

## Lending and Collection Audit Program

### *Support of assessment of risk of significant misstatement*

#	Nature and extent of audit procedures	Timing	Done by and date	W/P ref
1	Carry out walk through tests to ensure that system as documented in the PAD is operating effectively.	PA (Interim)		
2	TEST THE FOLLOWING CONTROLS for checking operating effectiveness identified in the PADs:	PA (Interim)		
2.1	Ensure by inquiry and review that there is an approved policy and procedures manual and approved authority limits for lending and ensure by inquiry, observation and review that all loan processings (including cheque generation) and approvals (the authority limits having been inbuilt into the system) are through the system. (CEA)			
2.2	Ascertain by inquiry, observation and review that all new loans are independently checked to underlying documentation and the cheque signing authorities review the results of the independent checking process before signing the cheques. (CAE)			
2.3	Ensure by inquiry and review that the daily loan disbursements are reviewed by the AGM–credit. (EA)			
2.4	Ensure by inquiry and review that there is regular reconciliation of receivables balance as per the general ledger and that as per the receivables ledger and it is periodically being reviewed by the Financial Controller. (CA)			
2.5	Ensure by inquiry and review that senior management receive and review summary periodical reports on the lending activities covering, new business, collections and defaults. (EA)			
2.6	Ensure by inquiry and review that there is an approved policy for provisioning of bad and doubtful receivables, that the provisioning			

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	parameters are input in the system and that the provision details as generated by the system are reviewed by the senior manager - collections. <b>CRITICAL (V)</b>			
2.7	Ensure by inquiry and review that the Financial Controller prepares, in respect of each loan portfolio (i.e VA, LM and PL), the income spread, which is the difference between the effective interest rates on lending and on borrowing. Also ensure that this spread analysis is included in the monthly accounts package and circulated to and reviewed by the GM and AGM. Also, monthly performance is reviewed by the bbb and quarterly performance is reviewed by the BoD. (AE)			
2.8	Ensure by review and inquiry that the internal auditor reviews the CAATs reports covering various fields of the receivables database (including interest rate, release date, loan balance, etc.) periodically and the exceptions noted by him are promptly actioned by the management. (A)			
2.9	Ensure by inquiry, observation and review that security documentation for collaterals (mainly title deeds) are maintained in locked fireproof safe/strong room and that regular independent inspection of the same is being performed. (EO)			
	Update and amend, if appropriate, the assessment of risk of significant misstatement and the rationale.			
3	Carry out credit reviews  Carry out 6-10 credit reviews in the manner set out in the attached approach paper and review the adequacy of provisioning for these loans based on the credit reviews. (V,A,E)			

#	Nature and extent of audit procedures	Timing	Done by and date	W/P ref
4	<i>Analytical procedures</i>	RAPs (Final)		
4.1	Perform analytical review of interest income and yields from month to month and obtain reasons for variances.			
4.2	Compare current year originated loan book with prior year, review changes in mix and value and obtain explanations for significant changes. (CA)			
	Update and amend, if appropriate, the assessment of risk of significant misstatement and the rationale.			
5	<i>Tests of details</i>	RAPs (Final)		
5.1	Ensure by test check and review that the impairment allowances (specific provisions) have been computed in accordance with IAS 39. Ensure valuation of the collaterals has been carried out in accordance with the approved receivables provision policy and unsecured debts more than a year old are written off. <b>CRITICAL (V)</b>			
5.2	Review provision as a percentage of unprovided loan book as compared to the prior year and obtain explanations for significant variations and. Obtain justification for the reasonableness of the provisions and ensure that impairment provision meets the requirements of IAS 39 (for homogenous loans) especially consider the impact of interest in suspense. <b>CRITICAL (V)</b>			
5.3	Ensure on a test check basis that interest accrual is done until the year-end and cut-offs are properly accounted.			
5.4	Ensure that related party balances and transactions are properly disclosed in the financial statements. (P) – Refer Related parties audit programme.			
6	<b>Presentation:</b>			

#	Nature and extent of audit procedures	Timing	Done by and date	W/P ref
6.1	Review change in the income recognition methodology for appropriateness and ensure proper disclosure in the financial statements. (P)			
6.2	Review accounting policies for appropriateness, consistency and compliance with the IAS (especially IAS 39) and ensure adequate disclosure in the financial statements. (P)			

