

9 INTERNAL AUDIT AND CONTROLS

9.1 Overview

The internal audit function is a part of the ongoing monitoring of the system of internal controls within SBP Banking Services Corporation because it provides an independent assessment of the adequacy of controls and compliance with the Bank's established policies and procedures.

The prime objective of Internal Audit Department (IAD) is to examine and evaluate whether the Bank's framework of risk management, internal control and corporate governance processes are adequate and functioning properly and carried out throughout the year. In addition, the objective of Internal Audit Department includes suggesting and recommending the management for improvement in internal controls and risk mitigating factors.

For this purpose Internal Audit Department conducts audit of 16 field offices, four departments at Head Office and NIBAF, Islamabad as per approved annual Audit Plan and prepare reports and submit Brief Appraisal of activities of the Bank on operational efficiency, appropriate risk management and internal controls.

Internal Audit Department comprised of following Divisions/Units;

- On-site Inspection Team
- Off-site Surveillance Team
- IT Audit Division
- 17 Internal Audit Units located at field office/Head Office

9.2 On-site Inspection Team

The objective of on-site inspection is to examine and evaluate adequacy and effectiveness of internal control system and ensure compliance of legal regulatory requirement and approved policies and procedures by the office. Internal Audit Department has conducted inspection of sixteen field offices, four departments of BSC and NIBAF, Islamabad as per Audit Plan for the year 2005-06. During On-site Inspection, the Audit Teams have made their observations in the light of control principles and risk management. During audit certain penalties were also recovered in the area of Export Refinance. The irregularities were discussed with auditees in the light of prescribed instructions and provided guidance to them in order to avoid recurrence of the same in future. Group discussions of auditors and auditees were also held in the presence of Heads of respective Office / Department and the Director, IAD on the subject of cause and control of significant irregularities.

9.3 Off-site Surveillance Team

The objective of Off-site Surveillance is to monitor adequacy and effectiveness of internal controls of the system to mitigate risk, suggest operational efficiency and adherence of relevant policies and procedures. The Off-site Surveillance teams examined the returns received from Internal Audit Units (IAUs) located at field offices / HOK and evaluated activities of the Bank.

9.4 I.T. Audit

Due to automation of business processes in the Bank, an IT Audit Division has been established at IAD in July 2005. IT Audit team comprises of professionals having minimum qualification of CISA. This Division has been conducting audit with respect to the risk exposures and control issues in the Globus System, Oracle and HRIS. Additionally, this Division has developed audit programs for 16 field offices and 04 Departments of Head Office. IT Audit Division has completed and conducted the following audits:

- Model IT Audit of Karachi Office.
- BCP Audit of Karachi Office.

- IT Audit of North Nazimabad Office including BCP Audit.
- IT Audit of Multan Office including BCP Audit.
- IT Audit of Accounts Department, SBP BSC HOK.

9.5 Internal Audit Units

There are 16 Internal Audit Units (IAUs) situated at field offices and one IAU at BSC Head Office. They conduct audit of various Units / Divisions of respective office as per their monthly Audit Programme and report significant observations to Internal Audit Department. They examine and evaluate adequacy and effectiveness of the internal controls relating to various activities and operations of the local management.

9.6 Capacity Building of IAD Employees

During the period under review, various training and skill development programs were designed and imparted to employees of IAD. These included;

1. Training to IAUs on concepts of IT Audit
2. Training to IAUs on concept of BCP
3. Training to IAUs on concepts of Internal Audit
4. Training arranged at NIBAF, Karachi and Islamabad as under:
 - Internal Auditing.
 - Currency Management & Operations.
 - Communication Skills.
 - Commercial Banking Operations.
 - Payment System (RTGS).
 - CBR's Revenue Collection Automation Module.
 - Applied Accounting.
 - Financial Statement Analysis.
 - Foreign Exchange Operations.

9.7 Meeting of the Sub-Committee on Audit

Two meetings of the Sub-Committee of the Board on Audit of SBP BSC were held on 17th December, 2005 and 6th May, 2006 at Karachi to discuss the important issues of the Bank.

Agenda items of 19th meeting

- Audit Plan for the year 2005-06.
- Synopsis of audit reports of offices / departments during the period.
- Progress report on improvement in field offices / departments.
- Minutes of the last meeting.

Agenda items of 20th meeting

- Management Letters
- Audit Brief of SBP BSC Karachi
- Audit Brief of SBP BSC Bahawalpur
- Presentation on IT Audit
- Progress Report on Audit Plan
- Progress Report on Development

9.8 Future Direction

Evaluation of existing policies and procedures and recommendations for their improvement is one of the core activities of the IAD. The Department has developed various targets for the financial year 2006-07 to monitor effectiveness and adequacy of internal controls.

- After implementation of the Globus in SBP BSC, it has become imperative to have an understanding of the same to carryout audit activities. For this purpose, groups of Internal Auditors have been formed to analyze various automated business processes of the BSC and their related risks to construct the criteria for extracting Exception Reports that would be helpful in conducting online auditing.
- Regular Audit including IT Audit of 16 Offices and 04 Departments of the Bank.
- Preparation of IT Audit Manual.
- IT related training for the employees of the Department, especially, in the context of implementation of GLOBUS in the Bank.
- Hiring of professionals to induct in the IAD.
- Standardization of work and preparation of Audit Pack.
- Follow up the Action Plan submitted by the Chief Managers and Head of Departments to control the repeated irregularities in order to improve the operational efficiency.
- Business Process Re-engineering.
- Develop working papers of core areas of operations during the annual audit activities.
- Introduce recording of Internal Control Questionnaires (I.C.Q.) by Inspection Team.
- IT Auditors will impart training to employees on Globus Banking Application with the co-ordination of ISTD.

