the preparation of form – The working papers must meet certain requirements regarding physical appearance. The working papers must be neat and well-arranged, must withstand erasures so that the documents cannot be tampered, adequately spaced and not crowded, and figures and letters are written legibly.

4.5.2.3 Control of working papers - All audit working papers should be secured properly during and after the audit. They should be preserved and kept in locked cabinets. Well-controlled and coordinated working papers will result in meeting the deadline and submission of the report.

4.5.2.4 Labeling the working papers – Complete set of audit working papers should be signed/initialed and dated by the person performing the work and preparing the working papers. At the upper right hand corners, place the assigned index number/letter of the working papers. Only appropriate audit code or tick marks should be place in the working papers for which the legend is given. In all cases, they must indicate the auditing procedures followed.

4.5.3 Nature of Working Papers

Working papers are the records kept by the independent auditor of the procedures s/he followed, the test s/he performed, the information s/he obtained, and the conclusions s/he reached pertinent to his/her examination. The working papers include work programs, analyses, memoranda, letters of confirmation and representation, abstract of company documents, and schedule of commentaries prepared or obtained by the auditor in the course of his examination.

4.5.4 Uses of Working Papers

4.5.4.1 Basis for preparing audit report – As the auditor conducts examination s/he accumulates information and data needed for preparing his/her formal written report. This information is reduced to writing in the working papers prepared during the audit. Without such written information, the auditor would have difficulty remembering the many points he would want to include in the report, putting them together to form a complete picture of the results of examination, and coming up with a relevant report.

4.5.4.2 Basis for reviewing – Since the Chief Auditor assumes full and final responsibility for the work done and for the audit report, it is necessary for him/her to look in details of the work performed by his/her subordinates, to judge whether a satisfactory examination has been conducted in accordance with auditing standards. This is usually done by reviewing the working papers for the particular engagement and directing question to the team leader/supervisor of the audit. A review of working papers gives the reviewer an idea of the work performed, enables him/her to ascertain whether the audit findings are supported by adequate underlying data, and permits him/her to judge whether or not a satisfactory examination was conducted.

4.5.4.3 Facilitate the audit – Working papers enable the auditor to analyze and organize accounting information so that the audit is facilitated. Furthermore, through working papers, the various phases of the audit work may be coordinated. Audit Staff are assigned to prepare working papers on separate phases of the work. These working papers facilitate subsequent review and coordination of the various phases of the audit work by the Audit Team Leader/Supervisor. Information revealed by one phase of the audit van be appraised in the light of information obtained in another phases because all of such information has been set down in writing when observed.

4.5.5 Complete Set of Working Papers with proper indexing

The working paper should be indexed and cross-indexed during or after the period to facilitate ready reference to any account, analysis or section of the audit without undue waste of time and effort. Cross-indexing compiles the working papers systematically. See Annex D for the standard indexes in branch audit.

4.6 **Ownership, Confidential Nature and Custody of Working Paper**

4.6.1 Ownership

The audit working papers are the property of CCT Credit Cooperative under the Internal Audit Group, not the branch or unit audited.

4.6.2 Confidential Nature

Although the working papers are the property of the auditor, his/her confidential relationship with the auditee does not permit him/her to disclose its contents to anyone without the permission of the CCT management. The auditor should take care that the working papers are not lost or received by unauthorized persons.

4.6.3 Custody of Working Papers

In the course of examination, working papers should be controlled and safeguarded to see that do not fall into the hands of unauthorized persons who may use them to anticipate the auditor's actions, or tamper with them to conceal error or fraud.

After the audit, reasonable procedures for the safe custody of working papers should be adopted, and they should be retained for a period of time sufficient to meet the needs of the auditors, and to satisfy any pertinent legal requirements of records retention.

5.0 REPORTING AND FOLLOW-UP

The most successful audit projects are those in which the auditee and the internal auditors have a constructive working relationship. Our objective is to have the auditee's continuing involvement as well as communication at every stage, so that the auditee understands what we are doing and why we are doing it.

5.1 Audit Report and Transmittal Letter

Our principal output is the audit reports in which we express our opinions about the audit findings and discuss are recommendations for improvements. Therefore, in order for Internal Audit to be effective, our reports must clearly and persuasively convey the results of our audits and convince readers to recognize the validity of the findings and the benefit of implementing any recommendations.

To facilitate communication and ensure that the recommendations presented in the final report are practical, Internal Audit discusses the rough draft with the client prior to the issuance of the final report. The draft report includes a transmittal letter (see Annex D) requesting the auditee's written response to the report findings and recommendations within seven (7) days. The auditee should put in writing the explanation on the audit findings, and the action plan with timetable of implementation. The auditee's response will be incorporated in the final audit report.

Audit reports are printed and distributed to the operating management of the branch or unit, which includes the Project Officer, Area Manager and Senior Manager, the General Manager, the Program Manager, the Accounting Department, and other appropriate members of the senior CCT Management.

5.2 Confidentiality – Reports

Audit reports are primarily for CCT management use. The approval of the General Manager or Audit Committee is required for release to parties outside the CCT Group. The results of the audit are also included in Internal Audit's regular reports to the Audit Committee and Board of Trustees.

5.3 Exit Conference

After the draft report has been approved by Internal Audit administration, the auditor(s) meet with the management team of the branch/unit to discuss the findings, recommendations and text of the draft. At this time, the client comments on the draft report, and any inaccuracies or impractical recommendations are resolved to the extent possible. The agenda of the exit conference shall be based on the sequence of the items in the audit report.

Before the exit conference, all items in the draft reports should have been discussed already with the auditee during the period. Likewise, working papers should already be organized to facilitate retrieval of supporting documents for each finding in the report. As much as possible, the auditor should try to anticipate potential questions and/or conflicts.

The auditee (Project Officer/Unit Head) is expected to provide a written reply to the audit findings as discussed during the exit conference. The written reply should contain the following items that should have been discussed as well in the exit conference:

5.3.1 Explanation on each audit findings
5.3.2 Action plan to address each audit findings
5.3.3 Timetable for the action plan
5.3.4 For branches, the written reply should be reviewed and approved by the Area Manager

5.4 **Closing of the Audit**

The auditor then prepares a draft report, taking into account any revisions resulting from the exit conference and other discussions, and the written reply of the auditee. When the changes have been reviewed by the Audit Manager, the final report is issued.

The finalized report duly approved by the Audit Manager is then printed and distributed to the auditee(s), the supervisor(s) of the auditee, the President and the Head of Operations and Support Units.

5.5 **Input in Board of Trustee Report**

The establishment of a clear reporting structure with the Board of Trustees enhances Internal Audit's independence and strengthens ability to function freely within the organization. It also provides Internal Audit the opportunity to acquaint the Board with any critical audit findings or issues, assessment of operations during the past year, and the department's goals and plans for the subsequent operating years.

The results of all report findings and recommendations, the response from the auditee and the follow-up will be reported quarterly to the Board of Trustees.

5.6 **Audit Feedback Questionnaire**

An audit feedback questionnaire will be sent to the auditee immediately after the release of the audit report. Its purpose is to continuously improve the quality of service to our customers/clients (auditee) by reviewing their feedback and level of satisfaction on our audit work. Returned questionnaires will be summarized monthly and reviewed during regular meeting of the department.

5.7 **Follow-up Review**

Within six (6) months from the issuance of the final report, Internal Audit will perform a follow-up review with the auditee to ascertain if the action plans that the latter committed during the exit conference are carried out within the specified timetable.

The actions taken to resolve the findings are reviewed and may be tested to ensure that the desired results are achieved. In some cases where the auditee chose not to implement the audit recommendation and accepted the risks associated with it, the particular audit finding will be noted as unresolved in the follow-up review.

The follow-up report will contain the summary list of the original audit findings, the actions taken by the auditee to resolve the findings, the unresolved findings, the impact of the unresolved findings on the performance of the branch/unit, the recommendations on unresolved findings, and the response of the auditee.

Section 4 A
Detailed Audit Procedure
FUND MANAGEMENT

1.0 **PURPOSE**

1.1 To provide a document that will guide the auditors in conducting audit of Fund Management in CCT Credit Cooperative Branches.

1.2 To ascertain whether procedures and controls are operating effectively to ensure that:

1.2.1 Cash balances per Cash Book and Trial Balance are equal and are actually on hand or deposited to the bank account of the branch for the period under audit.

1.2.2 All cash that should have been received during the period covered by audit were properly recorded.

1.2.3 All cash disbursements are authorized, legitimate and properly recorded.

1.2.4 Cash accounts are properly presented and classified in the balance sheet.

1.2.5 All Cash in Bank transactions are properly accounted and recorded.

1.3 To ascertain whether the policies of the company regarding fund management are complied with.

2.0 **SCOPE**

2.1 This document covers only audit of Cash on Hand and Cash in Bank transactions and balances under normal conditions that include:

2.1.1 Cash Count

2.1.2 Review of Cash Book

2.1.3 Review of Bank Reconciliation Reports

2.1.4 Review of Weekly Branch Reports

2.1.5 Inventory of Accountable Forms

2.2 A time frame of two and a half (2.5) days is given for an auditor to complete the review of Cash on Hand and Cash in Bank transactions.

3.0 RELATED DOCUMENTS

3.1 Cashier's Transaction Summary

3.2 Cash Book

3.3 Daily Transaction Sheets (DTS)

3.4 Loan Disbursement Master Roll (LDMR)

3.5 Bank Reconciliation Report

3.6 Bank Statements

3.7 Fund Transfer Notice

3.8 Weekly Branch Report (WBR)

3.9 Deposit Slip (DS)

3.10 Cash and Check Vouchers (CV)

3.11 Checks

3.12 Check Register

3.13 Official Receipts (OR)

4.0 POLICIES

Refer to sections 4 and 5 of the Branch Accounting Manual for related policies.

5.0 PROCEDURES

5.1 Risk Assessment

5.1.1 Based on Instafin Trial Balance, analyze the Cash on Hand balance of the branch for the past 12 months and take note of the following risk indicators:

5.1.1.1 Negative Cash on Hand balance

5.1.1.2 High cash holdings with an average of P 10,000 and above

5.1.1.3 Unvarying Cash on Hand balances for at least two consecutive months

5.1.2 Review the Cash in Bank balance of the branch for the past 12 months based on the Instafin Trial Balance and Bank Reconciliation Reports from Support Office Accounting file for the past 6 months. Take note of the following risk indicators:

5.1.2.1 Negative Cash in Bank balance

5.1.2.2 No Bank Reconciliation Report
5.1.2.3 No copy of Bank Statement attached to Bank Reconciliation Report
5.1.2.4 Reconciling items outstanding for more than 3 months

5.1.3 Review the Weekly Branch Reports (WBR) from Support Office Finance for the past 3 months and take note of the following risk indicators:
5.1.3.1 No Weekly Branch Reports
5.1.3.2 No Loan Disbursement Master Roll (LDMR) attached to WBR
5.1.3.3 LDMRs attached to WBR are incomplete

5.2 Cash Count

5.2.1 During the first day of branch visit, the Auditor conducts cash count in front of the CCB-Cashier. The Auditor fills out the cash count sheet.

5.2.2 The Auditor takes note of other non-cash Items such as paid Cash Vouchers that are included in the declared Cash on Hand balance of the branch in the cash count sheet.

5.2.3 After the count, the Auditor asks the CCB-Cashier to sign on the cash count sheet to acknowledge the result of the cash count and the receipt of the cash items from the Auditor.

5.2.4 The Auditor compares the cash per count against the cash reported in the Cash Book of the branch. Any shortage or overage shall be noted in the Cash Count Sheet.

5.2.5 The Auditor checks the Appointment Paper of the CCB Cashier and CCB Bookkeeper, and interviews the branch staff to ensure the following:
5.2.5.1 The CCB that are actually functioning as Cashier and Bookkeeper are those named in the Appointment Paper.
5.2.5.2 There is segregation of duties between the custodian of cash and the one that records the cash transactions.
5.2.5.3 The CCB Cashier has no full access to the branch vault.
5.2.5.4 The cash box is safely kept in the branch vault

5.3 Review of Cash Book

The Auditor reviews the Cash Book of the branch and checks the following:

5.3.1 The Cash Book is updated

5.3.2 Daily fellowship transactions posted in the Cash Book are tallied with the Daily Transaction Sheets (DTS).

5.3.3 All loan releases recorded have corresponding LDMR duly received by the partner.

5.3.4 Other disbursements and receipts have supporting documents and transactions recorded under Other Receipts and Other Payments column have detailed description of the transaction.

5.3.5 The computations of daily and monthly totals are correct. Ending balances are reconciled with beginning balances plus receipts less disbursements.

5.3.6 Declared deposit of cash to bank account have corresponding deposit slip and are reflected in the Cash in Bank Cash Book and Bank Statement

5.4 Review of Cash in Bank

The Auditor reviews the Cash in Bank transactions of the branch and checks the following:

5.4.1 Branch has file copy of WBR and WBRs are prepared correctly.

5.4.2 All checks issued were all logged in the check register and received by the payee.

5.4.3 All check releases are covered with Check Vouchers and Check Vouchers and checks are chronologically /numerically controlled.

5.4.4 All blank checks are held securely and not signed under any circumstances.

5.4.5 Recorded Fund Transfers have corresponding Fund Transfer Notice and are properly recorded in the Branch Accounting Records.

5.5 Review of Bank Reconciliation Reports

The Auditor conducts the following during the review of Bank Reconciliation Reports:

5.5.1 Obtains copies of bank reconciliation for the last three (3) months.

5.5.2 Traces book balances to the Instafin Branch Trial Balance.

5.5.3 Verifies the bank balance to the bank statement

5.5.4 Tests the accuracy of the reconciliation.

5.5.5 Reviews unusual reconciling items and investigates any irregularities or long outstanding items.

5.5.6 Validates current status of deposit in transit and outstanding checks.

5.5.7 Verifies cancelled checks.

5.5.8 Examines bank charges especially those marked as “debit memo” and looks for proper documents that will substantiate the charges.

5.6 Inventory of Accountable Forms

The Auditor conducts inventory of Official Receipts and Checks and ensures the following:

5.6.1 All Official Receipts issued to CCBs are logged out and fully accounted as returned at the end of the day

5.6.2 All used and unused Official Receipts are fully accounted, properly monitored and securely kept

5.6.3 Cancelled Official Receipts are filed with original and triplicate copy intact

6.0 **AUDIT WORKING PAPERS**

6.1 Cash Count Sheet

6.2 Cash Book Proofing Worksheet

6.3 Bank Reconciliation Report Review Worksheet

6.4 Weekly Branch Report Review Worksheet

6.5 Provisional Receipt Inventory Worksheet

6.6 Official Receipt Inventory Worksheet

6.7 Cash Voucher Inventory Worksheet

6.8 Checks Inventory Worksheet

7.0 **COMMON AUDIT FINDINGS**

7.1 Cash on Hand Shortage

7.2 Floating Cash on Hand

7.3 Undeposited Collections

7.4 Unauthorized Check Encashment

7.5 Unaccounted Check Encashment

7.6 Unaccounted Official Receipts

7.7 Unaccounted Checks

7.8 Unauthorized Check Encashment

Section 4B
Detailed Audit Procedures
Fellowship Formation and Loan Processing

1.0 **PURPOSE**

1.1 To provide a document that will guide the auditors in conducting audit of Fellowship Formation in CCT Credit Cooperative Branches.

1.2 To ascertain whether procedures and controls are operating effectively to ensure that:

1.2.1 Partners are qualified to become members

1.2.2 Partners have completed the 3-day Pre-Membership Seminar (PMES)

1.2.3 Loans are granted to qualified borrowers only.

1.2.4 All documents are complete, properly filled up and correct before releasing with signatures of authorized signatories.

1.2.5 Loan releases are recorded timely and accurately.

1.2.6 Correct Background/Credit Investigation is being done

1.3 To ascertain whether the policies of the company regarding Fellowship Formation are complied with.

1.4 To ascertain whether the policies of the company regarding Loan Processing and Disbursement are complied with.

2.0 **SCOPE**

2.1 This document covers only audit of Fellowship Formation and Loan Processing transactions under normal conditions which includes:

2.1.1 Review of Membership of New Partners

2.1.2 Review of Loan Application Forms

2.1.3 Review of Loan Releases

2.2 A time frame of one and a half (1.5) days are given for an auditor to complete the review of Membership of New Partners for the last three (3) months.

2.3 A time frame of one (1) day is given for an auditor to complete the review of Loan Application forms for the last month.

2.4 A time frame of half (0.5) day is given for an auditor to complete the review of LDMR and Recording of Loan Releases for the last three months.

3.0 **RELATED DOCUMENTS**

3.1 Social Security Program Enrollment Form

3.2 Official Receipts for Membership Fee, ID, Passbook and Service Charge

3.3 Preferred Shares Register

3.4 Loan Application Form

3.5 Loan Disbursement Master Roll

3.6 Cash Book

3.7 PA Register

4.0 **POLICIES**

Refer to sections 3 and 7 of the Branch Operations Manual for related policies

5.0 **PROCEDURES**

5.1 Review of Membership of New Partners

5.1.1 The Auditor reviews the Social Security Program Enrollment Forms to ensure the following:
5.1.1.1 All new partners of the branch during the period has duly filled out a Social Security Program Enrollment Form
5.1.1.2 The new partners are within 18 to 58 years of age

5.1.2 The Auditor checks the Daily Transaction Sheets and corresponding Official Receipts to ensure that the new partners have paid Membership Fee, ID and passbook.

5.1.3 The Auditor checks the Preferred Shares Register to ensure that each new partner has subscribed at least one Preferred Share.

5.1.4 Randomly validate at the Fellowship level if the partner:
5.1.4.1 Is of good moral character
5.1.4.2 Have sound physical health to run a viable income generating activity
5.1.4.3 Is a permanent resident in the area (at least one year if the house is owned and at least five years if only renting)
5.1.4.4 Is not suffering from incurable diseases
5.1.4.5 Is not indebted to other Micro-Finance Institution (MFI)

5.1.5 The auditor observes at least one (1) Pre-Membership Seminar (PMES) and one (1) Group Recognition Test (GRT) during the branch visit.

5.1.6 The auditor lists down any exceptions noted and discusses the same with the PO.

5.2 Review of Loan Application Forms

The Auditor reviews the Loan Application Forms (LAF) to ensure the following:

5.2.1 Loan Application Forms are completely and correctly filled out

5.2.2 The following are attached to the LAF:
  5.2.2.1 Community Tax Certificate of the partner
  5.2.2.2 Photocopy of partner's passbook
  5.2.2.3 Photocopy if Company ID of employed co-maker
  5.2.2.4 Barangay Clearance of new partner

5.2.3 LAF has fellowship recommendation

5.2.4 The partner has at least two (2) qualified co-makers

5.2.5 The partner passed the Means Testing

5.2.6 There is only one (1) CCT borrower in the partner's household

5.2.7 Partner's performance in the previous cycle is considered during the credit investigation of re-loans in accordance with existing policies.

5.2.8 The partner has existing business capital before the release of the loan

5.2.9 The partner has at least P 200 Savings Build-Up (SBU) for new members or SBU of at least 20% of the proposed loan for renewals.

5.2.10 Debt Capacity (Cash Flow) Analysis is computed correctly and within the set standards

5.2.11 Based on the Debt Capacity Analysis, the partner has sufficient cash to repay weekly amortization from the income of the business.

5.2.12 The LAF is duly recommended by the CCB and approved by the TS.

5.2.13 Loans above P 20,000 up to P 50,000 are duly approved by the Area Manager

5.2.14 Directors, Officers, Staff and their Related Interests (DOSRI) Loans are duly approved by the Area Manager/Regional Manager.

5.2.15 The approved loan amount and loan increments for re-loans are within the existing policies

5.2.16 Loan Utilization Check (LUC) is conducted by the following within two (2) weeks from the date of loan release:
  5.2.16.1 Covenant Community Builder (CCB) for loans up to P 10,000
  5.2.16.2 Team Servant (TS) for loans above P 10,000 up to P 20,000
  5.2.16.3 Area Servant Leader (ASL) for loans above P 20,000 up to P 50,000

5.3 Review of Loan Releases

5.3.1 The Auditor reviews the LDMR to ensure that:
  5.3.1.1 The LDMR is signed by the CCB and approved by the TS
  5.3.1.2 The amount of loan released per LDMR is equal to the approved loan amount in the LAF

5.3.1.3 The LDMR is signed by the partner as acknowledgment that the partner received the loan proceeds

5.3.2 The Auditor validates the Official Receipt of the Service Charges paid by the partner to ensure that the correct amount is collected from the partner.

5.3.3 The Auditor conducts observation on at least one (1) batch of loan disbursement in the branch office to check if:

5.3.3.1 The branch has enough funds for the loan releases scheduled for the day.
5.3.3.2 The TS conducts Re-Orientation Seminar (ROSE) for partners availing re-loans
5.3.3.3 The TS verifies the identity of the partner by requiring the partner to present his/her ID during loan release
5.3.3.4 The TS posts the loan release in the partner's passbook and asks the partner to sign the LDMR and the LAF

5.3.4 The Auditor checks the CCB Register and Cash Book to verify it the loans released per LDMR are properly recorded.

6.0 AUDIT WORKING PAPERS

6.1 Review of New Members Worksheet

6.2 Loan Application Form Inventory Worksheet

6.3 Review of Loan Releases Worksheet

7.0 COMMON AUDIT FINDINGS

7.1 Partners not eligible to become CCT members particularly those with loans from other MFIs

7.2 Partners not qualified for loan/re-loan

7.3 Loan Application Forms not properly filled out

7.4 Approved loan amount is more than the partner's debt capacity

7.5 Loans released without proper approval (DOSRI loans/loans above P 20,000 up to P 50,000)

7.6 Loan Utilization Check not conducted

7.7 Mis-utilized loans

7.8 Loans released to non-existing partners or Ghost Loans

Section 4C
Detailed Audit Procedures
Fellowship Maintenance and Loan Collections

1.0 **PURPOSE**

1.1 To provide a document that will guide the auditors in conducting Fellowship visits and audit of loan collections during branch audit.

1.2 To ascertain whether procedures and controls are operating effectively to ensure that Fellowship Meetings are properly administered.

1.3 To ascertain whether procedures and controls are operating effectively to ensure that Fellowship transactions are properly monitored, recorded and reported to the branch.

1.4 To ascertain whether procedures and controls are operating effectively to ensure that:

1.4.1 Collections are properly controlled and identified; receipts and payments are promptly and accurately recorded and remitted intact.

1.4.2 All payments are made on the basis of adequate and appropriately approved documentation and are accurately and promptly recorded.

1.4.3 All Care Group and Fellowship Registers are fully accounted on the day they are due and are attached to the Daily Transaction Sheets (DTS) of the branch.

1.4.4 All Care Group and Fellowship Registers are fully supported with Official Receipt and Withdrawals Slips for the net collections as indicated in the registers and the DTS.

1.4.5 All loan collections are properly recorded in the CCB Registers and Cash Book

1.5 To ascertain whether the policies of the company regarding Fellowship Maintenance are complied with.

1.6 To ascertain whether the policies of the company regarding Loan Collections are complied with.

2.0 **SCOPE**

2.1 This document covers only audit of Fellowship Maintenance and Loan Collections under normal conditions which includes:

3.1.1 Fellowship Visit

3.1.2 Review of Partners' Passbooks

3.1.3 Review of Fellowship Registers and Daily Transaction Sheets

3.1.4 Review of Loans Receivable Balances

3.2 A time one (1) day is given for an auditor to visit fellowships of one (1) Community Covenant Builder (CCB) for the day.

3.3 A time frame of three and a half (3.5) days is given for an auditor to complete the review of loan collections documents for the past three (3) months.

3.0 **RELATED DOCUMENTS**

3.1 Passbooks

3.2 Fellowship Register

3.3 Official Receipts

3.4 Withdrawals Slips

3.5 Daily Transaction Sheets (DTS)

3.6 Cash Book

3.7 Instafin Branch Trial Balance

3.8 Loan in Arrears Report

4.0 **POLICIES**

Refer to sections 3 and 7 of the Branch Operations Manual for related policies

5.0 **PROCEDURES**

5.1 Fellowship Visit

The Auditor accompanies the Community Covenant Builder (CCB) to the Fellowship Meeting and takes note if the following are observed during the meeting:

5.1.1 The Fellowship has one Fellowship Coordinator and one Fellowship Secretary duly elected by the Fellowship members.

5.1.2 The meeting is presided by the CCB and assisted by the Coordinator

5.1.3 The Secretary maintains a record of meeting minutes, attendance and Fellowship transactions.

5.1.4 The meeting is held on the same day once a week in a pre-agreed venue that is accessible to both CCB and Fellowship members.

5.1.5 The 6 Ws of Fellowship Meeting

5.1.5.1 Welcome – Greetings, checking of attendance, small group sharing of thanksgiving and prayer requests

5.1.5.2 Worship – Praise and worship songs, opening prayer and recitation of "Panata"

5.1.5.3 Word – The CCB uses the "Banghay Patnubay sa Pangangasiwa ng Fellowship Meeting" (Banghay) in administering the study of God's word

5.1.5.4 Work – Collection and recording, PMES session, updates, planning and discussion, Fellowship agenda, plan of action to resolve past due if any.

5.1.5.5 Wrap up – Recap the major lesson in the Bible study, collection, agreements, reminders and closing prayer.

5.1.5.6 Wiring – A venue for the reconciliation of relationship among Fellowship member.

5.2 Review of Partners' Passbooks

5.2.1 The Auditor checks the passbooks of all partners and takes note of the following:

5.2.1.1 Passbook has running balances for loan, Savings Build-Up (SBU) and Preferred Shares.

5.2.1.2 Passbooks have no erasure. Otherwise, erasures should be signed by the CCB and countersigned by the partner.

5.2.2 The Auditor fills out the passbook balance of the loan on the Passbook Confirmation Schedule and asks the partner to sign as acknowledgement on the correctness of the passbook balance.

5.3 Review of Fellowships and Daily Transaction Sheets

The Auditor establishes cut-off date for the review of the DTS and examines the following on the DTS:

5.3.1 Fellowship Register of all recorded transactions are attached to the DTS

5.3.2 Fellowship Registers have corresponding Official Receipts (ORs) attached.

5.3.3 Fellowship Registers have no erasures. Any alteration done should be signed by the CCB and countersigned by the partner/s.

5.3.4 Fellowship Registers are properly filled out and have complete breakdown of the collections (Loan, SBU & Preferred Shares). Collections from other transactions such as insurance premiums should be noted in the Fellowship Register.

5.3.5 Total amount collected as reflected in the DTS is equal to the amount in the Fellowship Registers less Withdrawal Slips, and the Official Receipt.

5.3.6 Fellowship Register is signed by the Secretary, Coordinator and CCB.

5.3.7 Transactions posted to the Fellowship Register and DTS are also posted in the Instafin. Totals of collection transactions per DTS are equal to those posted in the branch Cash Book.

5.3.8 Any changes in day of Fellowship Meeting as reflected in the Fellowship and Instafin have corresponding Group Meeting Day Change Request Slip duly approved by the Team Servant.

5.4 Review of Loans Receivable Balances

5.4.1 The Auditor checks the month-end report of the branch to check if the total outstanding loan balances between the following reports are equal:
5.4.1.1 Instafin Collections Report
5.4.1.2 Loan in Arrears Report
5.4.1.3 Instafin Branch Trial Balance

5.4.2 If there are discrepancies in loan balances, the Auditor asks the CCB to conduct reconciliation.

5.5 The Auditor lists down any exceptions noted and discuss the same with the TS. The Auditor also conducts additional Fellowship visits to verify major findings from the partners.

6.0 AUDIT WORKING PAPERS

6.1 Fellowship Meeting Observation Checklist

6.2 Passbook Confirmation Schedule

6.3 Fellowship Register and DTS Inventory Worksheet

6.4 Loan Balance Reconciliation Worksheet

6.5 Photocopy of Documents with Major Findings

7.0 COMMON AUDIT FINDINGS

7.1 Un-updated passbooks/posting errors on passbooks

7.2 Passbook balance of loan does not tally with Instafin.

7.3 Fellowship meetings are not conducted or CCB is not attending the meetings.

7.4 6 Ws are not implemented on Fellowship meetings

7.5 Poor attendance rate during Fellowship Meeting

7.6 Fellowship Secretary not maintaining record book.

7.7 Personal borrowings of CCB from partners/loan sharing with partners for personal reasons confirmed during center meeting visits.

7.8 Unfavorable variances per loan balance confirmation

7.9 Un-remitted loan collections

7.10 Juggling of loan collections

7.11 Collections per Fellowship Register not reflected in the DTS, Instafin and/or Cash Book

7.12 Variances in Loan Balances on Month-End Reports

Section 4D
Detailed Audit Procedures
Delinquency Management

1.0 PURPOSE

1.1 To provide a document that will guide the auditors in conducting audit of current delinquent accounts of Coop branches:;

1.2 To identify the causes of delinquencies including policy deviations that led to the deterioration of repayment rates;

1.3 To ascertain whether the branch have exerted all necessary efforts in solving delinquent accounts;

1.4 To ascertain whether the policies and procedures of the company on handling delinquent accounts are complied with.

1.5 To come up with basis for recommendations to improve the controls over delinquent accounts and the quality of loan portfolio

2.0 SCOPE

2.1 This document only covers review of current delinquent accounts that are still in the active records of the branch.

2.2 A time frame of half day is given for an auditor to complete the review and analysis of the Loan in Arrears and Instafin Collections Report of the branch for the past twelve (12) months.

2.3 A time frame of one (1) day is given for an auditor to complete the Fellowship visit, interview with delinquent clients and review of loan application forms, reminder letters and related branch records per Covenant Community Builder (CCB) with meetings scheduled during the day.

3.0 RELATED DOCUMENTS

3.1 Loan Arrears Report

3.2 Instafin Collections Report

3.3 Loan Application Forms

3.4 Reminder Letter

3.5 Demand Letter

4.0 AUDIT PROCEDURES

4.1 Risk Assessment and Sampling Procedures

4.1.1 Before going to the Coop branch, the Auditor secures soft copy of the Loan in Arrears and Instafin Collections Report of the branch for the past twelve (12) months from Support Office Peer Servant

4.1.2 There is high risk in delinquency management if any or all of the following are present:
4.1.2.1 High portfolio at risk
4.1.2.2 High number of partners with past dues
4.1.2.3 High average rate of increase in past dues aged 1 to 30 days
4.1.2.4 High number and amount of over due (matured past due) accounts
4.1.2.5 Low client outreach
4.1.2.6 Low percentage of borrowers against total outreach
4.1.2.7 Low number and amount of loan releases

4.1.3 If there is high risk in delinquency management, the auditor shall schedule visit to Fellowships with highest risks based on the Loan in Arrears and Instafin Collection Report. For regular branch audit, the auditor shall accompany one CCB per day selecting the meeting day with most number of high risk accounts. The auditor may increase the number of Fellowship visits for thorough or special audit.

4.1.4 If the branch has no delinquent accounts, the auditor shall incorporate review of branch delinquency management with regular Fellowship visits.

4.2 Fellowship Visit

On top of the audit procedures for regular Fellowship visits, the auditor shall conduct interview with delinquent partners to check/identify the following:

4.2.1 Date when the partner started incurring past dues

4.2.2 Reason/s for the partner's delinquency
4.2.2.1 Partner not qualified as member per program policies
4.2.2.2 Residence of partner far from the Fellowship
4.2.2.3 Overlapping loans of partner with other NGOs/MFIs/Coop
4.2.2.4 Partner has no business since membership
4.2.2.5 Bankruptcy of partner's business – identify type of business and reason for bankruptcy
4.2.2.6 Loan proceeds not used in business
4.2.2.7 Health problem of the partner

4.2.2.8 Financial difficulty in the family of the partner – identify if due to sickness, spouse laid-off from work, etc…
4.2.2.9 Migration of the borrower
4.2.2.10 Failure of CCB to conduct regular weekly meetings
4.2.2.11 Lack of adequate discussion regarding program policies in the early stages of membership
4.2.2.12 Relationship problem with other members of the Fellowship
4.2.2.13 Relationship problem with the CCB
4.2.2.14 Fraud/Irregularity among Fellowship members
4.2.2.15 Fraud/Irregularity committed by the CCB
4.2.2.16 Co-maker has no capacity to pay
4.2.2.17 Others – specify the details

4.2.3 Actions taken by the Branch

4.2.3.1 Existing policies require the CCB or TS to implement "sit down" starting day one (1) of the delinquency. During "sit down", the CCB goes to the residence of the defaulting partner and stays there until the partner is pressured to pay his/her delinquency. During "sit down", the CCB and/or TS may encourage group "sit down" where the whole group accompanies the CCB for the "sit down" of the defaulting partner, or visit the co-maker.
4.2.3.2 If the partner failed to pay within the first week (days 2 to 4), a verbal warning should have been given to him/her.
4.2.3.3 On the second week of delinquency, the CCB, TS and the members should have followed-up on the defaulting partner. The CCB should have served the 1st written reminder letter signed by the TS to the defaulting partner.
4.2.3.4 On the third week of delinquency, the CCB and the TS should have served the 2nd written reminder letter signed by the Area Servant Leader to the defaulting partner.
4.2.3.5 On the fourth week of delinquency, the CCB and the TS should have served the demand letter signed by the Area Servant Leader to the defaulting partner
4.2.3.6 On the eighth week of delinquency, the branch should have endorsed the defaulting partner to the Support Office Legal Department.
4.2.3.7 If the partner still failed to settle his/her delinquency after the intervention of the Legal Counsel, the branch should have taken legal action against the defaulting partner by filing a case in the Barangay.

4.2.4 Accounts with past due at the Fellowship level but are not reported by the branch.

4.2.5 Action plans of the partner, the Fellowship and the CCB to resolve the delinquency problem.

4.3 Review of Branch Documents and Reports

4.3.1 The auditor secures copy of reminder and demand letters that the branch issued to the delinquent partners

4.3.2 The auditor checks the loan application forms of the delinquent accounts following the audit procedures in loan evaluation to identify if any of the following contributed to the delinquency:

4.3.2.1 Loan disbursed above the maximum loan amount that the partner may avail based on existing policies
4.3.2.2 Re-loan granted even if the partner is not qualified for a re-loan

4.3.2.3 No co-makers or co-makers not resident of the area
4.3.2.4 Loan without Fellowship recommendation
4.3.2.5 Means Testing not conducted
4.3.2.6 Partner did not pass Means Testing
4.3.2.7 No Project Assessment/Credit Investigation conducted
4.3.2.8 Loan disbursed above the debt capacity of the partner
4.3.2.9 No Loan Utilization Check (LUC) conducted
4.3.2.10 No action taken despite identification of loan proceeds not properly utilized during LUC.
4.3.2.11 Others – specify the details
4.3.2.12 Loan disbursement has no proper approval

4.3.3 The auditor checks other related branch documents to validate other findings noted during Fellowship visit particularly those related to fraud.

4.3.4 Analysis of accounts with weekly past dues

The auditor checks the Instafin if there are Fellowships with consistent weekly past dues within the month. The auditor may also detect such delinquencies by checking the Cash Book if the cash balance during month-end is relatively higher than regular daily cash balance.

If weekly past dues are present in the branch, the auditor shall validate the loan application forms of the concerned accounts and if necessary, shall conduct Fellowship visits.

4.3.5 Through interview and review of monitoring reports, the auditor shall ascertain the actions taken by the TS and, if possible, the ASL to address the delinquency problem of the branch.

4.4 The auditor summarizes the audit findings and discusses the same with the TS.

4.5 After finalizing the audit findings on delinquency management, the auditor shall recommend for proper intervention of the branch management, and if necessary, the top management.

5.0 AUDIT WORKING PAPERS

5.1 Loan in Arrears and Instafin Collections Report 12-Month Analysis Worksheet

5.2 Borrower Verification Checklist

5.3 Loan Application Form Review Worksheet

5.4 DTS and Cash Book Analysis Worksheet

Section 4E
Detailed Audit Procedures
Preferred Share Management

1.0 **PURPOSE**

1.1 To provide document that will guide the auditors in conducting audit on Preferred Share and Common Share

1.2 To ascertain that procedures and controls are operating effectively to ensure that:

1.2.1 Preferred Share and Common Share balances in Instafin Branch Trial Balance are reconciled with branch master list of share holders.
1.2.2 All Preferred Share withdrawals and returned are authorized and documented.
1.2.3 All share holders have shares certificate and return to CCT when members were resigned from the Cooperative.
1.2.4 All new share holders name was submitted to Support Office for issuance of PS certificate.

1.3 To ascertain whether the policies of the company regarding Preferred Shares are complied with.

2.0 **SCOPE**

2.1 This document covers the audit on purchases and return of shares of members under normal conditions includes:

2.1.1 Review of Cash Book
2.1.2 Review of Cash Vouchers and returned Preferred Shares certificate
2.1.3 Review of Instafin Branch Trial Balance and Preferred Shares Master List.
2.1.4 Review of Instafin Share purchases and sales (withdrawals and return)

2.2 The auditor is given One and a half days (1.5) to complete the audit on Preferred Share and common share.

3.0 **RELATED DOCUMENTS**

3.1 Cash Book

3.2 Trial Balance

3.3 Fellowship Register

3.4 Instafin Share Ownership reports

3.5 Official Receipts (ORs)

3.6 Cash Vouchers

3.7 Shares Certificate

3.8 Partners Pass book

4.0 **POLICIES**

Refer to Section 4 of Operations Manual for the related policies on Preferred Shares and attached guidelines on Common Share acquisitions

5.0 **PROCEDURES**

5.1 Risk Management

Review the Instafin Branch Trial Balance for the past 12 months. Take note the following indicators:

5.1.1 Big amount on Share sales (withdrawals and return)
5.1.2 Compare Share master list balances and Instafin Branch Trial Balance
5.1.3 Review purchases amount in Instafin Trial Balance are tally with monthly share purchases list of partners
5.1.4 Review list of partners with shares sales (withdrawals and return) are tallied with amount declared in Instafin Branch Trial Balance.

5.2 Review of Instafin Branch Trial Balance for the past 12 months based on the Cash Book Purchases and Sales (withdrawals and return) of Preferred Share and Common Share.

5.2.1 All purchases and sales (withdrawals and return) of Preferred Share and Common Share are properly reported.

5.3 Review of Cash Book

Auditors will review that cash book to check the following:

5.3.1 Cash book is updated.
5.3.2 Cash book entries are tallied with Daily Transaction Sheet.
5.3.3 Daily Fellowship Registers are posted in Daily Transaction Sheet
5.3.4 All transactions posted in Fellowship registers issued an Official Receipts.
5.3.5 Share sales (withdrawals and return) are posted in Share withdrawals column are tallied with Daily Transaction Sheet
5.3.6 Share sales (withdrawals and return) have documents duly signed by members and Share certificate are surrendered to CCT. Auditors will check at least past 3 months transactions.

5.4 Inventory of Share Certificate

5.4.1 Auditors will have an inventory on Shares Certificate surrendered by members and confirm if all members has issued a share certificate on their share purchases.

6.0 **AUDIT WORKING PAPERS**

6.1 Cash Book and Trial Balance review worksheet

6.2 Cash voucher and Cash Book worksheet

6.3 Share certificate inventory form

6.4 Instafin Share Ownership Report worksheet

7.0 **COMMON AUDIT FINDINGS**

7.1 Un remitted Share Purchases

7.2 Un authorized Sales (withdrawals and return) of Share

7.3 No documents as proof of Share sales (withdrawals and return)

7.4 Partners does not have Share Certificates

7.5 Shares certificate are not surrendered to the branch upon termination of membership and withdrawals of shares

7.6 Team Servants does not submit monthly acquisition and cancellation of membership in the Support Office

7.7 Instafin Share Ownership Report are not reconciled in Instafin Branch Trial Balance

Section 4F
Detailed Audit Procedures
Savings Build-Up Management

1.0 **NATURE**

1.1 CCT Credit Cooperative promotes to its clients the value of accumulating SBU. To instill this value, it incorporates in the program the requirement for clients to set aside regularly a certain amount for their SBU.

2.0
3.0 **PURPOSE**

3.1 To provide a document that will guide the auditors in conducting audit of Savings Build-up in CCT Credit Cooperative Branches.

3.2 For auditors to understand and appreciate the nature of SBU to ascertain whether procedures and controls are operating effectively.

3.3 To be able to effectively prevent and detect any inconsistency pertaining to these when conducting an audit in a branch.

4.0 SCOPE

4.1 This document covers only audit of Cash on Hand and Cash in Bank transactions and balances under normal conditions that include:

4.1.1 Cash Count

4.1.2 Review of Cash Book

4.1.3 Review of Bank Reconciliation Reports

4.1.4 Review of Weekly Branch Reports

4.1.5 Inventory of Accountable Forms

4.2 A time frame of two and a half (2.5) days is given for an auditor to complete the review of Cash on Hand and Cash in Bank transactions.

5.0 RELATED DOCUMENTS

5.1 Fellowship Register

5.2 Official Receipt

5.3 Withdrawal Slip

5.4 Passbook

5.5 Withdrawal Register

5.6 Daily Transaction Sheets (DTS)

5.7 Instafin Deposit Report

5.8 Cashbook (Deposit Slip)

5.9 Trial Balance

6.0 POLICIES

Refer to section 5 of the Operations Manual for related policies.

7.0 **PROCEDURES**

7.1 SBU Collection

7.1.1 Based on branch fellowship registers, randomly check the following

7.1.1.1 If transactions were posted in the Instafin and tallies with OR

7.1.1.2 If the total transactions were correctly recorded in DTS, Cashbook and Instafin Branch Trial Balance

7.2 SBU Withdrawals and Return

7.2.1 Randomly review the withdrawals/returns of the branch such as:

6.2.1.1 If the amount withdrawn by the partners were according to company's policies regarding allowable maintaining balance.

6.2.1.2 If the withdrawal were properly authorized

6.2.1.3 Give emphasis on signatures of the clients by matching the specimen with other documents previously signed by the partner such as Loan Application Form.

6.2.1.4 Check if there are withdrawals more than P1,000.00 that were released during Fellowship Meeting/level.

6.2.1.5 Take note of any offsetting transactions that do not have any withdrawal slip and official receipt.

6.2.1.6 The auditor must also check if there are partners with returns but still have outstanding loan balance.

6.2.1.7 Review if the authorization in the withdrawal form were properly signed for withdrawals named to other persons.

7.3 Savings Build-up Interest

7.3.1 Review the summary of branch SBU Interest. Review the branch computations for Interest.

7.3.2 Checked if the SBU Interest were properly recorded in the Instafin.

7.3.3 Randomly checked if the SBU Interest were posted in the passbook during fellowship visit. (Refer to Audit Manual for Fellowship Visit for more details).

8.0 **AUDIT WORKING PAPERS**

8.1 SBU Collections Worksheet

8.2 SBU Withdrawal Worksheet

8.3 SBU Confirmation Worksheet

9.0 **COMMON AUDIT FINDINGS**

9.1 Unauthorized withdrawals

9.2 Unremitted Collections

Section 4G
Detailed Audit Procedures
MBA Management

8.0 **PURPOSE**

8.1 To provide a document that will guide the auditors in conducting audit of MBA Management in CCT Credit Cooperative Branches.

8.2 To ascertain whether procedures and controls are operating effectively to ensure that:

8.2.1 Insurance enrollments are processed based on existing policies.

8.2.2 Amount of premiums collected from each member are based on the amount required in the insurance program.

8.2.3 Premium collections are properly controlled and identified and accurately recorded.

8.3 To ascertain whether the policies of the company regarding MBA Management are complied with.

3.0 SCOPE

3.4 This document covers only audit MBA transactions and balances under normal conditions which includes :

3.4.1 Review of Enrollments
3.4.2 Review of MBA Collections
3.4.3 Review of Insurance Claims

3.5 A time frame of one and a half (1.5) days is given for an auditor to complete the review of MBA transactions.

4.0 RELATED DOCUMENTS

4.1 Insurance Enrollment Form

4.2 Acknowledgement Receipt

4.3 Enrollment Transmittal Form

4.4 Insurance Claim Documents

5.0 POLICIES

Refer to Sections 6 of the Branch Operations Manual for related policies.

6.0 PROCEDURES

6.1 Enrollment

- 6.1.1 From the DTS, review if the recorded premium collections are equal to the actual collections from the Fellowship.
- 6.1.2 Ensure that branch has copy of all enrollment forms
- 6.1.3 Validate the recorded premium collections against enrollment forms.
- 6.1.4 Conduct random checking of enrollment forms to ensure correctness, accuracy and validity of the enrolled principal and dependents.
- 6.1.5 During Fellowship visits, conduct random confirmation of insurance enrollments.
- 6.1.6 Checks recording of premium collections in the Instafin branch Trial Balance to ensure correctness and accuracy.

6.2 Payment of Claims

- 6.2.1 Checks branch file of insurance claims
- 6.2.2 Ensures that insurance claims are processed on time and in accordance to existing policies.
- 6.2.3 Ensures that insurance benefits are paid to qualified dependents and payment made has complete documentation based on existing policies

7.0 AUDIT WORKING PAPERS

7.1 Insurance Enrollment and Remittances Worksheet

7.2 Pending Insurance Claims Worksheet

Section 4H
Detailed Audit Procedures
Fixed Asset

1.0 NATURE

1.1 Fixed Assets represents all tangible assets owned or held under finance lease/hire with an estimated useful life beyond one (1) year, are used in the conduct of the business and not intended for sale in the ordinary course of business.

2.0 PURPOSE

2.1 To provide a document that will guide the auditors in conducting audit of Fixed Assets in CCT Credit Cooperative Branches.

2.2 To ascertain whether procedures and controls are operating effectively to ensure that:

2.2.1 Procurement of the fixed assets is properly done based on company's policies and procedures and limit of authority.

2.2.2 Fixed Assets are properly recorded in the branch books at cost/valuation.

2.2.3 The fixed assets physically exist.

3.0 **SCOPE**

3.1 This document covers only audit of Fixed Assets and valuations under normal conditions that include:

3.1.1 Review of Trial Balance

3.1.2 Review of Lapsing Schedule

3.1.3 Physical Inventory of fixed assets.

3.2 A time frame of half (.5) day is given for an auditor to complete the review of Fixed Assets.

4.0 **RELATED DOCUMENTS**

4.1 Lapsing Schedule

4.2 Head Office and Branch Trial Balance

4.3 Capex (branch budget for fixed assets acquisition)

4.4 Cashbook

4.5 Branch General Ledger

4.6 Documents for Fixed Assets acquisition (disbursements)

4.7 Transfer Notice

5.0 **POLICIES**

Refer to section 5 of the Accounting Manual for related policies.

6.0 PROCEDURES

6.1 Review and compare the Lapsing Schedule versus branch and head office Trial Balance

6.2 Branch maintenance of a complete fixed assets register

6.3 Verify the existence of all major assets and ensure that assets are properly tagged

6.4 Review transactions relevant to additions, disposals or retirement of assets and ensure that company's policies and procedures are complied with such as:

6.4.1 Purchasing decision and authorization level

6.4.2 Payment arrangement is properly approved

6.4.3 Checking the actual purchases vs. budget

6.4.4 Branch procedure on depreciation charges

6.4.5 Branch procedure on assets disposals and retirement

6.4.6 Branch procedures in recording the transactions

6.5 Conduct physical inventory of all assets inside the branch, ensure that all assets has inventory tag for monitoring and also assess the condition and their maintenance. Ensure that the assets are in usable condition and located at company's premises unless expressly stated.

6.6 Check the frequency of physical checks and reconciliation to the register

6.7 Observe if assets are properly positioned and kept.

6.8 Observed branch physical safeguard such as control over unauthorized access and movements of fixed assets

6.9 Where fixed assets are transferred between branches, ensure that proper approval and procedures are complied with.

7.0 AUDIT WORKING PAPERS

7.1 Inventory worksheet

7.2 Schedule of fixed assets

www.cct.org.ph 5/F Echelon Tower, 2100 A. Mabini Street, Malate, Manila, 1004, Philippines

8.0 **COMMON AUDIT FINDINGS**

8.1 Branch assets not properly maintained/placed on unsecured areas.

8.2 Un-located branch assets during inventory

8.3 Unauthorized additions, disposals and retirement of assets

8.4 Assets had no inventory tag.

Section 4I
Detailed Audit Procedures
Branch Expenses

1.0 **NATURE**

1.1 Expenses are gross decreases in assets or gross increases in liabilities that result from those types of earning-directed activities of a cooperative that can change members' equity.

2.0 **PURPOSE**

2.1 To provide a document that will guide the auditors in conducting audit of expenses in CCT Credit Cooperative Branches.

2.2 To ascertain whether procedures and controls are operating effectively to ensure that:

2.2.1 All expenses are properly authorized

2.2.2 Supporting documents are properly approved

3.0 **SCOPE**

3.1 This document covers only audit of Branch Expenses under normal conditions.

3.2 Time frame is based on the extent of auditor's plans to review the branch expenses.

4.0 **RELATED DOCUMENTS**

4.1 Branch Check Voucher

4.2 Monthly bills (Utility and Rental) and other supporting schedule

4.3 Official Receipts

4.4 Cash Disbursements Logbook

4.5 Cashbook

4.6 Instafin Branch Trail Balance

5.0 POLICIES

Refer to section 12 of the Accounting Manual for related policies.

6.0 PROCEDURES

6.1 Checked if the branch expenses were properly authorized and supported.

6.2 Checked if the supporting documents were properly approved and signed according to company's policies and procedures.

6.3 Review branch lease agreement

6.4 Review if the branch expenses were properly recorded in the Cash Disbursements, Cashbook and Instafin Branch Trial Balance

6.5 Review branch average expenses and take note of any significant changes in the expenses.

6.6 If there are significant increase/changes in the average/usual expenses, make inquiry with the Team Servant

6.7 Observe the frequency of Area Servant leaders review of branch expenses.

7.0 AUDIT WORKING PAPERS

7.1 Schedule of review of branch expenses.

8.0 COMMON AUDIT FINDINGS

8.1 Unauthorized expenses

8.2 Fictitious attachments/supporting documents

8.3 Unjust increased of utilities and transportation expenses

Section 4J
Detailed Audit Procedures
Branch Administration

1.0 **PURPOSE**

1.1 To provide a document that will guide the auditors in conducting audit of administrative functions in CCT Credit Cooperative Branches.

1.2 To ascertain whether procedures and controls are operating effectively.

2.0 **SCOPE**

2.1 This document covers only audit of branch administrative functions under normal conditions.

3.0 **RELATED DOCUMENTS**

3.1 Individual Attendance Summary

3.2 Leave Forms

3.3 Fellowship Register

3.4 Official Receipt

3.5 Withdrawals Slip (PS and SBU)

3.6 Cashbook

3.7 Daily Transaction Summary

3.8 Business Permits

3.9 Mayors Permit

3.10 BIR Registration

4.0 **POLICIES**

Refer to section 13 of the Accounting Manual for related policies.

5.0 **PROCEDURES**

5.1 Attendance

5.1.1 Secure from the project officer the branch's attendance logbook/compilation of attendance sheet
5.1.2 Look over the leave forms filed by the employees who availed of the leaves if these were properly filled-out, signed by the employee and approved by the Team Servant.

5.1.3 Compare the branch's attendance logbook and the semi-annual attendance report supported to the HR department for any discrepancies.

5.2 Morning Devotion

5.2.1 Observe if the required morning devotion are being conducted.
5.2.2 Observe how the staffs conduct morning devotion
5.2.3 Ensure that branch use the required daily devotional guide and bible during morning devotion.

5.3 Working Relationships

5.3.1 Observe branch personnel working relationship and establish if working discontentment among branch staff exist.
5.3.2 In case there is, inquired to the staff involved for possible audit findings.
5.3.3 Ensure that all allowance is given to the branch staff such as meals and transportation.
5.3.4 Inquire if branch staff has concern about the management style of the TS and pending claims against the company such as VL/SL conversion and other incentives

5.4 Working Condition

5.4.1 Observe whether the working area is conducive.
5.4.2 Observe if there is proper ventilation inside the branch and staff and clients are satisfied.
5.4.3 Ensure that all branch documents such as FR files are properly filed and maintained

5.5 Re-clustering/Rotation

5.5.1 Inquire with the project officer or the staffs regarding the span of time the staffs are handling their fellowships

5.6 Employee Turn-over

5.6.1 Make inquiries with the project officer regarding the number of employees who are resigning in a year.
5.6.2 Inquire about the reasons of their resignation and take note of the unusual reason.

5.7 Qualifications of branch employees

5.7.1 Ask the staff to fill-out an information sheet
5.7.2 Examine the qualifications of the branch staff, if she/he is qualified with his/her current position and no conflict of interest in handling cluster is present.

5.8 Branch Statutory Requirements

5.8.1 Check if latest BIR Registration and Business Permits are posted in a conspicuous space

6.0 AUDIT WORKING PAPERS

6.1 Information Sheet

7.0 **COMMON AUDIT FINDINGS**

7.1 Some employees do not file leave form when they are on leave

7.2 Variance on the time IN/OUT of branch staff per logbook against semi-monthly report

7.3 Some employees are not participating in the morning devotion

7.4 Complaints about salaries and adjustments

7.5 Reimbursement of transportation

7.6 Staff in-subordination to management

7.7 Working areas are not clean. Some are not well ventilated

7.8 Branch document are not properly filed

7.9 Undue influence of Staff in their area / cluster

7.10 Mismanagement

7.11 Conflict of interest in handling cluster / area

7.12 Staff not qualified for the position

7.13 No latest Business / Mayor's permit.

7.14 No latest BIR registration

7.15 BIR registration and Mayor's permit nit posted in a conspicuous place.

Section 4K
Detailed Audit Procedures
Instafin System

1.0 NATURE

Financial reporting is presenting financial data of a company's position, operating performance, and funds flow for an accounting period. Financial statements together with related information may be contained in various forms for external party use such as in the annual reports. It is basically financial information that companies give about their activities, including how they prepare and show it.

2.0 PURPOSE

To ascertain whether financial and operational reports are prepared in timely, accurately and completely manner.

3.0 SCOPE

This document covers only audit of Branch Financial and Operational Reports:

3.1.1Review of Instafin branch trial balance figures vs. general ledger figures.
3.1.2 Review of GL balances vs. Instafin masterlist reports

4.0 RELATED DOCUMENTS

4.1 Instafin Branch Trial Balance

4.2 General Ledger and Subsidiary Ledger

4.3 Cashbook

4.4 Instafin Collection Loan and Deposit

4.5 Loan in Arrears

4.6 Other schedules

5.0 PROCEDURES

5.1 Review if the Instafin branch trial balance figures were reconciled to general ledger.

5.3 Review if the monthly debits and credits were reconciled to the cashbook.

5.4 Review if the transactions were properly recorded in the appropriate accounts in Instafin BranchTrial Balance and General Ledger.

5.5 Review if the GL balances were reconciled to SL and its supporting schedules.

5.6 Review if the GL balances of Loans, Savings and Shares were reconciled to Instafin

6.0 COMMON AUDIT FINDINGS

6.1 GL Balance not reconciled to SL balance

6.3 No supporting schedules

6.5 Some transactions not posted in appropriate account.

Audit Work Program

Module	Activity	Scope	Man Days	
			Table Audit	Area Audit
Fund Management	Cash Balances	12-month balances	0.25	
	Cash Count	Current on Hand		0.25
	Review of Cash Book	3 months		0.25
	Bank Account/Reconciliation	3 months - latest	0.25	
	WBR	*3 months - latest*		*0.25*
	Accountable Forms	Current on Hand		0.25
Fellowship Formation	PMES Attendance	3 months - latest		0.25
Loan Processing	LDMR	6 months - latest		0.25
	Loan Application Forms	6 mo. + PD Partners		0.50
Fellowship Maintenance	Collection Sheet	3 months - latest		0.50
	Daily Transaction Sheets	3 months - latest		0.50
	Fellowship Visit; Passbooks confirmation	1 CCB per day		1.00
Delinquency Management	System Aging Report	12-month analysis	0.25	
	Fellowship Visit/Past Due Analysis	1 CCB per day		1.00
Preferred Shares Management	P/S Withdrawals & Returns	3 months - latest		0.25
	Shares Certificate Register	3 months - latest		0.25
Savings Build-Up Management	SBU Withdrawals & Returns	3 months - latest		0.50
MBA Management	Collections	3 months - latest		0.25
	Insurance Claims	3 months - latest		0.25
Fixed Assets	Inventory Count & Recording	Current on Hand		0.25
Branch Expenses	Actual vs. Budget	6-month analysis	0.25	
	Review of Documents	6 months		0.50
Branch Administration	Attendance	1 month - latest		0.25
	Statutory Requirements	Current on Hand		0.25
	Branch Security and Housekeeping	Current		0.25
Report Preparation			1.00	
TOTAL			**2.00**	**8.00**

Annex A Definition of Terms

Adequate Controls – Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Approval – Occurs after the fact carries the assumption that some edit or review was performed. It is detective control.

Audit Scope – The activities covered by an internal audit, which may include, when appropriate:

1. Audit Objectives
2. Nature and extent of auditing procedures performed
3. Time period audited
4. Related activities not audited in order to delineate the boundaries of the audit

Auditee – Any individual, unit or activity of the organization that is audited

Auditing – may be defined as the critical and systematic examination or review of accounting reports, documents, records, procedures and controls, for the purpose of determining whether they conform with prescribed criteria, or to enable the expression of an opinion on the proprietary of the financial statements. To audit means to examine or review critically and systematically for the purpose of arriving at sound conclusions regarding accuracy, propriety, reliability, etc.

Audit Tool – is any tangible aid that assists an auditor in the implementation of an audit technique.

Authorization – Implies that the authorizing authority has verified and validated that the activity or transaction conforms with established policies and procedures.

Balancing – is the test of control totals for equality

Cause – The reason for the difference between the expected and actual conditions

Charter – The charter of the internal audit activity is a formal written document that defines the activity's purpose, authority and responsibility. The charter should (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit activities.

Code of Ethics – The purpose of the *Code of Ethics* of The Institute of Internal Auditors (IIA) is to promote an ethical culture in the global profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk, control, and governance. The *Code of Ethics* applies to both individuals and entities that provide internal audit services. The *Code of Ethics* provides principles and rules of conduct in the areas of integrity, objectivity, confidentiality, and competency.

Compensating controls – Are used to "counterbalance" the effects of an internal control weakness.

Compliance – The ability to reasonably ensure conformity and adherence to organization policies, plans, procedures, laws, regulations, and contracts.

Conclusions – The internal auditor's evaluations of the effects of the findings on the activities reviewed. Conclusions usually put the findings in perspective based upon their overall implications. Conclusions are sometimes referred to as opinions.

Condition – The factual evidence which the internal auditor found in the course of the examination.

Conflict of Interest – Any relationship that is or appears to be not in the best interest of the organization.

Control – Any action taken by management, the board, and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment – The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

1. Integrity and ethical values
2. Management's philosophy and operating style
3. Organizational structure
4. Assignment of authority and responsibility
5. Human resource policies and practices
6. Competence of personnel

Cost-Benefit Relationship – Indicates that the potential loss associated with any exposure or risk is weighed against the cost to control it.

Criteria – The standards, measures or expectations used in making an evaluation and/or verification

Corrective Control – This assists in the investigative and correction of causes of exposures that have been detected.

Deficit – A debit balance in retained earnings account resulting from accumulated losses.

Detective Controls – Actions taken to detect or correct undesirable events which have occurred.

Directing – Involves, in addition to accomplishing objectives and planned activities, authorizing and monitoring performance, and documenting these activities to provide additional assurance that systems operate as planned.

Directive Controls – Actions taken to cause or encourage a desirable event to occur.

Economical Performance – Accomplishes objectives and goals at a cost consummate with the risk.

Effect – The risk or exposure the auditee organization and/or others encounter because the condition is not the same as the criteria.

Effective Control – Is present when management directs systems in such a manner as to provide reasonable assurance that the organizations objectives and goals will be achieved.

Efficient Performance – Accomplishes objectives and goals in an accurate and timely fashion with minimal use of resources.

Error – An unintentional misstatement or omission of significant information in a final audit report

External Auditors – refers to those audit professionals who perform independent annual audits of an organization's financial statements

Findings – Pertinent statements of fact. Audit findings emerge by a process of comparing what should be with what is.

Follow-up – A process by which internal auditors determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings including relevant findings made by external auditors.

Fraud – Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or physical force. Frauds are perpetrated by individuals and organizations to obtain money, property, or services, to avoid payment or loss of services, pr to secure personal or business advantage. Frauds are intentional while errors are unintentional.

Goals – Specific objectives of specific systems and may be otherwise referred to as operating or program objectives or goals, operating standards, performance levels, targets, or expected results.

Illegal Acts – Refers to violations of laws and governmental regulations

Independence – Allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit. Independence is achieved through organizational status and objectivity.

Information – data the internal auditor obtains during an audit to provide a sound basis for audit findings and recommendations. Information should be sufficient, competent, relevant and useful.

Internal Auditing – An independent, objective assurance and consulting activity designed to add value and improve and 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 process.

Internal Auditor – is an individual within an organization's internal auditing department who is assigned the responsibility of performing internal auditing functions.

Internal Control – 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 categories:

1. Reliability of financial reporting,
2. Effectiveness and efficiency of operations, and
3. Compliance with applicable laws and regulations

Internal Control System – The collective effort made toward the achievement of organizational objectives. The primary objectives of the internal control system are as follows:

- **C**ompliance with policies and procedures
- **A**ccomplishment of goals and objectives
- **R**eliability and integrity of information
- **E**conomical and efficient use of resources
- **S**afeguarding of assets

Irregularity – The intentional misstatement or omission of significant information in accounting records, financial statements, other reports, documents or records. Irregularities include fraudulent financial reporting which renders financial statements misleading and misappropriation of assets. Irregularities involve:

1. Falsification or alteration of accounting or other records and supporting documents
2. Intentional misapplication of accounting principles
3. Misrepresentation or intentional omission of events, transactions, or other significant information.

Kiting – is another device used to conceal a cash shortage. It occurs when a check is drawn against a first bank and depositing the same check in a second bank to cover or conceal the shortage in the latter bank.

Lapping – This is a practice used for concealing a cash shortage. It consists of misappropriating a collection from one customer and concealing this defalcation by applying a subsequent collection made from another customer (delaying postings).

Management – Those individuals with responsibilities for setting and/or achieving the organization's objectives

Monitoring – Encompasses supervising, observing, and testing activities and appropriately reporting to responsible individuals. Monitoring provides an ongoing verification of progress toward achievement of objectives and goals.

Objectives – The broadest statements of what the organization chooses to accomplish

Objectivity – An unbiased mental attitude that requires internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

Preventive Controls – Actions taken to deter undesirable events from occurring

Professional Skepticism – An attitude that includes a questioning mind and critical assessment of audit evidence. Some examples that demonstrates the application of professional skepticism in response to the auditor's assessment of the risk of material misstatement due to fraud include:

1. Increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions, and
2. Increased recognition of the need to corroborate management explanations or representations concerning material matters, such as further analytical procedures, examination of documentation, or discussion with others within or outside the entity.

Ratio Analysis – expresses the relationship among selected items of financial statement data.

Recommendations – Actions the internal auditor believes necessary to correct existing conditions or improve operations

Risk – The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.

Risk Assessment – The identification and analysis of relevant risks associated

Risk Factors – The criteria used to identify the relative significance of, and likelihood that, conditions and/or events may occur that could adversely affect the organization. Risk factors can be external or internal. External risk factors are outside the organization, usually beyond management's span of control. Internal risk factors are within the company, usually within management's span of control.

Significant – The level of importance or magnitude assigned to an item, event, information, or problem by the Internal Auditor.

Technique – Is an action that the auditor may perform whereas a tool is something tangible that the auditor can use.

Un-appropriated Retained Earnings – This section shows the beginning balance of the retained earnings un-appropriated account, correction of the prior period error, net income or net loss for the period, dividends, transfer to and from the appropriated and inappropriate accounts and the ending balance.

Annex B - Basic Auditing Concepts

1.0 **INTERNAL AUDIT**

Auditing is the critical and systematic examination or review of accounting reports, documents, records, procedures and controls, for the purpose of determining whether they conform with prescribed criteria, or to enable the expression of an opinion on the proprietary of the financial statements.

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. Employees who carry out this function are called internal auditors. During an internal audit, internal auditors will evaluate and monitor a company's risk management, reporting, and control practices and make suggestions for improvement. Internal auditing covers not only an organization's finance function, but all the operations and systems in a firm.

2.0 **INTERNAL CONTROL**

2.1 **Definition**

Internal Control is a process that is affected by an entity's board of directors, management and personnel, designed to provide reasonable assurance regarding achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable rules and regulations

2.2 **Importance of Internal Control**

2.2.1 Helps achieve business objectives
2.2.2 Creates greater awareness due to control failures
2.2.3 Promotes clear lines of accountability
2.2.4 Avoids surprises

2.3 **Elements of Internal Control**

The control environment is the foundation for all other components of internal control. It include the integrity, ethical values and competence of the entity's people as well as the management's philosophy and operating style that influences the control consciousness of its people.

FACTORS CONTRIBUTING TO EFFECTIVENESS

2.3.1 Integrity and Ethical Values – management's awareness of ethical issues inherent in the operation of its business and its action plans; process and control systems promoting compliance with both internal and external regulations

2.3.2 Fraud Prevention and Detection – corporate compliance program specifically prohibiting fraud against the entity, which states the penalties for fraud and requires employees to report fraud
2.3.3 Commitment to Competence – formal or informal job defining tasks that comprise particular jobs; analysis of the knowledge and skills needed to perform jobs are made periodically
2.3.4 Tone at the Top – effective governance by the Board; regular Board meeting; continuous communication by Board and Management
2.3.5 Organizational Structure – the organization's structure is appropriate to the entity's size and activities and key managers' responsibilities are defined and understood
2.3.6 Assignment of Authority and Responsibility – segregation of duties and responsibilities; signing authorities
2.3.7 Human Resources Policies and Practices – sound personnel policies; mandatory vacation policy; rotation of duties, knowledge of the outside activities of the employees

2.4 Risk assessment Control

It is the process of identifying and analyzing relevant risks to achieve the company's objectives. It is a way of forming a basis for determining how the risk should be managed. Business risk is accepted only after careful study and consultation with the board as to level and acceptance of the business risk.

ELEMENTS OF BUSINESS RISKS

- Vulnerability – Inherent weakness
- Hazards – Source of potential harm
- Threats – Potential that hazard will be accidentally or intentionally triggered.

FACTORS CONTRIBUTING TO EFFECTIVENESS
2.4.1 Business objectives are consistent with the organization's vision and mission
2.4.2 There is a process for identifying, assessing and handling risk
2.4.3 There is a process of managing change

2.5 Control Activities and Procedures

These are policies and procedures, which are the actions of people to implement the policies, to help ensure that the management directives identified as necessary to address the risk are carried out. These include authorization, verification, reconciliation, and review of operating performances, security of assets and segregation of duties.

FACTORS CONTRIBUTING TO EFFECTIVENESS
2.5.1 Accounting Policies and Procedures – proper accounting records should be maintained and made available for audit examiners. These should be up to date and contains sufficient details. All vouchers should bear official approval and should be initialed by the person originating and another person checking them.
2.5.2 Manual of Operating Guidelines and Procedures – these are compilation of various policies, guidelines and procedures of the different departments. These serve as a guide for each personnel in the conduct of their daily activities within the organization.
2.5.3 Physical Controls – dual controls; joint custody; number control; housing of assets; multiple copy of forms; fidelity and other indemnity protection

2.5.4 Control Over Information System – The electronic and computerized system should be an effective tool in the generation of information used by the management and staff. These should be for everybody's convenience rather than deterrent in the generation of the required information needed by end users.
2.5.5 Performance Indicators
2.5.6 Control activities integrated with risk assessment

2.6 Information and Communication Controls

Focus on the nature and quality of information needed for effective control, the systems used to develop such information, and reports necessary to communicate effectively. Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

FACTORS CONTRIBUTING TO EFFECTIVENESS
2.6.1 Timely reporting of Financial Operational Performance
2.6.2 Relevant Information Provided to Right People
2.6.3 Information System Linked to Strategy
2.6.4 Communication of Control Responsibility
2.6.5 Openness of Communication Channels (Internal and External)

2.7 Monitoring Controls

Monitoring is a process that assesses quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. The scope and frequency will depend primarily on the assessment of risks and the effectiveness of ongoing procedures.

FACTORS CONTRIBUTING TO EFFECTIVENESS
2.7.1 Ongoing performance monitoring/Performance Evaluation
2.7.2 Communication with external parties
2.7.3 Physical inspection/direct verification with internal and external parties
2.7.4 Reconciliation (Monthly Bank Reconciliation, Loans Receivable Reconciliation, SBU Reconciliation)
2.7.5 Internal and External Auditing

3.0 FRAUD

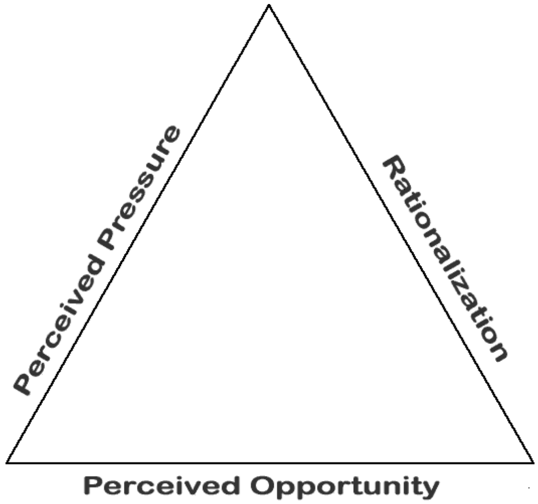
3.1 Definition

In the broadest sense, fraud is defined as a deliberate misrepresentation or deception made for personal gain and causes another person to suffer damages, usually monetary losses. The specific legal definition varies by legal jurisdiction. Fraud is a crime, and is also a civil law violation. It encompasses all the ways in which an individual can take advantage over another individual by false representation. When fraud occurs, our community partners become victims and CCT programs are abused.

3.2 Factors Contributing to Fraud

The elements of fraud are illustrated in the Fraud Triangle. Breaking the Fraud Triangle is the key to fraud deterrence. Breaking the Fraud Triangle implies that an organization must remove one of the elements in the fraud triangle in order to reduce the likelihood of fraudulent activities. Of the three elements, removal of Opportunity is most directly affected by the system of internal controls and generally provides the most actionable route to deterrence of fraud in an organization.

THE FRAUD TRIANGLE



3.2.1 Perceived pressure pertains to the pressure on employees to misappropriate cash or other organizational assets. The pressures to commit fraud are categorized as follows:

- 3.2.1.1 Financial Pressure – greed, living beyond one's means, high bills or personal debt, poor credit, personal financial losses, unexpected financial needs
- 3.2.1.2 Vice Pressure – gambling, addiction to illegal drugs/alcohol, etc…
- 3.2.1.3 Work-Related Pressure – little recognition for job performance, job dissatisfaction, fear of losing job, overlooked for a promotion, feeling under-paid
- 3.2.1.4 Other Pressure – spouse who wants improved lifestyle, challenge to "beat the system"

3.2.2 Perceived opportunity is described as circumstances that allow an employee to carry out the misappropriation of cash or other organizational assets. Most common circumstances are as follows:

- 3.2.2.1 Lack of internal controls
- 3.2.2.2 Ability to circumvent internal controls
- 3.2.2.3 Inability to judge quality of performance
- 3.2.2.4 Lack of access to information
- 3.2.2.5 Failure to discipline fraud perpetrators
- 3.2.2.6 Ignorance, apathy, and incapacity
- 3.2.2.7 Lack of an audit trail

3.2.3 Rationalization is the frame of mind or ethical character that allows employees to intentionally misappropriate cash or other organizational assets and justify their dishonest actions. Common rationalizations on committing fraud are as follows:

3.2.3.1 "The organization owes it to me."
3.2.3.2 "I am only borrowing the money and will pay it back"
3.2.3.3 "Nobody will get hurt"
3.2.3.4 "I deserve more"
3.2.3.5 "It's for a good purpose"
3.2.3.6 "We'll fix the books as soon as we get over this financial difficulty"
3.2.3.7 "Something has to be sacrificed—my integrity or my reputation"

3.3 Types of Fraud

3.3.1 Fraudulent Reporting

There is fraudulent reporting when there is material misstatement on the financial statements of a branch or the whole organization intended to deceive an outside party. Following are the common examples of fraudulent reporting:

3.3.1.1 Concealment of loans receivable past dues in order to get a favorable performance evaluation
3.3.1.2 Overstatement of income in order to attract more investors
3.3.1.3 Understatement of income in order to evade taxes.

3.3.2 Corruption

Corruption is termed as an impairment of integrity, virtue or moral principle. It is an inducement to wrong by improper or unlawful means and a departure from what is pure or correct. Common cases of corruption are as follows:

3.3.2.1 Conflicts of interest – when an employee, manager or executive has an undisclosed economic or personal interest in a transaction that adversely affects the organization.
3.3.2.2 Bribery – the offering of money or other incentives to persuade somebody to do something, especially something dishonest or illegal. Under bribery, the payment is given beforehand to influence approval/purchase. Common example of bribery among business organizations is kickbacks from invoices.
3.3.2.3 Illegal Gratuities – is similar to bribery except payments are made after deals are approved.
3.3.2.4 Economic Extortion – is the flip side of bribery because an employee demands payment from vendor in order to make a decision in vendor's favor.

3.3.3 Asset Misappropriation: Cash

3.3.3.1 Skimming – theft of funds intended for an organization before the funds are recorded in the books. The usual perpetrator is the person handling cash receipts. It includes lapping schemes.

3.3.3.2 Cash Larceny – theft of funds intended for an organization after the funds have been recorded on the books. The perpetrator can be any employee who has access to cash (on hand and in bank). Such scheme is less common and less successful than skimming.

3.3.3.3 Fraudulent Disbursements: Billing Schemes – improper payments to legitimate vendors. Examples of billing schemes are purchasing items for personal use from legitimate vendors, creating duplicate/additional payments to legitimate vendors, and payments to fictitious vendors.

3.3.3.4 Fraudulent Disbursements: Voucher Tampering Schemes – involves some form of alteration to an organization's payment vouchers. Perpetrators are employee with responsibility for, or ability to, record or post payments in the accounting records. Common types of voucher tampering are forgery, alteration of payees and amounts and creation of duplicate or fake vouchers.

3.3.3.5 Fraudulent Disbursements: Payroll Schemes – includes interception of pay for fictitious/ghost employees or terminated employee retained on the payroll system.

3.3.3.6 Fraudulent Disbursements: Employee Expense Reporting Schemes – pertains to receipt of reimbursements for expenses never taken such as airfare and travel expenses.

3.3.4 Asset Misappropriation: Assets Other than Cash

3.3.4.1 Theft of non-cash assets such as office supplies, office equipments, furniture and fixtures.

3.3.4.2 Personal use of an organization's assets

3.3.4.3 Fraudulent billing by vendors

3.3.4.4 Financial Assistance Fraud

3.3.4.5 Deceptive Fundraising Practices

3.4 Implications of Fraud

3.4.1 Loss of company assets.

3.4.2 Additional administrative costs incurred in establishing extent of anomaly, processing the case and restoring the affected accounts.

3.4.3 Loss of clients' trust and confidence that would also result to more drop-outs and difficulty to attract new clients.

3.4.4 Loss of clients' discipline and adherence to program policies particularly in paying their obligations to CCT.

3.4.5 Negative impact to the community due to loss of trust between partners involved in the fraudulent transactions.

3.4.6 Negative impact on relationships between branch staff.

3.4.7 Legal/Regulatory implications against the company

3.5 Fraud Prevention

3.5.1 Creating a culture of honesty

3.5.1.1 Having top management model appropriate behavior

3.5.1.2 Hiring the right kind of employees and providing fraud awareness training.

3.5.1.3 Communicating expectations throughout the organization

3.5.1.4 Creating a positive work environment
3.5.1.5 Developing and maintaining an effective policy for handling fraud once it occurs

3.5.2 Assessing and mitigating the risk of fraud

3.5.2.1 Identifying sources and measuring risks accurately
3.5.2.2 Implementing appropriate internal controls
3.5.2.3 Creating widespread monitoring by employees
3.5.2.4 Having an effective and proactive audit function

3.6 Fraud Detection

3.6.1 Accounting/Recording Anomalies

3.6.1.1 Irregularities in Source Documents
- Photocopied documents
- Missing documents
- Stale items on bank reconciliations
- Common names or addresses of payees
- Increased number reconciling items
- Alterations on documents
- Duplicate payments
- Document sequences that do not make sense
- Questionable handwriting on documents

3.6.1.2 Faulty journal entries
3.6.1.3 Inaccuracies in ledgers/Variances between general and subsidiary ledgers

3.6.2 Internal Control Weaknesses

3.6.2.1 Weaknesses in the design of controls
3.6.2.2 Failures in the application of controls
3.6.2.3 Overriding of controls by supervisors/officers

3.6.3 Analytical anomalies

Investigate further on relationships, procedures, and events that do not make sense.

3.6.3.1 Number or Ratio Analysis
3.6.3.2 Trend Analysis
3.6.3.3 Common-Size Comparisons

3.6.4 Extravagant lifestyle

Auditors, accountants, managers and co-workers must pay attention to the changes in lifestyle of other staff members.

Income ≠ Lifestyle

3.6.5 Unusual behavior

Guilt → Fear → Stress → Behavior Changes

- Insomnia
- Increased use of alcohol
- Unusual irritability
- Unable to relax
- Showing embarrassment around coworkers
- Defensiveness or argumentativeness
- Unusual belligerence in stating opinions
- Increased smoking
- Increased sweating
- Other changes in behavior

3.6.6 Tips and complaints

Tips and complaints are considered as the number one method of detection. Further investigation should always be done on any tip and complaint received from CCT partners, other employees, and other outside parties such as spouses of CCT partners.

Annex C – Formulas and Ratios

1.0 BASIC MICROFINANCE INDICATORS

Outreach and Portfolio Indicators	Formula
Total active outreach	Total number of active partners
10-month Cumulative Recruits	Total number of recruits from January to October
10-month Cumulative Drop-outs	Total number of drop-outs from January to October
Client Turn-over Rate	Total drop-outs / Active partners beginning + Cumulative recruits
Total active borrowers	Total number of active borrowers
Outstanding loan portfolio (P)	Total amount of outstanding loan portfolio - principal only
Total amount of loans disbursed (P)	Total amount of loans disbursed - principal only
Total no. of loans disbursed	Total number of loans disbursed

Portfolio Quality Indicators	Formula
Total Amount of Past Due	Total amount of Past Due
Total No. of Past Due Borrowers	Total number of Past Due borrowers
Total Amount of Portfolio at Risk (P)	Total amount of Portfolio-At-Risk
Portfolio at Risk (%)	Total amount of Portfolio-At-Risk (P)/Outstanding loan portfolio (P)
Write-Off Ratio	Adjusted value of loans written-off / Adjusted loan portfolio
Risk Coverage	Adjusted Impairment Loss Allowance / Portfolio-At-Risk amount

Profitability and Sustainability Indicators	Formula
Gross income	Total revenue from loan portfolio and other income
Operating expenses	Total operating expenses
Impairment losses on loans	Total impairment losses on loans
Total financing costs	Total financing costs
Net Income	Net Income
Operational Self-Sufficiency	Gross Income / Operating Expenses
Financial Self-Sufficiency	Gross Income / (Operating Expenses + Impairment Losses + Financing costs)

Asset & Liability Management Indicators	Formula
Yield on Gross Portfolio	Adjusted financial revenue from Loan Portfolio / Gross Loan Portfolio
Portfolio to Assets	Adjusted Gross Loan Portfolio / Adjusted Total Assets
Debt to Equity Ratio	Adjusted Total Liabilities / Adjusted Total Equity
Liquidity Ratio	Cash and Cash Equivalents / Current Liabilities

Efficiency and Productivity Indicators	Formula
Total no. of branches	Total number of branches

www.cct.org.ph 5/F Echelon Tower, 2100 A. Mabini Street, Malate, Manila, 1004, Philippines

Total no. of loan officers	Total number of loan officers
Average active clients per loan officer	Total Active Outreach / No. of Loan Officers
Average borrowers per loan officer	Total Active Borrowers / No. of Loan Officers
Average loan size	Total Active Borrowers / No. of Loan Officers
Average loan disbursed	Outstanding Loan Portfolio / Total Active Borrowers
Average loan portfolio per loan officer	Outstanding Loan Portfolio / No. of Loan Officers
Operating Expense Ratio	Operating Expenses / Average Loan Portfolio
Cost per peso lent	(Operating Expenses + Impairment Losses + Financing costs) / Total Amount of Loans Disbursed

2.0 COOPERATIVE DEVELOPMENT AUTHORITY P.E.S.O.S. INDICATORS

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
Portfolio Quality (25%)					
Portfolio at Risk	Balance of Loans with one day missed payments / Total Loans Outstanding	Measures the risk of default in the portfolio.	5% or less	• 5% or less • > 5% to 10% • > 10% to 15% • > 15% to 20% • > 20% to 25% • > 25%	15 12 9 6 3 0
Allowance for Probable Losses on Loans		Measures the adequacy of the allowance for expected losses on loans.			
• **APLL (over 12 months past due)**	If total amount of allowance > total outstanding balance of loans over 12 months past due using PAR = 100% If total amount of allowance < total outstanding balance of loans over 12 months past due using PAR then: Total Amount of Allowance / Total Outstanding balance of loans over 12 months past due using PAR		100%	**APLL (100%)** * • 100% • 80% to < 100% • 60% to < 80% • 35% to < 60% • 10% to < 35% • < 10%	 5 4 3 2 1 0

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
• APLL (1 to 12 months past due)	Total Amount of Allowance - Required Amount of Allowance for loans over 12 months past due using PAR / Total Outstanding balance of loans 1 to 12 months past due using PAR		35%	APLL (35%) [3] • 35% • 25% to < 35% • 17% to < 25% • 9% to < 17% • 1% to < 9% • < 1%	 5 4 3 2 1 0
***Efficiency* (20%)**					
Asset Yield	Undivided Net Surplus / Average Total Assets	Measures the ability of the coop's assets to generate income.	At least inflation rate	• At least inflation rate • 1 to 2 percentage points below inflation rate • 3 to 4 percentage points below inflation rate • more than 4 percentage points below inflation rate • 0 or negative asset yield	4 3 2 1
Operational Self-Sufficiency	Interest Income from Loans + Service Fees + Filing Fees + Fines, Penalties, Surcharges / Financing Costs + Admin Costs	Measures the ability of the cooperatives to sustain its operations.	> 100%	• 120% and above • 110% to < 120% • 100% to < 110% • 100% • < 100%	4 3 2 1 0
Rate of Return on Member's Share	Interest on Share Capital / Average Member's Share	Measures the earning power of member's share capital.	Higher than inflation rate	• higher than inflation • inflation rate • 1 to 2 percentage points below inflation rate • more than 2 percentage points below inflation rate • 0 or negative ROR	4 3 2 1 0

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
Loan Portfolio Profitability	Interest Income from Loans + Service Fees + Filing Fees + Fines, Penalties and Surcharges / Average Total Loans Outstanding	Measures how profitable the loan portfolio is.	More than 20%	• 20% and above • 15% to < 20% • 10 to < 15% • 5% to < 10% • < 5% or negative surplus ratio	4 3 2 1 0
Cost per Peso Loan	Financing Costs + (Admin Costs – Members' Benefit Expense) / Average Total Loans Outstanding	Measures efficiency in managing the coop's loan portfolio.	PhP 0.10 per PhP1.00 loan	• 0.10 and below • > 0.10 and 0.15 • > 0.15 to 0.20 • above 0.20	2 1.5 1 0
Administrative Efficiency	Administrative Costs / Average Total Assets	Measures the cost of managing the coop's assets.	3 to 10%	• 10% and below • > 10% to 15% • > 15% to 20% • above 20%	2 1.5 1 0
Stability (30%)					
Solvency	(Assets + Allowances) - (Total Liabilities – Deposits + Past Due Loans + Loans Restructured + Loans Under Litigation) / Deposits + Share Capital	Measures the degree of protection that the coop has for member savings and shares in the event of liquidation of the coop's assets and liabilities.	At least 110%	• 110% and above • 100% to < 110% • 90% to < 100% • 80% to < 90% • 70% to < 80% • below 70%	10 8 6 4 2 0
Liquidity	Liquid Assets - Short Term Payables / Total Deposits	Measures the coop's ability to service its member's deposit on time.	Not less than 15%	• 15% and above • 12% to < 15% • 9% to < 12% • 6% to < 9% • 1% to < 6% • below 1%	10 8 6 4 2 0
Net Institutional Capital	(Reserves + Allowance from Probable Loan Losses) – (Past Due Loans + Loans Under Litigation + Problem Assets) / Total Assets	Measures the level of institutional capital after subtracting the losses.	At least 10%	• 10% and above • 7% to < 10% • 5% to < 7% • 3% to < 5% • 1% to < 3% • below 1%	10 8 6 4 2 0

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
Operations (10%)					
Growth in Membership	Actual Increase in the Number of Members / Target Increase in the Number of Members[a]	Determines the performance of change in membership vis-à-vis target.	Target set in the development plan	• 75% to < 100% of target • 50% to < 75% of target • 25% to < 50% of target • 1% to < 25% of target • status quo • decreasing or without development plan	5 4 3 2 1 0
Trend in External Borrowings	Ending External Borrowings - Beginning External Borrowings / Beginning External Borrowings	Determines the percentage of change in external borrowings.	Decreasing towards zero	• no external borrowings • decreasing compared to previous period • status quo • increasing compared to previous period	5 3 2 0
Structure of Assets (15%)					
Asset Quality	Non-earning Assets / Total Assets	Measures the percentage of total assets that are not producing income.	Not more than 5%	• 5% and below • > 6% to 8% • > 8% to 10% • > 10% to 12% • > 12 to 14% • 14% and above	5 4 3 2 1 0
Asset Structure	Total Deposits / Total Assets	Measures the percentage of total assets financed by deposits.	55 to 65%	• > 55% to 65% • > 45% to 55% > 65% to 70% • > 35% to 44% > 70% to 75% • 35% & below 75% & above	5 3 1 0
	Net Loans Receivables / Total Assets	Measures the percentage of total assets invested in the loan portfolio.	70 to 80%	• > 70% to 80% • > 60% to 70% > 80% to 85% • > 50% to 60% > 85% to 90% • > 40% to 50% > 90% to 95% • 40% and below 95% and above	2 1.5 1 0.5 0
	Total Members' Share Capital / Total Assets	Measures the percentage of total assets financed by members' share capital.	35 to 45%	• > 35% to 45% • > 30% to 35% > 45% to 55% • > 25% to 30% above 55% • below 25%	3 2 1 0

3.0 MICROFINANCE COUNCIL OF THE PHILIPPINES P.E.S.O. INDICATORS

3.1 Portfolio Quality – 40%

INDICATOR	GOALS	FORMULA
Portfolio At Risk	PAR 1 - 5%	Principal Balance of Loans with At Least One Day Missed Payment/Total Principal Loan Balance
Allowance for Probable Loan Losses	Required Reserves:	Total Reserves Provided/Total Reserves Required
Current	1%	
PAR 1 to 30	2%	
PAR 31 to 60 &/or loans rest. Once	20%	
PAR 61 to 90	50%	
PAR > 90 &/or loans rest. Twice	100%	

Portfolio At Risk	Eq. Points	Loan Loss Reserve Ratio	Eq. Points
5% or less	20	100%	20
>5% to 10%	15	70% to <100%	15
>10% to 15%	10	50% to < 70%	10
>15% to 20%	5	30% to <50%	5
Above 20%	0	Below 30%	0

3.2 Efficiency – 30%

INDICATOR	GOALS	FORMULA
Administrative Efficiency	10% & below	Administrative Costs / Average Gross Loan Portfolio
Operational Self-Sufficiency	>=120%	Interst Income from Loans+Service Fees+Filing Fees+Fines, Penalties,Surcharges/Financing Costs+Admin. Costs
Loan Officer Productivity	>= 200 (Group)	Number of Active Borrowers/Number of Account Officers

Administrative Efficiency	Eq. Points	Operational Self-sufficiency	Eq. Points
0% to 10%	10	120% & above	10
>10% to 15%	6	115% to < 120%	8
>15% to 20%	4	110% to <115%	6
Above 20%	0	105% to <110%	4
		100% to <105%	2
		Below 100%	0

Loan Officer Productivity (Group Loans)	Eq. Points	Loan Officer Productivity (Individual Loans)	Eq. Points
300 and above	5	150 and above	5
250 to 299	3	100 to 149	3
200 to 249	1	50 to 99	1
Below 200	0	Below 50	0

NOTE: If MFI is using only one methodology, MFI gets an additional 5 points

3.3 **Sustainability – 15%**

INDICATOR	GOALS	FORMULA
Financial Self-Sufficiency	>=100%	Operating Revenue/Financial Expense+Loan Loss Provision Expense+Adjusted Expenses
Loan Portfolio Profitability	> Inflation Rate	Net Operating Income/Average Net MF Loan Portfolio

Financial Self-sufficiency	Eq. Points
100% & above	10
95% to < 100%	8
90% to <95%	6
85% to <90%	4
80% to <85%	2
Below 80%	0

Loan Portfolio Profitability	Eq. Points
Greater than inflation rate	5
Equal to inflation rate	3
Less than inflation rate	0

3.4 **Outreach – 15%**

INDICATOR	GOALS	FORMULA
Growth in Number of Active MF Clients	Increasing	Ending No. of Active MF Clients - Beginning No. of Active MF Clients/Beginning No. of Active MF Clients
Growth in MF Loan Portfolio	Increasing	Ending MF Loans Outstanding - Beginning MF Loans Outstanding/Beginning MF Loans Outstanding
Depth of Outreach	20% or below	(Total Loans Outstanding /Total Number of Borrowers)/GNP per Capita)

Growth – Outreach/Portfolio	Eq. Points
5% or higher	5
0 to 5%	3
Below 0	0

Depth of Outreach	Eq. Points
<=20	5
>20 – 100	4
>100 – 150	3
>150 – 200	2
>200 – 300	1
>300	0

Annex D – Audit Forms _Draft

I. LETTER OF AUTHORITY TO AUDIT FORMAT:

TO	:	Name of Team Servant
COPY FOR	:	Name of Area Servant Leader
		Name of Regional Peer Servant
FROM	:	Name of Internal Auditor - Peer Servant
SUBJECT	:	**REPORT ON THE REGULAR AUDIT OF _________SATELLITE OFFICE**
DATE	:	February 14, 2015

A routine conformance audit of <Branch Name> is scheduled for the period <dates>. The audit will be conducted by <Name of Auditor/s> and shall cover the following areas:

1. Fund Management
2. Fellowship Formation and Loan Processing
3. Fellowship Maintenance and Loan Collections
4. Delinquency Management
5. Preferred Shares Management
6. Savings Build-Up Management
7. MSF Management
8. Branch Reporting and BAS
9. Fixed Assets
10. Branch Expenses
11. Branch Administration

The objective of this audit is to conduct an analysis of <Branch Name> operations to ensure that existing policies and procedures are complied with and an acceptable level of internal control is maintained. Standard audit procedures will be used including interviews with partners and branch personnel, fellowship visits and a review of financial and operational reports of the branch. A detailed audit plan, including the estimated hours required and names of audit team members and their areas of responsibility will be sent prior to the actual review. Please arrange for access to your branch records and working space for our audit team.

Should you require any further information or clarification, please contact the audit manager <name>, at <number>.

Thank you and God bless!

II. REPORT TRANSMITTAL FORM

TO	:	Name of Team Servant
COPY FOR	:	Name of Area Servant Leader
		Name of Regional Peer Servant
FROM	:	Internal Auditor – Field Operations Internal Auditor
NOTED BY	:	Internal Audit – Peer Servant
SUBJECT	:	**REPORT ON THE REGULAR AUDIT OF _________SATELLITE OFFICE**
DATE	:	February 14, 2015

I am sending a copy of my draft report on the ________________________ Audit conducted in your branch last ____________ to ________________ for your reply and comments. Please send your written response to the audit findings as we have discussed last _________________ in the branch office so we can incorporate them in the final report.

You may write your reply in English, Filipino (Tagalog) or both, whichever is more convenient for you in expressing your thoughts. Please send your written response duly endorsed by your Area Manager on or before _______________. Otherwise, we will release the final report without your comments and explanations on our audit findings and recommendations.

We will provide you with the final copy of the audit report where your comments are already incorporated. Likewise, we will schedule a discussion with you and your Area Manager at a later date to discuss the status of action items previously agreed upon.

May God continue to bless us and may He find us faithful in the ministry He entrusted to us.