

# 8 Internal Audit

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

## 8.1 Overview

BSC's Internal Audit function assists Board's Audit Committee in its responsibilities to oversee internal controls, governance, and business practices of the organization through provision of summarized audit results.

The Internal Audit function utilizes a risk based Internal Audit Plan to review enterprise-wide operational processes and their associated risks. A risk ranking system, in line with the enterprise wide risk management framework, is used to prioritize audit activities in order to ensure complete coverage of significant risk areas.

## 8.2 Key Performance Highlights during the Year

### *Box 8.1: Key performance Highlights during FY21*

- Conducted 28 audit engagements including annual audits of eight major field offices and six key functional departments, one Hub Audit, one Thematic Audit as well as 12 coordinated audits with IACD. Thus, Internal Audit covered 75 percent of the total transactional workload of BSC
- Audited core functions of Currency Management, Banking, Forex Operations, Development Finance and General Services at Head Office during the year
- Ensured continuity of audit assurance despite challenges posed by COVID-19 through implementation of Continuous Audit Framework of key risk areas
- Designed and conducted specialized audits to assess compliance of SOPs pertaining to COVID-19 across major field offices
- Arranged more than 20 in-house training sessions and webinars for capacity building of concerned officials under Audit's Knowledge Sharing Initiative
- Conducted root cause analysis of repeated audit observations and outlined mitigating strategies in collaboration with controlling departments
- Developed fraud scenarios for major business operations of BSC
- Resolved 241 audit memos through active follow-up

## 8.3 Operational Performance

### 8.3.1 Audit Engagements

With the outbreak of COVID-19, the risk of impairment of audit activity was looming due to lockdown and travel restrictions as well as WFH arrangements. However, Internal Audit took a pragmatic approach in its planning for uninterrupted continuity of audit assurance as well as to assess the emerging risk of COVID-19 to BSC. In view of the challenges posed by COVID-19, an improvised audit plan was introduced to audit high-risk areas with minimal contact and staff presence which enabled Internal Audit to conduct 28 audit engagements as depicted in **Table 8.1**. In addition, specialized assignments were

Audit Engagement Type	Engagements Conducted
Annual Audits	14
Coordinated Audits with IACD, SBP	12
Hub Audits	1
Thematic Audits	1
<b>Total</b>	<b>28</b>

designed to gauge the efficacy and implementation of measures taken by the organization to combat spread of COVID-19.

### **8.3.2 Resolution of Audit Observations**

During FY21, the Internal Audit function ensured active follow-up for timely resolution of audit observations. The efforts put forth resulted in resolution of 241 audit memos having 1,185 observations during the year.

## **8.4 Capacity Building of Audit Officials**

Keeping in view the significance of training and development of auditors, maximum efforts were made for capacity building of Internal Audit's officials during the year. Accordingly, Knowledge Sharing Program was implemented under which more than 20 in-house training sessions were conducted for capacity building of peers across all three audit hubs. These sessions covered key areas including Audit Report format, Institute of Internal Auditors standards, auditing techniques of Currency, Prize Bonds, Development Finance, Banking, and Foreign Exchange Operations etc.

## **8.5 Developmental Initiatives**

### **8.5.1 Agile Auditing**

Assessment of potential impediments and ways for a successful transition to agile auditing was carried out. This initiative resulted in the recommendation of gradual adoption of agile practices till the working environment is congenial for full implementation.

### **8.5.2 Impact Analysis of Audit Observations**

During the year, Impact Analysis of recurring audit observations was conducted in coordination with controlling departments. Various causes for recurring audit observations were analyzed during the exercise and mitigation strategies were identified to minimize their recurrence.

### **8.5.3 Fraud Risk Assessment**

A Fraud Risk Assessment Framework was developed which encapsulated various fraud scenarios covering major business operations of BSC. This initiative will facilitate Internal Audit in conducting audit field work effectively. Management of departments and field offices will also be able to design, refine, and implement effective internal controls by utilizing fraud listing and respective control measures outlined in this framework.

### **8.5.4 Revised Audit Report Format**

The Audit Report Format was revised during the year to effectively communicate the audit results to each level of management.

### **8.5.5 Continuous Audit Framework**

During FY21, the implementation of Continuous Audit Framework ensured uninterrupted audit activity despite COVID-19 lockdowns and WFH situation. The framework utilized system-based data and tools to

analyze information and highlight anomalies across major operational areas of Currency, Banking, and Prize Bonds and presented the same to each Chief Manager and concerned Regional Head for quick resolution and compliance. Further, quarterly reports were also shared with the Managing Director.

### **8.6 Future Outlook**

Internal Audit envisions to align its future initiatives with the automation and digitalization journey of BSC. For this purpose, Audit Manual will be updated to encompass evolving changes in Banking, Currency Management, Foreign Exchange, and Prize Bonds operations. The capacity building of Audit officials will be conducted in Business applications, Cyber Security, and ERM to enable them to carry out audit assignments proficiently. In addition, assessing risks of insider threat in the wake of digitalization of business operations and applications will facilitate preparation of mitigation plans to cover such risks faced by the organization. Further, development of Combined Assurance Framework and enhanced cooperation and teamwork between IAD, BSC and IACD, SBP is envisaged which will enable evaluation of risk mitigation in common business areas across the enterprise.