

7 Internal Audit and Control

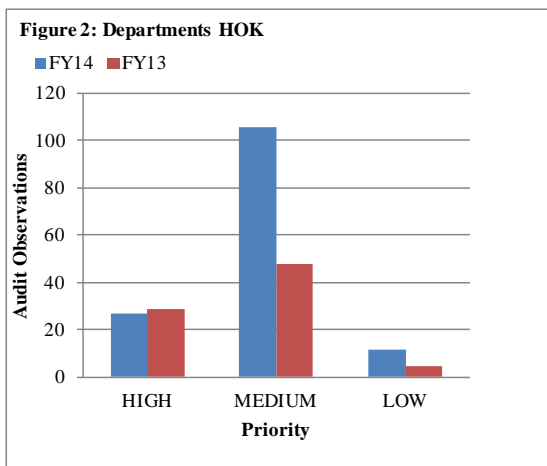
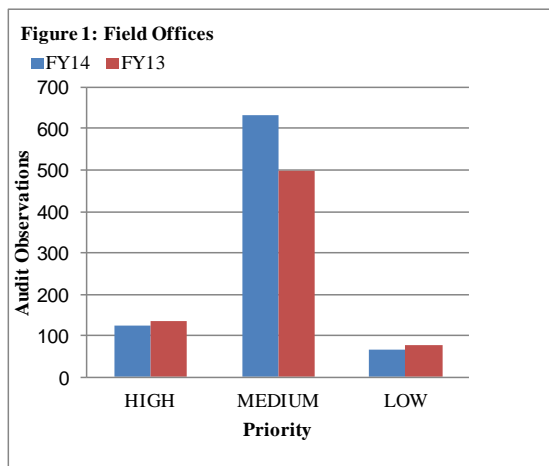
Internal Auditing helps an organization's executive management, board and other stakeholders to achieve their business objectives. This might be a lot to ask from one organizational resource, but for Internal Auditors — it's all in a day's work.

7.1 Overview

The role of Internal Auditing in SBP-BSC is to examine and evaluate whether the BSC's framework of risk management, internal controls, and governance processes, is adequate and functioning properly. In addition, the objectives of the Internal Audit Department include advising and making recommendations to the senior management regarding strengthening of internal controls and risk management frameworks and practices. With the expansion of its role consequent to the revised Audit Charter, the Internal Audit Department (IAD) has been able to propose and bring improvements in operations by evaluating and indicating exposure to risks in operational areas as well.

7.2 Achievements

In the year under review, IAD carried out annual audits of 16 Field Offices and eight Departments of HOK. Further, 63 short audit engagements were performed by Audit Hubs located at Karachi and Lahore. In total, 823 audit observations were made in Field Offices, while these observations numbered 140 in HOK during FY14, compared to 82 in HOK and 713 in Field Offices during FY13 (**Figures 1 & 2**).



Further, IAD carried out some special audits during the year. These special assignments pertained to operations of FEOD (Foreign Exchange Operations Department), FEAD

(Foreign Exchange Adjudication Department), and assessment of security-related matters pertaining to IBSD (Internal Bank Security Department). On the basis of observations made during these special audits, IAD recommended various internal control measures and thus added value in the operations of SBP-BSC.

7.3 Developmental Initiatives

The IAD planned and proposed the following developmental projects during FY14 and successfully accomplished them:

1. Customization of Auditware for IAD
2. Setting-up and formalizing of Off-site Supervision/Continuous Auditing Mechanism
3. Updating components of Audit Manual
4. Updating IT Audit Manual
5. Framework for audit of management and governance practices

For improving efficiency and reducing redundant workload of the departmental activities, a project was initiated to introduce audit management software to automate the audit working. For this purpose, software “Auditware” developed by IA&CD of SBP has been acquired and customized according to the working of IAD.

Setting-up and formalizing of Off-site Supervision Mechanism project was accomplished during FY14, which would help off-site monitoring of the Offices and Departments through application systems and other MIS systems. This project is aimed at encouraging the stakeholders to streamline their performance while minimizing their exposure to various risks. Initial reports have been generated through this system and disseminated to the concerned officials for taking remedial measures.

A project was launched in FY14 to update the Audit Manual and IT Audit Manual. Various components of the Audit Manual have been updated, such as the Risk Registers, Checklists, Process Studies, and Audit Programs. The updating of IT Audit Manual has also been accomplished while further upgrading will be carried out after upgrading of the IT set-up in SBP-BSC. It is aimed at aiding the auditors to provide assistance during their assignments to reduce oversights and improve efficiency.

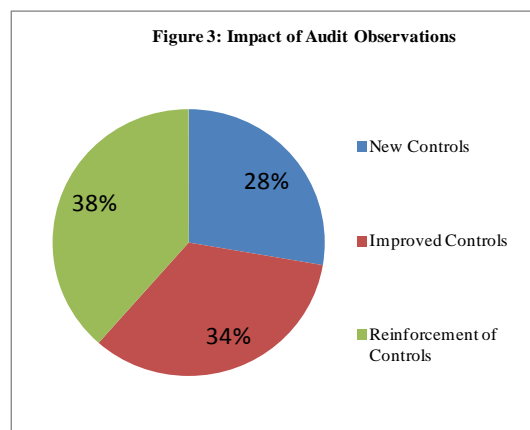
A “Framework for Audit of Management and Governance Practices” has been developed by the Department for assessing the effectiveness of management and governance activities in SBP-BSC. The framework has provided a standardized approach suited for governance audit in SBP-BSC.

7.4 Risk-based Annual Audits Planning

Before the beginning of FY14, a risk-based annual audit plan was prepared for audit engagements keeping in view the organizational goals and objectives. The plan was devised by incorporating the risk factors from the risk inventory. To achieve the desired results of these audit engagements, the risk inventory was reviewed in consultation with the Field Offices. Accordingly, the prioritization of business operations based on risk ranking was updated. Further, the workload 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 Impact of Audit Observations

The impact of audit observations from July, 2010 to April, 2014 was assessed on the basis of value-addition to the organization and improvements that were brought in the control environment. As shown in **Figure 3**, approximately combined impact of 62 percent audit observations resulted in new and improved controls, where new control recommendations resulted from almost 28 percent and improved controls resulted from almost 34 percent of audit observations.



7.6 Compliance & Enforcement Unit

The audit observations identified during audit engagements are rigorously followed-up by the Review & Enforcement Division. The compliance of audit observations reported in audit reports and briefs of respective Departments or Field Offices are ensured so that adequate response and regularization is done in minimum time period.

During FY14, IAD pursued the compliance status of 959 observations that were reported in audit reports, out of which 147 were significant in nature and highlighted in audit briefs.

The follow-up reports were prepared to apprise the higher management of post-audit compliance and status of unresolved audit observations with timelines of their compliance. Resultantly, most of the observations have been complied and vital instructions were issued by concerned Departments to strengthen the control environment.

7.7 Information Technology Audit

In line with the revised scope of IT Audit, IAD carried out audits of IT Centre Lahore and User Acceptance Test of ERP upgrade this year. The objective of IT Centre audit was to perform an assessment of the control structure within the IT Centre at Lahore as it serves the operations of Offices falling under Lahore's jurisdiction. The objective of UAT audit was to evaluate the adequacy and effectiveness of UAT process.

7.8 Performance of Internal Audit Hubs

The function of the Audit Hub is based on a pre-defined, area-specific scope that needs to be audited on periodic basis. The Audit Hub is divided in two parts; one based in Karachi and the other in Lahore.

During FY14, 56 short and focused audit engagements were conducted by the Audit Hub, which helped in achieving an effective monitoring of internal controls. The scope of the Audit Hub was revised and re-determined in light of activity-based processes carrying high risks and requiring frequent assurance and oversight.

Further, to emphasize the weaknesses in controls that were repeatedly observed during the audit engagements, such observations were highlighted in the audit reports. Such observations were specifying them as “R1” and “R2”, i.e. repeated once and twice during preceding audits, respectively.

7.9 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 continually throughout FY14. IAD personnel participated in over 29 trainings during FY14. The training programs helped diversify the skill-set of the auditors, enabling them to work efficiently in a variety of key areas instead of remaining stagnant in a single position.