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SBP Banking Services Corporation

Internal Audit Charter

This document contains 7 pages
Internal Audit Charter (Subsidiary) Final

Contents

1	INTRODUCTION	1
2	MISSION STATEMENT	1
3	AUTHORITY	2
4	RESPONSIBILITY	3
5	ACCOUNTABILITY	4
6	INDEPENDENCE	4
7	CONTINUITY AND IMPARTIALITY	5

1 INTRODUCTION

This charter primarily aims to define and establish:

- ☞ The formal mission statement of audit department of SBP Banking Services Corporation (SBSC).
- ☞ The objectives and scope of audit department.
- ☞ The audit department's position within SBSC, its access to various records, departments and activities, its responsibility and accountability.

2 MISSION STATEMENT

To provide independent appraisal of all the activities of SBSC aiming to add value, improve operational efficiency, risk management and internal control systems.

The prime objective of audit department is to examine and evaluate whether the SBSC's frame work of risk management, control, and governance processes, is adequate and functioning properly.

In addition, the objectives of audit department include advising and recommending senior management for improvements in internal control and risk management systems.

In order to fulfil its mission statement and objectives, audit department's scope of work includes:

- ☞ The examination and evaluation of the adequacy and effectiveness of the internal control systems at various operations and activities of SBSC.
- ☞ The review of the application and effectiveness of risk management procedures and risk assessment methodologies at various operations and activities of SBSC.
- ☞ The review of the management and financial information systems, including the electronic information system.
- ☞ The review of the accuracy and reliability of SBSC accounting records and financial reports.
- ☞ The testing of both transactions and functioning of specific internal control procedures at various SBSC departments and offices.
- ☞ The evaluation of adherence to legal and regulatory requirements and approved policies and procedures.

- ⌘ The evaluation of effectiveness of existing policies and procedures and give recommendations for improvements.
- ⌘ Identifying opportunities for cost savings and making recommendations for improving cost efficiencies.
- ⌘ Examining that resources are acquired economically, used efficiently and safeguarded adequately.
- ⌘ The carrying-out of special investigations assigned by the Audit Committee and Managing Director.
- ⌘ Precisely, every activity, department and office of SBSC fall within the scope of the internal audit for independent appraisal. The Director and staff of audit department are, however, not allowed to:
 - ?? Perform any operational duties for SBSC out side audit department function.
 - ?? Initiate or approve accounting transactions external to audit department.
 - ?? Direct the activities of any SBSC employee not employed by the audit department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

3 AUTHORITY

The Director and staff of audit department are authorized to:

- ⌘ Have unrestricted access to all SBSC departments, offices, activities, records, information, properties and personnel, relevant to the performance of audit function.
- ⌘ Determine scope of work and apply the techniques required to accomplish audit objectives.
- ⌘ Obtain the necessary assistance of personnel in various departments / offices of SBSC where they perform audits.
- ⌘ Obtain assistance of specialists/ professionals where considered necessary from within or out side SBSC.

4 RESPONSIBILITY

The Director audit department has responsibility to:

- ⌘ Formulate annual audit plan in consultation with Audit Committee and Management.
- ⌘ Implement the annual audit plan, including as appropriate any special tasks or projects requested by the Audit Committee and Managing Director.
- ⌘ Maintain a requisite professional audit staff strength with sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of this Charter.
- ⌘ Issue periodic reports on a timely basis to the Audit Committee and Managing Director summarizing results of audit activities.
- ⌘ Keep the Audit Committee informed of emerging trends and developments in internal auditing practices and give recommendations for necessary revisions in Internal Audit Charter and Internal Audit Manual. Provide a list of significant measurement goals and results to the audit committee.
- ⌘ Assist in the investigation of significant suspected fraudulent activities and notify the Audit Committee and Managing Director of the results.
- ⌘ Ensure that the department complies with sound internal auditing principles and best practices; seek guidance from the standards issued by the Institute of Internal Auditors and Information Systems Audit & Control Association, (USA).

The Director and staff of audit department have responsibility to:

- ⌘ Follow the guidelines and methodology given in the Internal Audit Manual.
- ⌘ Exercise due professional care in carrying out audit assignments.
- ⌘ Maintain integrity and objectivity.

The internal audit process, however, does not relieve departmental heads/ chief managers of their responsibility for the maintenance and improvement of controls in their respective areas.

5 ACCOUNTABILITY

The Director audit department, in the discharge of his duties, shall be accountable to the Audit Committee to:

- ⌘ Submit an assessment on the adequacy and effectiveness of the SBSC's processes for controlling its activities and managing its risks in all the areas of SBSC operations on annual basis.
- ⌘ Report significant issues related to the processes for controlling the activities of SBSC, together with recommendations for improvements to those processes.
- ⌘ Provide information on the status and results of the annual audit plan on a quarterly basis.
- ⌘ Coordinate with external auditors and provide oversight of other control and monitoring functions e.g. security and legal etc.

The performance of the Director Audit will be evaluated by the Audit Committee.

6 INDEPENDENCE

- ⌘ To maintain the independence of audit department from other SBSC departments and offices, its personnel shall report to the Director audit department, who shall report administratively to Managing Director and functionally to the Audit Committee.
- ⌘ Audit department shall be independent of the activities audited. The department must also be independent from the every day internal control process.
- ⌘ Audit department shall exercise its assignment on its own initiative in all departments, offices and functions of SBSC.
- ⌘ Director audit department shall be authorised to communicate directly, and on his own initiative, to the Board and the members of audit committee.
- ⌘ The internal audit function should be subject to an independent review as and when required. This review can be carried out by independent professionals e.g. practicing chartered accountants.

7 CONTINUITY AND IMPARTIALITY

Internal audit within SBSC shall be a permanent function.

Audit department shall be objective and impartial in performing its assignment.

Objectivity and impartiality entails that the internal audit department itself seeks to avoid any conflict of interest. To this end, staff assignments within audit department shall be rotated periodically. Internally recruited auditors shall not audit activities or functions they performed in the past two years and they will not be allowed to audit the work earlier performed by them.

Impartiality requires that audit department is not involved in the operations of SBSC or in selecting or implementing internal control measures. However, audit department may give recommendations for strengthening internal controls and can also give opinions on specific matters related to internal control procedures as per the request of senior management.

ISSUED UNDER THE SIGNATURE OF:

DR. ISHRAT HUSSAIN :
Governor,
State Bank of Pakistan

Dated :