



## INTERNAL AUDIT DEPARTMENT

### Engagement Planning Memorandum (EPM)

#### 1. Engagement Overview

Field	Details
Engagement Title	Annual audit of the credit function
Engagement Code/Reference Number	IA/04/001/2025
Auditee Department/Unit	Credit Department
Audit Period Covered	October 2024 – September 2025
Fieldwork Start Date	15 October 2025
Expected Completion Date	10 November 2025
Audit Team	Lead Auditor: Mercy Kimuli Atugonza Internal Audit Officer: Joan Prossy CISA: Tracy Ayebazibwe
Reporting To	Chief Audit Executive (CAE) / Head of Internal Audit: CPA Titus Mugenyi

#### 2. Background – Credit Function, BBA Commercial Bank *[purpose and significance of the function being audited, organizational structure of the department, strategic and business activities, last audit and finding]*

The Credit Function is a core component of BBA Commercial Bank's operations, responsible for loan origination, appraisal, approval, disbursement, monitoring, and recovery. It ensures that credit is granted in line with the Bank's Credit Policy, regulatory requirements, and risk appetite, thereby safeguarding asset quality and profitability.

The department reports to the Executive Director – Business Operations and is headed by the Head of Credit, supported by units for Credit Risk & Appraisal, Credit Administration, Credit Monitoring & Recovery, and CRB Management.

The last internal audit, conducted in August 2023, identified gaps in loan documentation, delays in CRB updates, and inconsistent loan monitoring. Most recommendations were implemented by Q2 2024, leading to improved compliance and control practices.

Strategically, the Credit Function aims **to grow a high-quality loan portfolio, enhance turnaround time, strengthen risk-based lending, and ensure compliance with Bank of Uganda Prudential Guidelines.** It uses systems such as Flexcube (Core Banking System), a Credit Management Module, and a CRB Interface to manage credit operations and data reporting.

The upcoming audit will assess the adequacy and effectiveness of controls, risk management, and compliance within the Credit Function to ensure sustainable and prudent credit growth.

**3. Engagement / audit Objectives** *[S.13.3 requires development of audit objectives from the business activities of the function being audited and the overall organization objectives. Also, objective of the audit come from the risk assessment].*

The primary objective of this engagement is to evaluate the adequacy and effectiveness of the Credit Function's governance, risk management, and internal control processes in supporting BBA Commercial Bank's strategic objectives of maintaining asset quality, minimizing credit risk, and ensuring regulatory compliance.

**Specifically, the audit seeks to:**

- ❖ To assess compliance with the Bank's Credit Policy, lending procedures, and applicable Bank of Uganda (BoU) Prudential Guidelines and regulations.
- ❖ To evaluate the effectiveness of the credit appraisal, approval, disbursement, monitoring, and recovery processes in ensuring sound credit risk management.
- ❖ To determine the adequacy of internal controls over loan documentation, collateral management, and CRB reporting.
- ❖ To review the accuracy and reliability of credit-related data and reports generated from the Core Banking and Credit Management Systems.
- ❖ To assess the efficiency and effectiveness of the Credit Function's organizational structure, staffing, and segregation of duties.
- ❖ To identify key risks and control weaknesses that may affect loan quality, portfolio performance, or regulatory compliance.

- ❖ To provide actionable recommendations to enhance Credit Function's performance, governance, and alignment with the Bank's business objectives.

**4. Scope of the Engagement** *[The scope should be broad enough to achieve the engagement objectives. When determining the scope, internal auditors should consider each engagement objective independently to ensure that it can be accomplished within the scope. The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives].*

Define what is included in the audit:

- **Processes / activities:** Vendor selection, bidding, approvals, contract awards, and monitoring (Based on objectives and preliminary risk assessment).
- **Transactions:** All procurement over \$10,000 between Jan 2024 – Jun 2025
- **Period:** Jan 2024 – Jun 2025
- **Locations:** Head Office only
- **Exclusions:** Petty cash purchases and inventory controls

**5. Engagement Criteria** *[Internal auditors must assess the extent to which the board and senior management have established adequate criteria to determine whether the activity under review has accomplished its objectives and goals. If such criteria are adequate, internal auditors must use them for the evaluation. If the criteria are inadequate, internal auditors must identify appropriate criteria through discussion with the board and/or senior management- Standard 13.4]*

List the benchmarks used to assess performance:

- Internal (policies, procedures, key performance indicators, or targets for the activity).
- External (laws, regulations, and contractual obligations).
- Authoritative practices (frameworks, standards, guidance, and benchmarks specific to an industry, activity, or profession).
- Established organizational practices.
- Expectations based on the design of a control.
- Procedures that may not be formally documented.
- Internal Procurement Policy (2023)
- Delegation of Authority Matrix

- National Public Procurement Act (where applicable)
- ISO 9001 Procurement Best Practices

## 6. Management expectations on the Engagement

*These are the expectations that the management shared with the audit team in the entrance meeting. These may include areas in the management has noted with concern and would want the audit team to report back on them by providing recommendations.*

## 7. Risk Assessment

Summarize key risks identified during preliminary analysis of the existing audit and other reports, risk control assessment reports, and observations:

Risk Area	Description	Likelihood	Impact	Risk Rating
Fraud Risk	Unauthorized vendor favoritism	Medium	High	High
Compliance	Non-adherence to tendering procedures	High	Medium	High
Operational	Delays in purchase approvals	Medium	Medium	Medium

## 8. Preliminary Control Assessment

Provide a high-level summary of known or expected control conditions.

*Example: A centralized procurement system is in place, but prior reviews have noted weak enforcement of approval workflows.*

## 9. Audit Approach & Methodology

List methods and techniques to be used:

- Document review (policies, invoices, contracts)
- Sample testing of procurement files
- Walkthroughs with procurement staff
- Data analytics (e.g., duplicate vendors)
- Risk/control matrix updates

## 10. Engagement Resources

This entails both the human and non-human resource to be used during the engagement.

### 10.1 Engagement staffing

Team Member	Role	Estimated Hours
	Lead Auditor	40 hrs
	Auditor	60 hrs
Xxxxxxx	Auditor	40 hrs

### 10.2 Other Engagement Resources

This section documents any non-personnel resources that will support the audit engagement, beyond just assigning auditors.

Resource Type	Description	Purpose/Use
<b>Audit Tools</b>	Data Analytics Software (e.g., ACL, IDEA, Excel macros)	For analyzing large volumes of procurement transactions
<b>System Access</b>	Read-only access to ERP system (e.g., SAP Procurement Module)	To extract procurement records and approval workflows
<b>Templates &amp; Checklists</b>	Standard Internal Audit Testing Template, Risk Control Matrix	To ensure consistent documentation and evaluation
<b>Facilities</b>	Meeting room booking at HQ, access to document storage room	For interviews and physical document reviews
<b>IT Support</b>	Temporary access to secure shared drive	For secure storage of audit work papers
<b>External Resources</b> (if any)	Consultation with Legal Department	To interpret contract compliance questions or clauses

### 11. Key Milestones & Timeline

Activity	Planned Date
Engagement Planning Finalized	30 Sept 2025
Opening Meeting	10 Oct 2025
Fieldwork	15 Oct – 5 Nov 2025
Draft Report Submission	8 Nov 2025
Exit Meeting	10 Nov 2025
Final Report Issuance to the BAC	15 Nov 2025
Q4 BAC Meeting	
Submission of Final Reports to BOU	

### 12. Communication Plan

Communication Type	Audience	Frequency
Kick-off Meeting	Audit Team, Auditee	Once (10 Oct 2025)
Fieldwork Updates	Audit Manager	Weekly
Exit Meeting	Auditee Senior Mgmt	Once (10 Nov 2025)

### 13. Approval

Name	Role	Signature	Date
[Audit Supervisor]	Reviewer		
[Chief Audit Executive]	Approver		

### Appendices (Optional)

Appendix A: Organization Chart of Auditee

Appendix B: Process Flow Diagrams

Appendix C: Preliminary Risk Assessment Details

#### ✓ Notes:

This memorandum should be finalized before audit fieldwork begins.  
It should be signed and retained in the audit file.

Any major deviations from this plan during the audit should be documented and justified.