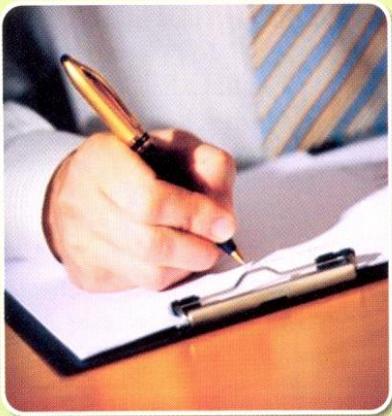# Internal Audit

7 Internal Audit

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

7.1 Overview
The role of internal auditing in SBP BSC is 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 Internal Audit Department (IAD) include advising and recommending senior management to improve internal control and risk management systems. Under the revised Audit Charter, the IAD's role has been expanded to bring about improvements in operations by evaluating and indicating exposure to risks in operational areas.

7.2 Working Performance
During the year under review, IAD carried out annual audits of 16 Field Offices and 10 Departments of SBP BSC. Further, 63 audit engagements were performed by Audit Hubs located in Karachi and Lahore. The results of audit activities have led to further improvements in the internal control environment, which would support SBP BSC in achieving the organizational objectives.

During FY15, IAD also carried out various special audits pertaining to the operations of FEOD, FEAD and assessment of security-related matters. On the basis of observations made during these special audits, IAD has recommended various internal control measures and value addition in the operations of SBP BSC.

7.3 Developmental Initiatives
The IAD, in line with its Charter and with a view to improving its approach in conducting audit and ensuring compliance to its observations, planned and proposed the following developmental projects during FY15:

    (1) Upgrading business data in Auditware.
    (2) Addition of Compliance Module in Auditware.
    (3) Re-defining the scope and working of Audit Hubs.
    (4) Risk framework for BSC's Core Operations.
    (5) Preparedness for external review of IAD 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. As part of Business Process Re-engineering (BPR) of Audit Hubs, the ToRs of Audit Hubs have been modified, thereby strengthening their working/checklists and reporting requirements, which have also been revised in order to streamline the functions and increase their efficiency.

Control & Risk Rating System (CRRS) for offices and departments and BSC-wide Risk Framework have been completed during FY15. These frameworks will enable the Audit to effectively rank

offices and departments as per their respective control environments in the context of their specific inherent risk profile and will also provide an enterprise-wide risk rating of BSC, once the linkage between two frameworks is established. Training on these frameworks and relevant Internal Auditing Standards has also been imparted to auditors. The frameworks are being applied on trial basis and the gaps identified will be addressed through follow up trainings.

7.4 Risk-based Annual Audit Plan

Before the beginning of FY15, a risk-based annual audit plan was made for audit activities, keeping in view the organizational goals and objectives. The plan was devised by incorporating the risk factors from risk inventory. To achieve the desired results of these audit activities, 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 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 Impact of Audit Observations

The impact of audit observations for FY15 was assessed on the basis of value addition to the organization and improvements that were brought in the control environment. As shown in **Figure 7.1**, approximately combined impact of 35 percent audit observations resulted in recommending new and improved controls in the organization. In addition, a significant chunk of audit observations also resulted in reinforcement of relevant instructions and controls.

Figure 7.1

- New instructions/Control(s) 16%
- Improved Control(s) 19%
- Reinforcement of instructions/controls 52%
- Revised Instructions 13%
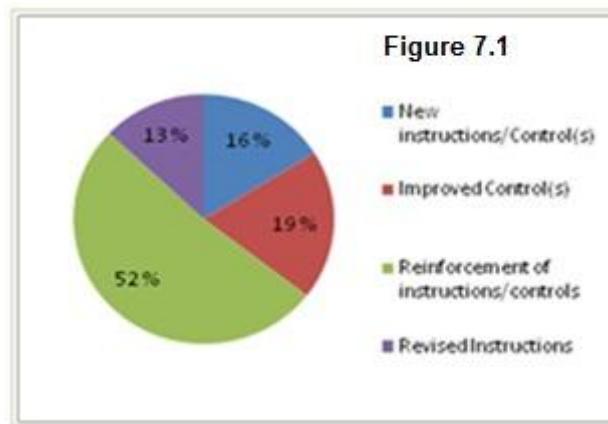
7.6 Compliance & Enforcement Unit

The audit observations identified during audit engagements are rigorously followed up by Review and Enforcement Division. The compliance of audit observations reported in audit reports and briefs of respective departments and offices are ensured so that adequate response and regularization is done in a minimum time period.

During FY15, IAD pursued the compliance status of audit observations that were reported in audit reports of FY14 and FY15. 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.

7.7 Information Technology Audit

This year, IAD has taken the initiative to further strengthen its IT audit scope. For this, IAD initiated a proposal in coordination with Internal Audit and Compliance Department (IA&CD) and Information Systems and Technology Department (ISTD) of SBP. As a result, following types of SBP BSC specific audits are being covered under the revised scope of IAD:

(1) IT infrastructure Audits.
(2) Application Audits.
(3) Change Management Audits.
(4) Wide Area Network Audits.
(5) Pre and post implementation Audits.

(6) Business Continuity Planning (BCP) design and arrangements Audit (significant portion of BSC's operations is IT-based).

7.8 Performance of Internal Audit Department 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.

During FY15, the Audit Hubs conducted 63 short and focused audits 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 focus on them.

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 FY15. IAD personnel participated in 18 trainings during the year under review, which helped diversify the skill set of the auditors, enabling them to work efficiently in a variety of key areas. These capacity building initiatives also helped to inculcate latest audit techniques among officers of IAD, besides moving towards improvement in audit practices in line with international best practices.

7.10 Future Outlook

Looking forward, IAD has taken initiative of adopting a more automated environment for its activities. The department is also planning to procure a suitable audit management software. Further, a risk framework for SBP BSC's core operations is being developed 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 suggest measures to overcome the gaps.