Revision History

Revision N°.	Effective Date	Description of Changes	Ref. No.
00	April 22, 2011	Initial Release	2011/01

Contents

I. OBJECTIVE

- The objective of an institution's Internal Audit is to ensure that **appropriate internal control** measures **are in place** in the institution to mitigate the risks linked to its operations, and that these controls **are being followed**.

- *A performing internal control is vital to ensure the best conditions for healthy growth of the activities in compliance with the organization's stated mission.*

II. SCOPE

Internal audit goes beyond analyzing the mere financial data. The internal auditor must look at all aspects of the institution's activities, and more particularly those that are related to:

- the reliability and integrity of financial and operational data
- the effectiveness and efficiency of operations
- the safeguard of assets
- compliance with internal procedures and policies;
- and with external laws, regulations and contracts.

2.1. Risks linked to the delivery of financial and non financial services

The internal auditor will carry out audits on the core activities of the institution (delivery of financial and non financial services) in order to mitigate the financial, operational, reputation risks involved. The main areas identified are:

- ***Reality of the clients and operations***

  *The auditor will carry out checks on documentation linked to the client, and will perform field visits to check in the reality of the clients. This aims to protect the institution against ghost loans, or nonexistent clients which result in embezzlement and a direct **financial risk**.*

- ***Traceability of the transactions***

  *The auditor will verify that all transactions are backed by proper vouchers or receipts, and that they are encoded in such a way that they are easily traceable, in order to help control **financial risk**. Special attention will be given to all cash flow transactions, be they on the field or at the branch office.*

- ***Reaching the target population***

  *The auditor will check on the use of the Poverty assessment tool to ensure it is being used properly on the field, in order to avoid mission drift and to contribute to securing the institution's **social objective**.*

- ***Preventing client over indebtedness***

  *The auditor will check that the assessment of clients' net revenue and computation of the repayment capacity ratios are completed correctly on the loan applications, and that the data on the forms is consistent with observations on the field. Also, the auditor will check on the loan utilization to avoid misallocation to a non income generating use which jeopardizes the clients' ability to repay the loan. Both these audits contribute to preserving the institution's **social responsibility** and minimizing **financial risks** due to poor repayment.*

- ***Client protection and information***

  Through field visits, the auditor will interview clients to assess their knowledge of service terms, and to collect possible feedback on client – loan officer relation. This contributes to preserving ***social responsibility.***

- **Proper use of the MIS**

  Proper use of the MIS must be monitored to detect and prevent any loopholes, short-cuts or risky practices. This is somewhat related to the traceability of operations, and has a direct link on ***operational*** *and* ***financial risks****.*

Each area of these areas is controlled by visits at the **various stages of the operations**: branch back-office, branch front-office and clients' homes or business.

Documentation checks are necessary to make sure procedures are followed correctly, service delivery is documented as it should, and there are no loopholes in the systems.

Field visits are an invaluable way to assess the reality of the clients' activity, the adequacy between their needs and the service provided, and to collect feedback from them on their degree of information and their relation with the institution.

2.2. Financial Management Risks

The controls will aim to contain and minimize financial risks, and to ensure that the financial data of the institution best reflects its actual economic reality.

- ***Control of Cash Flows***

  The auditor will ensure that cash handling is secured at all stages, documented and signed off by the receiver and giver. This is central in controlling financial risks due to poor cash handling.

- ***Safeguard of assets***

  The auditor ensures measures are in place to safeguard the institution's assets; and regular controls are made to verify their existence.

- ***Transparency of the Financial Statements***

  The financial statements must reflect the true financial position of the institution, in a clear, reliable and material way.

- ***Financial control and budget follow-up***

  Financial control and budget follow-up involves establishing a detailed and documented budget, and measuring performance against the budget on a regular basis, in order to take any necessary corrective measure as the need arises.

- **Existence, communication, and enforcement of financial procedures**

  Financial procedures must be clearly set out, and easily understood. All staff should be aware of the procedures applicable to them – be they in the financial management department or not; the auditor must check the enforcement of financial procedures within the institution.

- ***Compliance with local rules and regulations***

  The auditor ensures that the financial management procedures are consistent with local rules and regulations.

2.3. Human Resources Management Risks

The controls aim to ensure **fairness of treatment** of all employees and **compliance with existing procedures and policies**. The internal auditor can also be called upon by an employee in case a problem arises, to act as guarantor of the fairness of treatment.

- ***Up-to-date and secured personal files***

  The auditor checks that all members of staff have up-to-date and complete personal files. These must be kept confidential, only authorized personnel can access them.

- ***Incentive computation***

  The auditor ensures that the computation of staff incentives (bonuses) is transparent, validated timely and in line with the agreed and latest applicable scale.

- ***Management of authorized paid leave***

  The auditor checks that paid leave of any kind is managed in a fair and transparent way.

- ***Log books***

  Log books are held in the institutions various offices to keep track of coming and going of the staff, for control and for security reasons.

III. Role and Responsibility of the Internal Audit

The internal auditor's role is to:

- guarantee that on-going internal controls are in place
- ensure that they are being followed timely
- detect loopholes wherever there may be some
- make recommendations to improve on-going controls, whilst maintaining efficiency.

The audits should be an opportunity for the internal auditor to involve the audited staff and make them understand the implications of the non-compliance to existing controls.

In carrying out audits, the Internal Auditor has no direct responsibility on the audited activities, nor on the staff involved. He / she should not take part in any operational tasks.

The internal auditor must keep the Board of Directors, the Management and the teams informed of fraud and error risks; the identified risks should be ranked by significance. The internal auditor is also responsible for the **follow up** on the recommendations made.

3.1. Scope of Controls and Frequency

The scope and the type of controls, as well as their frequency are all laid out in detail in the **Internal Audit procedures manual**, which comes as a complement to this policy.

3.2. Documentation

Reports and documentation on the audits are the only trace of the controls that have been performed. They can be done in soft copy and hard copy. Those documents should be retained at least 10 years.

3.3. Reports

The **branch internal audit reports** should be submitted to the branches, with copy to any relevant department (if applicable) and to the General Manager.

The **Monthly reports** should be submitted to the General Manager.

The **Quarterly and Annual reports** should be submitted to the Chairman of the Board of Directors and to the General Manager.

3.4. Follow up

The post-audit follow up is under the responsibility of the internal auditor. As all branches are audited twice, or more each year, the follow up should be written down on the last section of the management letter to be sure that its implementation is done. If the issues raised in previous audits are not implemented, the internal auditor has to re-state in the management letter on the follow phase.

IV. Policy for Internal Audit

5.1. CODE OF CONDUCT AND ETHIC

- The internal auditors must remain **independent and impartial** at all times, and in all circumstances. In no way should they be influenced by personal circumstances, or by prejudice that may influence the quality of their reports.

- Audit conclusions must be thoroughly **documented;** all observations and statements in the written reports should be based only on actual findings backed by evidence and confirmed by the audited staff.

- The internal auditors must respect the **confidentiality of information** acquired in the course of an audit and not disclose confidential information without appropriate authority unless there is a legal or professional obligation to do so.

- Should any **contradiction or disagreement** arise between the auditor's conclusions and feedback from the audited staff, they should be analyzed, investigated and solved. If the contradictions persist, they should appear in the audit reports.

- **Cooperation** should be encouraged between the audited staff and the auditors so that the audit is carried out in the best possible conditions. Staff should give the auditors access to all relevant documentation that can give a true picture of the operations. If an audit fails because of lack of cooperation from the audited staff, this must be stated clearly in the audit report.

- In the way they carry out their work, the internal auditors must prove to the rest of the team that the final goal of their work is not to pin and to sanction; but rather that it is to make sure the institution is **duly protected against malfunctions and risks** that could jeopardize its sustainability.

- The audit team should comply with Chamroeun general code of conduct (see Human Resources policies). More specifically, they must act with **courtesy and respect**. The audit should not be carried out in an idea of sanction or witch-hunt. Any breach should be reported by the audited staff to general management.

V. Reference Document

- *Internal Audit Procedure*

VI. Annex Document

- *None applicable.*

VII. Quality Record

- *This policy can be modified and update on yearly basis. The retention should be kept at least five years.*

VIII. Validity

- *This policy will effective to be implemented from the date of signature approved by General Manager.*

Approved by:

Proposed by:

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Mr. SUON Sophea
General Manager
Date: 22 April 2011

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