

Chapter # 9

Internal Audit & Controls.....

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INTERNAL AUDIT & CONTROLS

9.1 Overview

There is always a need for monitoring and control to measure the effectiveness of a system in place, and to ensure that timely actions are taken to correct the matters when these are not going as planned. Internal control essentially comprises control of environment and procedures to achieve the orderly and efficient conduct of business. An important responsibility of the management of BSC is to ensure effective control of the organization and compliance with the relevant statutory and other regulatory requirements. Internal Audit Department (IAD) of BSC has adopted an integrated audit approach in order to improve its competency, productivity and cost effectiveness. A paradigm shift from compliance-based audit to risk based audit is in progress, whereby risks are identified and related internal controls are appraised. The requirement of furnishing unnecessary information, which not only uselessly engaged the Internal Audit Units at field offices / HOK but also resulted in piling up of reports / statements that have less or no significance, has been abolished. Now only relevant information is being called for, which can be managed and scrutinized effectively.

9.2 Key Initiatives

In order to ensure that effective and efficient internal controls put in place by the management are being followed in their true spirit, the BSC has taken a number of initiatives which includes following steps in the specific areas of audit:

9.2.1 Cost Effectiveness - Onsite Inspection

In conformity with BSC's cost effectiveness approach IAD has reduced the span of time in respect of onsite inspection and the size of teams. It has curtailed the expenses on traveling and daily allowances. The period of on-site inspection of field offices has been reduced by 68 days during FY05 as compared to previous year. This was made possible through utilizing the services of Internal Audit Unit's officials posted at respective field offices to support the inspection teams. In the period under review the inspection teams inspected three departments at Head Office Karachi and 16 field offices. Twenty audit briefs of field offices / departments were discussed in the meetings of Sub-Committee of the Board on Audit of BSC.

9.2.2 Strengthening Off-site Surveillance

Off-site surveillance mechanism was introduced to review significant areas / process in order to take corrective actions on timely basis throughout the year, which enabled on-site inspections to target more risky areas and optimized the use of scarce resources at the disposal of on-site inspection in terms of time and human resource. In this system, significant irregularities reported by the IAUs were analyzed in detail at the Off-site Inspection Division of the IAD. The IAUs of field offices / Head Office forward only those observations to this Division, which contained irregularities of serious nature involving significant risk. On receipt, the said irregularities were analyzed at Off-site Inspection Division. The appraisals of high risk irregularities were sent to the concerned Chief Manager / Director for remedial action, along with recommendations of IAUs and advised to concentrates on identifying risk, evaluate the existence / adequacy of related internal controls and suggested recommendations for improvements, if any. Now special audit studies are also being conducted through IAUs in addition to the proposed monthly plan given by the respective units. The underlying aim is to focus on areas, which are important from the standpoint of achievement of organizational objectives and internal controls.

9.2.3 Training & Skill Development

IAD has given special emphasis on training and skill development of its employees. To develop the technical skills of employees attached with IAD in line with the latest audit techniques, different training modules have been designed and training is being imparted regularly at National Institute of Banking & Finance (NIBAF) Karachi & Islamabad. In addition, opportunities were also provided to attend the skill development activities such as courses on English language, workshop and seminars etc held within or outside BSC premises during the period under review. A resource room is also being established at IT Audit Division, Head Office Karachi with the following objectives:

- To provide training to the officials attached with IAD on IT Audit in the areas of Globus / Oracle enabling them to understand the automated environment in a better way.
- To establish on line computer lab at the remote centers of BSC having access to Globus / Oracle to observe functions of different modules / quarters
- To develop a system of online compilation and preparation of audit inspection reports and audit briefs etc in respect of field offices and departments of HOK.
- To provide on line access to all field offices / departments of BSC through Internet.
- To arrange adequate in-house training to the officials of IAD for proper utilization of Hardware ie Personal Computers, Scanners, and Printer etc.
- To arrange awareness sessions, programmes, presentations on IT Audit in collaboration with Audit Department of the SBP for the employees of IAD of BSC.

In addition, IAD has also played an important role in the development and communication of ethical values and the importance of control issues throughout the organization.

9.3 Future Direction

IAD has identified specific areas, which will be included in the strategies for further improvement in the working of the department in near future. These are:

- To update the Internal Audit Manual in accordance with the latest developments in the field of auditing. IAD will propose changes in Banking as well as Issue Department Manuals if necessary in order to make these manuals acceptable in the present scenario.
- IT Auditors have been posted in IT Audit Division who would work on automated environment of BSC. These IT Auditors would also impart training on the subject to other employees of IAD.
- To arrange special training programmes for the officials of IAD which are specifically designed for performing the audit work in accordance with the Internal Audit Manual.

Training sessions on Globus Banking Solution and Oracle (ERP) application will be arranged for the employees at newly established resource room enabling them to better understand the use of Computer Assisted Audit Techniques (CAAT) for conducting audit of those departments in a better manner, which are operating under Globus and Oracle environment.