

Other Functions



Internal Audit



8 Internal Audit

Internal Audit is an independent and objective activity aimed at improving governance and internal controls of SBP Banking Services Corporation.

8.1 Overview

The role of Internal Audit Department (IAD) in SBP BSC is to examine thoroughly and evaluate critically whether the framework of risk management and governance processes are adequate and functioning properly. Additionally, the Department assists the SBP BSC Board Committee on Audit in effective oversight of audit processes and internal controls. It also provides an independent appraisal of all activities and control environment of SBP BSC, including governance practices and risk management. IAD reports its findings to the Audit Committee of the Board, in addition to sharing the same with the Managing Director of SBP BSC.

8.2 Operational Performance

During FY18, IAD carried out its audit engagements through three different streams of audit. Annual Audit entailed a full scope review of activities conducted in nine departments at HOK and 16 Field Offices.

Audit Engagements	Audits Conducted
Annual Audits	25
Hub Audits	48
Thematic Audits	4

Besides conducting Annual Audit periodically, the Department also conducts audit exercises more frequently through its Hubs set up at Karachi and Lahore. The objective of Audit Hubs is to evaluate control effectiveness with focus on the activities based processes in areas of Treasury Cash, Banking and Prize Bonds. The results of audit activities have led to further improvements in the internal control environment, which would go a long way towards supporting the management of SBP BSC in achieving its organizational objectives.

The observations made during audit engagements were rigorously followed up by the Review and Enforcement Division of IAD. The compliance of audit observations made in audit reports and briefs of respective HOK Departments and Field Offices have been meticulously ensured so that adequate response and regularization is accomplished in a minimum time period. Resultantly, only 1.4% observations against a total of 96 issued during FY18 were outstanding as on June 30, 2018.

8.3 Developmental Initiatives

In line with IAD's Charter as well as global trends in internal audit, the Department has been initiating several projects, which are both strategic and operational in nature. The outgoing year was no exception as a shift in audit execution was made by implementing Thematic Audit process in areas of development finance and foreign exchange operations for all three regions of SBP BSC. The Department also ensured quality of audit processes throughout the year with successful rollout of Quality Assurance and Improvement Program.

IAD also initiated the drive to reinforce the organization's Internal Monitoring Units (IMUs) by conducting capacity-building sessions for IMU officials for both the System-based Audit Methodology and Control & Risk Rating System. Eight IMU officials from different regions were attached with audit teams during assignments as part of IAD's 'Attachment Program' to provide practical insight into the audit methodologies adopted by the Department. The Audit Forum was

constituted and two Audit Conferences were conducted to facilitate IMUs to enhance communication between auditors and clients.

8.4 Future outlook

1. IAD's strategic focus for FY19 aims to bring continuous improvement for ensuring the Department's role of value addition to the organization's dynamic environment. Keeping in view the increased role of technology in SBP BSC's operations, IAD would explore the concept of 'Technology Risk Assessment' for the organization, which will help in understanding the crucial role of technology in business processes. This strategic focus would also entail aligning IAD's capacity for big data analysis for audit purposes due to increased availability of voluminous and heterogeneous electronic data in different business segments.
2. Taking advantage of the development of organization-wide Risk and Control Self Assessment (risk registers) under an Enterprise Risk Management (ERM) program in SBP BSC, IAD aims to align its existing Control and Risk Rating System with the ERM framework to ensure uniformity in risk management. In addition, with the successful conclusion of Thematic Audits in the areas of development finance and foreign exchange operations during the current year, IAD will be adding Banking, Currency, etc. to this stream of audit in the coming year. The focus on capacity building of IMU officials would continue to be part of IAD's initiatives, whilst a dedicated capacity-building program is being developed for IAD's auditors to enhance their business knowledge and maintain objectivity in assignments. The services of NIBAF shall also be used to manage this initiative both with the help of trainers from IAD and other resources.
3. The Department's strategic drive encompasses a detailed peer review of IAD's practices against standards prescribed by the Institute of Internal Auditing (IIA), in collaboration with Internal Audit and Compliance Department (IACD) of SBP. This peer review would pave way for an enhanced external evaluation. Moreover, the Department is also working to improve the efficiency of audit processes and automating audit functions by implementing Audit Management Software.