

POWER GRID COMPANY OF BANGLADESH LTD.



Manual for Internal Financial Audit

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Power Grid Company of Bangladesh Ltd. (PGCB)

Manual for Internal Financial Audit

GENERAL

The Audit department is responsible for planning or organizing, directing and controlling the internal audit functions of PGCB covering the regular review of financial, administrative and operating data, the determination to the extent of personnel compliance with the PGCB policies, guidelines, rules and procedures and the evaluation of existing systems and procedures.

SPECIFIC

- * Plans, organizes and directs the regular and systematic review and appraisal of the soundness and adequacy of the financial, administrative and operating systems and procedures of PGCB.
- * Regularly determines personnel compliance with policies, plans, guidelines, rules and procedures established by the company board.
- * Designs and undertakes audit procedures and techniques for determining the extent by which PGCB assets are accounted for and safeguarded from all kinds of losses.
- * Determines from time to time the accuracy of the books of accounts and accounting records of PGCB as well as the reliability of the financial and operating reports.
- * Prepares regular and special reports on audit findings designed to apprise management and enabling them to evaluate and or take actions on the areas audited.
- * Coordinates with all officers in the preparations, review or revisions of financial and operating systems and procedures designed to streamline operations, improve efficiency and strengthen internal control.
- * Directs the fixation of pay of all PGCB officers and staff & undertake regular audit.
- * Provides assistance to all levels of management in the implementation of approved audit report recommendations.
- * Prepares audit objections and follows up for the immediate resolutions.

2. The Overall Program

To obtain the best results desirable for an examination, proper planning of the audit is essential. The audit department should plan the activities of the audit department by preparing at the beginning of each financial year a schedule of the examination to be done during the year. This schedule shows the different plant, sub-stations and offices to be examined, the scope of work to be done, the date (s) of examination, duration of examination and the staff assigned to each plant, sub-station or office. The importance of this schedule is that it gives an overall view of the work to be done designates priority of audit assignments; and shows how the audit work is distributed among the staff.

In the preparation of the schedule described above, various constraints should be taken into consideration. Some of these are;

1. Availability of competent staff members to do field work.
2. Expense budget of the department.
3. Proper timing of the audit. The workload and peak periods of the plant or responsibility center to be audited should be considered so that there will be minimum interruption of the work of the office being audited.

The internal audit schedule should be flexible and must provide allowances for the extension of the audit engagement due to unavoidable circumstances. This schedule must be approved by the Managing Director before it is implemented. It should be reviewed periodically and updated when necessary.

3. Frequency and Scope of Examination

As a matter of policy, the audit examination of a given responsibility center should normally be conducted at least once a year. The frequency of examination should, however, depend on the importance and size of the plant, substation or office. The following may be used as a guideline in determining the frequency of field audits.

1. Plants should be visited at least once a year.
2. Revenue and development offices should be visited at least once a year.
3. Corporate Accounting offices should be visited at least once a year.

The field audit examination should cover the following areas:

- * Operation and Collection of Funds
- * Billing, Collection and Receivables
- * Stores (Materials and Supplies).
- * Utility plant and Movable equipment.
- * Construction in Progress.
- * Purchases and Payables.
- * Payroll and Personnel Policies.
- * Financial and Accounting Systems and Practices.
- * Measurement /survey of fieldwork which have been done by the respective office.
- * All other activities may be checked or physical verification which required by the Audit team, may be made.

4. Preparation for the Audit

In order to be effective in conducting the audit, the auditors to be involved in the engagement should familiarize themselves with the functions and operations of the plant, substation, or office to be examined. This preliminary work may include a review of the accounting methods, operating policies and procedures, systems of internal control, organizational structure, and any materials describing the functions and operations of the responsibility center being examined, such as, operations manuals, past audit reports, permanent file, and related working papers.

5. Working Papers

The audit working papers are the means whereby the internal audit staff gather or collect data which evidence the extent of the examination and of the case exercised in accomplishing the task, working papers are either classified as current or permanent.

6. Permanent File

Permanent working papers consist of evidential matter and information which are of continuing interest, such as, information on the nature and functions of the responsibility center, its organizational structure, its brief history, and an outline of the operating procedures and system of internal control, and lapsing schedules of utility plants. These are all compiled in a permanent file.

A permanent file should be established for each office, plant, or substation during the initial audits. This permanent file should be reviewed and updated from year to year by additions or amendments to the file.

The usual contents of the permanent file are:

1. Specific information about the organizational unit or responsibility center.
2. Accounting and organization policies and procedures.
3. Internal control evaluation sheet.
4. Continuing analyses of important accounts.
5. Standard reports, other documents, and agreements.

7. Current working papers

The current working papers consist of report, drafts, analytical schedule of accounts, cash or inventory count sheets, and other related financial and operating data in support of audit findings and recommendations pertaining to the current period under review.

8. Guidelines in working paper preparation

The internal auditors should see to it that the audit reports are substantiated by adequate and complete working papers. To achieve this objective, the following guidelines on working paper preparation should be adhered to:

(1) Have a purpose for every working paper prepared

Clarify what is to be accomplished and then plan carefully the best way of accomplishing it. Unnecessary data should not be gathered.

(2) Refrain from copy work

The internal audit staffs have ready access to the accounting records of the PGCB. It is therefore unnecessary for them to copy details, which can be easily verified directly from the PGCB records. The schedule to be prepared should only include essential and significant items. Small items may be grouped together.

(3) Avoid rewriting

Working papers should not be written just to present neat work. This however should not be an excuse for careless and dirty work. The working papers should be neat, intelligible and should be presented in clear and concise form.

(4) Support or explain the extent to which the account or operation was examined

The findings and recommendations to be included in the audit report should be supported by working papers, which show sufficient details and evidence of the work performed. The basis of the findings and the sources of the data should be clearly noted in the applicable working papers.

(5) State how the account or operation was examined

In case the audit procedures performed are not included in the audit program, the detailed procedures performed for each account must be briefly described in the individual working papers.

(6) Put it in writing

All relevant information and findings made should be committed to writing. The auditor should not trust his memory of all these details.

(7) Substantiate on oral explanations made

All verbal or oral explanations given by the PGCB's personnel for questions raised during the internal audit, should be substantiated by written records or documents. The internal auditor should not be satisfied with unverified statements made by other employees.

(8) Observes the following mechanical features of preparation

- a. Use the same kind of paper for all analysis and schedules.
- b. Each schedule should be properly headed, showing the name of the office, subject matters date and initials of the person preparing and reviewing it.
- c. Check all arithmetical computations.

9. Review and evaluation of internal control

The system of internal control consists of all measures adopted by the PGCB with the following objectives.

1. To safeguard its assets against waste, fraud and inefficiency.
2. To promote accuracy and reliability in accounting operating data.
3. To encourage and measure compliance with the PGCB's policies and
4. To evaluate the efficiency of operations in all plants, substations, and offices of the PGCB.

The main objective of reviewing and evaluating the system of internal control is to assure the auditor that adequate controls are in use and are working as planned. The results of this review and evaluation will be the basis in determining the extent of detailed audit work to be carried out.

The review of internal control is accomplished by filling out the Internal Control Questionnaire. After the review has been made, the existing internal control is evaluated through the preparation of the Internal Control Evaluation Sheet.

10. The Audit program

An audit program is a detailed plan of the auditing work to be performed, specifying the procedures to be followed and giving the time required for each procedure. As each step of the program is completed, the Auditors initials and the actual time consumed may be entered opposite the item. The program, serves as a tool of planning and controlling the work to be done.

An individual audit program should be prepared for each engagement to be handled. For this purpose, the audit procedures outlined in this manual may be used as a guide in the preparation of the detailed audit procedures to be under taken. These procedures should not be regarded as all inclusive. These should be reviewed and modified, taking into account the following:

1. The purpose of the examination.
2. The history, nature of operations, and special problems of the unit involved.
3. The adequacies or inadequacies and nature of the accounting records.
4. The adequacy and competence of the personnel involved.
5. The adequacy of the system of internal control and the effectiveness with which it is being carried out; and
6. Details required in the reports to be submitted.

Additional procedures which the auditor in charge may deem necessary and desirable in the circumstances should be incorporated in the audit program.

11. When to prepare the Audit program

For initial audit, the Auditor in charge may not be able to prepare a final audit program until the review of the accounting procedures and internal control is completed. At the initial stage, therefore, a tentative audit program containing a broad outline of the major audit operations to be performed may be prepared. This, however, should be finalized as soon as the auditor in charge has a thorough understanding of the PGCB's accounting procedures, records, and systems.

For repeat engagements, the audit program used in the previous audit may be the basis of preparing the current audit program. The previous audit program should, however, be reviewed so that revisions or modifications can be made where necessary.

12. Approval of the Audit program

The audit program should be signed and dated by the auditor who prepared it or by the auditor who reviewed it for use in specific examination. The audit program should bear the approval of the Managing Director. The audit program is a confidential document for internal use and should not be shown or given to any employee outside the Audit Department.

INTERNAL AUDIT FINDINGS AND REPORTS

13. Findings of the Internal Auditor

All findings and recommendations developed during the course of the examination should be discussed with the various personnel concerned except in the following instances.

1. Where fraud or possibility of fraud may be involved, the internal audit staff should be discreet and careful to avoid premature disclosure of his findings which might result in the creation of an atmosphere of undesirable and unwarranted excitement in the early stages of the investigation. If fraud is discovered or suspected the matter should be referred immediately to the audit officer concerned who will decide how the matter will be handled.
2. Where the findings involve deficiencies in personnel performance such as incompetence, inefficiency, poor training and other faults. These for obvious reasons should not be discussed with the persons concerned.

The followings findings should be communicated to management.

1. Significant violations of the PGCB's policies and procedures;
2. Possible areas where efficiency of performance can be improved or where savings or reduction of losses can be achieved.
3. Corrective action (s) in which the auditor in charge and officer concerned agree;
4. Controversial matters which will have to be resolved by higher authorities; and
5. Recommendations which have to be studied or approved by higher authorities.

Minor errors or deficiencies which result from nonrecurring clerical inaccuracies or procedures should not be included in the report. These should, however, be brought to the attention of the account officer concerned during the audit, with proper notation in the working papers. Minor errors however, which indicate weakness in control or violation of standard operating procedures even though of nominal importance, should be included in the report.

Comments should not be restricted to deficiencies or unsatisfactory matters, situations which are handled extremely well should be briefly mentioned, and if the situation is generally well controlled, or there are no major findings, the auditor should say so.

14. The Audit Report

The internal audit report is the means by which the results of the examination are presented to management. Apart from informing management of the conditions in the office that has been audited, the internal audit report also serves as the basis for appraising or judging the effectiveness of the audit department and the individual auditor concerned. Consequently, the audit report should be presented in good form. Consistently it must contain relevant information regarding unusual matters or conclusions, which may involve possibilities of constructive action, specifically, the board would like to know the following:

1. What weaknesses or deficiencies were noted in the operations of the particular office, plant, or substation examined;
2. What actions were so far taken to remedy the defect; and
3. What further corrective actions, if any, remain to be taken?

Management would also be interested to have essential information on the effectiveness of the audited offices operating procedures and on the possibility of improving the existing operating procedures and policies. In view of the importance attached to the audit report, the auditor should give utmost attention to its form and content. The report should be complete but should not include details of minor written in such a way that it will motivate the officer concerned to take the action recommended.

15. Criteria for good reports

The following are the criteria for good audit reports:

1. Reports must be accurate. The data in the report must be substantiated and must be free from factual errors. This can be achieved by cross checking and reviewing figures and facts against documentary evidence.
2. Reports must be concise. The report should be complete but as brief as possible. Adequate background information should be provided for each case discussed to enable the reader to understand clearly the significance of the items presented.
3. Reports must be clear. The report is intended to inform terms used should be chosen properly. The use of technical terms should be avoided and concrete, specific, and familiar words should be used instead of abstract general, and unfamiliar words.
4. Reports must be timely. The report should be submitted promptly to the officers concerned so that timely action can be taken.

16. Preparation of the Report

The auditor in charge of the audit engagement will be responsible for the preparation of the audit report at the completion of the assignment. To expedite the preparation of the final report, the various sections of the report may be developed in draft form as the fieldwork progresses. At the end of the fieldwork, the auditor in charge may rearrange the presentation and the organization of the report draft to permit a logical presentation of the facts, as well as the findings and recommendations.

The following points on content and format should be kept in mind when preparing audit reports.

(a) Summary

A covering memorandum letter should be submitted with each report. This letter should state: (1) The person or persons to whom the report is addressed; (2) The period covered by the review; (3) A brief description of the subject of the audit; (4) A summary of principal findings and recommendations.

(b) Scope of work

A brief definition of the scope of the audit should be discussed at the beginning of the report. Certain auditing procedures included in the scope of work should also be included in this section of the report.

(c) Body

The body of the report includes identification of the general areas of the audit work, such as cash, revenue and findings and recommendations under each of the general areas is included in this part of the report.

(d) Treatment of individual Matters

1. Heading-This includes a brief description of the defect or omission raised.
2. Findings- This section consists of the factual presentation of the data gathered. Adequate background information should be given for each situation discussed to help the reader grasp easily the defect or error involved in the findings.
3. Recommendation(s) and action taken-This section discusses the auditor's suggestion together with corrective action already undertaken or promised to be done by the management of the office audited.

(e) Conclusions

After presenting the findings and recommendations in the body of the report, the auditor should express his general conclusions regarding the audit assignment undertaken.

17. Review and Clearance of the Report

The audit officer of the engagement will be responsible for reviewing the draft of the report prepared by the auditor in charge. The review should be carefully and not haphazardly or hurriedly done. The reviewer should also go over the working papers, which support the findings and recommendations discussed in the report.

The audit report should then be discussed with the officers directly responsible for the office examined, during this discussion complete comments on the items raised in the report should be obtained from the officer(s) concerned. Any disagreement and their reasons thereof should also be taken. After this discussion, the report will then be finalized incorporating the comments and disagreements of the management of the office examined.

The final report draft will have to be reviewed and approved by the Deputy General Manager (Audit) who is responsible for the overall audit. Audit reports covering the examination of the related offices will be finally approved by the Deputy General Manager (Audit).

18. Issuance and Follow-up

The report should be typed and duplicated, if necessary in clear and sufficient copies. The printed or typed audit reports should be distributed to such officials of the PGCB as indicated by the Managing Director. Copies of the reports will also be sent to the local management of the office, plant, or substation audited.

Although the internal audit staffs have no line or administrative authority in connection with the implementation of their recommendations, it is their duty to follow up the proper disposition of their suggestions. This follow-up work will assure management that the needed changes have been carried out. If necessary, a supplementary report may be issued to comment on the actions that have been taken or completed and what further measures have to be undertaken.

INTERNAL AUDIT PROCEDURES

19. ACCOUNTING AND FINANCIAL AUDITS

The financial auditing activities are considered protective in nature since the internal auditor has the responsibility of appraising and evaluating the existing system of internal control to prevent and detect fraud, defalcations, and other irregularities; minimize and uncover errors, and report noncompliance with the PGCB's policies and procedures.

The financial auditing functions will require the internal auditor to observe and conduct tests of recorded transactions. The extent of tests will depend on the judgment of the auditor in charge of the engagement and on the results of the review and evaluation of internal control. The audit officer of the engagement should first be consulted before any test is extended beyond the volume or period usually performed due to deficiencies noted in the accounting records and weaknesses in internal control.

The audit procedures for financial activities which are to be performed in the related offices are discussed in detail in the succeeding sections.

General

19.01 All Offices

1. Review the contents of the permanent file and note any changes in any of the following:
 - Organization chart (Changes in officers, duties, and others).
 - Methods of operations.
 - Periodic financial reports submitted to higher management.
 - Plant, substations, or offices.
 - Others
2. Review the prior years audit report and determine the extent of compliance with the recommendations made relative to the improvement of the accounting and internal control procedures.
3. Update the accounting systems and procedures file.

Cash

19.02 Objectives

1. To ascertain that the cash at the beginning and end of the audit period was in fact on hand and available and that it is in agreement with the general ledger or control record.
2. To ascertain that all collections of customers accounts are promptly transferred to the Central Accounts.
3. To investigate other possible sources of cash and verify whether controls are in existence to prevent its misappropriation before and after it has been recorded in the books.
4. To ascertain that all expenditures are justified, and are supported by properly approved evidence.
5. To determine that the internal control system for cash is so established that no one person is in a position to influence directly or indirectly all records relating to the receipt or disbursement of funds.

19.03 Audit procedures Imprest Funds

All Offices

1. Determine the different funds represented by cash on hand and their custodians and conduct a surprise count of such funds. Among the items that should be physically controlled upon arrival at the drawing and disbursing officer's offices, plant, or substation and verified simultaneously are-
 - a. Imprest petty cash funds.
 - b. Unclaimed wages.
 - c. Non-PGCB funds held by the custodian of PGCB funds.
2. Simultaneously with the cash count, take physical inventory of all unused accountable form. Make sure that no extraction has been made from the unused forms. Among the accountable forms are official receipts, unused checks, and other forms as determined by the auditor in charge of the engagement. In connection with this work, perform the following procedures.
 - a. Establish the accountability for forms and agree with the count.
 - b. Check on a test basis receipts and issues of forms by reference to the register of accounting forms and supporting documents.
3. Where cash funds are not counted, obtain from the custodian an acknowledgment or confirmation of the balances.
4. Perform the follow-up procedures with respect to the cash count.
 - a. Ascertain that all checks at the time of the count are deposited promptly and are honored by the bank.
 - b. Examine bank debit memos received in the following three or four days after the cash count. Investigate carefully any check subsequently returned by the bank.

- c. Ascertain that petty cash reimbursement checks (cheques) have been entered as disbursements prior to the count, if such checks formed part of the cash count.
 - d. Trace un-replenished items to subsequent reimbursement voucher to determine that they are in order.
5. Where the results of the first surprise cash count show shortages, unauthorized advances, or other items of doubtful nature; or, if there is any reason to believe, that the verification has not been completely effective, such as that the count was delayed, affording an opportunity for substitution or temporary restitution of a shortage, take another surprise count just prior to the completion of the examination. The following points should always be kept in mind in connection with cash counts.
1. Before proceeding with the actual count, the auditor should be sure that he is thoroughly familiar with the office routine for the handling of cash and what funds are to be counted or verified.
 2. The auditor should be on guard against possible substitution of funds by collusion or otherwise. All cash, whether operating funds or unclaimed wages should be controlled and verified simultaneously.
 3. Cash should always be counted in the continuous presence of the custodian or his representative. The custodian should be required to sign the count sheet to signify his conformity to the amount of the fund counted.
 4. The cash count sheet should be accomplished in ink as this will serve as a permanent record. Corrections or changes in the count sheet should be initialed by both the auditor and the custodian of the fund being counted.
 5. Results of the count should be conveyed to management in writing as soon as practicable.
 6. In conducting the cash count, as in any other phase of the audit examination, the auditors should always exercise tact and diplomacy to maintain a cordial relationship with the employees in the office audited.

19.04 Audit procedures- Cash in Bank

Accounting Office

1. Obtain direct from the bank, copies of bank statements for the period under tests.
2. Obtain copies of bank reconciliation statements as of the end of the test month (s) and as at the end of the month (s) immediately preceding.
3. Perform the following procedures on the beginning bank reconciliation (month prior to the month under test).
 - a. Prove mathematical accuracy.
 - b. Check bank balance against the opening balance of the bank statement for the period under test.
 - c. Check book balance against the general ledger.

- d. Check deposits in transit against the journal book and against the bank statement of the period under test.
 - e. Vouch any other reconciling items such as errors in recording debit and credit memorandum, among others.
4. Check reconciliation of bank accounts for the period under test as follows:
5. a. Prove the correctness of outstanding checks by comparing paid checks shown in the bank statement against the cash disbursement book and the beginning reconciliation.
- b. Trace outstanding checks, deposits in transit, and other reconciling items shown in the reconciliation statement to the bank statements of the month following the period under test.
- c. Vouch outstanding checks of material amounts.
- d. Examine all bank debit and credit memorandum and collection reports and trace to corresponding book entries.
- e. Prove the correctness of unrecorded bank deposits by tracing miscellaneous cash receipts as shown in the bank statements to the journal book entries. Investigate deposits, which were recorded late. Account for any receipts not shown as deposits in the bank statement or for any credits shown in the bank statement not recorded as receipts in the journal book.
- f. Vouch all other reconciling items.
- g. Prove mathematical accuracy of the reconciliation.
- h. Check balance per reconciliation against the bank statement, check book balance against those of the local office control ledger and the general ledger.
- i. Account for inter bank cash transfers for at least five days before and five days after the reconciliation date and ascertain that related disbursements and deposits are recorded in the same period.

19.05 Audit procedures- Miscellaneous Cash Receipts

1. Select a test period and examine the banks collection reports and the corresponding bank validated deposit slips. Check these documents against entries in the journal book for the entire period under examination noting propriety of distribution.
2. Trace posting of the individual bank validated deposit slips to credit in the applicable subsidiary ledgers. Alternate this measure with checking credits in the subsidiary ledgers to the journal book. In both procedures be sure that all entries in the journal book and in the subsidiary ledger is for the test period chosen are accounted for.
3. Check footings and cross footings of journal book.
4. Trace postings from the journal book to the general ledger.

5. Review the journal book for the period not covered by the tests and vouch large and unusual item to determine that they are in order.

19.06 Audit procedures- Check Disbursements

1. Examine each cash voucher by referring to supporting documents, testing, distribution, giving attention to approvals as to receipt of goods or services price, and terms, among others and testing the Recapitulation of invoices. See to it that items that are bona fide disbursements of the PGCB are properly authorized and have been included in the budgeted expenses for the fiscal year. The original invoice should normally accompany the disbursement voucher. Investigate any duplicate invoices used as supporting documents.
2. Investigate any alternations in the supporting documents, especially as to amounts. Take note that all papers supporting the disbursements are stamped "PAID" and marked with the date of payment and check number.
3. Check the total amount of the disbursement against the underlying cash voucher.
4. Check the correctness of the account distribution.
5. Trace the individual vouchers to entries in the cash disbursement book and note that amounts are extended under proper account columns.
6. Account for the numerical sequence of checks issued and see that voided checks are duly cancelled and preserved.
7. Check footings and cross footings of the disbursement book.
8. Check the recapitulation of the sundry column of the cash disbursement book.
9. Trace postings from the cash disbursement book to the general ledger.
10. Check postings of individual vouchers affecting accounts receivable and accounts payable against the applicable subsidiary ledgers.
11. Review the cash disbursement book for the period not covered by the tests and vouch large and unusual items to determine that they are in order.

19.07 Audit procedures- Petty Cash

1. Choose a test period when fraud is easier to commit, such as the months when the approving officer is absent or on leave, busy periods, and pre-holidays.
2. Examine carefully invoices supporting petty cash vouchers (PCV) and investigate any erasures, alternations of amounts, or additions of figures. Verify footings and cross footings of each PCV and its supporting documents.
3. Verify carefully dates on petty cash vouchers and make sure that these dates fall within the period from the last replenishment to the next replenishment. Take note that all papers supporting the petty cash voucher are stamped paid.
4. Check the correctness of the account classification and note approvals of each individual PCV.
5. Trace cash PCV to the petty cash replenishment summary.
6. Trace the details of the petty cash replenishment summary to the covering replenishment voucher.

19.08 Materials and Supplies

Objectives

1. To satisfy the auditor, by means of tests, as to the reasonable accuracy of the quantities of materials and supplies and the physical existence of items included in the inventory.
2. To determine whether materials and supplies were valued on a basis consistent with that of the previous year and that the pricing methods used are in accordance with generally accepted accounting principles.
3. To determine the accuracy of arithmetical computations.
4. To ascertain whether any obsolete or defective goods included in the inventories are stated at fair values and whether adequate provision has been made for possible losses on slow moving items.

Audit Procedures

1. In preparation for the actual observation of the physical count of inventory, plan the observation or count procedures as follows:
 - a. Ascertain the location of inventories and schedule the observation of inventory count.
 - b. Review the inventory instructions to determine whether the procedures to be followed in the physical verification of stocks are complete and will result in a reasonably accurate count.
2. Determine the reasonable accuracy of inventory quantities observing how the count is conducted and by making test counts of selected items. The auditor should see to it that the inventory count procedures are followed.
3. Compare or reconcile the inventory count with the perpetual inventory records. Investigate any material discrepancies between the count and the records.
4. Request the local office personnel to prepare a final inventory list showing the figures according to the count and according to the records.
5. Verify the pricing of inventory by referring to suppliers invoices. Materials and supplies are priced on the basis of moving average cost.
6. Check footings and extensions of the inventory list.
7. Verify whether the perpetual inventory records were adjusted to agree with the physical count.
8. Comment on the general conditions of the materials and supplies in each storeroom and on the physical control exercised over the materials.
9. Select a test period and test posting to stock cards for purchases, material requisitions, and transfers.
10. Check all entries in the issue columns of stock cards against requisition and issue vouchers (RIV) and stock transfer slips (STS) for the period covered by the test. Prove the arithmetical accuracy of each RIV and STS and note the propriety of accounts distribution.
11. Determine that proper approvals were obtained for the issuance of the materials.

12. Trace each RIV and STS to the stock issue report of the period under test. Prove the footings and cross footings of the stock issue report.
13. Compare the details of the stock issue report with the journal voucher taking up materials issued for the period under test. Trace the recording of the journal voucher to the journal book.
14. Refer to item 6 of the purchasing procedures for the verification of receipt of materials.
15. Check extensions and balances of a number of stock cards for the period selected. Investigate any erasures or alterations of stock card entries.

19.09 Purchases, Expenses and Accounts Payable

Objectives

1. To determine that all purchase orders, contracts, and commitments are genuine and that they have been approved by responsible and competent authority before the PGCB is obligated.
2. To ascertain that the goods and services purchased were received in the amount and of the quality for which the PGCB incurred a liability.
3. To ascertain that liabilities incurred have been settled in such a manner as to prevent loss to the PGCB.

Audit Procedures-Purchases

1. Compare such accounts payable voucher (APV) covered by the test period selected to the accounts payable book checking for the appropriate classification of changes, approvals, evidence of receipt of goods, arithmetical computations, and propriety of the purchase.
2. Test APVs for materials and supplies purchases against copies of purchase requisitions and purchase orders; test purchase orders by referring to price quotations obtained or to tender documents.
3. Foot and cross foot the accounts payable register (APR).
4. Check postings from the APV against the general ledger.
5. Trace postings of accounts payable vouchers, supplier's invoices, and receiving and inspection reports to the accounts payable subsidiary ledgers, stock cards, and to the local office control ledger.
6. Review the purchasing activities and determine whether the purchasing procedures are strictly being followed. Test the effectiveness of the controls over the purchasing functions.
7. Scrutinize all accounts payable subsidiary ledger accounts for the period selected and see that all entries in the course of the work outlined under cash disbursements and this section have been checked. Unchecked entries should be investigated.
8. Check the footings and balances of a number of accounts for the period selected.

19.10 Audit Procedures-Accounts Payable

1. Obtain a schedule of the accounts payable. Check the schedule to the individual balances in the accounts payable subsidiary ledger.
2. Prove the footings and cross footings of the accounts payable schedule and check the total against the control account in the local office control general ledger.
3. Request the confirmation of a number of the accounts or request statements from vendors particularly these of large balances and other items of unusual nature.
4. Account for all significant differences between the accounts payable records and the suppliers statements or creditors replies to the confirmation request.
5. Investigate long outstanding balances to ascertain whether such balances represent actual liabilities and, if so, whether there is valid reason for withholding payments. Retentions on contract payments should be verified by examining construction contracts.
6. Examine the supporting documents of Accounts with material balances, verify subsequent payments of such accounts.

19.11 Audit Procedures-Expenses

A substantial portion of the verification of expenses will be covered in the review of internal control as well as in the audit procedures for balance sheet items, which are related to the operating accounts. The following additional procedures should however be carried out.

1. Test check (on a solid basis to be determined by the auditor in charge) postings to expenses ledgers from original records and vice versa.
2. Review the expense ledger accounts and related sources of postings to see that all items covered by the period under test are accounted for.
3. Test check footings and extensions of the expense ledgers and compare the total of the ledgers to the controlling account in the office control ledger.
4. Scrutinize the expense accounts and note whether the balances have varied from month to month during the period under review. Account for any material variations. See to it that expenses have been properly classified.
5. Prepare analysis of certain expense accounts. These analyses should be prepared in summary form showing the important and material items comprising the account.
6. Compare the actual balance of each expense account with that of the same period of the preceding year and with the budget for the current year. Account for any significant variations.

19.12 Utility Plant, Depreciation and Maintenance

Objectives

1. To ascertain that the procedures on accounting for utility plants are properly carried out. Additions during the period under review and that these represent

- actual physical property or constructed; and retirements, transfers or other disposition have been on properly recorded in the accounts.
2. To determine that the basis of valuation of property is in accordance with generally accepted accounting principles followed by a public utility enterprise.
 3. To determine whether the depreciation charges for the period under review are reasonable and whether the depreciation rate and methods used are in accordance with the policy of the PGCB.
 4. To determine the adequacy of accumulated depreciation.
 5. To ascertain that property recorded are actually on hand at locations indicated.

19.13 Audit Procedures-Construction in progress

1. Select a number of construction work authorization orders and perform the following:
 - a. Ascertain that the works being performed were authorized by the competent authority and that the expenditures for the project were included in the capital budget of the period under review.
 - b. Review the description of projects under construction for possible maintenance work.
 - c. Review the detailed estimate of each project and the detailed specifications.
2. Prepare a summary analysis detailing the types and amounts of charges to the selected work authorization orders. Vouch or review the supporting documents of significant or unusual item in the analysis. Review the basis of allocating common overhead charges to the different works and determine its reasonableness. Compare the actual expenditures incurred with the estimated cost and obtain explanations for material variances.
3. Examine charges to the projects in relation to the long-term debt to verify that loans or aids received are actually spent on proposed projects.
4. Scrutinize the construction in progress subsidiary ledgers and investigate any extra ordinary and material charges recorded therein. Test check the footings and balances of a number of ledgers. Compare the total of the individual balances of the ledgers with the controlling account in the local office control ledger.
5. Conduct a physical verification of selected projects and observe whether the rules during the period of construction are being followed.
6. Review all items included in the account. Construction work in progress to ensure that all completed projects are closed to the proper utility plant accounts. Ascertain also that no repair or maintenance work is included in the construction work in progress account.

19.14 Audit Procedures-Electric Plant in service

1. Prepare a schedule showing a summary of charges in the plant accounts. This schedule should be supported by a detailed analysis of major additions, retirements, transfers or other dispositions.

2. For major additions, examine work completion reports, work authorization orders, and documents supporting significant charges. Tie up, if any, the related analyses of construction work in progress accounts made in the prior periods, physically inspect the major additions to plants.
3. Vouch retirements, sales, transfer, or other disposition of plant accounts for the period under review and make sure that the related accumulated depreciation, depletion, or amortization has been written off from the books.
4. Inspect copies of the Certificate of Title on land owned or acquired during the period under review.
5. Check changes in the accumulated depreciation, depletion and amortization during the year. Review the depreciation policy and see if this is in accordance with the general policy of the PGCB.
6. Review a selected number of continuing property records and test check recordings thereto. Determine whether the balance of the continuing property records agree with the controlling accounts in the local office control ledger.
7. The count may be made on a cycle basis so that at the end of any two year period, all property items will have been verified.

19.15 Prepaid Expenses and Deferred Charges

Objectives

1. To establish the validity of the expenditures originally charged to the prepaid or deferred accounts.
2. To determine that definite benefits will be received in future periods from any charges being carried forward as assets.
3. To determine the reasonableness of the amortization program being applied to these assets.

19.16 Audit Procedures-Prepaid Insurance

1. Prepare a schedule of insurance policies as of the end of the period under test.
2. Examine important insurance policies and vouch insurance premiums paid.
3. Check the computation of the expired and unexpired portion of the premiums paid. Tie in the expired premiums with the appropriate expense accounts.
4. Review the adequacy of insurance coverage's of utility plants and inventories.

19.17 Audit Procedures-Other Prepaid Items

1. Prepare a schedule summarizing the details of prepaid expenses as of the end of the period under review.
2. Verify significant prepayments by referring to documents supporting the disbursement. Check the computations of the expired and unexpired portions and tie in the expensed portion to the appropriate expense account.
3. Review the items and ascertain that they are properly chargeable to future operations.

19.18 Audit Procedures-Deferred Charges

1. Prepare analyses of deferred charges accounts and verify significant items against supporting documents. Analyze the suspense account thoroughly and recommend reclassification of charges to specific accounts.
2. Review the authorizations to determine that deferrals have been properly approved.
3. Review with the accounts officer concerned the nature and anticipated future benefits from the transactions in which the deferred charge has arisen.
4. Review write-off on a test basis to determine whether these have been properly authorized, are consistent with the original plan for deferral, are reasonable in the light of current operations, and are charged to the proper expense accounts.

19.19 Long-Term Liabilities and Interest Expenses

Objectives

1. To determine whether all liabilities of the PGCB are recorded and that all items recorded represent bona fide obligations.
2. To verify whether all long term debts were incurred with the prior approval of the competent authority.
3. To ascertain whether the PGCB has complied with the requirements and restrictions imposed by the loan agreements.
4. To determine whether the interest expense has been accurately calculated and charged to the current period

19.20 Audit Procedures-Finance Department

1. Prepare a schedule showing changes during the period under review on long term loans and related interest accounts.
2. If practicable, confirm all long-term debts, requesting information as to amount, terms, collaterals, and unpaid interest.
3. Examine loan agreements and determine whether loans were obtained with the proper approval of the competent authority. Ascertain also whether the terms and covenants of the loan contracts have been met.
4. For cash loans, trace the proceeds to the cash receipts and to the bank statements. For other types of loan financing, trace to importation documents the equipment, materials and supplies purchased.
5. Check the computation of accrued interest and tie in expense for the period with the related expense accounts.

20.01 Other Liabilities and Credits

Objectives

1. To determine that all liabilities existing have been recorded.
2. To determine the adequacy of internal control and procedures over liabilities.
3. To determine that the amount of liabilities shown in the general ledger agrees with the supporting accounting documents.

20.02 Audit Procedures-Accrued Liabilities

1. Obtain a schedule of the accrued expenses as of the end of period under review.
2. Examine any contracts or other documents on hand which provide the basis for the accrual.
3. Appraise the adequacy of the detailed accounting records maintained for each type of accrual.
4. Test the computations of the accruals made and tie in the accruals with the related expense accounts.

20.03 Audit Procedures-Other Liabilities

1. Obtain schedules of other liabilities as of the end of the period under audit. Check the individual balances to the related subsidiary ledgers and compare the totals of the schedules to the controlling account in the local office control ledger or general ledger.
2. Review supporting documents and determine the nature of the accounts.
3. Confirm significant balances of creditors and reconcile with the records replies reporting differences.

20.04 Audit Procedures-Deferred Credits

1. Prepare the schedule of deferred credits as of the end of the period under review and determine the nature and origin of the deferments.
2. Examine supporting documents and check the basis and allocation of deferments.

20.05 Audit Procedures-Equity Account

1. Prepare a schedule of the equity account and determine the propriety of charges or credits.
2. Confirm the balance of the equity account with the appropriate agency of the Government of Bangladesh.

21.01 Review of General Financial Records

Objectives

1. To verify the mechanical accuracy of the records.
2. To determine the overall propriety and adequacy of the journal entries and ledger accounts.

21.02 Audit Procedures-General Ledger

1. At the beginning of the audit examination to be undertaken in the respective office, prepare or obtain a trial balance of the general ledger account balances as of the beginning and end of the period under review. Foot the trial balance and trace individual balances shown therein to the general ledger.
2. Test the footings of selected general ledger Accounts.

3. Verify postings (for selected periods) to and from the general ledger to the journal book and other books of original entries and vice versa.
4. Scan other postings non-covered by the test and investigate any items not posted from the normal source of original entry or that may appear unusual.

21.03 Audit Procedures-Journal Book Voucher

1. Prove the mathematical accuracy of the journal book/ voucher for the period under review.
2. Vouch selected entries in the journal book /voucher to the journal voucher and original documents supporting the entry.
3. Scan the journal book /voucher for the period under audit for unusual entries and vouch such entries.
4. Determine whether all journal vouchers were approved by a competent officer.
5. Trace selected transactions recorded in the journal book/voucher to the general and subsidiary ledgers.

22.00 Operational Audits

22.01 General

Operational audit refers to the appraisals of the administrative controls over activities other than these included in accounting and financial audits. The objectives of the internal auditor in conducting operational audits are based on the following management need.

1. Reassurance that management plans are comprehensive, consistent and understood at the different operating levels.
2. Objective information on how well the management plans and policies are being carried out at the operating levels.
3. Reassurance that all operating reports can be relied on as a basis of action.
4. Information on weaknesses in administrative controls, particularly as to possible sources of wastes and inefficiencies; and
5. Aid in measuring the efficiency of operations by feedback of information on the quality and cost of the work and adherence to schedule.

Specifically, the main objectives for conducting operational audits are

1. To identify the means of reducing cost and expenses.
2. To improve controls over all the assets.
3. To attain all other PGCB goals and objectives; and
4. To evaluate the effectiveness of management controls in non-financial areas.

In conducting the operational audits, the auditor samples the work being performed to see whether it is in accordance with approved procedures. He verifies the accuracy and consistency of the data or information contained in operating reports and studies the format of these reports to determine whether the information is presented in a meaningful manner. In performing all these procedures, the auditor must be alert to detect indications of waste and opportunities for improvements.

The general approaches to operational audits are summarized below:

1. Define the purpose of the audit-Specify clearly what controls are to be appraised and determine their relationship to specific functions so that the scope of the examination may be clearly established.
2. Undertake a preliminary survey of the operations to be covered. This step will involve the study of organizational charts, statements of the functions and responsibilities assigned, management policies, and directives affecting these functions and operating procedures.
3. Conduct Preliminary visits of the organizational units to be covered. This visit will be made to be able to interview the supervisory personnel to determine their specific objectives, the methods used to accomplish these objectives, the standards used to measure accomplishment and the principal problems encountered in achieving the objectives. During these visits, the auditor should also observe the operations and inspect available records and reports covering functions to be audited.
4. Prepare the audit program-The program will consist of the list of questions to be answered in order to ascertain the adequacy of the controls and the detailed procedures to be performed in order to obtain answers to the basic audit questions.
5. Conduct the field works- This phase of the work will start with the selection of the specific items to be reviewed in order to determine the adequacy of the procedures and controls. The auditor should review in detail the items selected through tests of the record and the direct observation of how the function is performed. As the fieldwork progresses, the auditor should summarize his findings and evaluate the materials gathered.
6. Prepare and issue the audit report which will contain a summary of the findings and the overall opinion of the auditor. Before the report is issued, it must be reviewed with the management people concerned to enable the auditor to obtain the complete and true story of the findings and also to provide an opportunity for management to understand the problems disclosed and take corrective actions immediately.
7. Follow-up recommendations made-The final stage of the work will involve the follow-up of the recommendations made. A supplementary report or a follow-up letter may be prepared if necessary.

The operational auditing activities of the PGCB will cover the following areas

0. Inventory Control
0. Payroll

- 0. Procurement policies and procedures
- 0. General Operations
- 0. Others

Inventory Control

22.02 Objectives

1. To determine whether adequate and suitable quantities and qualities of materials and supplies are maintained at all times.
2. To ascertain whether investments in inventories are kept within reasonable and controllable limits.
3. To determine whether adequate internal control measures are adopted for the protection of materials and supplies against theft, loss, damage, physical deterioration, and obsolescence.

Audit Procedures

1. Review organizational structures and procedural flow charts of the offices responsible for inventory control to determine that adequate internal control is maintained through the segregation of duties and functions.
2. Review the appropriateness of the maximum and minimum levels being maintained for a selected number of inventory items.
3. Review the material receiving, requisitioning, and issuance procedures and determine whether these are being complied with.
4. Examine physical facilities for the storage and handling of inventory items.

Payroll

22.03 Objectives

1. To determine whether authorized records and procedures are so designed and operated as to provide adequate internal control.
2. To verify whether the PGCB has complied with government regulations pertaining to income tax withholding, provident funds, and employment requirements.
3. To ascertain whether payments of wages and salaries are in accordance with the approved rates.
4. To determine whether payroll cost are properly distributed to the appropriate accounts.
5. To verify whether the payroll are prepared as per company pay scale and its rules & regulations.

Audit Procedures

0. All Offices

1. Make a detailed test of payroll records for one or more pay periods and perform the followings:
 - a. Trace names, and wages or salary rates to the personnel records.
 - b. Test time shown on payroll to time record.
 - c. Check accuracy of payroll deductions such as withholding taxes, CBA contribution, provident fund contributions, among others.
 - d. Test footings and extensions on payroll.
 - e. Compare totals of payroll with payroll checks issued.
 - f. Compare total of payroll to the payroll distribution summary.
 - g. Verify acknowledgement of receipt of pay.
 - h. Vouch subsequent payment of unclaimed wages.
2. Plan a surprise observation of one of the regular payroll including control of payroll records and an accounting for all employees listed.
3. Investigate any extraordinary fluctuations in salaries and wages. Check changes in salary rates to applicable personnel memoranda.
4. Examine on a test basis, personnel records and comment on completeness of files.

Procurement policies and practices

22.04 Objectives

1. To evaluate the overall reasonableness of the purchasing policies and practices as a basis for protective and constructive recommendation.
2. To determine compliance of all offices concerned with the purchasing policies and procedures.

Audit Procedures

0. All Offices

1. Review the organizational structures and procedural flow charts of the purchase department, clearance and movement, and storing of equipment to determine that adequate internal control is maintained through segregation of duties and functions.
2. Review the purchasing policies and procedures and determine whether they are easily understandable, being followed being updated from time to time to reflect major changes in the general policies, and whether they provide adequate internal control.
3. Study the detailed procedures on the calling, acceptance, and evaluation of tenders and the selection and approval of the best offer.

4. Examine all purchase orders issued for the test period selected and determine whether.
 - a. All purchases were made based on properly approved purchase requisitions.
 - b. The purchase orders were awarded to the lowest bidder orders which are made with suppliers other than the lowest bidder should be investigated.
 - c. All known prospective suppliers were given the opportunity to participate in the bids.
 - d. The prices on purchase orders placed are in agreement with the published price lists, approved rate schedule and catalogues.

The examination of each purchase order will include a detailed examination of all supporting records to satisfy the internal auditor that each of the operations from the initiation and approval of the requisition to the completion of the order has been handled in the best interest of the PGCB.

5. Discuss with the related officer concerned any major deviations noted in the review.

General Operations

22.05 Objectives

1. To evaluate the effectiveness of other operating units against established goals and objectives.
2. To determine the adequacy of internal control over areas others than those specified in the foregoing sections.

Audit Department on the advice of the Managing Director or the Board, may conduct studies on problem areas, such as the following:

0. Rules structures
0. Cost Reduction
0. Organization and staffing pattern
0. Work simplification
0. Systems and procedures
0. Management Reporting System, etc.

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