NATIONAL BANK LTD.

TERMS OF REFERENCE (ToR) FOR FUNCTIONAL AUDIT

Prepared by:

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Head Office, Dhaka

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Terms of Reference (ToR) for conducting Functional Audit of National Bank Limited

Prelude:

National Bank Limited (NBL) was incorporated as a public limited company in Bangladesh as the companies Act. 1913. Presently the bank has 221 branches and 65 Sub-branches across the country. The competent authority of National Bank Limited (NBL) has decided to conduct a functional audit on different customer's loan accounts of different branches and some divisions of our bank. Bangladesh Bank has also instructed us to conduct functional audit on different loan accounts of different branches of NBL in their comprehensive Inspection Report (Bishod Paridarshon -2022) as well as their earlier Bishod Paridarshan Report -2020 to 2021.

Background of Functional Audit:

Bangladesh Bank instructed in their above noted Bishod Poridarshan Reports as follows:

"উক্ত ঋণ প্রস্তাব মূল্যায়ন, অনুমোদন ও বিতরণ প্রক্রিয়ার সাথে সংশ্লিষ্ট কর্মকর্তাদের (ব্যবস্থাপনা কর্তৃপক্ষসহ) দায়-দায়িত্ব নির্ধারণে চার্টার্ড এ্যাকাউন্টেন্সী ফার্ম দ্বারা Functional Audit পরিচালনা করতঃ জড়িত কর্মকর্তাদের বিরুদ্ধে শাস্তিমূলক ব্যবস্থা গ্রহণপূর্বক দলিলাদি অত্র বিভাগে প্রেরণ করতে হবে"। - বিশদ পরিদর্শন- ২০২০-২০২১

"বহিঃনিরীক্ষকের মাধ্যমে ঋণের ফাংশনাল অডিট সম্পন্ন করে অডিট রিপোর্ট অনুযায়ী ব্যাংকের আর্থিক ও প্রশাসনিক ক্ষেত্রে সুশাসন নিশ্চিত করতে যথোপযুক্ত ব্যবস্থা গ্রহণ করার লক্ষ্যে ব্যাংককে পরামর্শ দেয়া হলো"। - বিশদ পরিদর্শন- ২০২২

The objective of Functional Audit:

The objective of the functional audit is to **assess the adequacy and effectiveness** of the internal controls, policies, procedures and systems related to the approval, disbursement and management of loan accounts, and **to identify any weakness, deficiencies, lapses** in discharging responsibilities and due diligence, documentation or non-compliance issues that may affect the quality and recovery of the loans. The functional audit also focuses on **to ascertain the involvement of all individuals** regarding misappropriation of bank funds through irregular means directly or indirectly and take action against them. Other major objectives are:

1. **Process Gap Analysis:**
   Identify any process gaps or deficiencies in the actions of responsible individuals throughout the credit lifecycle including, but not limited to procurement, processing, assessment, disbursement, and monitoring of loan accounts and also review the transaction trail and ultimate beneficiary of the loan.

2. **Duties and Responsibilities Analysis:**
   The report will provide a clear view of the duties and responsibilities as demonstrated by the identified individuals involved in the credit process. They will also assess whether these responsibilities were well – defined and adhered to effectively or not.

3. **Due Diligence Assessment:**
   Focus on whether the responsible individuals performed necessary due diligence in processing and dealing with credit files. This will involve and evaluation of the adequacy and effectiveness of due diligence applied at various stages of the credit life cycle.

4. **Deviations from requirements of Regulators:**
   Any deficiencies in meeting up any obligations i.e., classification of loans & advances, obtaining updated information regarding CIB, due reporting process of CIB or there have any instances of non-reporting of CIB information etc. The functional audit report also specifies whether there have any instances that may arises from various acts either financial or fiduciary relationship by the officials concerned in carrying out their duties as per requirements of regulator's such as Bangladesh Bank, Securities and Exchange Commission of Bangladesh, NBR or other Bodies, as applicable.

5. **Fraud and mis-conduct Review:**
   The functional audit process also includes necessary fraud and mis-conduct review by way of identifying potential fraud area including conflict of interest, falsification of any documents, mis-representation of information in availing such credit lines or otherwise.

6. **Identification of Responsible Individuals**:
   Ascertain and identify the responsible individuals involved in procuring, processing, assessing credit proposals, disbursement and monitoring of customers.

Methodology of functional audit:

While conducting the functional audit, the audit firm will need to take into the account the availability and reliability of any assessments/checks/controls/organizational analysis already carried out by internal and external bodies. NBL will accompany and facilitate the audit in the various forms i.e., appointment of relevant officials both branches & head office level, make documents available, technical and/or organizational support etc. Through the audit, NBL will provide the audit firms with office space and access to any information necessary for the audit to be carried out correctly.

Selection of Chartered Accountancy Firm for proposed functional audit:

Functional Audit should be conducted by a professionally recognized & well reputed (both locally & internationally) Chartered Accountancy Firm and also having an international affiliation with any globally renowned accountancy firm. In addition to this, the firm must be enlisted with the Bangladesh Bank as per Circular Letter no 01 dated 05 February 2024 of DBI – 03, Bangladesh Bank.

Indicative Profile of the functional auditor:

The audit will be carried out by a team with engaging the Partner, Director, Field auditor & IT Team of the nominated chartered accountancy firm. The team must be formed with senior consultants accompanied by sufficient professionally specialized consultants, particularly, in loans and advances area of a Banking companies.

Area(s) of functional audit to be audited and scope of work:

To comply with the instruction of Bangladesh Bank as well as the instruction of the competent authority of the Bank, NBL Management has decided to conduct a functional audit through a reputed chartered accountancy firm of our country against loans and advance accounts, divisions, subsidiaries and other areas of the bank on major irregularities and deficiencies as committed by the officials of the Bank, along with fixing up their responsibilities. **The successful firms should prepare and submit a report after considering the objectives of functional audit as stated above and also should incorporate, at least but not limited to, the following scope, as stated under each area of work in below sections.**

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Terms of Reference (ToR) for Functional Audit:

Presented in below sections the contents of detail ToR of proposed functional audit of 62 nos. customer accounts having a total of 122 nos. loan accounts (includes 15 nos group customers & 47 nos. single customers), 06 divisions, 02 local subsidiaries and bank selected foreign subsidiaries. However, foreign subsidiaries will be audited through online basis, unless management directs otherwise. **The Bank management or the Board may require to conduct a functional audit of more area(s) upon requirement basis.**

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Section – 1

Terms of Reference (ToR) for Functional Audit of Loans & Advances Portfolios (62 nos. customer accounts having a total of 122 nos. loan accounts - includes 15 nos group customers & 47 nos. single customers):

1. Purpose:

The purpose of this Terms of Reference (ToR) is to define the scope, objectives, methodology, and deliverables for the functional audit of the Loans & Advances Portfolio of the Bank. This audit aims to assess the management of the loans and advances portfolio, ensuring that the processes align with regulatory standards, risk management principles, and the bank's strategic goals. The audit will help evaluate credit risk, operational effectiveness, and portfolio performance, ensuring long-term sustainability and profitability.

2. Objectives of the Audit:

The primary objectives of the functional audit are:

- Assess the adequacy and effectiveness of the loan origination, approval, and disbursement processes.
- Evaluate the risk management framework related to credit, market, and operational risks in the loans and advances portfolio.
- Review the quality and performance of the loans and advances portfolio, focusing on non-performing loans (NPLs), provisioning, and recovery efforts.
- Ensure compliance with regulatory requirements and internal credit policies.
- Analyze the loan portfolio's profitability and sustainability.
- Specifically Identify areas for improvement and provide actionable recommendations for enhancing credit risk management, portfolio monitoring, and recovery processes.

3. Scope of the Audit:

The audit will cover the full range of activities related to the loans and advances portfolio, including retail, corporate, and SME lending, focusing on the following key areas:

3.1 Loan Origination and Approval Process:

- Review the loan application, credit assessment, and approval process to ensure compliance with the bank's credit policies.
- Evaluate the adequacy of credit risk assessment tools, including credit scoring, collateral evaluation, and borrower analysis.
- Assess the delegation of authority for loan approvals, ensuring that approval limits are consistent with regulatory and policy guidelines.
- Analyze the timeliness and efficiency of the loan approval process, ensuring alignment with customer expectations and risk management principles.

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3.2 Disbursement and Documentation:

- Review the loan disbursement procedures to ensure adherence to approved terms and conditions.
- Evaluate the effectiveness of loan documentation and ensure that proper collateral and legal agreements are in place.
- Assess the accuracy and completeness of customer documentation, including KYC (Know Your Customer) and AML (Anti-Money Laundering) requirements.
- Verify the procedures for maintaining proper records and files for loan customers.

3.3 Credit Risk Management:

- Evaluate the bank's credit risk management framework, including risk identification, measurement, and mitigation strategies.
- Assess the bank's credit concentration risk, including exposure to specific industries, sectors, and geographies.
- Review the loan monitoring and early warning systems used to identify and address potential credit risk issues.
- Assess the adequacy of credit risk stress testing and scenario analysis conducted to measure the impact of adverse conditions on the loan portfolio.

3.4 Loan Portfolio Quality:

- Review the quality of the loan portfolio, focusing on delinquency, NPLs (Non-Performing Loans), and write-offs.
- Assess the classification of loans in accordance with regulatory guidelines (e.g., Standard, Substandard, Doubtful, and Bad & Loss).
- Evaluate the adequacy of loan loss provisions and reserves, ensuring compliance with regulatory requirements and accounting standards.
- Analyze trends in loan performance, including default rates, recovery rates, and overall portfolio health.

3.5 Recovery and Collection Processes:

- Assess the effectiveness of the loan recovery process, including the collection of overdue payments, recovery from NPLs, and legal actions.
- Review the bank's debt restructuring policies and practices, ensuring that restructuring is done in accordance with regulatory guidelines and bank policies.
- Evaluate the efficiency of the collection and recovery teams, including the use of external agencies where applicable.
- Analyze the timeliness of recovery actions and their impact on the overall profitability of the portfolio.

3.6 Compliance with Regulatory Requirements:

- Review compliance with all relevant regulations, including central bank guidelines on loan classification, provisioning, capital adequacy, and credit risk management.
- Assess adherence to anti-money laundering (AML) and know your customer (KYC) regulations.
- Ensure compliance with loan covenants and contractual agreements.
- Verify that regulatory reports related to the loan portfolio are accurate, timely, and complete.

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3.7 Profitability and Portfolio Performance:

- Assess the profitability of the loans and advances portfolio, including interest income, fees, and other revenue streams.
- Review the bank's pricing strategies for loans, ensuring alignment with risk-based pricing principles.
- Analyze the loan portfolio's contribution to the bank's overall profitability and return on assets (ROA) and return on equity (ROE).
- Evaluate the cost of managing the loan portfolio, including operational expenses, credit risk expenses (e.g., provisions), and collection costs.

3.8 Internal Controls and Governance:

- Review the adequacy of internal controls over the lending process, including approval, disbursement, monitoring, and collection.
- Assess the governance framework, ensuring that the Credit Committee and other oversight bodies provide adequate oversight of loan-related risks.
- Evaluate the adequacy of reporting and communication to senior management and the Board on the status and performance of the loans and advances portfolio.
- Ensure that key risks and issues related to the loan portfolio are escalated to the appropriate management levels in a timely manner.

4. Key Responsibilities:

The functional audit should specifically identify the following key stakeholders along with their responsibilities:

- **Credit Team**: Responsible for procuring the loan customer, performing assessments, and ensuring recovery prospective of the Loans & Advances Portfolio.
- **Credit Risk and Lending Departments**: Responsible for carrying out necessary assessments in support to loan files, risk assessments, and operational data review.
- **Senior Management**: Responsible for giving necessary assurance that all applicable due diligence and requirements of applicable policies, procedures, guideline and relevant circulars were applied before placing the credit proposals to the Board for final approval.
- **Board of Directors**: Responsible to ensure that proper governances were in effect and approvals for credit proposals were made accordingly.

5. Audit Methodology:

The audit will be conducted using the following methodologies:

- **Document Review**: Review of key documents, including loan agreements, credit assessment reports, risk policies, and internal control frameworks.
- **Interviews and Discussions**: Interviews with personnel from the Credit Risk, Loan Operations, and Recovery departments to understand processes, challenges, and controls.
- **Data Analytics**: Analysis of loan portfolio data to identify trends, concentration risks, and performance issues.
- **Control Testing**: Testing of internal controls over loan approval, disbursement, documentation, monitoring, and recovery processes.
- **Process Walkthroughs**: Walkthrough of key lending processes to assess their efficiency, control, and alignment with best practices.
- **Completeness**: The audit process should ensure that after detailed review, including performing credit file checks, assessing compliance with policies, and reviewing performance the task as carried out for the intending purpose is clear and complete.

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6. Performance Metrics for Evaluation:

The audit will evaluate performance using the following Key Performance Indicators (KPIs):

- **Loan Growth**: Rate of growth in the loan and advances portfolio over the audit period.
- **NPL Ratio**: Percentage of non-performing loans compared to the total loan portfolio.
- **Provision Coverage Ratio**: The adequacy of loan loss provisions in covering non-performing loans.
- **Recovery Rate**: The percentage of recoveries from overdue loans and NPLs.
- **Loan Turnaround Time**: The time taken from loan application to disbursement.
- **Return on Assets (ROA)** and **Return on Equity (ROE)**: The profitability of the loans and advances portfolio.
- **Portfolio Diversification**: Concentration risk based on industries, sectors, and geographies.

7. Audit Reporting:

At the end of the audit, the audit team will prepare a comprehensive report that includes:

- A detailed analysis of the performance and quality of the loans and advances portfolio.
- Identification of control gaps, process inefficiencies, and non-compliance with regulatory requirements.
- Recommendations for improvement in credit risk management, operational processes, and portfolio monitoring.
- A proposed action plan for addressing identified weaknesses,
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in approving the loan proposal **by applying delegation of authorities.**

8. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with the following key phases:

- **Planning Phase**: 1 week (setting objectives and gathering data).
- **Fieldwork Phase**: 4–5 weeks (process reviews, control testing, and interviews).
- **Draft Report Preparation & Review**: 1–2 weeks (analysis of findings and report drafting).
- **Final Review and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board).

9. Deliverables:

- **Preliminary Report**: A draft report with key findings and areas of concern.
- **Final Audit Report**: A comprehensive report with detailed findings, risk assessments, and recommendations.

Special Note: The interested audit firms are requested to submit their financial offer separately for Group Customer and for single customer.

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Section – 2

Terms of Reference (ToR) for Functional Audit of Card Division

1. Purpose:

The purpose of this Terms of Reference (ToR) is to outline the scope, objectives, methodology, and deliverables of a functional audit of the Credit Card Division of the Bank. The audit aims to evaluate the division's operational efficiency, effectiveness in risk management, regulatory compliance, and overall governance of the credit card business. This audit will help ensure that the division meets its business objectives while mitigating associated risks.

2. Objectives of the Audit:

The primary objectives of the functional audit are:

- Assess the operational efficiency and effectiveness of the Credit Card Division's processes.
- Evaluate the effectiveness of internal controls to prevent fraud, errors, and operational risks.
- Review the division's compliance with regulatory requirements, internal policies, and industry standards.
- Examine the credit risk management framework to ensure proper assessment, monitoring, and mitigation of risks.
- Analyze customer service quality and complaint handling procedures.
- Ensure alignment of the division's objectives with the bank's overall strategic goals.
- Provide recommendations to enhance process efficiency, control frameworks, and risk management practices.

3. Scope of the Audit:

The audit will cover all key activities and functions of the Credit Card Division, including but not limited to:

3.1 Product Management and Development:

- Review the product development lifecycle, including market research, product launch, and product enhancements.
- Assess the division's ability to innovate and adapt to changing market demands.
- Evaluate the product profitability analysis framework and pricing strategies.

3.2 Operations and Process Efficiency:

- Review the end-to-end process for credit card issuance, activation, billing, payments, and account closure.
- Assess the efficiency of systems and processes related to credit card transactions, reconciliations, and settlement.
- Examine the division's operational performance, including transaction processing time, error rates, and productivity levels.
- Evaluate the effectiveness of vendor and third-party service provider management.

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3.3 Risk Management and Credit Risk Assessment:

- Assess the credit risk management framework, including credit assessment criteria, underwriting processes, and credit limit assignment.
- Review delinquency management procedures, including collections, recovery, and write-offs.
- Evaluate the process for monitoring the credit quality of the cardholder portfolio, including early warning mechanisms and risk indicators.
- Review fraud risk management, including transaction monitoring, fraud detection systems, and response mechanisms.

3.4 Compliance and Regulatory Adherence:

- Ensure adherence to internal policies and external regulatory requirements, including those set by the central bank and other relevant authorities.
- Review Anti-Money Laundering (AML) and Know Your Customer (KYC) processes as they pertain to credit card customers.
- Evaluate compliance with data protection regulations, including secure handling of customer data and payment information.
- Assess the division's adherence to fair lending practices and responsible credit card marketing.

3.5 Fraud Prevention and Cybersecurity:

- Review the effectiveness of fraud detection and prevention mechanisms, including monitoring of suspicious transactions and authentication processes.
- Assess the division's cybersecurity framework for protecting cardholder data and preventing external attacks, such as phishing and hacking.
- Evaluate the incident management process for dealing with security breaches and fraud cases, including the communication plan for affected customers.

3.6 Revenue Generation and Cost Management:

- Review revenue streams, including interest income, fee-based income (e.g., annual fees, late fees), and interchange income.
- Assess cost management strategies, including cost of funds, operational expenses, and marketing costs.
- Evaluate profitability metrics and return on investment for key marketing and acquisition initiatives.

3.7 Performance Monitoring and Reporting:

- Assess the effectiveness of performance monitoring, including Key Performance Indicators (KPIs) used to track cardholder acquisition, transaction volumes, delinquency rates, and revenue growth.
- Review the division's reporting structure, ensuring timely and accurate communication of financial and operational performance to senior management.
- Evaluate the quality and timeliness of reports submitted to regulators and internal stakeholders.

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4. Key Responsibilities:

The functional audit should specifically identify the following key stakeholders along with their responsibilities:

- **Credit Team**: Responsible for procuring the loan customer, performing assessments, and ensuring recovery prospective of the Loans & Advances Portfolio.
- **Credit Card Division Management**: Responsible for carrying out necessary assessments in support to loan files, risk assessments, and operational data review.
- **Senior Management**: Responsible for giving necessary assurance that all applicable due diligence and requirements of applicable policies, procedures, guideline and relevant circulars were applied before placing the credit proposals to the Board for final approval.
- **Board of Directors**: Responsible to ensure that proper governances were in effect and approvals for credit proposals were made accordingly.

5. Audit Methodology:

The audit will be conducted using a combination of the following methods:

- **Document Review**: A review of relevant policies, procedures, contracts, and performance reports.
- **Interviews**: Discussions with key personnel within the Credit Card Division, including the heads of departments, risk managers, and operations staff.
- **Process Walkthroughs**: Observation of key processes such as credit card issuance, billing, collections, and customer service.
- **Data Analytics**: Analyzing transactional data, customer profiles, and performance metrics to assess the division's effectiveness.
- **Control Testing**: Testing of internal controls, including credit approval processes, risk monitoring, and transaction reconciliation.
- **Gap Analysis**: Identification of any deficiencies or gaps in current controls, risk management practices, or compliance with policies.

6. Performance Metrics for Evaluation:

The following Key Performance Indicators (KPIs) will be used to measure the effectiveness of the Credit Card Division:

- **Cardholder Growth**: Rate of new credit card issuance.
- **Transaction Volume**: Monthly and annual card transaction values.
- **Credit Quality**: Delinquency and charge-off rates.
- **Revenue Generation**: Fee-based income, interest income, and interchange income.
- **Operational Efficiency**: Processing times, error rates, and overall productivity.
- **Fraud Losses**: Amount of loss due to fraud and the effectiveness of fraud prevention systems.
- **Customer Satisfaction**: Net Promoter Scores (NPS), feedback surveys, and complaint resolution times.

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7. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- Key findings and observations regarding operational effectiveness, control environment, and risk management practices.
- A detailed analysis of the performance and quality of the credit card portfolio.
- Evaluation of the division's alignment with the bank's strategic objectives and industry best practices.
- Recommendations for improving processes, controls, and overall performance.
- A proposed action plan for addressing identified weaknesses,
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in approving the credit card limits **by applying delegation of authorities.**

8. Timeframe:

The audit will be conducted over a period of 8–10 weeks, with the following key milestones:

- **Planning Phase**: 1–2 weeks (includes setting objectives and gathering initial data).
- **Fieldwork Phase**: 2 – 3 weeks (in-depth process reviews, interviews, and control testing).
- **Report Drafting**: 1 – 2 weeks (analysis of findings and report preparation).
- **Submission of Final Report and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board).

9. Deliverables:

- **Preliminary Report**: A draft report with initial findings and key risk areas identified.
- **Final Audit Report**: A detailed report including findings, risk assessments, and actionable recommendations.

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Section – 3

Terms of Reference (ToR) for Functional Audit of Internal Control and Compliance Division (ICCD)

1. Purpose:

The purpose of this Terms of Reference (TOR) is to establish the framework for conducting a functional audit of the Internal Control and Compliance Division (ICCD) of the Bank. This audit will evaluate the division's effectiveness in managing risks, implementing internal controls, and ensuring compliance with regulatory and policy requirements. The ultimate objective is to ensure the division is operating effectively in safeguarding the bank from operational, financial, compliance, and reputational risks.

2. Objectives of the Audit:

The functional audit aims to:

- Assess the effectiveness of the bank's internal control framework and its alignment with industry best practices and regulatory requirements.
- Evaluate the compliance function's ability to monitor and enforce adherence to internal policies and external regulations.
- Review risk management processes and ensure they are robust enough to identify, monitor, and mitigate key risks.
- Identify any control gaps or weaknesses and propose recommendations for improvements.
- Ensure the division's governance, reporting, and decision-making processes support proactive risk management and regulatory compliance.

3. Scope of the Audit:

The audit will cover all key activities and functions of the Internal Control and Compliance Division, focusing on the following areas:

3.1 Internal Control Framework:

- Review of the overall structure of the internal control system within the bank.
- Assessment of the design, implementation, and effectiveness of control mechanisms across all operational areas.
- Evaluation of the adequacy of control over financial reporting, information systems, and key business processes.
- Testing of control effectiveness in the prevention and detection of fraud, errors, and unauthorized activities.

3.2 Compliance Management:

- Assessment of the compliance function's ability to monitor regulatory changes and ensure timely updates to internal policies.

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- Evaluation of the bank's adherence to regulatory and legal requirements, including anti-money laundering (AML) and Know Your Customer (KYC) obligations.
- Review of the processes for monitoring and reporting breaches of compliance or ethical standards.
- Analysis of compliance with central bank guidelines, international regulations, and industry-specific requirements.
- Assessment of training programs designed to keep staff updated on compliance requirements and internal policies.

3.3 Risk Management:

- Review of the bank's risk management policies and procedures, focusing on the identification, assessment, mitigation, and monitoring of risks.
- Evaluation of the effectiveness of risk control measures across credit, market, operational, and liquidity risks.
- Assessment of risk reporting frameworks to ensure timely and accurate information is available to management and the Board.
- Testing of the incident management system, including how risks and incidents are escalated, documented, and resolved.

3.4 Governance and Oversight:

- Evaluation of the governance structure of the ICCD, ensuring that it operates with sufficient authority, independence, and oversight.
- Assessment of the effectiveness of communication and reporting channels to senior management and the Board of Directors.
- Review of the role and responsibilities of the division, ensuring clarity in terms of accountability and decision-making.
- Review of periodic compliance and risk management reports submitted to management and the Board.

3.5 Monitoring and Testing:

- Review of the division's procedures for continuously monitoring controls and compliance activities.
- Testing of the effectiveness of monitoring mechanisms for high-risk areas, including transaction monitoring, regulatory reporting, and customer onboarding.
- Assessment of the regularity and thoroughness of internal control reviews and audits conducted by the ICCD.

3.6 Fraud and Incident Management:

- Assessment of fraud detection and prevention mechanisms, including whistleblowing procedures.
- Review of incident management processes, including the handling, reporting, and resolution of incidents related to compliance breaches or control failures.
- Evaluation of the division's ability to respond to fraud, cyber threats, and other security risks.

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4. Key Responsibilities:

The audit will involve the following responsibilities:

- **Audit Team**: The internal auditors responsible for conducting the audit will ensure objective and comprehensive coverage of all risk and control areas.
- **Internal Control and Compliance Division (ICCD)**: The division must provide a reasonable assurance that all due process was followed in managing risks and applicable compliances.
- **Senior Management**: Responsible for overseeing the audit process, ensuring that the weakness as reported by the ICCD were properly addressed and necessary information, and implementing corrective actions based on audit findings were ensured.
- **Board of Directors/Audit Committee**: The ultimate body responsible for reviewing audit outcomes and ensuring accountability for recommended improvements.

5. Audit Methodology:

The audit will employ the following methodology to achieve its objectives:

- **Document Review**: Review of policies, procedures, reports, and other documentation related to internal controls, compliance, and risk management.
- **Interviews and Discussions**: Interviews with key personnel in the ICCD, senior management, and other relevant departments to gain insights into the division's operations.
- **Process Walkthroughs**: Observation of key processes and controls in action, including compliance checks, risk reporting, and incident management.
- **Control Testing**: Conducting tests to assess the effectiveness of selected controls, including transaction sampling, reconciliations, and reviewing exception handling procedures.
- **Gap Analysis**: Identification of control or compliance gaps and weaknesses, with recommendations for improvement.

6. Performance Metrics and Evaluation

The following Key Performance Indicators (KPIs) will be used to evaluate the effectiveness of the ICCD:

- **Control Effectiveness**: Measured by the number of significant control issues identified and resolved.
- **Compliance Rate**: Percentage of compliance with regulatory and policy requirements.
- **Risk Mitigation**: Assessment of the adequacy and effectiveness of risk management practices.
- **Incident Response Time**: Time taken to identify, escalate, and resolve incidents or breaches.
- **Audit Recommendations Closure**: Percentage of audit recommendations implemented within the specified timeframe.

7. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report detailing:

- Findings and observations related to control, compliance, and risk management practices.
- An evaluation of the overall effectiveness of the ICCD.
- Recommendations for addressing control gaps, improving compliance monitoring, and strengthening risk management practices.

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- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- A follow-up plan to ensure that management implements corrective actions based on audit findings.

8. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with key milestones as follows:

- **Planning Phase**: 1 week (includes setting objectives and gathering initial data).
- **Fieldwork Phase**: 4–5 weeks (in-depth process reviews, interviews, and control testing).
- **Report Drafting**: 1 week (analysis of findings and report preparation).
- **Final Reporting and Review**: 1–2 weeks (presentation of findings to the management and the Audit Committee / Board)

9. Deliverables:

- **Draft Report**: A draft report highlighting initial findings and areas of concern.
- **Final Report**: A comprehensive audit report, including detailed findings, risks, recommendations, and a suggested action plan.

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Section – 4

Terms of Reference (ToR) for Functional Audit of Financial Administration Division (FAD)

1. Purpose:

The purpose of this Terms of Reference (ToR) is to outline the scope, objectives, methodology, and deliverables for conducting a functional audit of the Financial Administration Division of the Bank. The audit aims to evaluate the division's financial management processes, internal controls, regulatory compliance, and overall effectiveness in supporting the bank's financial stability and operational efficiency. It will help ensure that the Financial Administration Division effectively manages financial resources, mitigates financial risks, and adheres to regulatory requirements.

2. Objectives of the Audit:

The key objectives of the functional audit are:

- Assess the financial planning, budgeting, and control processes.
- Review the accuracy, completeness, and timeliness of financial reporting.
- Evaluate compliance with regulatory requirements, accounting standards, and internal financial policies.
- Examine the effectiveness of internal controls over financial transactions, expense management, and cash flow monitoring.
- Analyze the bank's liquidity management, funding strategies, and capital adequacy.
- Identify opportunities for improving operational efficiency and financial governance.

3. Scope of the Audit:

The audit will cover all key financial management functions of the Financial Administration Division, including financial reporting, budgeting, expense management, liquidity management, and regulatory compliance. The key areas of focus are:

3.1 Financial Planning and Budgeting:

- Review the financial planning and budgeting processes, including the formulation, approval, and monitoring of budgets.
- Assess the adequacy of forecasting methods and assumptions used in budgeting.
- Evaluate the alignment of the financial plan with the bank's strategic goals.
- Analyze budget variances and assess the effectiveness of budget control mechanisms.

3.2 Financial Reporting and Accounting

- Review the financial reporting processes, ensuring the accuracy, completeness, and timeliness of financial statements.
- Assess compliance with International Financial Reporting Standards (IFRS) and other applicable accounting standards.
- Examine the effectiveness of the general ledger and sub-ledger reconciliation processes.
- Ensure that the financial reporting framework is aligned with both internal and external stakeholders' requirements.

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3.3 Internal Controls and Transaction Processing:

- Review the effectiveness of internal controls over financial transactions, including expense approvals, cash management, and payroll processes.
- Assess controls over revenue recognition, accounts payable, accounts receivable, and fixed asset management.
- Evaluate the adequacy of financial systems in ensuring the integrity and accuracy of financial data.
- Test the segregation of duties and authorization controls for financial transactions.

3.4 Expense Management and Cost Control:

- Review the policies and procedures for managing expenses, including operating expenses, capital expenditures, and procurement.
- Evaluate the adequacy of controls over cost allocations, expenditure approvals, and payment processes.
- Assess the efficiency of the bank's cost management strategies and identify opportunities for cost savings.
- Examine the monitoring of overhead costs and discretionary spending.

3.5 Cash Flow and Liquidity Management:

- Review the processes for managing the bank's liquidity and cash flow, ensuring that adequate liquidity is maintained to meet operational needs.
- Evaluate the bank's short-term and long-term funding strategies, including the management of borrowing and investment activities.
- Assess the adequacy of liquidity buffers and compliance with liquidity requirements as set by regulators (e.g., liquidity coverage ratio (LCR), net stable funding ratio (NSFR)).
- Examine cash forecasting processes and the management of cash reserves.

3.6 Capital Adequacy and Asset-Liability Management (ALM)

- Review the bank's capital management strategies, including compliance with capital adequacy requirements as per Basel III or other applicable frameworks.
- Assess the adequacy of the bank's capital planning and stress testing processes.
- Evaluate the effectiveness of the Asset-Liability Management (ALM) framework in managing interest rate risk, liquidity risk, and foreign exchange risk.
- Examine the management of the bank's investment portfolio and its impact on liquidity and capital adequacy.

3.7 Regulatory Compliance and Governance:

- Assess the division's compliance with financial regulatory requirements, including reporting to regulatory authorities and compliance with central bank directives.
- Review the submission process of statutory financial reports and compliance with tax regulations.
- Evaluate the effectiveness of governance structures within the Financial Administration Division, ensuring adequate oversight of financial activities.
- Examine compliance with internal policies on financial administration, accounting, and procurement.

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3.8 Risk Management and Contingency Planning:

- Review the financial risk management framework, focusing on identifying, assessing, and mitigating risks related to financial operations.
- Assess the division's preparedness for handling financial crises or market shocks, including contingency planning and financial stress testing.
- Evaluate the adequacy of insurance coverage and other financial safeguards to mitigate potential losses.

4. Key Responsibilities

The audit will involve the following key stakeholders:

- **Financial Administration Division**: Responsible for updating, up keeping and proper recording of necessary financial records, reports, policies, for presenting a true and and fair view of the state of the bank.
- **Senior Management**: Responsible for giving necessary assurance that all applicable due diligence and requirements of applicable policies, procedures, guideline and relevant circulars were applied before effecting necessary financial transactions, payments and preparation of financial statements.

5. Audit Methodology:

The audit will be conducted using a combination of the following methodologies:

- **Document Review**: Review of key documents, including financial statements, budgets, internal control frameworks, policies, and regulatory reports.
- **Interviews**: Discussions with key personnel from the Financial Administration Division, including the CFO, finance managers, and risk management staff.
- **Process Walkthroughs**: Walkthrough of critical financial processes such as budgeting, cash management, and reporting.
- **Data Analysis**: Analysis of financial data, budget variances, cash flows, and expense reports to identify trends and areas for improvement.
- **Control Testing**: Testing of key financial controls, including transaction approvals, reconciliations, and segregation of duties.
- **Compliance Checks**: Assessment of compliance with regulatory requirements, accounting standards, and internal policies.

6. Performance Metrics for Evaluation:

The audit will evaluate the division's performance using the following Key Performance Indicators (KPIs):

- **Budget Variance**: Comparison of actual performance against budgeted financial targets.
- **Accuracy of Financial Reports**: Timeliness and accuracy of financial reports submitted to management and regulatory authorities.
- **Liquidity Ratios**: Compliance with liquidity ratios, such as LCR and NSFR, and the adequacy of cash reserves.
- **Expense Growth**: Analysis of trends in operating expenses, capital expenditures, and cost-saving initiatives.
- **Compliance Rates**: Adherence to regulatory requirements and internal financial policies.
- **Capital to Risk-weighted Asset Ratio (CRAR)**: Monitoring of the bank's capital levels relative to regulatory requirements.

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7. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- Key findings and observations regarding the financial management processes and internal control environment.
- Evaluation of compliance with regulatory requirements and internal financial policies.
- Recommendations for improving financial controls, process efficiency, and financial governance.
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in approving the various payments **by applying delegation of authorities.**
- A follow-up plan outlining corrective actions and responsibilities for addressing identified gaps.

8. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with the following key phases:

- **Planning Phase**: 1 week (gathering data, setting objectives, and designing the audit plan).
- **Fieldwork Phase**: 3–4 weeks (document review, process walkthroughs, and control testing).
- **Report Drafting**: 1–2 weeks (drafting the final report and formulating recommendations).
- **Final Report and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board)

9. Deliverables:

- **Preliminary Audit Report**: A draft report outlining the initial findings, including key risk areas.
- **Final Audit Report**: A comprehensive report detailing audit findings, risks, and recommendations for process improvements and control enhancements.

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Section – 5

Terms of Reference (ToR) for Functional Audit of Logistics Services Division (LSD)

1. Purpose:

The purpose of this Terms of Reference (ToR) is to outline the scope, objectives, methodology, and deliverables for conducting a functional audit of the Logistics Services Division of the Bank. The audit aims to evaluate the efficiency, effectiveness, and internal control environment of the division, ensuring that logistics and support services align with the bank's operational requirements, risk management standards, and regulatory guidelines. The review will also seek to identify areas for improvement and opportunities for cost-saving measures.

2. Objectives of the Audit:

The key objectives of the functional audit are:

- Assess the operational efficiency and effectiveness of the Logistics Services Division.
- Evaluate the adequacy and effectiveness of internal controls over procurement, asset management, transportation, and facility maintenance.
- Ensure compliance with relevant regulatory requirements and internal policies.
- Identify risks related to logistical operations and propose recommendations for mitigating them.
- Evaluate cost-effectiveness and identify opportunities for process optimization.
- Review the division's contribution to overall business continuity and service delivery.

3. Scope of the Audit:

The audit will cover all key operational functions of the Logistics Services Division, including procurement, inventory management, transportation services, facility maintenance, and third-party vendor management. The key areas of focus are:

3.1 Procurement and Vendor Management:

- Review the procurement process, ensuring compliance with the bank's procurement policies, transparency, and cost-effectiveness.
- Evaluate the process for selecting and managing suppliers, ensuring that proper due diligence is conducted on third-party vendors.
- Assess the controls over purchase requisitions, approvals, and payments for logistics-related services.
- Examine contract management practices, ensuring contracts are clearly defined, regularly reviewed, and aligned with service level agreements (SLAs).

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3.2 Inventory and Asset Management:

- Evaluate the management of the bank's physical assets, including office supplies, equipment, and vehicles.
- Review the processes for tracking and controlling the use of logistics assets, including asset tagging, maintenance, and disposal.
- Assess the adequacy of inventory management systems in maintaining accurate stock levels and preventing asset mismanagement or loss.
- Verify compliance with asset acquisition, depreciation, and write-off policies.

3.3 Transportation and Fleet Management:

- Assess the efficiency of transportation services, including fleet management and coordination of vehicle usage.
- Review policies for vehicle usage, fuel management, and maintenance to ensure optimal performance and cost-effectiveness.
- Evaluate controls over the allocation of vehicles, driver management, and tracking of vehicle movement.
- Verify the process for selecting third-party logistics providers for transportation services and assess their performance against agreed service levels.

3.4 Facility Management and Maintenance:

- Review the bank's facility management practices, including building maintenance, utilities management, and space allocation.
- Assess the adequacy of maintenance schedules, ensuring timely servicing of facilities and equipment to prevent operational disruptions.
- Evaluate compliance with safety, security, and environmental standards in facility management.
- Examine the effectiveness of the bank's business continuity plan concerning logistics and facility management during emergencies.

3.5 Security and Risk Management:

- Assess the security measures implemented to safeguard the bank's physical assets and facilities, including security systems, surveillance, and access controls.
- Evaluate the adequacy of risk management practices related to logistics operations, focusing on asset protection, theft prevention, and fraud detection.
- Review the bank's disaster recovery and emergency response plans concerning logistics and facility support.
- Analyze the division's compliance with occupational health and safety regulations, ensuring a safe working environment for staff.

3.6 Cost Control and Budgeting:

- Review the budgeting process for logistics services, ensuring alignment with overall organizational objectives and prudent financial management.
- Assess the division's cost control measures, including the tracking of logistics expenses, vendor payments, and operating costs.
- Identify areas where the division can optimize processes to achieve cost savings, such as reducing waste, streamlining procurement, or outsourcing services.
- Analyze the accuracy of budget forecasts and evaluate how effectively the division manages budget variances.

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3.7 Compliance with Regulatory Requirements and Internal Policies:

- Evaluate the division's adherence to relevant regulatory requirements and internal policies, including procurement standards, environmental laws, and operational guidelines.
- Review documentation and record-keeping practices to ensure proper reporting and compliance with external audits and inspections.
- Assess the division's adherence to corporate governance and ethical standards, especially in vendor relationships and procurement activities.
- Ensure compliance with the bank's policies regarding the use of logistics assets, health and safety, and financial controls.

4. Key Responsibilities:

The audit will involve the following key stakeholders:

- **Logistics Services Division**: Responsible for maintaining and following all due process and polices in performing the operational and reviewing process of logistics operations, and assessing the division's compliance with internal controls and regulatory requirements.
- **Senior Management**: Responsible for giving necessary assurance that all applicable due diligence and requirements of applicable policies, procedures, guideline and relevant circulars were applied before effecting necessary financial transactions, payments against the procurement of various assets of the bank.

5. Audit Methodology:

The audit will be conducted using a combination of the following methodologies:

- **Document Review**: Examination of key documents such as procurement records, vendor contracts, inventory logs, and facility maintenance schedules.
- **Interviews**: Discussions with logistics personnel, including procurement managers, fleet supervisors, and facility managers, to understand processes and challenges.
- **Process Walkthroughs**: Walkthrough of key logistics processes such as procurement, transportation, and asset management to assess efficiency and compliance with procedures.
- **Data Analysis**: Analysis of expense data, vendor performance, asset utilization, and logistics cost trends to identify inefficiencies and areas for improvement.
- **Control Testing**: Testing the effectiveness of internal controls over procurement, asset management, transportation, and facility operations.
- **Compliance Checks**: Evaluation of compliance with regulatory requirements, internal policies, and contractual obligations with third-party service providers.

6. Performance Metrics for Evaluation:

The audit will evaluate the division's performance using the following Key Performance Indicators (KPIs):

- **Procurement Efficiency**: Measure of the cost-effectiveness and timeliness of procurement processes.
- **Asset Utilization Rate**: Assessment of how effectively the bank's physical assets are being utilized to support operations.
- **Vendor Performance**: Evaluation of third-party service providers based on quality, cost, and adherence to service level agreements.
- **Cost Variance**: Analysis of actual logistics expenses versus budgeted costs to assess cost

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control effectiveness.

- **Fleet Utilization**: Measure of how efficiently the bank's vehicle fleet is used, including fuel consumption and maintenance costs.
- **Facility Uptime**: Percentage of time that bank facilities are operational and free from disruptions.

7. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- A detailed analysis of the performance and operational efficiency of the Logistics Services Division.
- Identification of gaps in internal controls, process inefficiencies, or non-compliance with regulations.
- Recommendations for enhancing the division's operational effectiveness, cost management, and risk mitigation.
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in approving the bills against various project costs or other payments **by applying delegation of authorities.**
- An action plan for addressing the identified issues, including timelines and responsible parties.

8. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with the following key phases:

- **Planning Phase**: 1 week (designing the audit plan, gathering initial data, and setting objectives).
- **Fieldwork Phase**: 3–4 weeks (reviewing documents, conducting interviews, process walkthroughs, and control testing).
- **Report Drafting**: 1–2 weeks (analyzing findings, drafting recommendations, and preparing the final report).
- **Final Report and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board).

9. Deliverables:

- **Preliminary Audit Report**: A draft report outlining initial findings, risk areas, and opportunities for process improvement.
- **Final Audit Report**: A comprehensive report detailing the audit findings, recommendations, and action plans for addressing identified issues.

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Section – 6

Terms of Reference (ToR) for Functional Audit of Human Resources Division (HRD)

1. Introduction

National Bank Ltd. (NBL), one of the leading commercial banks in Bangladesh, is committed to ensuring the operational efficiency and regulatory compliance of its Human Resources (HR) Division. To achieve this, NBL seeks to engage an external Chartered Accountancy firm to conduct an independent functional audit of the HR Division. This audit will not only assess the HR Division's performance and compliance but also establish responsibility for any major deviations from policies, regulations, and best practices.

2. Objectives

The primary objectives of the audit are to:

- Assess the overall effectiveness, efficiency, and alignment of HR functions with the bank's strategic goals.
- Review HR processes to ensure compliance with legal, regulatory, and internal policies.
- Identify gaps, inefficiencies, and potential risks in the HR Division's operations.
- Determine accountability for any major deviations or failures in the application of HR policies and procedures.
- Provide actionable recommendations to improve HR functions and reduce risk.

3. Scope of Work

The scope of the audit will cover a detailed review of the following functional areas within the HR Division:

3.1. HR Strategy and Organizational Structure

- Evaluate the HR Division's organizational structure, roles, and responsibilities.
- Review HR's strategic planning and its alignment with the bank's overall goals.
- Assess workforce planning and succession management processes.

3.2. HR Policies and Procedures

- Review and assess all HR policies related to recruitment, performance evaluation, promotion, employee retention, and leave management.
- Ensure that HR policies are in alignment with regulatory standards and best practices within the banking industry.
- Examine the application of policies to identify any deviations, and assign responsibility for significant variances.

3.3. Recruitment and Selection

- Audit the recruitment process to evaluate efficiency, transparency, and adherence to established protocols.
- Review job descriptions, candidate selection criteria, and onboarding procedures.
- Analyze any deviations in the recruitment process, including cases of non-compliance or favoritism, and establish accountability.

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3.4. Performance Management and Employee Development

- Evaluate the performance appraisal system, promotion criteria, and training initiatives.
- Review the processes for setting key performance indicators (KPIs) and how performance feedback is managed.
- Identify discrepancies in the performance evaluation process and assign responsibility for any failures in execution.

3.5. Compensation, Benefits, and Payroll

- Audit compensation structures, payroll administration, and benefit plans for consistency, fairness, and compliance with labor laws.
- Review the bank's compliance with minimum wage standards, statutory benefits, and bonuses.
- Identify errors, delays, or deviations in payroll and benefits administration, and recommend corrective measures with accountability assigned.

3.6. Employee Relations and Compliance

- Review the bank's mechanisms for handling employee grievances, conflict resolution, and employee engagement.
- Assess compliance with Bangladesh labor laws, Bangladesh Bank guidelines, and occupational health and safety standards.
- Identify any major compliance breaches or labor law violations, and determine responsibility for the oversight.

3.7. HR Technology and Information Systems

- Evaluate the use of HR Information Systems (HRIS) for managing employee records, payroll, attendance, and other HR functions.
- Review data security, privacy, and reporting capabilities.
- Identify any deviations in the management of HR technology and data security, and assign accountability for the risks.

4. Audit Methodology

The Chartered Accountancy firm will employ a structured and transparent methodology, including:

- **Document Review**: Analysis of HR-related documents, policies, manuals, performance reviews, contracts, and payroll records.
- **Interviews and Discussions**: Conduct interviews with HR staff, management, and employees to assess processes, compliance, and issues faced in practice.
- **Surveys**: Use employee feedback to assess perceptions of HR practices and identify areas for improvement.
- **Gap Analysis**: Identify deviations from established policies and best practices, with particular focus on regulatory and legal compliance.
- **Accountability Matrix**: In cases of major deviations, assign responsibility to relevant individuals, teams, or processes.
- **Root Cause Analysis**: Conduct in-depth analysis to understand the underlying causes of any major deviations or inefficiencies.

5. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- A detailed analysis of the performance and operational efficiency of the Logistics Services Division.
- Identification of gaps in internal controls, process inefficiencies, or non-compliance with regulations.

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- Recommendations for enhancing the division's operational effectiveness, cost management, and risk mitigation.
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in **applying delegation of authorities.**
- An action plan for addressing the identified issues, including timelines and responsible parties.

6. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with the following key phases:

- **Planning Phase**: 1 week (designing the audit plan, gathering initial data, and setting objectives).
- **Fieldwork Phase**: 3–4 weeks (reviewing documents, conducting interviews, process walkthroughs, and control testing).
- **Report Drafting**: 1–2 weeks (analyzing findings, drafting recommendations, and preparing the final report).
- **Final Report and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board).

7. Deliverables:

- **Preliminary Audit Report**: A draft report outlining initial findings, risk areas, and opportunities for process improvement.
- **Final Audit Report**: A comprehensive report detailing the audit findings, recommendations, and action plans for addressing identified issues.

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Section – 7

Terms of Reference (ToR) for Functional Audit of the Foreign Remittance Division (FRD)

1. Introduction

The National Bank Limited (NBL) is committed to maintaining the highest level of operational efficiency, compliance, and control in its Foreign Remittance Division. To ensure these standards are met, a functional audit is to be conducted. The audit will evaluate the effectiveness, accuracy, and compliance of the Foreign Remittance Division with the applicable regulatory and internal guidelines.

2. Objective of the Audit

The primary objective of this functional audit is to:

- Assess the operational efficiency and internal controls of the Foreign Remittance Division.
- Evaluate the adherence to legal, regulatory, and internal policies related to foreign remittances.
- Identify risks, gaps, and weaknesses in the remittance processes.
- Provide actionable recommendations for enhancing service quality, compliance, and operational control.

3. Scope of the Audit

The scope of the audit will cover the following key areas of the Foreign Remittance Division:

3.1. Operational Efficiency and Workflow

- Review the overall workflow of foreign remittance processing, including receipt, verification, and disbursement of funds.
- Evaluate turnaround times, resource utilization, and capacity management in handling remittances.
- Identify any bottlenecks or inefficiencies in the existing workflow.

3.2. Compliance with Laws and Regulations

- Assess compliance with applicable regulations and guidelines issued by the Bangladesh Bank, Financial Intelligence Unit (FIU), and other regulatory authorities.
- Verify adherence to anti-money laundering (AML) and counter-terrorism financing (CTF) guidelines.
- Review compliance with international remittance regulations and correspondent banking relationships.

3.3. Risk Management and Internal Controls

- Assess the adequacy of internal controls and risk management frameworks in place.
- Identify potential operational, financial, and reputational risks in the remittance process.
- Evaluate the effectiveness of fraud detection and prevention mechanisms.

3.4. IT Systems and Security

- Review the information technology (IT) systems supporting remittance transactions, including software, security protocols, and data management.
- Assess system resilience, including backup, recovery, and cybersecurity measures.
- Evaluate the automation of remittance processes and the effectiveness of system controls.

3.5. Financial Reporting and Reconciliation

- Review the accuracy and completeness of financial records and reports related to remittance transactions.
- Verify the reconciliation process between remittance records, bank statements, and the general ledger as maintained with the Parent Company and other banks and parties.
- Evaluate the timeliness and accuracy of reporting to management and regulatory authorities.

4. Audit Methodology

The audit will be conducted using a combination of the following methods:

- **Document Review**: Examination of policies, procedures, manuals, and relevant documents.
- **Interviews**: Conducting interviews with key personnel within the Foreign Remittance Division.
- **Transaction Sampling**: Reviewing a sample of remittance transactions to evaluate compliance and efficiency.
- **Process Observation**: Observing key remittance processes in real-time to identify operational inefficiencies.
- **System Review**: Assessing the IT systems and controls in place for handling remittance transactions.

5. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- A detailed analysis of the performance and operational efficiency of the Foreign Remittance Division.
- Identification of gaps in internal controls, process inefficiencies, or non-compliance with regulations.
- Recommendations for enhancing the division's operational effectiveness, cost management, and risk mitigation.
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in **applying delegation of authorities.**
- **An action plan for addressing the identified issues, including timelines and responsible parties.**

6. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with the following key phases:

- **Planning Phase**: 1 week (designing the audit plan, gathering initial data, and setting objectives).
- **Fieldwork Phase**: 3–4 weeks (reviewing documents, conducting interviews, process walkthroughs, and control testing).
- **Report Drafting**: 1–2 weeks (analyzing findings, drafting recommendations, and preparing the final report).
- **Final Report and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board).

7. Deliverables:

- **Preliminary Audit Report**: A draft report outlining initial findings, risk areas, and opportunities for process improvement.
- **Final Audit Report**: A comprehensive report detailing the audit findings, recommendations, and action plans for addressing identified issues.

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Section – 8

Terms of Reference (ToR) for Functional Audit of NBL Securities Ltd. and NBL Capital & Equity Management Ltd.

1. Purpose

The purpose of this Terms of Reference (ToR) is to outline the scope, objectives, methodology, and deliverables for conducting a functional audit of **NBL Securities Ltd.** and **NBL Capital & Equity Management Ltd.** These two subsidiaries of the bank are involved in securities brokerage and capital/equity management, respectively. The audit aims to evaluate their operational efficiency, compliance with regulatory frameworks, risk management practices, and internal controls to ensure alignment with the overall strategic goals of the banking group and relevant laws.

2. Objectives of the Audit

The primary objectives of the functional audit are:

- Assess the operational efficiency and effectiveness of each entity's core functions.
- Evaluate the internal control environment, focusing on risk management, compliance, and governance structures.
- Ensure compliance with applicable laws, regulatory requirements, and internal policies.
- Identify areas for improvement in business processes and operational workflows.
- Assess financial performance, liquidity, and capital adequacy management in both entities.
- Review client management practices, ensuring transparency, ethical practices, and customer protection.

3. Scope of the Audit

The scope of the audit will cover key operational, financial, and compliance functions for each entity:

3.1 For NBL Securities Ltd.

NBL Securities Ltd. provides brokerage and related services to its clients. The key focus areas will include:

3.1.1 Operational Efficiency and Performance

- Assess the overall operational efficiency of the trading and brokerage services.
- Evaluate order execution practices and settlement processes to ensure timely and accurate execution of trades.
- Review the transaction processing systems for robustness, speed, and accuracy.

3.1.2 Regulatory Compliance and Reporting

- Ensure compliance with regulatory frameworks established by the **Securities and Exchange Commission (SEC) of Bangladesh**, Dhaka Stock Exchanges (DSE), and other applicable laws.
- Review compliance with Know Your Customer (KYC), Anti-Money Laundering (AML), and

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Counter Financing of Terrorism (CFT) regulations.

- Evaluate the accuracy and timeliness of reporting to regulatory authorities and stock exchanges.
- Review internal processes for maintaining compliance with ethical trading practices.

3.1.3 Risk Management and Internal Controls

- Review the risk management framework, focusing on market risk, operational risk, and credit risk.
- Evaluate the effectiveness of internal controls over trading, settlement, and client account management.
- Assess cybersecurity and data protection measures, ensuring the security of sensitive financial information.
- Ensure that client assets and funds are adequately safeguarded through segregation of funds and asset custody measures.

3.1.4 Client Management and Service Quality

- Evaluate the client onboarding process, including KYC and client risk profiling.
- Assess the quality of customer service, focusing on complaint handling, disclosure practices, and transparency.
- Review the division's client communication and reporting mechanisms.

3.2 For NBL Capital & Equity Management Ltd.

NBL Capital & Equity Management Ltd. provides asset management, investment advisory, and capital raising services. The key focus areas will include:

3.2.1 Investment Management and Advisory Services

- Assess the effectiveness of investment decision-making processes, including the research and analysis framework used for selecting investment opportunities.
- Review portfolio management strategies to ensure alignment with client objectives, risk appetite, and regulatory guidelines.
- Evaluate the performance of managed funds or portfolios, ensuring returns are measured accurately and aligned with industry benchmarks.

3.2.2 Fund Management and Capital Adequacy

- Evaluate the adequacy of capital and liquidity management in the company to meet both regulatory and operational requirements.
- Review the firm's ability to raise capital for investment products and the processes for distributing profits to investors.
- Assess fund accounting practices, ensuring the accurate tracking of fund inflows, outflows, and returns on investment.

3.2.3 Regulatory Compliance and Reporting

- Review compliance with the regulatory requirements as per the **SEC, Central Bank, and other capital market regulators**.
- Ensure adherence to AML, CFT, and other applicable regulatory frameworks related to asset management.
- Evaluate the company's processes for preparing regulatory and client reports, focusing on

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transparency, accuracy, and timeliness.

3.2.4 Risk Management and Internal Controls

- Review the risk management processes related to market risk, liquidity risk, and operational risk in investment portfolios.
- Assess the adequacy of internal controls over investment decision-making, fund management, and financial reporting.
- Evaluate the processes for identifying, assessing, and mitigating conflicts of interest in investment and capital-raising activities.

4. Key Responsibilities

The audit will involve the following key stakeholders:

- **NBL Securities Ltd. and NBL Capital & Equity Management Ltd.**: Responsible for maintaining and following all due process and polices in performing the operational and transactional process of the subsidiary company, and assessing the company's culture in complying ith internal controls and regulatory requirements.
- **Senior Management**: Responsible for giving necessary assurance that all applicable due diligence and requirements of applicable policies, procedures, guideline and relevant circulars were applied before effecting necessary financial transactions, payments made to customers against the dealings with the trading stocks.

5. Audit Methodology

The audit will be conducted using the following methodologies:

- **Document Review**: Reviewing key documents such as transaction records, regulatory filings, client portfolios, compliance reports, and contracts.
- **Interviews**: Discussions with key personnel, including risk managers, compliance officers, fund managers, and client service representatives.
- **Process Walkthroughs**: Walking through key operational processes, such as order execution, portfolio management, and client onboarding, to assess effectiveness.
- **Data Analysis**: Analyzing financial performance data, trading records, and client transactions to identify trends and potential issues.
- **Control Testing**: Testing the effectiveness of internal controls related to financial transactions, risk management, and regulatory compliance.
- **Compliance Testing**: Verifying compliance with SEC, stock exchange rules, and internal policies.

6. Performance Metrics for Evaluation

The audit will evaluate both entities using the following Key Performance Indicators (KPIs):

For NBL Securities Ltd.

- **Trade Execution Efficiency**: Measuring the speed, accuracy, and compliance of trade executions.
- **Client Satisfaction**: Analyzing feedback, complaints, and resolution times from clients.
- **Regulatory Compliance Rate**: Adherence to SEC rules, KYC, AML/CFT requirements, and other regulatory guidelines.
- **Internal Control Effectiveness**: The robustness of internal controls over trading, settlement, and client asset management.

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For NBL Capital & Equity Management Ltd.

- **Investment Performance**: Comparing the performance of managed funds to industry benchmarks.
- **Portfolio Risk Profile**: Ensuring investment portfolios are managed in line with client risk preferences and regulatory frameworks.
- **Capital Adequacy**: Evaluating the capital adequacy ratio to meet operational and regulatory requirements.
- **Regulatory Compliance Rate**: Compliance with asset management regulations and reporting standards.

7. Audit Reporting

At the conclusion of the audit, the audit team will prepare separate reports for each entity, detailing findings, risks, and recommendations for improvements. The reports will cover:

- Key observations and findings regarding operations, controls, compliance, and risk management.
- Recommendations for mitigating identified risks and improving business processes.
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in approving the investment proposal in listed securities with Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) **by applying delegation of authorities.**
- An action plan with timelines and responsibilities for corrective actions.

8. Timeframe

The audit will be conducted over a period of **6–8 weeks**, covering the following phases:

- **Planning Phase**: 1 week (gathering data and setting objectives).
- **Fieldwork Phase**: 3–4 weeks (document review, interviews, process walkthroughs, and testing controls).
- **Report Preparation**: 1–2 weeks (drafting findings and recommendations).
- **Final Review**: 1 week (presentation of findings to the management and the Audit Committee / Board).

9. Deliverables

- **Preliminary Audit Report**: A draft report outlining initial findings, risk areas, and opportunities for process improvement.
- **Final Audit Report**: A comprehensive report detailing the audit findings, recommendations, and action plans for addressing identified issues.

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Section – 9

Terms of Reference (ToR) for Money Transfer Business of Foreign Subsidiary

1. Introduction

National Bank Limited (NBL) operates a foreign subsidiary engaged in money transfer services, supporting global remittance flows. To ensure operational excellence, compliance with international regulations, and effective risk management, a functional audit is commissioned to evaluate the subsidiary's money transfer business. The audit will provide an in-depth analysis of the subsidiary's efficiency, regulatory adherence, and risk control mechanisms.

2. Objective of the Audit

The proposed **functional audit of foreign subsidiaries primarily will be on the online basis** unless otherwise directs the management. The objective of the functional audit is to:

- Evaluate the operational effectiveness and efficiency of the foreign subsidiary's money transfer business.
- Assess compliance with both local and international regulatory frameworks.
- Identify potential operational, financial, and reputational risks.
- Propose actionable recommendations for improving performance, control mechanisms, and service delivery.

3. Scope of the Audit

The audit will cover the following key areas of the money transfer business:

3.1. Operations and Workflow Management

- Review the entire money transfer process, including transaction initiation, verification, and settlement.
- Evaluate operational efficiency, including transaction volumes, turnaround times, and staff productivity.
- Identify any bottlenecks or inefficiencies in the current workflow, with suggestions for optimization.

3.2. Compliance with Local and International Regulations

- Ensure adherence to local laws and regulations of the host country.
- Assess compliance with international money transfer regulations, including Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) standards such as the Financial Action Task Force (FATF) guidelines.
- Review the subsidiary's relationship and compliance with correspondent banks, payment service providers, and other partners involved in cross-border transactions.

3.3. Risk Management and Internal Controls

- Evaluate the subsidiary's internal control framework, including processes to mitigate operational, financial, and reputational risks.
- Assess the effectiveness of fraud detection and prevention systems, including suspicious transaction monitoring and reporting.
- Review business continuity and disaster recovery plans in the context of money transfer operations.

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3.4. IT Infrastructure and Security

- Assess the adequacy and reliability of IT systems supporting money transfer operations, including transaction processing platforms, data management, and reporting tools.
- Review cybersecurity measures, including data encryption, user authentication, and protection against external threats.
- Evaluate the robustness of backup and recovery systems for money transfer data.

3.5. Financial Reporting and Reconciliation

- Assess the accuracy and timeliness of financial reporting related to money transfer transactions.
- Review the reconciliation process between transactional records, bank statements, and financial accounts as maintained with the parent company and other parties.
- Ensure proper tracking and reporting of exchange rates, fees, and commissions associated with money transfers.

3.6. Compliance with Parent Company Policies

- Ensure the subsidiary's adherence to National Bank Limited's internal policies and procedures, including reporting requirements and internal audit protocols.
- Assess the alignment between the subsidiary's business operations and NBL's overall risk management and governance frameworks.

4. Audit Methodology

The audit will be conducted using the following approaches:

- **Document Review**: Analysis of relevant policies, procedures, financial reports, and regulatory filings.
- **Interviews**: Conduct interviews with key personnel, including management, compliance officers, IT staff, and operational staff.
- **Transaction Sampling**: Perform a sample review of money transfer transactions to evaluate compliance, accuracy, and efficiency.
- **System Evaluation**: Assess the IT systems, software, and security protocols used for money transfer processing.
- **Process Observation**: Observe the real-time execution of key processes to identify inefficiencies and control weaknesses.

5. Audit Reporting:

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- A detailed analysis of the performance and operational efficiency of the foreign subsidiary company.
- Identification of gaps in internal controls, process inefficiencies, or non-compliance with regulations.
- Recommendations for enhancing the division's operational effectiveness, cost management, and risk mitigation.
- List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in **applying delegation of authorities.**
- An action plan for addressing the identified issues, including timelines and responsible parties.

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6. Timeframe:

The audit will be conducted over a period of 6–8 weeks, with the following key phases:

- **Planning Phase**: 1 week (designing the audit plan, gathering initial data, and setting objectives).
- **Fieldwork Phase**: 3–4 weeks (reviewing documents, conducting interviews, process walkthroughs, and control testing).
- **Report Drafting**: 1–2 weeks (analyzing findings, drafting recommendations, and preparing the final report).
- **Final Report and Presentation**: 1 week (presentation of findings to the Audit Committee of the Board).

7. Deliverables:

- **Preliminary Audit Report**: A draft report outlining initial findings, risk areas, and opportunities for process improvement.
- **Final Audit Report**: A comprehensive report detailing the audit findings, recommendations, and action plans for addressing identified issues.

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Section – 10

Terms of Reference (ToR) for Functional Audit of Payments for Corporate Social Responsibility (CSR) Programs of a Bank

1. Purpose

The purpose of this Terms of Reference (ToR) is to outline the objectives, scope, methodology, and deliverables for conducting a functional audit of payments made towards Corporate Social Responsibility (CSR) programs of the Bank in Bangladesh. The audit seeks to ensure that CSR payments are made in accordance with regulatory requirements, internal policies, and in line with the bank's overall social impact goals. It also aims to assess the effectiveness, transparency, and governance of CSR-related expenditures.

2. Objectives of the Audit

The key objectives of the functional audit are:

- Evaluate the financial control mechanisms related to CSR payments to ensure proper allocation, utilization, and documentation.
- Assess compliance with regulatory guidelines and internal CSR policies.
- Review the processes for selecting CSR projects and ensure alignment with the bank's corporate values and objectives.
- Verify the impact and effectiveness of CSR initiatives in delivering measurable social benefits.
- Identify risks related to CSR funding and propose recommendations for improving governance and transparency.

3. Scope of the Audit

The audit will cover all aspects of CSR payments and activities undertaken by the bank. The key areas of focus include:

3.1 Financial Management and Control of CSR Payments

- Review the budgeting and allocation process for CSR funds to ensure alignment with regulatory limits and strategic priorities.
- Assess the processes for disbursement of CSR payments, including approval workflows, authorization levels, and adherence to internal policies.
- Evaluate the internal control mechanisms to prevent misallocation or misuse of CSR funds.
- Verify the documentation of payments to ensure that proper records are maintained for audit trails, including contracts, receipts, and project reports.

3.2 Regulatory Compliance and Internal Policies

- Ensure compliance with the **Bangladesh Bank guidelines** on CSR expenditure, including prescribed limits and areas of focus (e.g., education, health, environment).
- Review the bank's internal CSR policy framework and ensure that it aligns with national CSR priorities and international best practices.
- Verify that the CSR programs funded by the bank meet the regulatory standards and contribute to sustainable social development.
- Assess compliance with tax regulations related to CSR spending, including deductions and reporting obligations.

3.3 CSR Program Selection and Approval

- Evaluate the process for selecting CSR initiatives to ensure transparency, accountability, and alignment with the bank's strategic objectives.
- Review the criteria used to evaluate CSR projects, focusing on their potential impact, feasibility, and alignment with the bank's brand and values.
- Assess the approval process for CSR projects, ensuring that the bank's board or a designated committee has reviewed and approved all major CSR activities.
- Review any partnerships with external organizations (e.g., NGOs, government agencies) to ensure that they meet the bank's standards of integrity and social impact.

3.4 Effectiveness and Impact of CSR Initiatives

- Assess the effectiveness of CSR programs in achieving their stated goals and delivering measurable social benefits to target communities.
- Review the bank's system for monitoring and evaluating CSR initiatives, focusing on key performance indicators (KPIs) such as reach, impact, and sustainability.
- Conduct sample verifications of completed CSR projects to ensure that they have been implemented as planned and that beneficiaries have received the intended support.
- Assess whether the bank's CSR activities enhance its brand reputation and contribute to its broader business objectives.

3.5 Governance and Risk Management

- Review the governance structure for overseeing CSR activities, including roles and responsibilities of the CSR committee or department.
- Assess the risk management framework related to CSR activities, including risks associated with project selection, partner organizations, and financial disbursements.
- Evaluate the bank's approach to mitigating reputational risks associated with CSR initiatives.
- Review any instances of CSR-related fraud, non-compliance, or other irregularities and assess the bank's response.

3.6 Stakeholder Engagement and Communication

- Review the bank's approach to engaging with stakeholders (e.g., communities, NGOs, government bodies) during the planning and implementation of CSR projects.
- Assess the effectiveness of communication strategies used to raise awareness of the bank's CSR activities among stakeholders, including customers, regulators, and the public.
- Evaluate the transparency of CSR reporting, including disclosures in annual reports, sustainability reports, and media channels.

4. Key Responsibilities

The audit will involve the following stakeholders:

- **CSR Department/Committee**: Responsible for maintaining and following all due process and polices in performing the operational and financial activities under the CSR program as per regulators' requirements and also following other compliance requirements as per internal controls and regulatory requirements.
- **Senior Management**: Responsible for giving necessary assurance that all applicable due diligence and requirements of applicable policies, procedures, guideline and relevant circulars were applied before effecting necessary financial transactions, payments made under CSR programs and utilizations of allocated funds by the Bank.

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5. Audit Methodology

The audit will be conducted using the following methodologies:

- **Document Review**: Reviewing key documents, including the CSR policy, financial records, project proposals, contracts, and reports.
- **Interviews**: Conducting interviews with key personnel, including members of the CSR committee, finance department, and project partners.
- **Process Walkthroughs**: Mapping out key CSR processes, including fund disbursement, project selection, and monitoring, to assess efficiency and compliance.
- **Data Analysis**: Analyzing CSR expenditure data, financial statements, and project reports to evaluate trends, impact, and compliance with budgets.
- **Control Testing**: Testing the effectiveness of internal controls related to CSR payments, including approval workflows, segregation of duties, and documentation.
- **Field Visits**: Where applicable, conducting field visits to project sites to verify that CSR initiatives have been executed as planned.

6. Performance Metrics for Evaluation

The audit will evaluate CSR activities using the following Key Performance Indicators (KPIs):

- **CSR Budget Utilization Rate**: The percentage of CSR funds utilized against the allocated budget.
- **Compliance Rate**: The level of adherence to Bangladesh Bank guidelines and internal CSR policies.
- **Impact Measurement**: The extent to which CSR initiatives have achieved their social impact goals, based on defined KPIs.
- **Efficiency of Payment Process**: Time taken for disbursements and the efficiency of payment processing.
- **Project Completion Rate**: The percentage of CSR projects completed on time and within budget.
- **Beneficiary Feedback**: Qualitative assessment of feedback from beneficiaries and stakeholders on the impact of CSR programs.

7. Audit Reporting

At the conclusion of the audit, the audit team will prepare a comprehensive report that includes:

- **Summary of Findings**: Key observations regarding the financial control, compliance, and effectiveness of CSR activities.
- **Recommendations**: Actionable recommendations for improving the governance, financial management, and impact of CSR programs.
- **Responsibilities:** List of all officials and executives, as identified through the audit process for non-compliances, irregularities or any deviations from set policy or procedures along with **ground of responsibilities**.
- **Fixing up the responsibilities of each individuals including the Board** for irregularities, deviations or lapses in approving the payments under CSR programs **by applying delegation of authorities.**
- **Action Plan**: A proposed action plan with timelines and responsibilities for addressing the identified issues.

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8. Timeframe

The audit will be conducted over a period of **6–8 weeks**, covering the following phases:

- **Planning Phase**: 1 week (setting objectives and gathering initial data).
- **Fieldwork Phase**: 2–3 weeks (document review, interviews, testing, and field visits).
- **Report Preparation**: 1–2 weeks (analyzing findings and drafting the report).
- **Final Review and Presentation**: 1 week (presentation of findings to the management and the Audit Committee / Board).

9. Deliverables

- **Preliminary Audit Report**: A draft report outlining initial findings, risk areas, and opportunities for process improvement.
- **Final Audit Report**: A comprehensive report detailing the audit findings, recommendations, and action plans for addressing identified issues.

Duration of the Functional Audit:
The audit exercise will take place over a period of 60 (sixty) days from the date of our formal engagement letter. It will be carried out at the different divisions of head office of NBL, different branches, regional offices across the country. The selected audit firm should submit their final report as per outlined conditions as appended in **<u>"Reporting Phase"</u>** in each ToR of respective audit area as described above.

Payment Method:

If the memo regarding proposal for conducting functional audit is approved by the honorable Board of Directors, the Managing Director and CEO, NBL to approve and release all necessary payments, through crossed cheques, including mobilization advance, running advances and final invoice as per terms and conditions of the agreed contract or work order.

28/09/24
Md. Mozahid Kabir
EVP & Head of ICCD

25.09.2024
Imran Ahmed
DMD & Chief Risk Officer

Md. Touhidul Alam Khan
Managing Director & CEO 25/09/24

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