Internal Audit

7 Internal Audit

Internal Audit Department (IAD) provides independent assurance on effectiveness of governance, risk management framework and control processes.

7.1 Overview

The Internal Audit Department has been entrusted with the significant responsibility to examine and evaluate whether the organization's framework of risk management, internal controls and governance processes is adequate and functioning properly. In addition, the objectives of IAD include, among others, giving advice and making recommendations to the senior management on the subject of improvement in internal control and risk management systems.

7.2 Working Performance

During the year under review, IAD carried out annual audit of 16 Field Offices and 8 departments at Head Office, Karachi (HOK). Moreover, 56 audit engagements were performed by Audit Hubs located at Karachi and Lahore. IT Audits of different IT centres and business applications were also carried out during the year. The results of audit activities have led to further improvements in the internal control environment, which provides potential support towards achieving the organizational objectives.

The observations made during audit engagements are rigorously followed up by Review and Enforcement Division of IAD. The compliance with regard to audit observations reported in audit reports and briefs of respective HOK Departments and Field Offices was carried out efficiently so that adequate response and regularization is done within a minimum time period.

7.3 Developmental Initiatives

The IAD, in line with its Charter as well as with a view to improving its approach in conducting audit and monitoring compliance to its observations, has completed the following developmental projects during FY16:

(1) Development of Audit-Risk Assessment Framework
    This framework provides a systematic approach to ascertain risk related to conducting an audit and the level of reasonable assurance being provided depending upon multiple factors.

(2) Development of Project Audit Framework
    Through this framework IAD has set guidelines for auditing the projects of different nature depending upon the dynamics such as time, cost, HR and outcomes involved in a project.

(3) Preparation of Manual of Audit Practices and Departmental Procedures
    This manual will assist every auditor, either experienced or new, to understand procedures and processes relating to department as this manual covers all functional areas of IAD.

(4) <u>Preparedness for External Review of IAD Practices</u>
Completion of this project has not only identified and reduced the gaps between IAD's practices and Institute of Internal Auditing (IIA) standards, but also resulted into creation of Quality Assurance and Improvement Program (QAIP) which will help IAD to successfully go through internal & external reviews.

In order to achieve efficiency improvement, besides diminution in the redundant workload of departmental activities, a project is being initiated with a view to introducing Audit Management Software for automation of audit work. Similarly, the TORs of Audit Hubs have been modified as part of the Business Process Re-engineering (BPR) of these Hubs, thereby strengthening their working/checklists and reporting requirements, which have also been revised to streamline the functions and increase their efficiency.

Control and Risk Rating System (CRRS) for Field Offices and Departments has been revised while Project Audit Framework, working papers and area-wise checklists have been completed during FY16. The Framework is being applied on trial basis and the gaps identified will be addressed before start of the next Audit Cycle.

For the upcoming year, IAD plans to move towards relatively advanced level areas which will include external review of IAD, development of Control Assessment Questionnaire, Capacity Building for Auditing specialized areas and Implementation of Audit Management Software.

7.4 Risk-Based Annual Audit Plan
Before the start of FY16, a risk-based annual audit plan was prepared for the forthcoming audit activities, keeping in view the organizational goals and objectives. The plan was devised by incorporating the risk factors from the risk inventory, which was reviewed in consultation with the Field Offices, to achieve the desired results of the audit activities. Accordingly, the prioritization of business operations, based on risk ranking was updated. Further, the work load analysis and assessment of internal controls, based on last year's audit reports of Field Offices and Departments, was used in preparing the plan.

7.5 Performance of Audit Hubs
The function of Audit Hubs, set up in Karachi and Lahore, is based on a pre-defined high risk area specific scope that needs to be audited on periodic basis. Audit Hubs conducted 56 short and targeted audits during FY16 that helped in achieving effective monitoring of internal controls. The scope of Audit Hubs was revised and re-determined in the light of activity-based processes, carrying high risks and requiring frequent assurance and oversight. Frequently observed weaknesses in controls identified during audits were highlighted in order to facilitate the management's focus on them.

7.6 Capacity Building of Internal Auditors
Enhancement of auditors' skill set and proficiency is one of the key areas of focus at IAD. Training programs, based on priority and requirement, were held throughout FY16. IAD personnel participated in 32 trainings during the year under review, which provided valuable support to diversify the skill set of auditors, thereby enabling them to work more efficiently in a variety of key areas. These capacity building initiatives also facilitated to inculcate the latest audit techniques among officers of IAD, besides moving forward towards improvement in audit practices in line with the international best practices.

7.7 Future Outlook

Going forward, IAD intends to move towards adoption of a more automated environment for its activities. For this purpose, the department is currently in the process of procuring and installing the Audit Management Software. Further, a risk framework for SBP BSC's core operations has been developed in order to ascertain strategic and major business risks along with underlying Key Risk Indicators in such operations to help minimize the level of risk exposure to the organization. IAD also plans to have its practices externally reviewed which will help in identifying the gaps with regard to international best practices and propose appropriate effective measures to plug the gaps.