

13 Internal Audit & Control

13.1 Overview

Internal audit is an on-going monitoring process of internal controls in SBP Banking Services Corporation (BSC) which provides the management an independent appraisal of the working, adherence to rules and regulations by the concerned office/ department and giving recommendations for improving the weak areas. The scope of Internal Audit Department (IAD) involves a wide range of services including financial and operational audit, compliance audit, information technology audit, consultation services, special investigations, best practice reviews etc. It also suggests and gives recommendations to strengthen controls. IAD reports to the Managing Director of BSC and Sub-committee of the Board on Audit. This structure allows the department to remain independent and report on all items of significance to the Sub-committee of the Board on Audit. Director IAD also serves as secretary to the sub-committee.

13.2 Annual Audit Plan

IAD prepares annual audit plan for onsite-inspection of field offices and departments of BSC and NIBAF. The audit committee formally approves the plan annually. Annual audit plan defines the resources, timing and frequency of planned internal audits. Audit committee is kept updated on achievements of audit plan. Internal Audit Units (IAUs) housed at 16 field offices and at BSC head office also prepare audit plans on monthly basis and report their findings to the Off-site Surveillance Division of IAD. On-site inspection/ post audits as per scheduled annual plan are conducted by IAD and IAUs jointly.

13.3 On-site Inspection

During the year under review, on-site inspection of 13 field offices, 5 departments of BSC and NIBAF have been carried out by the Audit Teams. Besides, Information Technology Audit (IT Audit) of a similar number of field offices and departments has also been carried out during the period under review by the IT Audit Division of IAD. At the end of this exercise, detailed audit reports on the field offices and departments of BSC were prepared along with briefs thereon containing the significant risk exposure, control issues, objectives and scope of inspection as well as observations and recommendations of the Audit Teams and submitted to Managing Director.

13.4 Off-site Surveillance

During the course of off-site surveillance, the surveillance team examined and evaluated the significance of irregularities/ discrepancies pertaining to the offices/ departments of BSC on the basis of returns received from the 17 Internal Audit Units of IAD housed at field offices and HOK. In the light of findings/ observations of surveillance team the respective department/ field office was advised accordingly to mitigate the risk and avoid recurrence of such irregularities to improve operational efficiency, adequacy and effectiveness of internal controls and risk management. During FY08, the IAUs reported 765 significant irregularities through their monthly returns. The surveillance team analyzed each and every irregularity in depth and thereafter the matter was referred to concerned HOD/ Chief Manager with

specific recommendation in each case for taking corrective and preventive measures against recurrence of such irregularities.

13.5 IT Audit

With the advancement in technology, organizations have become increasingly dependent on computerized information systems to carry out their operations and to process, maintain, and report essential information. As a consequence, the reliability of computerized data as also the systems which process, maintain and report these data are a major concern to audit. In other words data authenticity, accuracy, integrity, completeness of information as well as its validity in accordance with the organizational requirements is very crucial.

The IT audit at BSC is a specific activity performed by certified professionals to ensure that Bank's assets and data are properly protected and mitigated with suitable internal controls under appropriate management supervision and governance. During the year under review, IT Audit Division of IAD conducted IT audit of 13 field offices and 5 departments of BSC and separate audit reports containing the finding/ observations of IT audit team for each field office and department were issued to the respective department/ office to take appropriate action for mitigating the risk and strengthening the IT controls.

13.6 Special Audit

Three special audits were carried out by the IAD during FY08, of which two were conducted at Faisalabad office and one at Karachi office. On the basis of observations made during these special audits, IAD suggested various internal control measures for BSC. Accordingly, the management of BSC, in consultation with the concerned department of SBP, issued circulars and guidelines for further strengthening of internal controls.

13.7 Compliance of Audit Observations/ Recommendations

Internal audit also performs follow up on audit findings/ observations through its Enforcement Division. The department follows the compliances of irregularities reported in the audit reports and briefs of respective department/ office to ensure adequate response and regularization of irregularities.

During FY08, IAD pursued the compliance status of 1,369 irregularities, reported in audit reports, out of which 541 were significant in nature, which were highlighted in audit briefs. The follow up reviews were prepared to apprise the management of level of post audit compliance and status of unresolved audit findings with timelines of their compliance. As a result of this follow-up, necessary orders covering multiple audit observations were issued by concerned departments to regularize the position. Subsequently, irregularities pointed out in audit reports were set right.

13.8 Contribution towards Corporate Governance

Internal auditing activity at BSC contributes to corporate governance through participation in meetings and discussions with members of the audit committee. A primary focus area of the department with regard to corporate governance is to keep the audit committee informed of all audit findings and critical internal control problems and coordinate with the external auditor and management.

During FY08, three meetings of audit committee were held at BSC head office, Karachi. IAD proposed agenda items for the meetings and prepared various working papers relating to internal audit activities for discussion. IAD also submitted compliance status of

irregularities pointed out during the annual audit of departments as well as field offices of BSC in these meetings and maintained the follow-up of the decision/ directives given in the meetings for compliance in each case.

13.9 Proactive Role of Internal Audit Units

Internal Audit Units (IAUs) housed at 16 field offices of BSC functionally report to the Director, IAD and administratively to the Chief Manager of the respective office. IAUs are usually doing post audit work, they conduct audit of various units/ divisions of respective office as per their monthly audit program and report observations to IAD through their monthly/ quarterly/ half yearly returns. They examine and evaluate the adequacy and effectiveness of internal controls relating to various activities and operations at field offices/ departments. The members of IAUs also participate in carrying out audit of the same or other field offices/ departments at head office as a team member along with the inspection team of IAD wherever their expertise or experience is needed.

During the year under review, IAUs carried out post audit of different units, divisions/ departments of HOK and field offices as per their monthly audit plan. They conveyed the discrepancies observed by them to the concerned head of department/ Chief Manager through register-AU-1 which is a mechanism for recording such observations, their compliance and rectification. A number of such discrepancies were found to be significant in nature, particularly in the area of export refinance where the IAUs observed discrepancies relating to shortfall in performance, misreporting in EE-1 and EF-1 Statements and other such irregularities in documents submitted by commercial banks. As per rules, fine amounting to Rs.24.4 million was recovered by the field offices.

13.10 Other Developmental Activities

The department regularly participated in professional development programs arranged by the department itself, Training and Development Department of BSC and NIBAF Karachi to maintain and enhance the professional skills of their employees. During the period under review, employees attached with IAD as well as IAUs at the field offices have attended a number of skill development programs.

Table 13.10 Participation of IAD/ IAU Officers in the Internal and External Training and Skill Development Programs arranged during FY08		
S #	Training	No. of Participants
1.	In-house Training arranged by IAD on Audit Approach - Tools & Techniques, ERP Modules, Audit Command Language (ACL)	38
2.	External Training on Building High Performance Team, Proactive Audit Approach, Tools of Effective Management, CISA, Advanced MS Office etc.	14
3.	Seminars/ Workshops on Improving Morale, Power of Synergy, MS Combo Performance Appraisal Process etc.	11
4.	NIBAF Karachi/ Islamabad on Internal Auditing, Internal Audit-Risk Based Planning, Communication Skills, Simple Writing - Level 1, Report Writing (Intermediate), E-Banking Payment System etc.	91
5.	GLOBUS - Rawalpindi, Hyderabad & Quetta	20
Total		174