10 Internal Audit & Control

10.1 Overview

Internal Audit function helps in evaluating the business processes and procedures to assess the effectiveness of control systems and compliance thereof, highlight the weaknesses in the internal control systems and recommend solutions to remove the weaknesses. It also enables the BSC to improve operational efficiency and accuracy and reliability of its financial data.

Internal Audit Department (IAD) prepares audit plan on annual basis which describes audit goals, schedules, staffing needs and the timing and frequency of planned internal audits. The Audit Sub-committee of Board of Directors formally approves the audit plan or reviews it annually in case of multi-year plans.

10.2 Major Initiatives taken during the FY09

During the year under review, following major initiatives were undertaken by the Department:

10.2.1 Restructuring of Internal Audit Department

During 2008-09, the IAD has undergone a major restructuring/ reorganization. It was realized over the recent years that the Internal Audit Units (IAUs) had lost their effectiveness due to overlapping and duplication of work between Internal Monitoring Units (IMUs) and IAUs, automation of business processes and administrative problems in supervision of these units. The existing set up of IAD was accordingly revisited during the year and the 17 IAUs housed at field offices and one at BSC HOK were consolidated into two Audit Hubs, one each at Karachi and Lahore. Each Audit Hub has been allocated departments of HOK and field offices as given in **Table 10.2.1** to periodically carry out audit, enforcement and other functions as assigned to them from time to time. The new structure is aimed at improving monitoring, expanding efficacy of internal controls and enlarging breadth, width and timeliness of reporting to the senior management. The newly created Audit Hubs headed by the Joint Directors (OG-5) will functionally & administratively report to the Director IAD. These Audit Hubs will also assist the Audit Teams in carrying out Annual Audit of the departments/ field offices of BSC.

S #	Location of Audit Hubs	Allocation of Departments/ Field Offices
Table 10.2.1 Audit Hubs with allocation of Departments/ Field Offices of BSC		
1	Karachi	HOK Departments, Karachi, North Nazimabad, Hyderabad, Sukkur, Quetta, Bahawalpur and Multan Offices.
2	Lahore	Lahore, Faisalabad, Gujranwala, Sialkot, Rawalpindi, Islamabad, Muzaffarabad, Peshawar and Dera Ismail Khan Offices.

10.2.2 Annual Audit & Compliance

During FY09, Audit Teams headed by Junior Joint Directors (OG-4s) carried out financial as well as operational audit of 4 departments at HOK and all (16) field offices of BSC across the country. Audit reports were issued to Heads of Departments and Chief Managers of field offices for their information and regularization of irregularities highlighted in the reports. These reports highlighted the efficiency levels of operating processes and level of effectiveness of internal controls at the respective departments/

offices, identified control weaknesses and suggested corrective actions. Audit Briefs containing the significant findings observed during the course of audit in respect of all BSC offices were also submitted to the Deputy Governor. Compliance officer attached with each Audit Team ensured the compliance of the Audit Reports as well as timely resolution of issues relating to Audit Briefs duly reviewed and recommended by the Audit Sub-committee. While preparing the Audit Reports and Audit Briefs, the IAD ensures that the management and the audit committee receive summarized audit findings that effectively communicate the results of the audit.

10.2.3 Information Technology Audit

During FY09, IT Audit Division of IAD carried out IT system audit of 15 field offices to identify the risk and control weaknesses, if any, in Globus Banking Solutions, Oracle ERP & HRIS applications etc. The exercise of IT Audit was conducted along with the financial audit of the departments/ offices. Accordingly, one of the IT Auditors of the IT Division remained attached with each Audit Team during the audit of the departments/ offices. The IT Audit Reports issued to the Chief Managers of respective field offices were also sent to the Information System & Technology Department (ISTD) SBP. The IT Audit Reports also highlighted some weaknesses in internal controls, which enabled the ISTD to take corrective measures to eliminate/minimise the weaknesses.

10.2.4 Off-site Surveillance

Off-site Surveillance Team of IAD monitors adequacy and effectiveness of internal controls and adherence to relevant policies and procedures through IAUs operative in the field offices and HOK[1].

During FY09, the IAUs reported a total of 286 significant irregularities through their monthly returns. Off-site Surveillance Team analyzed each and every irregularity in depth and adjudged 188 irregularities as major irregularities. These observations along with the IAD's recommendations were sent to the respective Heads of Departments/ Chief Managers for taking corrective measures and instituting preventive mechanism.

10.2.5 Contribution of Audit Committee in achieving Corporate Governance

The IAD participated in two Audit Sub-committee meetings held during the year under review. The Director IAD as the Secretary of the Committee submitted the Audit Briefs comprising of significant findings observed during the course of annual audit of the departments/ field offices to the Audit Committee. Following were the main agenda items discussed in these meetings:

- Quarterly Progress report on Audit Briefs of Offices / Departments.

- Business Plan of Internal Audit Department for the year 2008-09.

- Management Letter issued by the Auditors on the financial statements of BSC for the year ended June 30, 2008.

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[1] As the IAUs have now been consolidated into two Audit Hubs, the offsite surveillance unit would now monitor the field offices' control systems etc based on the reports to be compiled by Audit Hubs.

10.2.6 Capacity building of Internal Auditors

The training and skill development of the Internal Auditors remained an important feature of IAD activities over the years. The department not only regularly nominated its officials to attend trainings/ workshop/ seminars etc but also arranged various in-house training programs to enhance their knowledge & skills. During FY09, various training and skill development programs were arranged for Internal Auditors as detailed in **Table 10.2.6**

S #	Training Module	No. of Participants
**Table 10.2.6 Training & Skill Development Programs arranged for Internal Auditors during FY09**		
1.	**Audit Centric** ▪ Audit Command Language (ACL) ▪ IT Audit ▪ Internal Audit Process & Procedure ▪ Adapting International Accounting Standard ▪ Audit Report Writing ▪ Understanding Statement of Affairs-Balance Sheet of SBP ▪ Effective Bank Auditing Techniques & Best Practices ▪ Risk Based Internal Auditing ▪ IT as Enabler to Business Process Re-engineering ▪ Fraud & Forgeries Awareness & Prevention ▪ Microsoft Excel for Auditors	63
3.	**Soft Skill** ▪ Coaching & Counseling ▪ Customer Services ▪ Values & Shared Behavior ▪ Customer Services for Supervisor.	33
2.	**Communication Skill** ▪ Simple Writing Level I. ▪ Simple Writing Level II	09
4.	**Globus/ Oracle** ▪ ERP Oracle Account Payable & GL Modules ▪ Understanding in Enquiries in GLOBUS ▪ Cash Management ▪ Internal requisition.	41
5.	**Ms Office**	07
6.	**Others** ▪ Currency Management & Operation ▪ Foreign Exchange & Financing of Foreign Trade ▪ SBP Prudential Regulations ▪ Budget Workshop ▪ Implement 5S	16
Total		**169**