



Banque Nationale du Rwanda  
National Bank of Rwanda

## **GUIDELINES FOR MFIs' EXTERNAL AUDIT REPORTING**

**REPORT AT**  
**31 DECEMBER 20xx (END OF FINANCIAL YEAR)**

**(SUBMISSION DATE)**

## **TABLE OF CONTENTS**

<b>PART I: REPORT ON ACCOUNTS.....</b>	<b>2</b>
<b>PART II: COMPLIANCE WITH LAWS AND REGULATIONS.....</b>	<b>16</b>
<b>SECTION II. 1 MICROFINANCE LAW AND REGULATIONS .....</b>	<b>17</b>
<b>SECTION II. 2 OTHER LAWS AND REGULATIONS .....</b>	<b>17</b>
<b>PART III: MANAGEMENT LETTER.....</b>	<b>18</b>
<b>SECTION III. 1 GENERAL COMMENTS.....</b>	<b>20</b>
<b>SECTION III 2: AUDITOR'S FINDINGS AND RECOMMENDATIONS .....</b>	<b>21</b>
<i>III.2.1. Follow up on prior year's audit recommendations.....</i>	<i>21</i>
<i>III.2.2. Audit Findings and recommendations.....</i>	<i>21</i>
<b>PART IV: LIST OF PROPOSED SIGNIFICANT ACCOUNTING ADJUSTMENTS .....</b>	<b>22</b>
<b>APPENDIX 1 .....</b>	<b>23</b>
<b>LIST OF POTENTIAL CONTROL WEAKNESSES THAT MAY BE ADDRESSED IN A MANAGEMENT LETTER.....</b>	<b>23</b>

## **PART I: REPORT ON ACCOUNTS**

*[N.B: At a minimum, MFI financial statements should include both a balance sheet and an income (profit and loss) statement, with accompanying notes. Financial statements should show financial information for both the current year and at least the previous year. They should also include a comment on any unusual movements]*

MFI XXXX (Name of MFI)

**DIRECTORS, OFFICERS AND ADMINISTRATION**

**REGISTERED OFFICE**

*(Address of the MFI's headquarter and its location)*

**BRANCHES**

*[Give the names of branches, their location and the date of their approval by the regulatory authority (BNR)]*

**BOARD OF DIRECTORS**

*(Name those who served during the year, give precisions on the date of appointment and/or resignation)*

**AUDIT COMMITTEE**

*(Name those who served during the year, give precisions on the date of appointment and/or resignation)*

**CREDIT COMMITTEE**

*(Name those who served during the year, give precisions on the date of appointment and/or resignation)*

**MANAGEMENT**

*(Indicate the names and the positions of the Managing Director and key staff )*

**EXTERNAL AUDITOR**

*(Name and address. Indicate whether the auditor is an individual or an audit firm)*

**BANKERS**

*(Name and address of the bank(s) where the MFI holds its bank account(s))*

**MFLXXXX**

**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 20XX**

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31<sup>st</sup> December 20xx.

**1. Activities**

The MFI was licensed by the National Bank of Rwanda to operate as a .....(*Savings and Credit cooperative or a public/private limited liability company*)..... in Rwanda following its license certificate number ..... of dd/mm/yyyy.

**2. Results**

The results for the year are set out on Page.....

**3. Dividend**

*(State whether dividends are paid or not)*

**4. Directors**

The directors who served during the year are set out on page .....

**5. Auditors**

X (*Name of the audit firm*) were appointed as auditors in .....(*state the year of appointment*)..... for .....X years (*state the number of years for which they are appointed as external auditors of the MFI*).

**6. Approval of accounts**

The accounts were approved at a meeting of the directors held on ...(dd/mm/yyyy).

**BY ORDER OF THE BOARD**

*(Chairman of the Board)*

*(Signature)*

Date:

**REPORT OF THE AUDITORS TO THE MEMBERS OF MFI XXXX**

**[Opening paragraph:** containing an identification of financial statements audited and a statement of the responsibility of the entity's management and of the auditor)

Example:

We have audited the accompanying financial statements of XXX Microfinance Institution as of 31 December YYYY. These financial statements are the responsibility of the MFI's management and our responsibility is to express an opinion on these financial statements based on our audit.

**[Scope paragraph:** containing a reference to ISA (International Standards on Auditing) or relevant national standards/practices and a description of the work the auditor performed]

Example:

We conducted our audit in accordance with International Standards on Auditing [or relevant national standards or practices]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and accompanying notes are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**(Opinion paragraph:** containing an expression of opinion on the financial statements)

Explanatory note: the opinion paragraph is the crucial part of the audit report. An external auditor may render one of the following types of opinions: unqualified opinion, unqualified opinion with an emphasis of matter, qualified opinion, disclaimer of opinion, adverse opinion)

(Auditor's signature)

(Date of report)

(Auditor's address)

**MFL XXXX.**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20XX**

	<b>Notes</b>	<b>20XX Rwf</b>	<b>20XX-1 Rwf</b>
FINANCIAL REVENUE	2	Xxx	Xxx
FINANCIAL EXPENSE	3	<u>(xxx)</u>	<u>(xxx)</u>
FINANCIAL MARGIN		Xxx	Xxx
PROVISIONS FOR LOAN LOSSES		<u>(xxx)</u>	<u>(xxx)</u>
LOANS WRITTEN OFF (DURING THE YEAR)		(xxx)	(xxx)
RECOVERIES ON LOANS	4	Xxx	Xxx
OPERATING EXPENSES	5	<u>(xxx)</u>	<u>(xxx)</u>
NET INCOME/(LOSS) FROM OPERATIONS		Xxx	Xxx
<b>NON OPERATING REVENUE AND EXPENSES</b>			
GRANTS AND DONATIONS	6	Xxx	Xxx
NON OPERATING REVENUE	7	Xxx	Xxx
NON OPERATING EXPENSES	8	(xxx)	(xxx)
<b>NET INCOME/ (LOSS) BEFORE TAX</b>		<b><u>XXX</u></b>	<b><u>XXX</u></b>
TAX		(xxx)	(xxx)
<b>NET INCOME/ (LOSS) AFTER TAX</b>		<b><u>XXX</u></b>	<b><u>XXX</u></b>

**MFIXXXX**

**STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 20XX**

	Note	20XX Rwf	20XX-1 Rwf
<b>ASSETS</b>			
Cash and bank balances	9	xxx	Xxx
Term Deposits and Treasury Bills	10	xxx	Xxx
Loan portfolio (Current loans)	11	xxx	Xxx
Nonperforming loans	11	xxx	xxx
Provisions for Loan loss	12	(xxx)	(xxx)
Other investments	13	xxx	Xxx
Fixed assets (net book amount)	14	xxx	Xxx
Other assets	15	<u>xxx</u>	<u>Xxx</u>
		<b><u>XXXX</u></b>	<b><u>XXXX</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Customers' or member's deposits	16	xxx	Xxx
Borrowings	17	xxx	Xxx
Accounts payable and other liabilities	18	<u>xxx</u>	<u>Xxx</u>
		<u>XXX</u>	<u>XXX</u>
<b>Shareholders' equity</b>			
Share capital	19	xxx	Xxx
Donations	20	xxx	Xxx
Retained earnings/(accumulated losses)		xxx	Xxx
Net profit/(loss) for the year		xxx	xxx
Reserves	21	<u>xxx</u>	<u>Xxx</u>
<b>Total shareholders' equity</b>		<u>XXX</u>	<u>XXX</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY</b>		<b><u>XXXX</u></b>	<b><u>XXXX</u></b>

The accounts set on pages X to Y were approved by the Board of Directors on dd/mm/yyyy and were signed on its behalf by:

Chairman of Board \_\_\_\_\_

Director \_\_\_\_\_

**MFL XXXX**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 20XX**

**1. SIGNIFICANT ACCOUNTING POLICIES**

*(Present information about the basis of preparation of the financial statements and the specific accounting policies used. The statements below are given only for illustration purpose of what could be said.)*

The principal accounting policies adopted in the preparation of these financial statements are set out below:

**(a) Basis of preparation**

*(E.g.: The financial statements are prepared in accordance with and comply with Generally Accepted Accounting Principles. The financial statements are prepared under the historical cost convention.)*

**(b) Revenue recognition**

*(E.g.: income is recognised in the period in which it is earned. When an account becomes non-performing, interest is suspended until it is realised on a cash basis.)*

**(c) Provision for losses on loans**

*(E.g.: Specific provisions for non performing loans have been made during the year. These provisions have been made in compliance (or not) with the National Bank of Rwanda (BNR) guidelines. The rates of provisions applied are as follows :*

Category ...	xx%
Category ...	xx%
Category ...	xx%

**(d) Foreign currencies**

*(E.g.: Amounts received from foreign financial institutions are translated to Rwandese Francs at the rate of exchange ruling at the date the amounts are received. The differences in exchange arising on repayment of the debt are borne by xxx.)*

**(e) Fixed assets and depreciation**

*(E.g.: Fixed assets are stated at their historical cost or re-valued amount less depreciation. Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives. The annual rates used for this purpose are as follows :*

Buildings	xx %
Motor vehicles	xx %
Office equipment and furniture	xx %
IT Equipments	xx %

**(f) Loans**

(E.g.: Loans are generally shown at the principal amount adjusted for any provision for loan losses. The provision for loan losses is increased by charges to income statement for the period and decreased by recoveries.

**(g) Donations**

(Method of accounting of donations should be explained.

There are two approaches of accounting of donations: the **capital approach** under which a grant is credited directly to shareholder's equity and the **income approach** under which a grant is taken to income over one or more periods. The income approach is the one recommended by IFRSs (IAS 20)).

**(g) Any other**

**N.B:** For each of the notes below, the external auditor is requested to provide additional information that is not presented on the face of the balance sheet and income statement, and that is deemed relevant to an understanding of the contents of the items and specify if an unusual movement has been found.

<b>2</b>	<b>FINANCIAL REVENUE</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
	Interests on financial instrument, on Treasury		
(70/72)	Bills and on Placements with banks	xxx	Xxx
(71)	Interest on loans	xxx	Xxx
(74)	Fees and commissions	xxx	Xxx
	Other financial revenue (Please specify)	<u>xxx</u>	<u>Xxx</u>
		<b><u>xxx</u></b>	<b><u>Xxx</u></b>
<b>3</b>	<b>FINANCIAL EXPENSE</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
(610-619)	Interest on customers' deposits	xxx	Xxx
(601-609)	Interest on borrowings from banks	xxx	Xxx
	Interest on loans and grants from Donors	xxx	Xxx
(621-659)	Other financial expenses(please specify)	<u>xxx</u>	<u>Xxx</u>
		<b><u>xxx</u></b>	<b><u>Xxx</u></b>
<b>4</b>	<b>RECOVERIES ON LOANS</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
(771)	Provisions written back	xxx	Xxx
(772)	Recoveries from written off loans	<u>xxx</u>	<u>Xxx</u>
		<b><u>xxx</u></b>	<b><u>Xxx</u></b>

<b>5</b>	<b>OPERATING EXPENSES</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
	(661) Personnel expense	Xxx	Xxx
	(662) Taxes (Other than on profit)	Xxx	Xxx
	(663) Office rent and office related expenses	Xxx	Xxx
	(664) External services (Consultancy)	Xxx	Xxx
	(666) General expenses	Xxx	Xxx
	(668) Depreciation and amortization	Xxx	Xxx
	Other administrative expenses	<u>Xxx</u>	<u>Xxx</u>
		<u><b>Xxx</b></u>	<u><b>Xxx</b></u>

<b>6</b>	<b>GRANTS AND DONATIONS</b>	<b>20XX</b>	<b>20XX-1</b>
	(765)	<b>Rwf</b>	<b>Rwf</b>
	Donor X	Xx	-
	Donor Y	Xx	Xx
	Donor Z	-	Xx
		<u><b>Xxx</b></u>	<u><b>Xxx</b></u>

*(For each grant, specify the donor, date of receipt, amount received, the purpose of the grant and its period, conditions and any other useful information)*

**In kind donations**

*Please specify if any. In kind donations or subsidies should be disclosed and an estimate of the additional expense an MFI would incur in their absence should be provided*

*Example: the donor may pay salary of an MFI's Managing Director, an MFI may occupy rent free offices, etc*

<b>7</b>	<b>NON OPERATING REVENUE</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>

*(Please specify if any)*

<b>8</b>	<b>NON OPERATING EXPENSES</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>

*(Please specify if any)*

9	<b>CASH AND BANK BALANCES</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
	(10) Cash on hand	xxx	Xxx
	(11) Balance with the National Bank of Rwanda	xxx	Xxx
	(12) Balances with Commercial banks	xxx	Xxx
	Other cash balances <i>(Please specify)</i>	<u>xxx</u>	<u>Xxx</u>
		<b><u>xxx</u></b>	<b><u>Xxx</u></b>
10	<b>Term deposits in banks and treasury bills</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
	(13) <b>Term deposits in banks</b>		
	Due within 3 months of balance sheet date	xxx	Xxx
	Due after 3 months of the balance sheet date	<u>xxx</u>	<u>Xxx</u>
		xxx	Xxx
	(33) <b>Treasury Bills</b>		
	Maturing within 3 months of balance sheet date	xxx	Xxx
	Maturing after 3 months of balance sheet date	<u>xxx</u>	<u>Xxx</u>
		xxx	Xxx
		<b><u>xxx</u></b>	<b><u>Xxx</u></b>
11	<b>LOAN PORTFOLIO</b>	<b>20XX</b>	<b>20XX-1</b>
(20-29)		<b>Rwf</b>	<b>Rwf</b>
	<b>Normal loans</b>		
	Current	xxx	Xxx
	1-29 days late	xxx	Xxx
	30-89 days late	xxx	Xxx
	90-179 days late	xxx	Xxx
	180-365 days late	xxx	Xxx
	More than 365 days late	<u>Xxx</u>	<u>Xxx</u>
		Xxx	Xxx

**Overdrafts**

Current	Xxx	Xxx
1-30 days late	Xxx	Xxx
31-90 days late	Xxx	Xxx
91-180 days late	Xxx	Xxx
More than 180 days late	<u>Xxx</u>	<u>Xxx</u>
	Xxx	Xxx

**Rescheduled and refinanced loans**

Current	xxx	Xxx
1-29 days late	xxx	Xxx
30 and more days late	<u>xxx</u>	<u>Xxx</u>
	xxx	Xxx
	<b><u>xxx</u></b>	<b><u>Xxx</u></b>

12

**MOVEMENT IN LOAN LOSS ALLOWANCE**

	<b>20XX</b>	<b>20XX-1</b>
	<b>Rwf</b>	<b>Rwf</b>
Provisions for loan loss as at 01 <sup>st</sup> January	xxx	Xxx
<u>Add:</u>		
Loan loss provision expense for the year	xxx	Xxx
<u>Less:</u>		
Recoveries on loan loss provision for the year	xxx	Xxx
Loans written off during the year	<u>xxx</u>	<u>Xxx</u>
Provisions for loan loss as at 31 <sup>st</sup> December	<b><u>xxx</u></b>	<b><u>Xxx</u></b>

*(Please specify if an unusual movement is found, especially regarding the provisions for loan losses made and those required as per BNR regulations. Provisions for loan losses made should not be less than those required by regulations)*

13

**OTHER INVESTMENTS**

	<b>20XX</b>	<b>20XX-1</b>
	<b>Rwf</b>	<b>Rwf</b>
<i>(Please specify if any)</i>	xxx	Xxx
	<b><u>xxx</u></b>	<b><u>Xxx</u></b>

**14 FIXED ASSETS**

*(Explanatory note: Categories of the MFI assets may vary according to the fixed assets that the MFI owns. The table below is therefore given for illustration purpose on the required presentation of fixed assets).*

	<b><u>Buildings</u></b> Rwf	<b><u>Motor vehicles</u></b> Rwf	<b><u>Office equipment &amp; furniture</u></b> Rwf	<b><u>IT equipments</u></b> Rwf	<b><u>Total</u></b> Rwf
<b>Cost</b>					
At 1 January 20xx	xx	Xx	Xx	Xx	Xxx
Additions	xx	Xx	Xx	Xx	Xxx
Disposals	(xx)	(xx)	(xx)	(xx)	(Xxx)
At 31 December 20xx	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>	<u>Xxx</u>	<u>Xxxx</u>
<b>Depreciation</b>					
At 1 January 20xx	xx	Xx	Xx	Xx	Xxx
Charge for the year	xx	Xx	Xx	Xx	Xxx
Depreciation On disposal	(xx)	(xx)	(xx)	(Xx)	(Xxx)
At 31 December 20xx	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>	<u>Xxx</u>	<u>Xxx</u>
<b>Net book value</b>					
At 31 December 20xx	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>	<u>Xxx</u>	<u>Xxxx</u>
At 31 December 20xx-1	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>	<u>Xxx</u>	<u>Xxxx</u>

<b>15</b>	<b>OTHER ASSETS</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
	<i>(Please specify if any)</i>	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

<b>16</b>	<b>CUSTOMERS' DEPOSITS</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
(201/203)	Current deposits	xxx	xxx
(204)	Savings accounts	xxx	xxx
(205)	Fixed term deposits	xxx	xxx
(208)	Security deposits	xxx	xxx
	Other deposits <i>(please specify)</i>	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

*(For each item of customers deposits other than their current accounts, separate the amount payable within 3 months of the balance sheet date from that payable after 3 months of the balance sheet date)*

<b>17</b>	<b>BORROWINGS</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
(14)		xxx	xxx
		<u>xxx</u>	<u>xxx</u>

*[For each borrowing, specify the source and its conditions (period, amount, interest rate...)]*

<b>18</b>	<b>ACCOUNTS PAYABLE AND OTHER LIABILITIES</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
		xxx	xxx
		<u>xxx</u>	<u>xxx</u>

*(Give a brief description on the contents and state if an unusual transaction is found)*

<b>19</b>	<b>SHARE CAPITAL</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
(581)	Authorized, issued, and fully paid up	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

<b>20</b>	<b>DONATIONS</b>	<b>20XX</b>	<b>20XX-1</b>
	(53)	<b>Rwf</b>	<b>Rwf</b>
	Prior year	xxx	xxx
	Current year	<u>xxx</u>	<u>xxx</u>
		<u>xxx</u>	<u>xxx</u>
<b>21</b>	<b>RESERVES</b>		
	(575/579)		
	<i>( give the details of the reserves accounts and by clearly stating movements that happened, by showing the balance at the beginning of the year, transfers and/or additions, and balances at the end of the year)</i>		
<b>22</b>	<b>RELATED PARTY TRANSACTIONS</b>		
	<i>(Explanatory note: State whether the Bank entered (or not) into transactions with its directors, significant shareholders and their affiliates. (Please specify if any)</i>		
<b>23</b>	<b>CAPITAL COMMITMENTS</b>	<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
	Authorized, subscribed but not paid up	Xxx	xxx
		<u>Xxx</u>	<u>xxx</u>
<b>24</b>	<b>SHAREHOLDERS or MEMBERS</b>		
	<i>(Brief description of the shareholders / members and their holding in the MFI.)</i>		
<b>25</b>	<b>OFF BALANCE SHEET COMMITMENTS</b>		
	(Provide a brief description on each item)		
		<b>20XX</b>	<b>20XX-1</b>
		<b>Rwf</b>	<b>Rwf</b>
		Xxx	xxx
		<u>Xxx</u>	<u>xxx</u>

**PART II: COMPLIANCE WITH LAWS AND REGULATIONS**

## **SECTION II. 1 Microfinance law and regulations**

The auditor must assess the level of compliance with the law number 40/2008 of 26/08/2008 establishing the organisation of Microfinance activities and BNR regulation number 02/2009 on the organisation of the microfinance activity.

The auditor should particularly focus and express himself/herself on the following:

- Governance of the Microfinance Institution;
- Compliance with all prudential standards.

The auditor should also assess the level of compliance with rules and procedures internal to the institution (bylaws, memorandum and articles of association, accounting and financial procedures, etc ...)

## **SECTION II. 2 Other laws and regulations**

The auditor must also assess the level of compliance with other laws and regulations. These may include tax laws, cooperative law, social security and any other law, breach of which could result into a material loss for the MFI or could jeopardise the going concern of the MFI.

### **PART III: MANAGEMENT LETTER**

*(A management letter is about the communication of identified concerns or weaknesses that became apparent during the audit and the provision of constructive recommendations that management can use to better manage operations or solidify internal controls.)*

(Name of auditor/audit firm)  
(Address)

(date...)

(Name of MFI)

Re: Management letter for the year ended 31<sup>st</sup> December 20xx

Paragraph 1

Paragraph 2

Paragraph 3

(Signature)

(Date)

### **SECTION III. 1 General comments**

The auditor's general comments should include but not be limited to the following:

- Comment on records, accounting systems and controls that were examined during the audit, including systems over treasury management and recording; compliance with policies and procedures for granting and disbursing credits, focusing on the state of loans granted to directors/managers; segregation of duties in the area of credit and cash management; policies and procedures relating to the loan loss provisions; management systems over customers' deposits; the appropriate posting and cut off for short-term debts and accrued liabilities, etc...
- Comment on other specific systems and processes such as management systems and procedures particularly at the branch level;
- Make appropriate recommendations for improvement where weaknesses are identified in terms of systems and controls;
- Communicate any problem identified during the audit, which could significantly affect the going concern of the MFI or any other issue that the auditor considers to be relevant;
- Provide a specific comment on the coherence of the implementation of policies put in place in relation to the loan portfolio management, provisions for doubtful debts, the write off of loans and, if possible, policies to stop and cancel the recorded receivable interests but not collected on loans in arrears.

**SECTION III 2: Auditor's findings and recommendations**

**III.2.1. Follow up on prior year's audit recommendations**

	<b>FINDINGS</b>	<b>RISKS</b>	<b>RECOMMENDATIONS</b>	<b>LEVEL OF IMPLEMENTATION</b>	<b>MANAGEMENT COMMENTS (IN CASE OF PARTIAL OR NON IMPLEMENTATION)</b>
1.					
2.					
3.					
4.					
5.					
6.					

**III.2.2. Audit Findings and recommendations**

	<b>FINDINGS</b>	<b>RISKS</b>	<b>RECOMMENDATIONS</b>	<b>MANAGEMENT COMMENTS</b>	<b>DEADLINE FOR IMPLEMENTATION</b>
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					

**PART IV: LIST OF PROPOSED SIGNIFICANT ACCOUNTING ADJUSTMENTS**

	Account name	Balance Sheet		Income statement		Observation <i>(state whether the proposed adjustment was accepted by the management and passed or not)</i>
		Debit	Credit	Debit	Credit	
1						
	<i>(Description of the adjustment)</i>					
2						
	<i>(Description of the adjustment)</i>					
3						
	<i>(Description of the adjustment)</i>					
<b>TOTAL</b>		<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	

*(Note: Remember to indicate the reason for each proposed adjustment)*

## **APPENDIX 1**

### **List of potential control weaknesses that may be addressed in a management letter**

**NB:** the list is not exhaustive. The external auditor is therefore encouraged to use his own judgments to come out with proper recommendations to improve the internal control system that he examined):

#### Cash and bank

- Lack of segregation of duties;
- Delays in preparing and reviewing bank reconciliations;
- non clearance or delayed clearance of reconciling items;
- Lack of physical security over cash on hand;
- Unjustified cash variances;
- Inadequate processes surrounding the cash counts
- Etc...

#### Loans

- No segregation of duties
- Inadequate control processes in loan approval process
- Lack of adherence to the MFI policies and procedures
- Absence of, or noncompliance with, policies for immediate follow-up on delinquent loans;
- Discrepancies found during the balance confirmation of a few credits to customers: difference between the outstanding capital displayed on the reimbursement card/account of the customer and the remaining balance confirmed by the client<sup>1</sup>;
- Improper loan file documentation
- Excessive refinancing or rescheduling of loans
- Material discrepancies between accounting and loan tracking systems
- Existence of privileges to related party and "insider" loans
- Etc...

#### Internal audit

- Absence of internal audit function, including an operational audit unit;
- Policies and procedures non compliant with the laws and regulations (BNR requirements);
- Absence of surprise visits to branches and clients by managers or internal auditors
- Etc...

#### Loan loss provisions

- Non existent or inaccurate aging schedules
- Unreasonable aging standards
- Growth is masking delinquency problems
- Lack of adherence to laws and regulations
- Etc...

#### Savings and deposits

- No monitoring of dormant accounts
- No monitoring of compulsory savings
- Etc...

#### Capital

- Noncompliance with donor agreements
- Noncompliance with capital adequacy requirements and other laws and regulations
- Etc...

---

<sup>1</sup> This is an essential element of the external audit. It is imperative that the auditor meets a sample of clients (during his mission in the institution or during a field visit) for confirmation of the loan balances. It should be the same for the confirmation of the saving and deposit balances of a few customers.

Revenues and expenses

- Activity recorded in the wrong period
- Interest income recorded incorrectly
- Improper recognition of Donor grant revenue
- Improper accounting of fixed assets
- Incorrect salaries, non-compliant with contracts signed between the employer and employees. Salary increases should be put in writing ;
- Possible existence of "phantom" employees
- Etc...

Management information systems

- System incapable of handling volume of transactions
- Faulty programming, resulting in distorted financial reporting
- Weakness in access control or other security features
- No offsite storage of backup disks or tapes
- Etc....

Fixed assets

- Inexistence of a fixed assets register
- Improper depreciation of fixed assets
- Fixed assets not physically verifiable
- Absence of proof of ownership over fixed assets
- Improper valuation of fixed assets
- Etc...