



## 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<br>Internal Audit Officer: Joan Prossy<br>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 (if any)</b> | 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.