

10 Internal Audit & Control

Internal Auditing helps an organization's executive management, board and other stakeholders to achieve their business objectives, this might be a lot to ask from one organizational resource, but for Internal Auditors — it's all in a day's work.

10.1 Overview

Internal Audit Department (IAD) in the SBP BSC carries the responsibility of providing reasonable assurance to Management and Board Audit Committee on observing internal controls of the organization. Performance of the Internal Audit function is monitored by the Committee of SBPBSC Board on Audit. It has always been the prime focus of IAD to be a value adding arm in smooth functioning of the organization by keeping an oversight and vigilance on effectiveness of internal controls & risk management systems, and appropriateness of governance practices along with providing technical expertise on need basis.

Highlights

- A strategic road map was developed and approved, incorporating change strategy.
- Developing a formal risk based Pre- Audit planning function. Including within objective and subjective parameters.
- Data extraction process through Globus and Oracle has been documented.
- Analysis of data is currently being carried out through ACL and MS Excel.
- Risk registers and inventory based checklists developed. Consultation with line managers and parent departments are being obtained to further streamline these documents.
- Audit toolkit has been prepared by the department which acts as an instruction warehouse for the auditors.

10.2 Role of Committee of SBPBSC Board on Audit

The Board's Audit Committee is performing a pivotal role in upholding the independence of Internal Audit function. This year the Audit Committee has further enhanced the functional independence of IAD. The Audit Committee has revised its TORs and Internal Audit Charter significantly to conform it to the best practices.

10.3 Annual Financial & Operational Audits

In FY12, a Risk Based Audit Plan was worked out by prioritizing audit activities consistent with organizational risks and goals. For this purpose, business operations performed by BSC field offices were identified and categorized in many broad areas. Further, functions performed by each HOK department were also identified and categorized. Subsequently, an understanding for each business operation was developed for assessing objectives and critical value of each function with respect to BSC's overall objectives. Assessment of internal control environment was based on the previous year audit report of each field office and department. The work load of each office and department which it handles in relation to other organizational units was also considered to reflect on its linkage with the effectiveness of risk management activities they perform. This facilitated an efficient deployment of audit resources for achieving audit objectives.

During FY12, 8 departments at the HOK were audited along with 16 field offices of BSC across the country. In total, 863 audit observations were found in field offices, while 166 were noted in HOK in FY12 compared to 82 in HOK and 1,488 in field offices during FY11 (**Figure 10.1 & 10.2**).

10.4 Establishment of Review & Enforcement Division

A Review and Enforcement Division (RED) has been established to enhance the level of filtering of audit observations and priority rationalization of audit findings. The division also facilitates coordination of audit teams in accordance with audit plans along with monitoring compliance of audit observations. Compliance function supports the follow up actions of IAD and ensures that management responses and actions in addressing audit observations are adequate and appropriate. Priority wise settlement status of High/Medium/Low observations is also routed through Enforcement division in concise format to the Managing Director periodically. For FY12, compliance status of 863 audit observations from field offices were communicated to the Enforcement division while 166 observations were reported as complied with by the departments. Compliance status helped IAD in monitoring certain management actions in response to audit observations and IAD reviews management's level of commitment to address audit findings through the reporting channels of Enforcement division.

Figure 10.1: HOK Audit

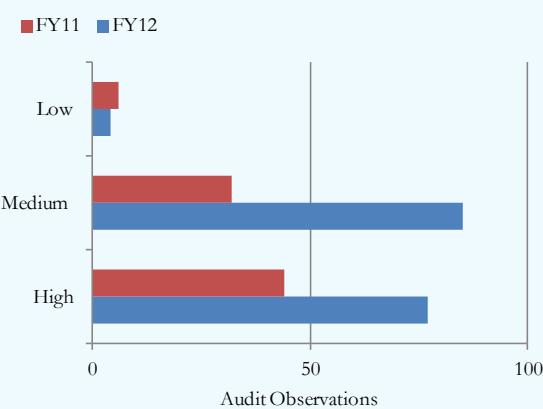
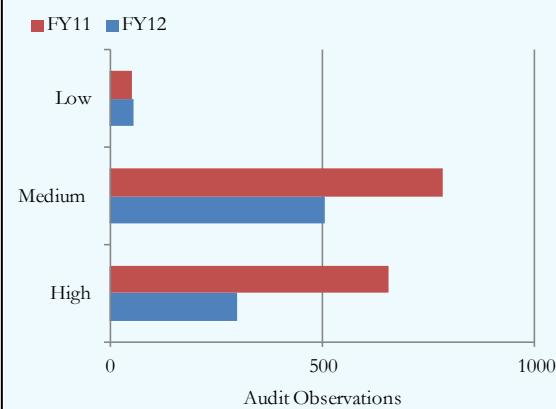


Figure 10.2: Field Offices Audit



10.5 Information Technology Audit

During the concluded year FY12, the financial and IT audits for the SBP-BSC were integrated. Previously IT related observations were reported separately. The new practice has allowed the department to present a wholesome view, in the process of strengthening risk minimization practices.

10.6 Performance of Internal Audit Hubs

Audit hubs which are stationed at Karachi and Lahore performed 105 audit engagements during FY12. These audits focused on specific sub areas of core business functions that were formulated by the Internal Audit Department in consultation with the senior management. Targeted scope of audit hubs was revisited in December, 2011 & revised scope was determined on the basis of activity based processes, carrying high risks & requiring frequent assurance and oversight.

10.7 Capacity building of Internal Auditors

Internal audit department considers capacity building of its workforce as a continuous process. Major capacity building initiatives of the department which include nominations for foreign trainings, training initiatives through collaborative framework with Karachi and Lahore offices, in house trainings and facilitating participation of employees in local trainings were continued during FY12 as well.

With specific reference to in house trainings and initiatives through collaborative framework, modalities of both are such that the programs were serving the department's immediate functional training needs through a cost-extinguished delivery channel. Area experts working in IAD are imparting trainings to fellow colleagues frequently, while study attachments for training and process understanding with Karachi and Lahore office are the cornerstone of scheme for collaborative study framework. In addition, Training Need Assessment (TNA) of the department has been carried out internally and a more vigorous training plan aligned with identified training gaps is being formulated.

10.8 Major Future Initiatives

Internal Audit Department of SBP BSC is now looking forward to determining formal basis of "Materiality" and "Severity" criteria for audit observations. Framework of assigning offices and departments with an audit and compliance rating is also under consideration for the coming year. Coupled with these, a strong mechanism for preservation/compilation of audit documents and working papers is one of the major initiatives under process, which the department hopes to get on the track by the end of FY13.

10.9 Future Outlook

The Internal Audit Department, taking a long term view of the organizational developmental progression is taking steps aimed at better risk controls. The likely roadmap is detailed below:

- i) Leverage the use of IT as an enabler to improve the Internal Audit function. Implementation of Audit software (Audit ware) followed by creating an environment for acceptance of the system within the internal auditors is one of key strategic goals of IAD;
- ii) Develop an offsite surveillance mechanism through which the concept of efficient continuous auditing system could be introduced. The department foresees the initiative to be cost efficient and effective in terms of improving the overall oversight functions of IAD;
- iii) From isolated-subarea audit approach to consolidated process-based audit approach, internal audit department envisions to issue concise and broad level risk-centric audit reports. This would reduce observational focus from minor level area glitches to a broad-level assurance focus.