

# IRAF: QUESTIONNAIRE FOR SELF-ASSESSMENT

Annexure 7

## QUESTIONNAIRE ON INTERNAL CONTROL GUIDELINES

S #	Particulars	Compliant		Comments
		Yes	No	
1.	Does the organizational structure of the Bank/DFI establish: <ul style="list-style-type: none"><li>• Clear lines of authority and responsibility for monitoring adherence to prescribed policies</li><li>• Timely and accurate financial, operational, and statutory disclosure</li><li>• Adequate set of procedures to safeguard and manage assets</li><li>• System of compliance with applicable laws and regulations?</li></ul>			
2.	Does the internal control system of the bank recognize and continually assess the material risks that could adversely affect the achievement of the bank's goals?			
<b>CONTROL PRINCIPLES</b>				
3.	Do Control activities form an integral part of the daily activities of the Bank/DFI such that it becomes ingrained in their ongoing processes rather than a year-end "fire drill" to satisfy documentation requests from auditors and supervisors?			
4.	Do the internal controls of the bank cover all functions, in general, and the key risk areas (KRA) in particular?			
5.	Does the Bank/DFI divide duties in such a way that no one person has complete control over a key function or activity?			
6.	Does the Bank/DFI keep responsibility for custody of assets separate from the related record keeping?			
7.	Does the Bank/DFI examine and reconcile records regularly to determine that transactions are properly processed, approved and booked?			
8.	Does the Bank/DFI secure physically all equipment, count periodically and compare with amounts shown on control records the inventories, cash and other assets?			
9.	Does the Bank/DFI hire qualified and well-trained employees and supervises them to ensure that control processes function properly?			

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<b>CONTROL ENVIRONMENT</b>			
10.	Does the Board of directors review policies and procedures periodically and ensure their compliance?		
11.	Does the Board of directors determine whether there is an audit and control system in place to periodically test and monitor compliance with internal control policies/procedures and report to the Board instances of noncompliance?		
12.	Does the Board of Directors ensure independence of internal and external auditors?		
13.	Does the Board ensure initiation of appropriate remedial actions to alleviate recurring of errors/mistakes of noncompliance?		
14.	Does the bank possess a Management Information System that provides adequate information to the board and access to bank's records?		
15.	Does the control system provide adequate risk coverage in the form of insurance (risk transfer) or provisioning (contingency fund) for the bank's risk profile?		
<b>INSTITUTING CONTROLS</b>			
16.	Does the bank involve all levels of personnel in the bank from senior management as well as front line personnel for instituting control activities?		
17.	Does the internal control system promote compliance of policies & procedures with all decisions made upon approval and authorization for transactions and activities?		
18.	Does the internal control system assure minimal exceptions to policies and facilitate their timely reporting to the Board and top management, if any?		
19.	Does the internal control system insure timely reconciliation of accounts both on-and off-balance-sheet?		
20.	Does the internal control system insure: <ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Existence of cross-checks</li> <li>• More-than-one-person authorization</li> <li>• Dual controls</li> <li>• Joint custody of keys</li> <li>• Safeguards for access/use of sensitive assets/records</li> <li>• Forced leave policies</li> </ul>		

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21.	Does the Bank/DFI possess such a reporting line within each business and functional area that ensures independence of control function?			
22.	Does the Bank/DFI possess an accountability mechanism for all actions of the personnel in lieu of their responsibilities and authorities?			
23.	Does the Bank/DFI possess a compliance framework which enables the board and senior management to establish compliance with applicable laws & regulations and is based on: <ul style="list-style-type: none"> <li>• Board and senior management knowledge about audit schedules, scopes, and reports</li> <li>• Recording of minutes of management and Board committees</li> <li>• Reporting of payment of any fines or liabilities arising from litigation against the institution or its employees?</li> </ul>			
<b>ACCOUNTING, INFORMATION &amp; COMMUNICATION SYSTEMS</b>				
24.	Does the Bank/DFI possess an adequate accounting system that properly identifies, assembles, analyzes, classifies, records, and reports the institution's transactions in accordance with prescribed formats and international best practices?			
25.	Does the Bank/DFI possess an information system that covers full range of its activities in such a manner that information remains understandable and useful for audit trail?			
26.	Does the Bank/DFI possess an adequate communication system that imparts significant information throughout the institution (from top down & from bottom up and laterally) and provides requisite information to external parties such as regulators, shareholders, and customers?			
27.	Does the Bank/DFI conduct frequent and thorough testing and verification of the accounting, information, and communication systems?			
<b>SELF-ASSESSMENT AND MONITORING</b>				
28.	Does the internal control system facilitate frequent and comprehensive reporting of deviations to the board or board committee and senior management regarding sufficiency of details and timely presentation to allow for resolution and appropriate action?			

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29.	Does the internal control system promote adequate documentation of management responses to audit or other control review findings so that it can be tracked for adequate follow-up?			
30.	Does the Board or board committee or senior management review the qualifications and independence of the personnel evaluating internal controls?			
<b>RESPONSIBILITIES</b>				
<b>Board of Directors</b>				
31.	Did the Board of Directors of the Bank/DFI devise an adequate and effective internal control system and enable the senior management to maintain and monitor performance of the system?			
32.	Does the Board periodically review the internal control system and its significant findings?			
<b>Management</b>				
33.	Does the senior management of the Bank/DFI: <ul style="list-style-type: none"> <li>• Implement strategies and policies as approved by the Board</li> <li>• Develop processes that identify, measure, monitor and control risks incurred by the bank</li> <li>• Maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships</li> </ul>			
<b>Internal Auditor</b>				
34.	Do the Internal auditors evaluate and validate the effectiveness of control system through proper monitoring and present to Audit Committee, on quarterly basis, a report on internal control system and its significant findings?			
<b>External Auditor</b>				
35.	Do the external auditors review control systems for their impact on financial reporting and compliance with relevant policies, procedures, regulations and laws?			
36.	Do the external auditors identify significant weaknesses that exist in the Bank/DFI and report material weaknesses to management and the board/audit committee through an audit report/management letter?			

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<b>Implementation of Internal Controls</b>				
37.	<p>Does the Bank/DFI adhere to the following guidelines while implementing the internal controls:</p> <ul style="list-style-type: none"> <li>• Compare current practices to the internal control system and identify gap</li> <li>• Involve senior management, the audit committee, audit staff and other key players</li> <li>• Assess business environment, organization culture and key players</li> <li>• Decide on implementation strategy</li> <li>• Provide training to everyone involved</li> <li>• Rectification &amp; Improvement?</li> </ul>			
<b>EVALUATION OF INTERNAL CONTROLS</b>				
38.	<p>Does the Bank's/DFI's business lines and internal audit department monitor and periodically evaluate, on continuous basis, key risks associated with the daily activities of the bank?</p>			
<b>PROCESS OF EVALUATION OF INTERNAL CONTROLS</b>				
39.	<p>Does evaluation of internal control include the following:</p> <ul style="list-style-type: none"> <li>• Identifying the internal control objectives relevant to the bank, department, business line, or product</li> <li>• Reviewing pertinent policies, procedures, and documentation</li> <li>• Discussing controls with appropriate levels of bank personnel</li> <li>• Observing the control environment</li> <li>• Testing transactions as appropriate</li> <li>• Sharing findings, concerns, and recommendations with the board of directors and senior management</li> <li>• Determining that the bank has taken timely corrective action on noted deficiencies</li> </ul>			
<b>COMMUNICATION OF WEAKNESSES</b>				
40.	<p>Does the Bank/DFI possess a mechanism that promptly identifies and reports to Management/BOD, in writing, the Internal control deficiencies?</p>			
<b>REPORTING OF INTERNAL CONTROLS</b>				
41.	<p>Does the Bank/DFI annex a 'Statement on Internal Controls' in its annual report?</p>			

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42.	Does the 'Statement on Internal Controls' cover the following: <ul style="list-style-type: none"><li>• Statement of management's responsibilities for establishing and maintaining adequate internal controls and procedures followed by management's evaluation of the effectiveness of the bank's internal controls</li><li>• Board of Directors' endorsement of the management's evaluation</li><li>• Statutory Auditors' attestation to, and report on, Board's endorsement regarding efficacy of company's internal controls, which are relevant to the financial reporting only?</li></ul>			
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Chairman  
Board of Directors