



PALLI KARMA-SAHAYAK FOUNDATION (PKSF)

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***Terms of Reference (ToR)***  
***for***  
***Internal audit department of PKSf***  
***for conducting audit of PKSf and POs***

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*Signature*

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### INCEPTION:

<b>Background</b>	<p>Palli Karma-Sahayak Foundation (PKSF), an apex development organization, was established by the Government of Bangladesh (GoB) in May 1990, for sustainable poverty reduction through employment generation. The activities of PKSF and its Partner Organizations (POs) have been vertically &amp; horizontally expanded with the passage of time. Simultaneously, the duties and functions of the internal audit department of PKSF have also been remarkably extended. The main function of PKSF internal audit department is to conduct management &amp; financial audit of Partner Organization (PO) and pre-audit of expenditure incurred at PKSF.</p> <p>At present, most of the activities of the POs are being conducted through automation (software) system. The nature and areas of audit have also been changed comprehensively. As a result, instead of conducting audit thoroughly, system audit and risk based audit could be the most effective in order to get a better and effective result. To cope up with the changing situation, the audit ToR of internal audit department has been updated accordingly.</p>
<b>Code of ethics for Auditors</b>	<p><i>The four common codes of Ethics for internal auditors provided by Institute of Internal Auditors (IIA) are Integrity, Objectivity, Confidentiality, and Competency. These Code of Ethics should be followed by an internal auditor who is assigned to conduct the audit tasks.</i></p>
<b>Major objectives</b>	<ul style="list-style-type: none"><li>a. To check the reliability, security, backup, functionality, efficiency and effectiveness of automation system of PKSF and POs</li><li>b. To assess the area of risks in pertinent to operational, managerial and financial activities of the POs.</li><li>c. To examine the reliability, transparency, accountability and authenticity of financial transactions of PKSF and POs.</li><li>d. To check whether PKSF and POs follow the international accounting and reporting standards in record-keeping and reporting system.</li><li>e. To justify the effectiveness of internal control system and managerial decisions of the POs.</li><li>f. To check whether the POs comply with the directions of MRA, PKSF and applicable laws/regulations.</li><li>g. To examine the reimbursement/replenishment of transactions of the PKSF's funded programs/projects implemented by the POs.</li><li>h. To examine the safeguarding of the assets of PKSF and POs.</li></ul>

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### Related acronym and abbreviation

PKSF	Palli Karma-Sahayak Foundation	DAFA	Delegation of Administrative and Financial Authority
POs	Partner Organizations	DAADF	Delegation of Audit Authority & Disposal of Files
MRA	Micro-credit Regulatory Authority	APP	Annual Procurement Plan
ToR	Terms of Reference	TOC	Tender Opening Committee
NBR	National Board Revenue	TEC	Tender Evaluation Committee
RJSC	Registrar of Joint Stock Companies and Firms	PEC	Proposal Evaluation Committee
NGO	Non-governmental Organization	PPA	Public Procurement Act
MoA	Memorandum of Association and	PPR	Public Procurement Rules
AoA	Articles of Association	RFQ	Request for Quotation
IAS	International Accounting Standards	RFP	Request for Proposal
IFRS	International Accounting Standards	EOI	Expression of Interest
DRP	Disaster Recovery Plan	LTM	Limited Tendering Method
BCP	Business Continuity Plan	OTM	Open Tendering Method
MIS	Management Information System	NOA	Notification of Award
AIS	Accounting Information System	HOPE	Head of Procuring Entity
IS	Information System	PE	Procuring Entity
FDR	Fixed Deposit Receipt	BOQ	Bill of Quantity
VAT	Value Added Tax	PAR	Portfolio at Risk
LLP	Loan Loss Provision	OTR	On Time Realization Rate

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## A. PKSf AUDIT

### A.1: System audit of the PKSf:

Most of the activities and financial transactions of PKSf have been systematically articulated to automated software. The software of PKSf consists of a complete set of modules for several functions. Under this system audit, auditors will basically examine the effectiveness of the functionality, security, reliability of the PKSf software. Auditors will also verify whether the elements (hardware, software, data center) of the system are in order and properly function to meet the intended objectives. The major areas of system audit of the PKSf are as follows.

Areas of audit	checking points
<b>(A.1.i)</b> <b>Policy and Development</b>	1. To verify whether functions of different departments/cells/wings of the PKSf have been completely automated and are being consolidated as intended through software.
	2. To examine the effectiveness of maintenance, controls and problem-solving capacity of the IT department of PKSf.
	3. To verify whether the IT department of PKSf is equipped with adequate resources, accessories, peripherals, technologies, manpower, protocols and update accordingly.
	4. To ensure whether a technical and financial feasibility study is conducted in acquisition of IS (information system) assets.
	5. To ensure whether an inventory of IS assets is maintained and reviewed by management properly.
	6. To ensure whether software related policies and procedures are approved, documented and updated.
<b>(A.1. ii)</b> <b>Functionality</b>	1. To verify the effectiveness of PKSf's software in performing various activities of administrative department of the PKSf regarding procurement, e-tendering, meeting, office order, publication etc.
	2. To examine the effectiveness of PKSf's software in performing the activities of PKSf's HR department e.g. recruitment, training, workshop, attendance, leave, performance evaluation, staff transfer, staff retirement/termination, staff settlement/compensation, personal file management etc.
	3. To examine the effectiveness of PKSf's software for accomplishment the activities of PKSf's Accounts & Finance department regarding maintaining books of accounts, daily



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Areas of audit	checking points
	transactions, salary & allowances, staff benefits fund, investment (FDR), staff loan, loan disbursement to POs, loan recovery from POs, cash & bank, financial reporting etc.
	4. To verify the effectiveness of PKSf's software in performing of different activities of program department of the PKSf e.g. POs selection, POs rating, POs funding, POs monitoring, loan approval, meeting minutes/memos, loan agreement, panel meeting etc.
	5. To verify the effectiveness of PKSf's software in performing of the activities of internal audit department of the PKSf e.g. auditing internal files of PKSf, auditing reimbursement files of programs/projects, auditing POs, preparation/approval of PO audit report, preparation of audit compliance report, meeting minutes/memos etc.
	6. To examine whether financial transactions of the PKSf have been recorded in software complying with relevant supporting, vouchers, standards, policy and guideline as prescribed.
	7. To verify whether accounting, investment, settlement and financial reporting of provident fund and gratuity fund of the staff are duly recorded in PKSf's software.
	8. To verify whether recording and settlement system of earned leave encashment, medical benefits and insurance facility of staff have been properly kept in PKSf's software.
	9. To verify the effectiveness of PKSf's software in use of e-nothi, file coding, official website, official archive, e-library, virtual meeting, official LAN, outlook etc. of the PKSf.
(A.1. iii) Security Management	1. To check the dependability of security management of PKSf's software regarding system security, data center security, backup security, software security, environmental security, network security, cyber security etc.
	2. To identify the vulnerabilities, threats and risks of PKSf's software and possible ways out.
	3. To ensure the dependability of data privacy and data protection of PKSf's software.
	4. To ensure the confidentiality, reliability, availability and integrity of data/information generated by PKSf's software.

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Areas of audit	checking points
	<ol style="list-style-type: none"><li>5. To verify the effectiveness of PKSF's software controls e.g. application controls, input controls, output controls, processing controls, security controls, and Data backup/recovery controls.</li><li>6. To verify whether the changes in any module or physical infrastructure is tested and implemented as per management requirement.</li><li>7. To verify the effectiveness of virus protection, firewall, intrusion detection mechanisms of PKSF's software.</li><li>8. To verify whether the access to PKSF's software is controlled through a secured mechanism like password, bio-metric device etc.</li><li>9. To verify whether PKSF's software infrastructure is located in a secured place which is fire resistant as well as free from unauthorized access.</li><li>10. To verify whether adequate precautions (management approval, deletion /destruction of sensitive information) are taken for IS assets before their disposal.</li><li>11. To verify whether antivirus/antimalware software is installed on all servers, desktops, laptops and frequently updated.</li></ol>
<b>(A.1. iv)</b> <b>Verification of Backup system</b>	<ol style="list-style-type: none"><li>1. To check whether the PKSF has a proper Data server, Disaster Recovery Plan (DRP), password security plan, software policy, user manual etc.</li><li>2. To verify whether the Business Continuity Plan (BCP) of PKSF's software clearly defined, approved, documented, implemented and updated at a regular interval.</li><li>3. To check whether the business continuity plan is tested at a regular interval.</li><li>4. To check whether the PKSF has maintained secondary back-up systems (pen drive, hard disc, CD, cloud storage) of the software generated reports, statements, registers, books of accounts.</li></ol>





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### A.2: PKSF's internal pre-audit:

#### A.2.a: PKSF's own transactions audit:

Under PKSF's own transactions audit, auditors are responsible of examining the following areas/events.

Areas of audit	checking points
(A.2.a.i) Procurement of Goods	1. To check the administrative approval of the procurement and to verify whether the procured goods included in approved budget and Annual Procurement Plan (APP).
	2. To check whether the procurement is pertinent to the Delegation of Administrative and Financial Authority (DAFA) and respective Terms of References (ToR).
	3. To examine whether the official cost estimation committee, tender opening committee (TOC), tender evaluation committee (TEC), technical Sub-committee (if any) are formed in accordance with Public Procurement Act (PPA) and Public Procurement Rules (PPR).
	4. To verify the approval of official cost estimation committee's report and tender evaluation committee's report in light of Public Procurement Rules (PPR).
	5. To check whether the bidders are enlisted while the procurement under Request for Quotation (RFQ) and Limited Tendering Method (LTM) method.
	6. Whether the evaluations report is approved by competent authority.
	7. To verify the issuance of Notification of Award (NOA) as per approval of Head of Procuring Entity (HOPE) and following recommendation from evaluation committee's report.
	8. To verify the performance security and authenticity of performance security while the procurement under Open Tendering Method (OTM) or Limited Tendering Method (LTM).
	9. To check the contract agreement and annexures, e.g. mode of payment, retention of money, warranty period, liquidity damages etc. of the contract agreement as per prescribed template of Public Procurement Rules (PPR).
	10. To check whether the supplier/contractor has supplied the goods in due time which is specified in the contract agreement and Notification of Award (NOA).



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Areas of audit	checking points
	11. To check whether the supplier/contractor apply for time extension before the expiry of delivery time and approval of the time extension in case of delay.
	12. To verify whether the goods received according to the specification and issued an Acceptance Certificate by Procuring Entity (PE).
	13. To check the bill whether it is as per price schedule.
	14. To check whether the goods received is properly recorded at stock register.
	15. To check that the concern department expressed positive opinion about the procured goods and recommended to pay the bill.
	16. To check whether the bill is submitted properly.
	17. To calculate & deduct VAT & Tax as per govt. rules.
	18. To physically verify the procured goods on test basis.
	19. To certify the net payable amount to the supplier/contractor/vendor.
(A.2.a.ii) Procurement of Services	1. To check the administrative approval of the procurement and to verify whether the procured services included in approved budget and Annual Procurement Plan (APP).
	2. To check whether the procurement is pertinent to the Delegation of Administrative and Financial Authority (DAFA) and Terms of References (ToR).
	3. To examine whether the official cost estimation committee, Proposal evaluation committee (PEC), technical Sub-committee (if any) are formed in accordance with Public Procurement Act (PPA) and Public Procurement Rules (PPR).
	4. To verify the approval of official cost estimation committee's report and Methods of procurement in light of Public Procurement Rules (PPR).
	5. To check shortlisting procedure and evaluation report of Expression of Interest (EOI) which is evaluated by Proposal evaluation committee (PEC).
	6. To check whether the Request for Proposal (RFP) are sent to the shortlisted consultants.
	7. To check the report of negotiation committee (if any).
	8. To examine proposal evaluation committee's report and approval of that report according to Public Procurement Rules (PPR).



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Areas of audit	checking points
	9. To verify whether the award of contract to the selected consultant has been issued, if applicable.
	10. To check contract agreement and annexures of contract agreement properly e.g. deliverables mode, mode of payment, ToR etc.
	11. To check whether the consultant has performed his/her duties in due time which is specified in the contract agreement.
	12. To check whether the consultant apply for time extension before the expiry of specified time and approval of the time extension in case of delay.
	13. To verify whether the deliverables received according to the conditions of contract as accepted by Procuring Entity (PE).
	14. To check that the concern department expressed positive opinion about the procured services and recommended to pay the bill.
	15. To check whether the bill is submitted properly.
	16. To calculate & deduct VAT & Tax as per govt. rules.
	17. To physically verify the procured services on test basis.
<b>(A.2.a.iii)</b> <b>Procurement of Works</b>	18. To certify the net payable amount to the supplier/contractor/vendor.
	1. To check the administrative approval of the procurement and to verify whether the works included in approved budget and Annual Procurement Plan (APP).
	2. To check whether the procurement is pertinent to the Delegation of Administrative and Financial Authority (DAFA) and Terms of References (ToR).
	3. To examine whether the official cost estimation committee, tender opening committee (TOC), tender evaluation committee (TEC), technical Sub-committee (if any) are formed in accordance with Public Procurement Act (PPA) and Public Procurement Rules (PPR).
	4. To verify the approval of official cost estimation committee's report and tender evaluation committee's report in light of Public Procurement Rules (PPR).
	5. To check whether the contractors are enlisted while the procurement under Request for Quotation (RFQ) and Limited Tendering Method (LTM) method.
	6. Whether the evaluations report is approved by competent authority.

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Areas of audit	checking points
	7. To verify the issuance of Notification of Award (NOA) as per approval of HOPE (Head of Procuring Entity) and following recommendation from evaluation committee's report.
	8. To verify the performance security and authenticity of performance security while the procurement under Open Tendering Method (OTM) or Limited Tendering Method (LTM).
	9. To check the contract agreement and annexures, e.g. mode of payment (progressive bill or payment after completion), retention of money, defect liability period, liquidity damages etc. of the contract agreement as per prescribed template of Public Procurement Rules (PPR).
	10. To check whether the contractor has completed the works in due time which is specified in the contract agreement and Notification of Award (NOA).
	11. To check whether the contractor apply for time extension before the expiry of completion time and approval of the time extension in case of delay.
	12. To verify whether the work completion is according to the design and issued a work completion Certificate by Procuring Entity (PE).
	13. To check the bill whether it is as per Bill of Quantity (BOQ).
	14. To check whether Non-tender items are used maintaining proper rules.
	15. To check that the concern department expressed positive opinion about the works and recommended to pay the bill.
	16. To check whether the bill is submitted properly.
	17. To check the progressive report and perform physical verification for the payment of progress bill.
	18. To calculate & deduct VAT & Tax as per govt. rules.
	19. To certify the net payable amount to the contractor.
	20. To check whether the completion report has been issued by the concerned department of PKSF.
(A.2.a.iv)  Other transactions  (including	1. To examine each and every transaction above BDT. 10,000 audited as per Delegation of Audit Authority & Disposal of Files (DAADF) of PKSF.  2. To verify whether all purchased goods and services have been recorded and accounted properly



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Areas of audit	checking points
operating and recurring expenses)	3. To review the reliability and accuracy of the interim financial statements of PKSF.
	4. To examine whether the monthly bank reconciliation statements have been prepared properly.
	5. To check whether advance and fixed asset registers are updated.
	6. To check whether provident fund and gratuity fund accounts have been properly recorded and yearly statements of provident fund accounts have been regularly prepared.
	7. To check the correctness of the final settlement process of the employees of PKSF.
	8. To check the correctness of the repayment schedule of staff loans e.g. house building loan, computer loan, and vehicle loan.
	9. To examine the calculation of earned leave, income tax, and group insurance premium of the employees of PKSF.
	10. To examine daily cash in hand register.

### A.2.b: Program and project's reimbursement/replenishment transactions audit:

PKSF's internal audit department will verify the reimbursement/replenishment/adjustment file of the bill of expense incurred by the Partner Organizations (POs) under various programs and projects funded by PKSF. Under this audit, auditors are responsible of examining the following areas/events.

1. To check whether the program/project is approved by the Board of PKSF;
2. To check whether the budget of the program/project is approved by the Board of PKSF.
3. To check whether the total approved budget of respective program/project is distributed among the partner organizations (POs) accordingly with the approval of appropriate authority;
4. To check whether the approved budget (in case of the total budget is approved for more than one year) of the partner organizations (POs) is allocated on year to year basis with the approval of appropriate authority;
5. To check whether the approved budget of the program/project has been informed to the concerned partner organization (PO) by a letter signed by the appropriate authority;
6. To check whether there is any special approval by the appropriate authority regarding intra-sector adjustments.



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7. To review compliance with policies and guidelines prescribed by PKSF for reimbursement/replenishment/adjustment under the respective program/project;
8. To verify whether all the formats provided for reimbursement/replenishment/ adjustment of the respective program /project have been duly filled;
9. To ensure whether original copy of accounts/ bills has been attached with the reimbursement/adjustment/replenishment application form;
10. To assess whether the part of reimbursement/replenishment/adjustment of PKSF as per the budget (i.e. the presented amount in terms of money and in terms of percentage) is supported by the policy and guideline of the respective project/ program;
11. To check the unspent portion of the budget before clearing the reimbursement/replenishment.
12. To check whether the accounts for reimbursement/replenishment/adjustment of unspent portion have been presented correctly with ensuring the balance of each sector and sub-sector;
13. To review whether the Statement of Expenditure (SoE) submitted by POs have been correctly accounted for;
14. To review whether supporting accounts and bills have been attached with the Statement of Expenditure (SoE) submitted by POs to provide accurate information on sector-wise and sub sector-wise cost calculations (where necessary);
15. To verify whether inter-sector adjustment within the budget is supported by the policies and guidelines under the respective program/ project;
16. To review whether income tax and VAT have been properly assessed in the accounts/ bill presented by the PO as per Government Rules.
17. To check that there are any exceptions in the case of income tax /VAT (if any, such as rates applicable in hilly areas, VAT and income tax exemption) are mentioned in the documents submitted by the PO;
18. To check whether PO has deducted Advance Income Tax (AIT) from the salaries of respective program/ project employees as per govt. rules;
19. To check whether the copies of income tax and VAT invoices has been attached with the accounts/ bill presented by the POs and verify these in online;
20. To examine whether expenditure incurred in intended purposes or member's interest in accordance with conditions/guidelines of respective programs/projects;

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21. To check the movement of granted fund or reimbursement from mother account to beneficiaries through operating account of PO;
22. To examine whether the bills/vouchers of the expenses and income have been duly approved, recorded and maintained;
23. To check whether VAT and tax have been calculated/deducted and deposited at government treasury properly and timely.

### B. Audit of Partner Organizations (POs)

#### B.1: Scope of the Partner Organizations (POs) Audit:

Under this section, the activities and transactions of core loan program of the POs as well as PKSF-funded other programs and projects will be audited in due diligence. Basically, the audit of Partner Organizations (POs) consists of the following five areas.

i.	System audit of the POs
ii.	Assessment of internal control & Governance
iii.	Verification of financial transactions
iv.	Field inspection
v.	Risk assessment

#### B.2: System audit of the Partner Organizations (POs):

The 'degree (high/medium/low) of risk' assigned in 'Colum 3 (Risk Level)' of the following table is based on general considerations. The head of audit department may re-assign the risk level of an observation/violation on the ground of materiality/importance with discussion of respective auditor(s) and his/her supervisor. In this case, the auditor will explain the reason of the re-fixation in the file. The major areas of the system audit of the Partner Organizations (POs) are as follows.

Sl.	Checking points	Risk Level (if violation is found)
i.	To verify whether the software of the Partner Organization (PO) is fully automated and web-based.	High
ii.	To examine whether the PO is able to generate/consolidate monthly report at both branch & head office level without any manual	High



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Sl.	Checking points	Risk Level (if violation is found)
	adjustment/posting.	
iii.	To verify whether the PO has designed its software infrastructure as per directions of MRA and PKSF regarding service charge on loan, rebate, interest on member savings, grace period, loan processing fees, risk mitigation fee, loan classification, LLP, depreciation/amortization, reserve fund, reserve & savings fund investment, loan write-off etc.	High
iv.	To verify whether there is any incident of manipulation or window-dressing in books of accounts, registers, statements, monthly report etc. of the POs.	High
v.	To verify whether there is any incident of charging continuous interest on overdue loan in the software.	Medium
vi.	To verify whether there is any incident of hiding/manipulating overdue loan, automatically rescheduling overdue loan and fake disbursement in the software.	High
vii.	To verify whether there is any mismatch between software and manual record-keeping in case of maintaining registers, books of accounts, statements, reports, collection sheets, pass book. etc.	Medium
viii.	To verify whether all sort of financial defalcation, fund drain and cash shortage has been dully reflected in software report.	High
ix.	To examine whether all financial transactions have been recorded in software in line with adequate supporting, vouchers, relevant policy etc.	Medium
x.	To check whether the PO has proper Data center, Data backup, Disaster Recovery Plan (DRP), Business Continuity Plan (BCP), Password security plan and software policy & user manual.	High
xi.	To verify whether the PO has a sophisticated IT cell/department adorned with well-trained IT experts/employees in both the head office and branch level.	Medium
xii.	To verify whether there is any configuration/module which is contradictory with Digital Security Act and Money Laundering prevention Act enforceable in Bangladesh.	High

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Sl.	Checking points	Risk Level (if violation is found)
xiii.	To authenticate whether the PO has adequate protection/backup/legal-ground in case of possible conflict with Software Company.	High
xiv.	To check conditions of agreement between the PO & Software Company and its compliance.	Medium
xv.	To check whether the security password is only known and used by the designated person.	High
xvi.	To examine whether PO has policies regarding password authority, storage of software data, abuse of software and authority of correction in the software etc.	High
xvii.	To examine whether field officer/ branch accountant/branch manager is manipulating or misguiding the software input data.	High
xviii.	To check whether PO has taken the last date of the month as the month closing date and is there any option to change the data given on the back dates.	High
xix.	To check whether software is generating different reports for different parties.	High

### B.3: Assessment of Internal control & Governance audit:

Under internal control & governance audit, auditors will verify the effectiveness of internal control system, managerial functions and regulatory framework of the PO. The 'degree (high/medium/low) of risk' assigned in 'Colum 3 (Risk Level)' of the following table is based on general considerations. The head of audit department may re-assign the risk level of an observation/violation on the ground of materiality/importance with discussion of respective auditor(s) and his/her supervisor. In this case, the auditor will explain the reason of the re-fixation in the file. The major areas of this audit are as follows.

Areas of audit	Checking points	Level of Risk (if violation is found)
(B.3.i) Constitution	1. To examine whether the PO has approved constitution, Memorandum of Association (MoA) and Articles of Association (AoA).	High

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Areas of audit	Checking points	Level of Risk (if violation is found)
<b>and Registration</b>	2. To verify the name of the PO is unique/identical in all the certificates of the PO.	High
	3. To examine whether the PO has taken certificate from MRA, NGO affairs bureau, social welfare department, RJSC as applicable and update regularly.	High
<b>(B.3.ii) PO's Own Policies</b>	1. To examine whether the PO has a set of approved policies e.g. human resource policy, savings-credit policy, risk mitigation fund policy, cost allocation policy, gender policy, procurement policy, staff loan policy, advance policy, investment/fund management policy, Delegation of Administrative and Financial Authority (DAFA) and other policies and implement accordingly.	Medium
	2. To examine whether the PO's policies are in line with MRA rules & PKSf's guidelines.	High
<b>(B.3.iii) Formulation of Committee</b>	1. To examine the governance issues of the PO e.g. composition of committees, competitiveness of the committees, duration of the committees, and tenure of the committee members in light of MRA rules.	Medium
	2. To examine whether the meeting of General committee and Executive committee have been taken place in due course and meeting resolutions were maintained properly.	Medium
	3. To examine whether the required number of women members have been included in General committee and Executive committee as per MRA directions.	Medium
<b>(B.3.iv) Compliance with MRA's directions</b>	1. To examine whether the PO has complied with MRA directions regarding service charge rate, savings interest rate, loan classification & LLP.	High
	2. To examine whether the PO has complied with MRA directions, e.g. loan written-off, fixed assets acquisition, voluntary & term savings, investment, rebate and so on.	Medium
	3. To examine the non-compliance of the guidelines of the MRA in managerial functions of the PO.	Medium
<b>(B.3.v) Compliance</b>	1. To examine whether the PO has complied with the guidelines of PKSf regarding loans policy, FDR, signatory of mother account etc.	Medium

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Areas of audit	Checking points	Level of Risk (if violation is found)
with PKSF's directions	2. To examine whether the management of the PO has given proper attention in projects implementation & followed the project guidelines accordingly.	High
(B.3.vi) Legal issues	1. To examine whether there is any financial or non-financial activity has been taken place in the PO's transactions which is contravened to any act/regulation of the country or any rule/guideline of the related authority.	High
	2. To examine whether the PO has submitted income tax return on regular interval.	High
(B.3.vii) Staff Management	1. To check whether the PO has a transparent recruitment, training, rotation, promotion, increment, settlement, performance appraisal system.	Medium
	2. To verify whether the PO has a policy to review pay scale in a regular interval.	Medium
	3. To verify whether the PO has systematically preserved staff personal file, Annual Confidential Report (ACR), certificate, nominee form etc.	Medium
(B.3.viii) Social welfare Activities	1. To examine the approval, documentation, accounting of social welfare expenses.	Medium
	2. To check whether the Social welfare expense is within the limit approved by MRA.	High
(B.3.ix) Other Issues	1. To examine the effectiveness of the PO's policy to ensure/promote the integrity regarding auditing, transparency, accountability and good governance.	Medium
	2. To examine whether the PO's policy is capable enough to safeguards both organization's interest and members' interest as well.	High
	3. To examine the effectiveness of the PO's policy to address and mitigate the risks.	Medium
	4. To examine whether the PO had followed-up and made an effective action-plan regarding the previous audit's observations in due diligence.	

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### B.4: Verification of Financial Transactions Audit:

Under financial transactions audit, auditors will assess the relevancy, reliability and neutrality of the accounting information presented on financial statements. Auditors will also verify whether the financial records/transactions are free from material misstatement and significant error. The 'degree (high/medium/low) of risk' assigned in 'Colum 3 (Risk Level)' of the following table is based on general considerations. The head of audit department may re-assign the risk level of an observation/violation on the ground of materiality/importance with discussion of respective auditor(s) and his/her supervisor. In this case, the auditor will explain the reason of the re-fixation in the file. The major areas of the financial transactions audit are as follows.

Areas of audit	checking points	Level of Risk (if violation is found)
<b>(B.4.i)</b> <b>Preparation of financial statements</b>	1. To examine whether the PO has complied with international accounting standards while recording financial transactions, preparing financial statements and presenting reports to interested parties.	Medium
	2. To examine whether the PO has followed the general accounting principles, e.g. conservatism, full disclosure, going concern, consistency etc. while recording financial transactions.	Medium
	3. To examine whether the PO has followed the accrual basis accounting while recording financial transactions.	High
	4. To examine whether the PO has duly followed the directions of Micro-credit Regulatory Authority (MRA) while recording financial transactions and preparing financial statements.	High
	5. To examine whether the PO has kept chart of accounts, head of accounts, books of accounts, financial statements, registers for its financial transactions properly.	Medium
	6. To examine whether closing balance of previous month/year accounts/registers have been carried forward as opening balance of next month/year accounts/registers correctly.	High
	7. To examine whether the PO has prepared and submitted same reports to all parties without manipulation.	High
	8. To examine irregularities, e.g. defalcation, material misstatement, earnings management and window-dressing, incurred by the PO while recording financial transactions and preparing financial statements.	High



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Areas of audit	checking points	Level of Risk (if violation is found)
	9. To verify the reasons of prior year adjustment of financial transactions in financial statements.	Medium
	10. To examine accounting errors/omissions/estimates while recording financial transactions and preparing financial statements.	Medium
	11. To conduct head-wise cross-check of each account's balance in financial statements against general ledger, registers, cash book, bank accounts, vouchers, supporting documentation etc.	Medium
<b>(B.4.ii)</b> <b>Capital fund</b>	1. To check whether same amount of surplus/deficit account shown in income statement and capital fund account in balance sheet.	High
	2. To examine the adjustments with capital fund during the period based on justification and proper documentation.	High
	3. To cross-check of the accuracy carried forwarding of cumulative surplus/deficit of consecutive financial years.	High
	4. To check inclusion of any funds, e.g. member welfare fund, member savings fund, general fund, revaluation reserve, project fund, to capital fund.	High
	5. To verify any sort of authorized transfer from capital fund to other funds, e.g. general fund, general reserve, CSR fund, disaster management fund etc.	High
	6. To examine the acceptability of donation to capital fund.	Medium
<b>(B.4.iii)</b> <b>Statutory reserve fund</b>	1. To examine whether the PO has maintained statutory reserve fund in accordance with MRA guideline.	High
	2. To examine whether investment against statutory reserve fund has been properly maintained and updated accordingly.	High
	3. To examine whether bank account and investment (FDR) against statutory reserve fund has been made in name of this fund.	High
	4. To examine whether investment (FDR) against statutory reserve fund is free from lien/mortgage.	Medium
<b>(B.4.iv)</b>	1. To examine whether the fixed assets have been purchased/sold after getting approval of the EC committee of the PO.	High

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Areas of audit	checking points	Level of Risk (if violation is found)
Fixed assets	2. To ensure that the PO has taken permission from the MRA and clearance from the PKSF before purchase/sale of fixed assets with significant amount.	Medium
	3. To examine whether the PO has procured the assets by following the necessary guidelines (approved purchase committee, tender/quotation, comparative statement, work order, payment mode, documentation, deduction of income tax & VAT, budget etc.) of its approved procurement policy.	Medium
	4. To verify whether fixed assets are purchased & recorded in name of organization itself and used for organization's intended purpose.	High
	5. To examine whether the payments of purchase/sale of fixed assets settled through duly authorized/approved bank accounts.	High
	6. To examine whether fixed assets register, depreciation register and disposal register have been maintained and updated appropriately.	Low
	7. To physically verify the existence and activeness of fixed assets.	Medium
	8. To cross-check location & identification number of fixed assets.	Low
	9. To check change of balance of fixed assets against respective bill, voucher, bank account and documentation.	Low
	10. To examine whether the PO has revalued and recorded its fixed assets in compliance with respective IAS/IFRS.	High
	11. To examine whether the ratio of fixed assets against capital fund is within the limit prescribed by MRA.	Medium
	12. To evaluate whether the fixed assets have been purchased for the absolute usage of the PO.	Medium
	13. To check whether the cheque of payment drawn in the name of the actual supplier.	Medium
	14. To check whether the procured fixed assets have been shown in particulars books of accounts.	Low



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Areas of audit	checking points	Level of Risk (if violation is found)
<b>(B.4.v) Depreciation and Amortization</b>	1. To examine whether the PO has charged depreciation/amortization on non-current assets in accordance with respective guideline (third schedule of income tax ordinance 1984) of MRA.	Medium
	2. To examine whether the PO has properly maintained and updated depreciation register.	Low
<b>(B.4.vi) Investment</b>	1. To examine whether the PO has maintained required amount of investment against savings fund and reserve fund as per MRA rules.	Medium
	2. To examine whether the PO has recorded interest on investment on accrual basis.	Low
	3. To examine whether bank account and investment (FDR) against savings fund and reserve fund have been made in name of the respective funds.	Low
	4. To examine whether the aforesaid investment (FDR) are free from lien/mortgage.	Low
	5. To examine whether the PO has kept investment (FDR) in scheduled banks as per MRA rules.	High
	6. To examine whether the PO has kept investment more than maximum limit prescribed by the PKSf in a single bank.	Low
<b>(B.4.vii) Loan Portfolio at field</b>	1. To examine the movement of the funds (both PKSf and non-PKSf) from head office to members through branch offices has been properly executed and recorded.	Medium
	2. To examine whether the PO has disbursed loans to members by following the guidelines of respective loan policy.	Medium
	3. To verify whether the PO has charged service charge on disbursed loans to members as per directions of MRA and PKSf.	High
	4. To examine whether PO has maintained proper documentation (loan proposal, loan agreement, loan approval certificate, non-judiciary stamp agreement, NID verification, passport size photo, A/C payee cheque, guarantor acceptance, membership form, samitee resolution, member's bank statement, trade/drug license etc.)	Medium



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Areas of audit	checking points	Level of Risk (if violation is found)
	5. To examine the authenticity of disbursement and recovery of the loan by cross-checking among disbursement register, bank account, cash book, general ledger, member passbook, collection sheet and field visit etc.	Medium
	6. To examine whether there is any incident of fake disbursement, re-scheduling, overdue hide, loan syndication, cash shortage etc.	High
	7. To examine whether the balance of micro-enterprise (ME) loan against total loan portfolio is within the limit prescribed in MRA rules.	Medium
	8. To verify the balance of loan portfolio through cross-checking between MIS and AIS.	Low
	9. To verify the effective use (project) of member's loan as per loan agreement.	Low
<b>(B.4.viii)</b> <b>Risk mitigation</b> <b>Fund / Member</b> <b>Welfare Fund</b>	1. To examine whether the PO has collected risk premium from borrowers as per directions of the MRA.	High
	2. To examine whether the PO has adjusted only uncollectible principal amount of loan from risk mitigation fund in case of death, project damage and other causes approved in PO's policy.	High
	3. To verify the authenticity of aforesaid adjustment by checking of documentation (approval application, samitee resolution, death certificate etc.) and field visit.	High
	4. To examine whether the PO has adjusted any overdue loan or unsettled staff advance by risk mitigation fund.	High
	5. To examine whether PO has purchased fixed assets from the fund and transfer it to the projects/programs other than credit program.	High
	6. To examine whether the PO has transferred any portion of risk mitigation fund to other funds, e.g. capital fund, general fund and other fund.	High
<b>(B.4.ix)</b> <b>Member savings</b>	1. To examine whether the PO has fulfilled the conditions for collecting voluntary savings and term savings as prescribed in MRA rules.	Medium





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Areas of audit	checking points	Level of Risk (if violation is found)
fund	2. To examine whether the PO has taken approval from MRA for collecting term deposit.	High
	3. To verify the terms & conditions, interest rate, tenure, documentation (NID, photo, nominee form etc.) of the member savings.	Low
	4. To examine whether the PO has provided prescribed rate of interest on member savings as per MRA rules.	High
	5. To examine whether the PO has posted aforesaid interest on member savings in member's pass book accordingly.	Medium
	6. To examine whether the PO has provided update interest on member savings in case of interim withdrawal.	Low
	7. To verify whether the ratio of voluntary and term deposit against capital fund are within the maximum limit prescribed by MRA.	Medium
	8. To examine whether the collection, interest and refund of each category of savings have been recorded in the books of accounts, member's pass book, collection sheet, general ledger and particular registers properly.	Low
	9. To examine whether the PO has invested the collected savings fund as loan at field within the maximum limit prescribed by MRA.	Medium
	10. To examine whether the PO has transferred any portion of savings fund to other funds, e.g. capital fund, general fund, project fund etc.	High
	11. To verify whether the PO has maintained required % of liquidity investment against savings properly.	Medium
	12. To verify whether the PO has transferred and recorded 'inactive member savings' to income of credit program or any other funds/projects/programs.	High
	13. To examine whether the aforesaid investment (FDR) are free	High

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Areas of audit	checking points	Level of Risk (if violation is found)
	from lien/mortgage.	
<b>(B.4.x) Borrowed fund</b>	1. To verify whether the funds received from PKSF and non-PKSF sources have been duly deposited into mother bank account.	High
	2. To verify whether the funds received from PKSF and non-PKSF sources have been used in intended purposes.	High
	3. To verify whether the funds received from PKSF and non-PKSF sources have been transferred to general fund or used in other purposes.	High
	4. To verify the justification/acceptability of interest of borrowed fund, e.g. bank, individual person loan, general fund etc.	Medium
	5. To verify the terms & conditions, EC committee resolution, approval, interest rate, tenure, usage, lien condition, processing fee etc.	Medium
	6. To examine whether the grants or donations received from PKSF have been properly utilized in intended purposes.	Medium
	7. To verify whether the PO has maintained provision for interest expense on accrual basis.	Medium
	8. To verify whether the PO has repaid installments of the PKSF's fund as per repayment schedule.	High
<b>(B.4.xi) LLP and Write-off loan</b>	1. To examine whether the PO has accounted for Loan Loss Provision (LLP) and Loan Loss Expense (LLE) accounts as per MRA guideline.	High
	2. To examine whether the PO has written-off overdue loan as per MRA rule.	High
	3. To examine whether the PO maintained write-off register, write-off recovery register properly.	Medium
	4. To verify whether the PO has accounted for the recovery of write-off loan in books of accounts and financial statements in due course.	Medium
	5. To verify whether PO has changed the loan classification in order to minimize LLP expenditure.	High



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Areas of audit	checking points	Level of Risk (if violation is found)
(B.4.xii) Advance accounts	1. To verify the purpose, approval, documentation, tenure & mode of payment of advance accounts.	Medium
	2. To verify whether it is interest bearing or not.	Medium
	3. To examine whether the advance has been made in accordance with direction of the PO's advance policy.	Medium
	4. To verify the advance-holder has used the advance in intended purposes, e.g. tour, construction, procurement etc.	High
	5. To verify whether the PO has adjusted aforesaid advance within the approved time-frame as per the PO's advance policy.	Medium
(B.4.xiii) Loans to staff	1. To verify whether the PO has disbursed loans (vehicle loan, house loan, computer loan, loans against salary, Provident fund loan etc.) to staff by following the required directions of respective loan policy.	Medium
	2. To verify whether there is any kind of discrimination in sanctioning loans to staff.	High
	3. To verify whether the PO has regularly adjusted/collected aforesaid staff loans as per repayment schedule.	Medium
	4. To verify the approval, documentation, terms & conditions, mortgage, policy, legal issues etc. of the aforesaid staff loans.	Low
	5. To check whether cash is withdrawn by employees against fake expenditures.	High
(B.4.xiv) Cash in hand	1. To examine whether the PO has kept excess cash in hand regularly as the PO's policy.	Medium
	2. To examine whether the PO has cash shortage or fictitious/fake cash in hand.	High
	3. To verify the security of cash vault.	Low
	4. To verify balance of cash in hand by cross-checking between cash book and physical counting.	High
	5. To verify whether there is any teeming and lading practice in cash in hand.	High
(B.4.xv) Cash at bank	1. To examine whether the PO has kept idle bank balance regularly.	Low
	2. To check whether the PO has prepared bank reconciliation	Low

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Areas of audit	checking points	Level of Risk (if violation is found)
	statement in a regular interval.	
	3. To check the signatory of the operating bank accounts and mother bank account.	High
	4. To verify whether financial transactions have been executed through assigned bank accounts.	Medium
	5. To check whether recovered loan, insurance premium, loan processing fees, service charge on loan and savings from members has been duly deposited to the PO's bank account on the same/earliest date.	Medium
	6. To examine whether the PO has used/drained the bank balance to general fund or any other funds.	High
	7. To verify the PO has any blank cheque dated in advance.	Medium
	8. To verify the banking transactions by cross-checking among cheque issue register, cheque counterpart, bank statement and cash book.	Low
<b>(B.4.xvi)</b> <b>Employee's Provident fund</b>	1. To examine whether the PO has taken approval/recognition of provident fund from National Board Revenue (NBR).	Medium
	2. To verify whether the PO has an approved board of trustees for management of the provident fund.	Medium
	3. To verify whether the PO has maintained separate books of accounts and prepared separate financial statements for the provident fund.	Medium
	4. To examine whether the PO has followed the approved policy of provident fund while sanctioning loan to members.	Low
	5. To examine whether the PO has followed the approved policy of provident fund in settlement of final claim of the staff.	High
	6. To examine whether the PO has followed the direction for investment prescribed in income tax rules 1984.	Low
	7. To verify whether the PO has returned the unclaimed/forfeited portion the fund to at source in a regular interval.	Medium
	8. To verify the terms & conditions, documentation, loan agreement, interest rate, tenure, and mode of repayment in case of staff PF loan.	Low

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Areas of audit	checking points	Level of Risk (if violation is found)
	9. To verify whether employee's provident fund is used beyond the intended purposes.	Low
	10. To verify the PF fund has been audited by listed C.A. firm each year.	Medium
	11. To examine whether the PO has recorded interest on investment of the fund on accrual basis.	Low
	12. To examine whether the name of the fund is mentioned on investment instruments as well as bank statement of the fund.	High
	13. To check whether the investment instruments of the fund is under lien against bank loans for other purposes.	High
	14. To examine whether the activities of the PF are operated as trust deed.	Medium
	15. To examine whether the meeting of trustees is regularly convened and meeting minutes preserved accordingly.	Medium
<b>(B.4.xvii)</b> <b>Employee's gratuity fund</b>	1. To examine whether the PO has taken approval/recognition of gratuity fund from National Board Revenue (NBR).	Medium
	2. To verify whether the PO has an approved board of trustees for management of the gratuity fund.	Medium
	3. To verify whether the PO has maintained separate books of accounts and prepared separate financial statements for the gratuity fund.	Medium
	4. To examine whether the PO has followed the approved policy of gratuity fund in settlement of final claim of the staff.	High
	5. To examine whether the PO has followed the direction for investment prescribed in income tax rules 1984.	Medium
	6. To verify whether employee's gratuity fund is used beyond the intended purposes.	High
	7. To verify the gratuity fund has been audited by listed CA firm each year.	Medium
	8. To examine whether the PO has recorded interest on investment of the fund on accrual basis.	Low
	9. To examine whether the name of the fund is mentioned on investment instruments as well as bank statement of the fund.	High
	10. To check whether the investment instruments of the fund is	High

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Areas of audit	checking points	Level of Risk (if violation is found)
	under lien against bank loans for other purposes.	
	11. To examine whether there is any incident of granting loan from the gratuity fund.	High
	12. To examine whether there is any shortage in provision for the gratuity fund.	High
<b>(B.4.xviii)</b> <b>At source deduction of VAT and Income tax</b>	1. To examine whether the PO has properly deducted and accounted for VAT and income tax from bills of the procurement of goods/services/works as applicable rate prescribed by NBR for respective year.	Medium
	2. To examine whether the PO has regularly deposited the aforesaid deducted VAT and income tax to government treasury and preserved chalan in a proper order.	Medium
	3. To check whether the PO has submitted the withholding tax return to DCT in due time.	Medium
	4. To check whether PO has adjusted income with expenditure (netting off) to avoid Income Tax or avoid tax liability by any means of window dressing.	High
	5. To check whether the PO has properly maintain advance income tax & submitted the return by adjusting the advance income tax.	Medium
<b>(B.4.xix)</b> <b>Service charge income</b>	1. To verify whether the PO has charged service charge on member's loan as per MRA and PKSF guidelines.	High
	2. To verify whether the PO has recorded service charge on member's loan in accordance with accrual basis accounting system.	Medium
	3. To verify whether the PO has rebated service charge in case of advance installments.	Medium
	4. To verify whether the PO has charged service charge on overdue loan amount.	High
	5. To verify whether the PO's software has enabled to calculate service charge on member's loan automatically.	Medium
<b>(B.4.xx)</b> <b>Loan processing fees</b>	To examine whether the PO has collected loan processing fees, e.g. admission form, pass book, loan form etc. in guidance with MRA.	Medium

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Areas of audit	checking points	Level of Risk (if violation is found)
(B.4.xxi) Other income	1. To check bill-voucher, documentation, books of accounts regarding various income e.g. service charge income, interest income, write-off recovery, donation income, reimbursement income, income from projects, residence income, etc.	Medium
	2. To check whether PO has transferred income from credit/projects/programs to the general fund or any other fund.	High
(B.4.xxii) Salary and allowances	1. To examine whether the PO has provided salary and allowance as per approved pay scale and deducted related deductions (PF, income tax, staff loans etc.) accordingly.	Medium
	2. To examine whether salary and allowance has been paid through banking channel.	Medium
	3. To examine whether the PO has paid salary and allowance to any non-existed employee.	High
	4. To examine whether any staff has been paid his/her salary from more than one program/project by violation of policy.	High
	5. To examine whether PO has paid salary and allowances to employees from multiple sources/branches unethically.	High
(B.4.xxiii) Operating expenses	To check bill-voucher, documentation, books of accounts regarding various expenses, e.g. service charge expense, printing and stationeries, repair and maintenance, depreciation, LLE, project cost, social welfare expense, conveyance, house rent, fuel cost, entertainment cost, office rent etc.	Medium
(B.4.xxiv) Budgetary control	1. To examine the effectiveness of budgetary control of the PO.	Medium
	2. To examine the budget achievement and budget variance.	Medium
(B.4.xxv) Documentation and file management	To verify whether the PO has preserved bill-vouchers, documents, books of accounts, registers, reports etc. at least 10 years at head office and minimum 5 years at branch office level.	Medium
(B.4.xxvi)	1. To verify whether PO has transferred the embezzled fund by employees to 'Unsettled staff advance'.	High

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Areas of audit	checking points	Level of Risk (if violation is found)
<b>Unsettled Staff Advance</b>	2. To verify whether due/overdue of the field amount is included in the 'Unsettled staff advance'	High
	3. To verify whether 'Unsettled staff advance' amount is included in the loan outstanding.	High
<b>(B.4.xxvii) General issues</b>	1. To verify recording of the accuracy of cash book, general ledger, subsidiary ledger and other registers.	Low
	2. To check whether PO has shown excess of income over expenditure by window dressing (forwarding expenditure to the next FY, recording revenue expenditure as capital expenditure, showing fake cash in hand through payment of salary and other expenses etc. )	High
	3. To examine whether any donation is given to employees / members without following respective policy.	High
	4. To examine whether the bills/vouchers are duly approved for payment by the competent authority.	High
	5. To examine whether loan/advance balance (PF, Vehicle,) of staff is available after the final settlement.	High
	6. To examine whether the provision for expenses and accrued income have been accounted for and reflected in books of accounts and in financial statements.	Medium
	7. To identify common mistake in preparation of statement of profit or loss and other comprehensive, statement of financial position, statement of cash flows, receipts-payments accounts, statement of changes in capital fund and notes to the financial statements.	Medium
	8. To cross-check between MIS and AIS for same accounting information/data.	High
	9. To cross-check between manually prepared reports and software generated reports.	Low
	10. To verify whether any expenditures of the projects are charged from and recorded in the credit program.	High
	11. To verify the current year's change of head of accounts regarding different kinds of assets, debts, funds, expenses, income, provisions etc.	Medium





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### B.5: Field inspection:

The 'degree (high/medium/low) of risk' assigned in 'Colum 3 (Risk Level)' of the following table is based on general considerations. The head of audit department may re-assign the risk level of an observation/violation on the ground of materiality/importance with discussion of respective auditor(s) and his/her supervisor. In this case, the auditor will explain the reason of the re-fixation in the file. The major areas of the field inspection are addressed as follows.

Sl.	Checking points	Risk Level (if violation is found)
i.	To examine whether there is any incident of misuse of fund that has not been deposited to office by field staff after collection of loan, savings, processing fees, risk mitigation fee, write-off recovery etc. from members.	High
ii.	To conduct a random check whether the loan/donation has been properly distributed to and utilized by the program participants	High
iii.	To examine whether there is any fake/fictitious loan disbursement at field	High
iv.	To examine whether there is any incident of syndication of loans at samitee	High
v.	To examine whether the loan, savings, risk mitigation premium, processing fees have been recorded in books of accounts.	Medium
vi.	To examine whether there is any hidden overdue loans at field level.	High
vii.	To examine whether the monitoring & supervision system of programs/project is satisfactory.	Low
viii.	To examine the discipline and attendance of the weekly meetings of samitee.	Low
ix.	To examine whether risk mitigation fund claim has been sanctioned to right person for right cause.	High
x.	To cross-check between collection sheet and pass book.	Medium
xi.	To verify the project of the members as per loan agreement.	Low



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### B.6: Risk assessment

Under the risk assessment audit, auditors will assess the risks in pertinent to operational, managerial and financial activities of the POs. The following guideline will be followed by the auditor to assess the risks of the POs.

I. CREDIT RISK AND PORTFOLIO QUALITY	
Areas	Risk level
<b>a. Portfolio at Risk (PAR): PKSF standard value is maximum 10%</b>	
<i>The value of PAR is more than 10%</i>	High
<i>The value of PAR is between 7% to 10%</i>	Medium
<i>The value of PAR is less than 7%</i>	Low
<b>b. On Time Realization Rate (OTR): PKSF standard value is minimum 92%</b>	
<i>The value of OTR is less than 92%</i>	High
<i>The value of OTR is between 92% to 95%</i>	Medium
<i>The value of OTR is more than 95%</i>	Low
<b>c. Credit concentration: MRA standard value is maximum 50%</b>	
<i>The outstanding balance of a single category of loan is more than 60% of total loan outstanding</i>	High
<i>The outstanding balance of a single category of loan is from 50% to 60% of total loan outstanding</i>	Medium
<i>The outstanding balance of a single category of loan is from 40% to 49% of total loan outstanding</i>	Low

II. LIQUIDITY AND SOLVENCY RISK	
Areas	Risk level
<b>a. Current ratio: PKSF standard value is minimum 2:1</b>	
<i>The value of current ratio is less than 2:1</i>	High
<i>The value of current ratio is from 2:1 to 3:1</i>	Medium
<i>The value of current ratio is more than 3:1</i>	Low



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<b>b. Liquidity to savings ratio:</b>	
<b>PKSF standard value is minimum 15% (FDR+cash+bank)</b>	
<i>The value of the ratio is less than 15%</i>	High
<i>The value of the ratio is from 15% to 25%</i>	Medium
<i>The value of the ratio is more than 25%</i>	Low

III. FINANCIAL RISK AND LEVERAGE	
Areas	Risk level
<b>a. Debt to capital ratio: PKSF standard value is maximum 9:1</b>	
<i>The value of the ratio is more than 9:1</i>	High
<i>The value of the ratio is from 7:1 to 9:1</i>	Medium
<i>The value of the ratio is less than 7:1</i>	Low
<b>b. Capital Adequacy Ratio (CAR) : PKSF standard value is minimum 10%</b>	
<i>The value of the ratio is less than 10%.</i>	High
<i>The value of the ratio is from 5% to 10%</i>	Medium
<i>The value of the ratio is more than 10%</i>	Low
<b>c. Debt service coverage ratio (DSCR) : PKSF standard value is minimum 1.25:1</b>	
<i>The value of the ratio is less than 1.25:1</i>	High
<i>The value of the ratio is from 1.25:1 to 1.40:1</i>	Medium
<i>The value of the ratio is more than 1.40:1</i>	Low
<b>d. Liability concentration: Standard value is maximum 50%</b>	
<i>The % of a single source financing is more than 60% of total external debts.</i>	High
<i>The % of a single source financing is from 50% to 60% of total external debts</i>	Medium
<i>The % of a single source financing is less than 50% of total external debts</i>	Low

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### IV. PROFITABILITY AND PRODUCTIVITY RISK

Areas	Risk level
<b>a. Yield on average loan portfolio: PKSf standard value is minimum 20%</b>	
<i>The value of the ratio is less than 20%.</i>	High
<i>The value of the ratio is from 20% to 30%</i>	Medium
<i>The value of the ratio is more than 30%</i>	Low
<b>b. Return on Total Assets (ROTA): PKSf standard value is minimum 3%</b>	
<i>The value of the ratio is less than 3%.</i>	High
<i>The value of the ratio is from 3% to 4%</i>	Medium
<i>The value of the ratio is more than 4%</i>	Low
<b>c. Borrower coverage ratio: PKSf standard value is minimum 70%</b>	
<i>The value of the ratio is less than 70%.</i>	High
<i>The value of the ratio is from 70% to 80%</i>	Medium
<i>The value of the ratio is more than 80%</i>	Low

### V. MRA POLICY AND PKSf GUIDELINES

Areas	Risk level
<b>a. Voluntary deposit: PKSf standard is maximum 25% of Total capital fund</b>	
<i>The value of the ratio is more than 50%</i>	High
<i>The value of the ratio is from 25% to 50%</i>	Medium
<i>The value of the ratio is less than 25%</i>	Low
<b>b. Term deposit: PKSf standard is maximum 25% of Total capital fund</b>	
<i>The value of the ratio is more than 50%</i>	High
<i>The value of the ratio is from 25% to 50%</i>	Medium
<i>The value of the ratio is less than 25%</i>	Low
<b>c. Fixed asset ratio: PKSf standard is maximum 35% of total capital fund</b>	

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<i>The value of the ratio is more than 50%</i>	High
<i>The value of the ratio is from 35% to 50%</i>	Medium
<i>The value of the ratio is less than 35%</i>	Low
<b>d. Investment in FDR in a single bank: PKSF standard is maximum 35%.</b>	
<i>The value of the ratio is more than 50%</i>	High
<i>The value of the ratio is from 35% to 50%</i>	Medium
<i>The value of the ratio is less than 35%</i>	Low

  
27/07/2023  
(A. Khaleque Miah)

General Manager (Audit)

  
27/7/23  
(Dr Nomita Halder ndc)

Managing Director

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