

8 Internal Audit

Internal Audit Department follows Risk based audit approach in examining and evaluating SBP BSC's framework of risk management, controls and governance processes.

8.1 Overview

Internal Audit function acts as a trusted advisor to the senior management and Audit Committee of SBP BSC Board, in providing independent reviews on internal controls, Enterprise Risk Management (ERM) and governance processes of the organization. Internal Audit also recommends improvements in internal controls besides assisting the Audit Committee in effective oversight of SBP BSC operations.

8.2 Operational Performance

During FY19, twenty five full scope annual audits were conducted. These included audits of sixteen Field Offices across the country and nine Departments at Head Office Karachi. In addition to the annual audits, critical operational activities in the business areas of Currency Management, Banking and Prize Bonds were regularly reviewed through thirty two audits by three field audit hubs at Karachi, Lahore and Rawalpindi.

| Audit Engagement Type | Engagements Conducted |
|-----------------------|-----------------------|
| Annual Audits | 25 |
| Hub Audits | 32 |
| Thematic Audits | 6 |
| Special Assignments | 3 |
| Total | 66 |

Thematic audit was also carried out in the areas of Government Banking, National Bank of Pakistan (NBP) Chest operations and reporting and payment of prize money of National Prize Bonds. The main objective of thematic exercise was to evaluate overall process, control effectiveness and to identify further improvements in these areas. In addition, special assignments on sports activities, Electronic Letter Management System (ELMS) and Biometric Access Control & E-Attendance System (BACES) were also conducted. A new audit hub at Rawalpindi was established for swift access and outreach of audit function to the field offices of the North Region.

During the year, the audit function intensified its follow-up process and these efforts have enhanced the compliance level at SBP BSC. Resultantly, 1,706 audit observations were settled by the field offices and departments during the year, which considerably reduced irregularities in operations being carried out at Departments/Field Offices.

Capacity building of auditors as well as officers working at Internal Monitoring Units of Field Offices remained a higher priority. Similar to last year, audit attachments were carried out for IMU officers from different field offices to improve their auditing skills. A first ever training program on "Auditing T-24" was arranged for auditors in coordination with HRMD and Information Technology Group (ITG) SBP. This five-day course was conducted by NDC Tech, a local partner of Temenos.

8.3 Developmental Initiatives

During FY19, the focus of audit functions remained on bringing continuous improvement in its operations and add further value to the organization's working environment. Four development projects were embarked upon, which included (1) Technology Audit Universe for SBP BSC, (2)

Concept paper on Potential of Data Analytics in audit, (3) Alignment of Control and Risk Rating System with ERM Framework and (4) Revision of Internal Audit Charter. All these projects were successfully completed within the stipulated timelines. Further, Technology Audit Universe project set the path for a medium-term technology audit plan with the consent of all major stakeholders from SBP i.e. ITG, Internal Audit & Compliance Department (IACD), Risk Management Department (RMD), Office of Chief Information Security Officer (OCISO) and business departments of SBP BSC. The concept paper on Data Analytics highlighted the roadmap for adopting the paradigm of “Continuous Auditing”, initially in selected areas. Alignment of Internal Audit Department (IAD)’s Control & Risk Rating System (CRRS) with ERM Framework is a major milestone that was successfully completed this year. This endeavor will align the business and audit segments of SBP BSC for identifying, assessing and ranking of risks on a common risk-ranking framework. Internal Audit Charter has been revised with the approval of Audit Committee of the Board to align it with the Institute of Internal Auditors (IIA) standards.

8.4 Future Outlook

As the business operations of SBP BSC are being increasingly digitized, it is imperative for the internal audit function to be evolved such that implemented controls be audited through the system. Accordingly, the audit function is following up on its concept paper on data analytics to plan the implementation of “Continuous Auditing” for select business areas. Going forward, the audit function envisaged a development project for adopting the concept of Agile Auditing in its audit engagements, which will add swiftness and flexibility in the annual audit process. Similarly, another project has been designed which is expected to add value to the audit process at SBP BSC, is Meta Data Repository of Audit Universe, whereby selected information will be collected on regular basis from business areas for analysis by its field audit teams. A Framework to assess the state of compliance of various laws, rules and regulations by SBP BSC will also be developed.