

STRENGTH OF INTERNAL CONTROLS – AUDIT

The dynamic nature of central bank operations and best practices of corporate governance requires that as an operational arm of the apex organization, we also need to keep abreast of the modern requirements of delivery mechanisms.

In this context, the Internal Audit Department of the SBP BSC is focusing on to adopt an integrated audit approach towards enhancement in its efficiency, its productivity and its cost effectiveness. A paradigm shift from compliance-based audit to risk based audit is in progress, whereby risk areas are identified and internal controls are evaluated. Unnecessary information, uselessly engaging the internal audit units and resulting in piling up of a plethora of papers of no significance has been discontinued. Only relevant information is called for, and that which would now be effectively managed and productively scrutinized. Specific steps taken towards the improvements in the areas of Internal Audit are mentioned below.

8.1 MAINTAINING COST EFFECTIVENESS OF ON SITE INSPECTION

Being cost effective is a pre-requisite to success of any organization. Yet what has to be evaluated is where to make a cut-off on the continuum of cost-benefit analysis. After a detailed contemplation, the department has substantially reduced the on-site inspection cost following a bi-pronged approach:-

- The size of the teams put together for inspection purposes has been considerably reduced and brought to barest minimum possible level. Internal Audit units from other offices are hired to compose a balanced team and are also trained to apply their efforts in promoting the developmental role of audit through coaching and counseling.
- Period of inspection has also been curtailed by increasing offsite surveillance policy there by keeping major focus on sensitive areas.

On-site audit is being carried out according to the yearly audit plan approved by the Managing Director. According to this formal plan, all the 16 field offices and departments in the Head Office of BSC were to be inspected. Internal Audit Department has covered a major portion of this mandate despite staff constraints and workload. So far 13 field offices, including all major offices, have been audited while the inspection of line departments of HOK is also at an advanced stage.

8.2 SPECIAL AUDITS AND STUDIES

Special audits are used as a tool by the department towards operational efficiency through value addition. A few examples of these efforts include post audit of Pension/Gratuity payments and other retirement benefit cases at field offices, post audit facilitation for Accounts Department with respect to a new coding system (as per chart of Accounts) for Engineering, MSD procurement, Printing Press, departmental study for Engineering Department in the area of physical remodeling, and facilitating Administration Department in the preparation of Training Policy Paper and training modules for OG-I, Chief Managers etc besides serving as focal point for first performance report of SBP BSC and coordinating with ISD for separate link of SBP BSC on newly revamped Electronic Bulletin Board.

8.3 STRENGTHENING OFF-SITE SURVEILLANCE

In order to bring the accountability factor in internal audit reports, a mechanism was proposed whereby significant irregularities reported by our IAUs would be analyzed in detail at the Off-site Inspection Division of the Internal Audit Department. In case of any high risk area, where the employee concerned would have ignored the internal controls, the Internal Audit Department, HOK would send the appraisal to the concerned Director/Chief Manager for further necessary action as they may deem fit to ensure non-recurrence of such critical irregularities. Moreover procedures are modified and now special audit studies are conducted through IAUs in addition to the proposed monthly plan given by the respective units. The underlying aim is to focus on areas which are important from the standpoint of achievement of organizational objectives and internal controls.

8.4 AUDITORS TRAINING AND DEVELOPMENT

In order to equip the human resource at the Internal Audit Department with updated knowledge, besides understanding of current practices and modern techniques in the field of audit, the following measures were taken:

- A five-day audit course was arranged at NIBAF with participation from all field offices.
- Training in certain advanced fields has also been given to familiarize the auditors with the modern practices prevailing in the market. These include risk based audit management course at HO Karachi and Oracle training sessions arranged by Hyundai Information Technology (HIT).
- Another departmental computer training program was arranged for officers at HOK to provide them orientation for MS Access, Excel, and Power point presentation.
- In order to ensure effective monitoring at HOK level, Risk Management and Policy units have been created to update the working profile of audit as per risk based audit needs. In this context, Terms of Reference have also been issued to all IAUs working in field Offices of the SBP BSC.
- The process of getting membership of the Institute of Internal Auditors has also been started for which all IAUs have been advised to get the group membership of IIA so that they are kept updated through audit magazines, newsletters etc. on account of research development in the area of auditing. In this respect, the Administration Department has been requested to circulate membership benefits to all CMs/HODs and give them benefits of compensation as per Bank's rules for getting membership of IIA.
- Circulation of the journal of the Institute of Internal Auditors and the ICAP journal is being done at HOK and at IAU level and case studies and other material on audit is regularly sent to all IAUs for further guidance.

8.5 FUTURE DIRECTION

Above illustrated steps are not the ends in themselves; Internal Audit Department has come a long way towards the achievement of objectives enshrined in the charter. The future efforts will be focused on:-

- Updating HR and practices of the IAU so as to bring them in conformity with the Risk-Based Audit approach. There will be a two-pronged approach towards the fulfillment of this

- objective i.e. by imparting relevant training and by practically putting in coordinated efforts in defining the process flows of activities being audited.
- Playing a developmental role by suggesting changes in various policy related areas.
 - Submission of global/overall audit appraisal for offices of the SBP BSC. For example, the overall status of Engineering/Maintenance, MSD, Accounts & Administration. These brief appraisals will be submitted to the MD with recommendations to make improvements, if any, in the system.