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Internal Audit

Internal Audit is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

8.1 Overview

SBP BSC's Internal Audit provides an independent and objective assurance regarding the effectiveness of SBP BSC's governance, risk management, and control processes. It advises and recommends improvements in internal controls and risk management framework to the senior management. It also furnishes summarized results of audit activities to the Audit Committee of the SBP BSC Board while assisting the committee in its oversight responsibilities on internal controls, governance, and business practices.

Internal Audit function of SBP BSC utilizes a risk-based Internal Audit Plan whose objectives are to review organization-wide business processes and to identify their associated risks. For this, a ranking system is used to prioritize audit activities in order to ensure that all significant risk areas are covered and that resources are appropriately deployed to achieve audit objectives. In this respect, a Risk Assessment Framework (RAF), aligned with the organization's Enterprise Risk Management Framework, is used to evaluate and rank the identified risks.

8.2 Key Performance Highlights during the Year

Box 8.1: Key performance Highlights During FY20

- Received highest performance ranking for maintaining International Standards for the Professional Practice of Internal Auditing Framework (IPPF) of Institute of Internal Audit (IIA)
- Adopted the use of Electronic Content Management (ECM) and Team Space to foster Knowledge Management's (KM) implementation
- Resolved 737 audit observations through active follow-up
- Conducted in-house trainings sessions as well as webinars for capacity building of internal audit team

8.3 Operational Performance

8.3.1 Audit Engagements during the year

During FY20, Internal Audit carried out 41 audit engagements, details of which are depicted in **Table 8.1**. The COVID-19 pandemic and lockdowns compelled Internal Audit function to suspend its field audit engagements in March 2020.

<i>Table 8.1: Audit Engagements During the Year</i>	
Audit Types	Engagements Completed
Annual	20
Hub	19
Thematic	2
Total	41

8.3.2 Resolution of Audit Observations

During FY20, Internal Audit strengthened its follow-up process for resolution of significant number of outstanding audit observations. A cumulative total of 737 audit observations were resolved during the year and only 21 observations were outstanding at year end.

8.3.3 Capacity Building of Audit Officials

Capacity building of Internal Audit officials remained a top priority of the management. In order to keep auditors abreast with the best practices, 43 trainings through in-house trainings and webinars were imparted on 13 different topics during FY20. An exclusive training program on adopting and implementing agile auditing was also arranged for auditors. In addition, a competency assessment and development framework was developed to ensure compliance to Institute of Internal Auditor's (IIA) standard on proficiency.

During the year, first ever external quality assessment review of SBP BSC's Internal Audit was carried out by one of the big four audit firms. The objective of the review was to assess the level of conformance of Internal Audit with the International Standards for the Professional Practice of Internal Auditing Framework (IPPF) of IIA, formally adopted by Internal Audit function in March 2019. The results of review concluded that SBP BSC's Internal Audit "generally conforms" to international standards on overall basis, which is the top level of conformance with the standards.

8.4 Development Initiatives

During the year, an agile auditing framework was developed with the objective to evaluate, align, and adopt emerging agile auditing practices in Internal Audit's methodology. Furthermore, a continuous auditing framework was adopted to augment the audit reviews by utilizing available soft data of transaction processing systems such as T-24 and Oracle ERP on continuous basis. A metadata repository comprising of relatively static data like annual business plans, budget /utilization, human resources etc. was created for timely review. These initiatives enabled the Internal Auditors to plan their audits in a focused manner and execute their audit engagements efficiently. In addition, a compliance assessment framework was adopted which provided a holistic view of different legal and regulatory requirements. Initially, this framework will be utilized to assess adherence of procurement practices against the Public Procurement Regulatory Authority (PPRA) rules. Further, the Electronic Content Management (ECM) was implemented which facilitated document sharing and audit teamwork.

8.5 Future Outlook

The acceleration in the pace of currency automation, use of Alternate Delivery Channels (ADCs) in government banking, implementation of Knowledge Management, and several other organization-wide initiatives are redefining organization's business model, and its governance, risk management, and internal controls landscape. Internal Audit function aims to evaluate these interventions and assist the management in the best possible manner. For this purpose, Internal Audit is in the process of adopting innovation by remodeling audit assignments to bring agility and to leverage the proliferation of data and technology to deliver value to the organization.