

**BANGLADESH RURAL ELECTRIFICATION BOARD
DHAKA, BANGLADESH**

BREB INSTRUCTION 600-08

SUBJECT: INTERNAL CONTROL OF BREB OPERATIONS.

I. PURPOSE:

This Instruction sets forth policy guideline with respect to internal control of BREB operations.

II. GENERAL:

The general welfare of BREB operations requires adherence to high standards of business conduct so that the Board may have the confidence and support of the public as well as of the Borrowers (PBSs)/ Stakeholders. Internal control is essential to sound business operations. It consists of the plan of organization and procedures established by a business for the purpose of safeguarding assets, assuring accuracy in accounting and operational data, promoting efficiency of operations and encouraging adherence to management policies.

III. POLICY

Establishment of Internal Control Procedures:

A. The establishment of internal control procedures is the direct and immediate responsibility of the BREB management. The measure which should be adopted is governed by commonly accepted accounting and business management procedures. The characteristics of a satisfactory system of internal control will include:

Revision:

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| 04.08.1980 | BREB | BREB Board | 1 | 3 |
| Revisions : 03/1996, 01/09/2013, 19/02/2020 | | | | |


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1. A plan of organization which provides appropriate segregation of functional responsibilities.
2. A system of authorization and record keeping procedures adequate to provide reasonable accounting control over assets, liabilities, revenues and expenses.
3. Sound practices to be followed in performance of duties and functions of each organizational department.
4. Assignment of qualified personnel commensurate with responsibilities.

B. CHECKLIST:

BREB Management shall be responsible for ensuring that control procedures established for sound operation of the Organization have been properly followed in carrying out operations including financial activities.

Management should use the Checklist attached to this Instruction (Attachment-1) which has been designed for reviewing and determining the adequacy of internal control procedures and also for identifying the additional measures which might be taken to improve overall position of internal control.

The Checklist provides a series of questions, covering important phases of system operations, which are to be answered on a 'yes' or 'no' basis. A 'yes' answer will indicate that internal control is present in that particular activity. Although a 'no' answer to a question does not necessarily indicate a deficiency, since alternative procedures may provide adequate control, it is indicative to determine that the alternative control measures have been established.

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Based on the result of assessment and review of internal control procedures through the checklist. Management shall identify and take necessary measures to establish controls in the areas where weaknesses in control are noted.

ENFORCEMENT OF INTERNAL CONTROL MEASURES & REMEDIAL ACTIONS:

- A. Compliance with internal control requirements established by the Board should be periodically reviewed minimum once in a year and corrective measures be taken where non compliance is found. As soon as a breach of internal control measures is discovered, management should ascertain the person or persons responsible therefor and the extent to which the system's business and property and its integrity and reputation, are affected.
- B. If an investigation discloses an apparent defalcation, fraud or other irregularity or impropriety on the part of any officer or employee, agent or contracting party, the Board, after evaluating the relevant and material facts and circumstances should take appropriate action as follows:
1. Where the acts involve no violation of law, but there are some irregular or improper as to tend to damage the reputation of the BREB in the community and to reflect adversely upon the BREB Program, Management shall immediately take corrective measures, including suspension of the offender from employment where this is indicated to be necessary or desirable.

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Where the acts, upon consultation with the BREB Legal Advisor, clearly appear that there is involvement of violation of law, the offender shall be immediately separated or suspended from employment and the infraction shall be reported to the proper prosecuting authority.

2. The required notice shall be served to the Bonding/ Insurance Company where the acts relate to matters covered by the Fidelity Bond Coverage.
3. Where the acts involve pecuniary loss, the matter shall be referred to the Legal Advisor for consultation with the Bonding/Insurance Company.
4. Where there is uncertainty as to whether the acts of an insured employee, officer, or agent are covered by the fidelity Bond / insurance or whether all such acts as may be covered by the insurance have been discovered, the known facts shall be presented to the Bonding / Insurance Company in writing. The person or persons involved should not remain in the employment unless the Bonding/Insurance Company's consent to continuance of coverage under the bond is obtained.
5. The Chairman, BREB shall be notified immediately of any irregularity affecting funds or property, reporting the action already taken and any proposed course of action. Such communication should indicate clearly whether the Bonding/ Insurance Company has been notified and, if so, a copy of the notice shall be enclosed.
6. Immediate action shall be taken to install precautionary measures or existing internal control arrangements to prevent recurrence of similar acts shall be strengthened.

Enclosed: Attachment-I (Page-1 to 9)

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BREB Instruction 600-08
INTERNAL CONTROL CHECKLIST

I. GENERAL:

| | <u>Yes</u> | <u>NO</u> |
|--|------------|-----------|
| 1. Are policies established by the board prescribed in a clear-cut, decisive fashion? | | |
| 2. Is a file of such policies maintained and available to all employees concerned? | | |
| 3. In general do methods and procedures conform to such policies? | | |
| 4. Are well-designed systems and procedures including organization charts, job descriptions, work flow charts, etc., established and maintained? | | |
| 5. Are employees' duties reasonably fixed as to both authority and responsibility? | | |
| 6. Where possible, are duties among employees rotated? | | |
| 7. Are duties of employees on vacation performed by other persons? | | |
| 8. Does fidelity bond coverage meet REB requirements? (See REB Instruction 600-4) | | |
| 9. Is the insurance program reviewed periodically by management? | | |
| 10. If persons related to one another are employed, are their duties such as to make collusion difficult? | | |
| 11. Are all new employees required to provide bio-data for employment? | | |
| 12. Are inquiries made of all references and former employers mentioned by new employees? | | |

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| | <u>Yes</u> | <u>NO</u> |
|--|------------|-----------|
| 13. Have internal control procedures been reviewed by management by use of this checklist. | | |
| 14. Is data relating to claims against the Borrower filed and controlled systematically? | | |
| 15. Are safes and vaults provided for cash, securities, and important records and is access limited to a few employees? | | |
| 16. Is the working space of custodians of valuable assets not readily accessible to the general public? | | |
| 17. Are required monthly/quarterly financial reports timely and accurately prepared? | | |
| 18. Does the Controller (Finance & Account) maintain checklist on required monthly/quarterly reports and its reconciliations? | | |
| 19. Are monthly or other periodic comparisons made between operating reports and the budget? | | |
| 20. Are funds deposited only in the scheduled banks as approved by the Board? | | |
| 21. Are minutes of Board meetings prepared promptly? | | |
| 22. Are all documents and reports prepared carefully reviewed and checked for accuracy and completeness before signature and submission? | | |
| 23. Are all employees who are responsible for preparing reports informed of their responsibility for accuracy and completeness of the reports? | | |
| 24. Are employees informed periodically regarding penalties for false reporting? | | |

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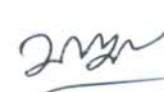



| | <u>Yes</u> | <u>NO</u> |
|---|------------|-----------|
| 25. Are adequate subsidiary records maintained of : | | |
| (a) Receivable and Payable? | | |
| (b) Insurance premiums paid and refunded? | | |
| (c) All other Required Accounts? | | |
| 26. Is care continually exercised to ensure that the personal business of officers or employees is not commingled or confused with the business of the corporation? | | |

II. CASH MANAGEMENT:

A. CASH RECEIPLS:

| | | |
|--|-------|-------|
| 1. Are official receipts and collection stubs reconciled with cash receipts by the concerned designated staff prior to deposits? | ..... | ..... |
| 2. Are all receipts, recorded promptly and deposited intact daily? | ..... | ..... |
| 3. Are checks endorsed "For Deposit only" promptly upon receipt? | ..... | ..... |
| 4. Have banks been notified not to cash any checks payable to the borrower (s)/vendor(s)? | ..... | ..... |
| 5. Is the responsibility for cash collections segregated from banking and bookkeeping functions? | ..... | ..... |
| 6. Is the cash receipts journal closed promptly at the end of each month? | ..... | ..... |
| 7. If collections are received without a bill, is duplicate counter receipt immediately prepared and provided to the depositor(s)? | ..... | ..... |
| 8. Is the cashing of payroll or cash receipts against the checks of the employees prohibited? | | |

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Yes NO


B. CASH DISBURSEMENTS:


1. Are all disbursements, except from petty cash, made by check?
2. Are all checks pre-numbered?
3. Are all checks promptly mutilated and held for subsequent inspection?
4. Is the signing or countersigning of "Blank Checks" prohibited?
5. Is the practice of drawing checks for "Cash" or "Bearer" prohibited?
6. Is a check protector or safety check paper used?
7. Are checks prepared and issued within the authority and limitations as prescribed by the Board?
8. Are banks furnished with copies of resolutions stating clearly the current authorization of signers and counter signers of checks and setting forth any restrictions?
9. Are original invoices or other supporting data presented together with the checks submitted for signature to the signatories?
10. Are bank reconciliations made by employees whose duties do not include the recording or handling of cash?
11. Does the employee making bank reconciliations receive statements Sheet from the banks "unopened"?.
12. Do employees reconciling bank accounts examine statements for check no, date, name and amount of check listed?
13. Are bank reconciliations reviewed by other responsible employees?
14. Is the cash disbursement journal closed promptly at the end of each month and verified independently?
15. When transfers from on bank account to another are the contra-entry made?


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III. IMPREST (PETTY CASH FUND):

Yes NO

1. Is primary responsibility for the maintenance of fund vested in one person?
2. Is fund checked at frequent irregular intervals by someone other than the custodian?
3. Are petty cash vouchers prepared and signed properly?
4. Is fund used and maintained in accordance with the intent of imprest fund and also the provision of BREB Instruction 600-02.
5. Is the cashing of personal checks or IOUs from this fund prohibited?

IV. REVENUES:

1. Is the total of the individual accounts balanced monthly with the general ledger control?
2. Are accounts aged monthly?
3. If so, is the aging reviewed by someone?
4. Is a definite collection policy being enforced?
5. Are penalties received and recorded properly?

V. INVESTMENT OF FUNDS:

1. Is investment of funds being made properly?
2. Are the FDRs/Saving Certificates encashed timely on maturity ?
3. Is there any verification of interest credited by Bank on Investments?

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VI. Materials and supplies:

Yes NO

1. Are materials kept in storerooms or other enclosed areas with access limited to or under rigid control of a storekeeper?
2. Are material charge and credit tickets properly prepared at the time of issue or receipt of materials?
3. Does material system provide for periodic reporting to the designated official of obsolete, overstocked or damaged items?
4. Are all materials procured delivered to the storeroom?
5. Is a reasonable degree of control maintained over maintenance, operations and other supplies which are charged directly to expense accounts?
6. Is there effective control over the accumulation and sale of scrap?
7. Is insurance coverage of materials adequate?
8. Are materials and supplies stored in a manner to safeguard against deterioration, fire and theft?

Physical Inventory

1. Are perpetual inventory records maintained for each classification of materials and supplies?
2. Do the records reflect quantities, unit prices, values?
3. Are perpetual inventory records reconciled periodically with the General Léger control?
4. Are all major adjustments to material records approved by the Board?
5. Are cash sales by storekeepers prohibited?

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- | | <u>Yes</u> | <u>NO</u> |
|--|------------|-----------|
| 6. Are complete physical inventories taken at least once a year for all classification of materials and supplies lying in the BREB Stores? | | |
| 7. As to physical inventories: | | |
| a) Are adequate instructions issued to participating personnel? | | |
| b) Are typed or written count sheets, providing descriptions but no quantities prepared in advance? | | |
| c) Is stock arranged well physically prior to count? | | |
| d) Are test counts made by personnel independent of those maintaining perpetual inventory records and of the storekeepers? | | |
| e) Are obsolete or damaged items physically segregated and counted separately? | | |
| f) Are Priced inventory sheets double-checked as to prices, extensions, footings, and summarizations? | | |
| g) Are inventory counters denied access to perpetual inventory records during count? | | |
| h) Is a definite cut-off date of Physical Inventory established? | | |

VII. Property Accounting:

- | | | |
|--|-------|-------|
| 1. Are detailed property records maintained in support of the general ledger control accounts? | ..... | ..... |
| 2. Are such records balanced at least annually with general ledger control accounts? | ..... | ..... |
| 3. Is BREB procedure substantially followed in recording costs of work order construction and retirements? | ..... | ..... |
| 4. As to material, are adequate checks made between recorded materials used and materials required as shown by staking sheet assembly units? | ..... | ..... |
| 5. Are work order construction and retirement work in progress accounts properly reconciled monthly? | | |

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- | | <u>Yes</u> | <u>NO</u> |
|---|------------|-----------|
| 6. Are detailed cost schedules maintained in support of contract construction work in progress accounts? | | |
| 7. Are work orders promptly and properly closed upon completion of job and transferred to plant in service? | | |
| 8. Are periodic physical inventories of office, transportation, shop, laboratory, and such equipment taken and compared with the records? | | |
| 9. Are adequate records maintained on property rented or leased to/from others? | | |

VIII. Accounts Payable:

- | | | |
|--|-------|-------|
| 1. Are unpaid invoices reconciled monthly with the General Ledger control account? | ..... | ..... |
| 2. Are debit balances of substantial amount reported to the higher management? | ..... | ..... |

IX. Long Term Debt To The Borrower (PBSs):

- | | | |
|---|-------|-------|
| 1. Are adequate files maintained containing all loan documents and interest and principal statements? | ..... | ..... |
| 2. Is an adequate procedure in effect to calculate and record interest accruals and to reconcile the Loan accounts with the BPSs? | ..... | ..... |

X. Purchases and Expenses:

- | | | |
|--|-------|-------|
| 1. Are purchases made in compliance with the provisions of PPR-2008 | ..... | ..... |
| 2. Are all purchases, except from petty cash, made on purchase orders? | ..... | ..... |
| 3. Are purchase orders signed only by the authorized persons? | | |
| 4. Are receiving report forms used? | | |

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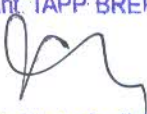

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| | <u>Yes</u> | <u>NO</u> |
|---|------------|-----------|
| 5. Are the receiving report forms pre-numbered? | | |
| 6. Do copies of purchase orders and Receiving reports go directly to the Accounting Department? | | |
| 7. Are invoices checked in the general accounting section against: | | |
| a) Purchase orders? | | |
| b) Receiving reports? | | |
| 8. Are invoices checked as to: | | |
| a) Price? | | |
| b) Freight charges, if any? | | |
| c) Delivery Date? | | |
| d) Time Extension? | | |
| 9. Are vouchers for purchases and expenses examined by a designated officer or employee to ascertain completeness of attachments including required approval? | | |
| 10. Is there adequate accounting control over returned purchases? | | |
| 11. Is a satisfactory procedure in use for reviewing charges to stores and transportation expense clearing accounts? | | |

XI. Payrolls:

| | | |
|--|-------|-------|
| 1. Does the payroll Section maintain updated files containing Pay-scale with other related papers and documents? | ..... | ..... |
| 2. Are the preparations of the payroll done properly? | ..... | ..... |
| 3. Are individual earnings records maintained for all employees? | ..... | ..... |
| 4. Are written authorizations received and checked for Changes in pay rates? | ..... | ..... |
| 5. Are daily time reports properly approved by the designated official? | ..... | ..... |
| 6. Are payroll checks/advices signed by persons other than those who participate in preparation of the payroll? | ..... | ..... |
| 7. Are payroll disbursements made from a designated bank account? | | |
| 8. Are monthly bank reconciliations made on payroll disbursement? | | |

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