

INTERNAL AUDIT PROCESSES

As mentioned in the Charter, Internal Audit Department is committed to standards of best professional practice, such as International Internal Auditing Standards. The standards consist of Attributable Standards, Performance Standards, and Implementation Standards.

The basic steps in the internal audit processes are stated below:

1.0 Audit Planning Process

The basic audit planning process consists of two phases: the assessment of business risk and the development of the annual plan. Assessing of business risk focuses on viz. (i) defining auditable units, (ii) defining the risk criteria, (iii) constructing the risk model and (iv) ranking the auditable units.

1.1 Defining Auditable units

Auditable units are defined as individual applications, business units, departments or offices each of these approaches either limits the scope of an audit project or broadens it beyond what can reasonably be managed.

1.2 Defining the risk criteria

The model is based on operational risk, exposure and controls. Each area is broken down into sub-categories as follows:

Operational risk – people, systems, process, contractual, reputational, political

Exposure – financial, regulatory, customer

Controls– people, process, information systems, reporting.

The controls categories are further broken down into the following sub-categories viz. people, process and information systems.

1.3 Constructing the Risk Model

The risk assessment and audit planning methodology is a structured approach to a subjective process. The risk assessment and planning model is the product of value judgments.

1.4 Ranking the Auditable units

The risk profile spreadsheet computes a score for each auditable unit based on risk, exposure and control. This score is then converted into a ranking for each criterion as follows:

Operational Risk – high, medium, low

Exposure – high, medium, low

Control - high, medium, low

These ratings are then fed into a risk matrix which allocates the auditable units from highest critical areas to the lowest critical areas.

1.5 Development of the Annual Plan

Based on the risk the auditable units are broken down into areas of high, medium and low criticality for the Bank. The initial audit approach is:

High criticality: Twice in a year

Medium and low criticality: Once in a year.

The exact timing of audit is determined prior to the commencement of each quarter.

2.0 Developing Audit Programme

Once the annual plan is developed and approved, Audit Programmes are developed for each audit to be undertaken. Audit Programme is to be reviewed prior to the start of each audit to determine if there have been any changes. The steps in developing an Audit Programme are: understand the operations, develop flowchart or narrative, review the process with the concerned staff and develop the Audit Programme.

3.0 Implementing the Annual Audit Plan

The department undertakes structured approach to accomplish the annual plan and the actual audit can be broken up into a number of stages stated below.

3.1 Preparation stage

At this stage, the team leader ensures that all the necessary requirements for the audit are prepared and available and preliminary reviews and information gathering is undertaken.

3.2 Fieldwork

During the fieldwork the auditor gathers evidence in order to determine the status of operations and controls within a particular area. This evidence is the basis for the auditor's conclusions about a particular assignment.

3.3 Documentation or working paper

The working papers are evidence in support of the audit findings and opinion.

3.4 Audit Findings

Findings are pertinent statements of fact uncovered during the course of an audit and these are to be reported. The findings are reviewed by the Team leader and the Head of Audit prior to the final report being issued

4.0 Reporting

The audit reports are submitted to the auditable units, senior management and to the Audit Committee of the Board. The audit reports contain findings which are of a critical nature and have a major impact on the organization. Other operational issues identified during the audit which are considered not to be of a material nature but are worth are reported through 'Management Report' to the Head of the Department/Office and Head of the area being audited.

5.0 Follow-up

Internal Auditors follow up to ensure that appropriate and timely action has been taken on audit findings and recommendations. Internal Audit Department reports to the Audit Committee on the current status of outstanding findings and what action is being taken to resolve the issues.

6.0 External Audit

Internal audit uses the external audit reports and ensures that any issues raised by the external auditor have been followed up by management and whether corrective action has been taken in a timely manner.