



## Key Elements of Internal Controls Policy

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## Introduction

The Risk Management Group of the Bank operates in an independent manner, for streamlining and defining various risks associated with different products, services, procedures and activities being performed in the Bank, for the protection of customers' interests against any operational and compliance breach, under SBP guidelines. These risks are being regularly assessed and controlled through a well-defined testing system operating at different levels under the paradigm of Bank's "Policy on Internal Controls".

## Significance of Internal Controls

Internal controls are crucial for the success of an organization, especially financial institutions that are entrusted with public money. Internal controls broadly comprise of policies approved by Board of Directors [BoD] as well as plans and processes implemented by Bank's management. These internal controls are performed on a continuous basis by all levels of employees within the Bank, and are used to provide reasonable assurance regarding the achievement of organizational objectives.

Internal controls play a pivotal role, serving as a safeguard against financial irregularities, fraud, and operational risks. In a country with a dynamic and evolving financial landscape like Pakistan, internal controls are instrumental in ensuring the integrity and stability of banking operations. These enforce a stringent framework for operational risk management, compliance with regulatory requirements, and the protection of customer interests, thereby, strengthening investor and public trust in the banking system, which is essential for sustained economic growth and financial stability.

## Policy Overview

By delineating clear procedures, responsibilities, and reporting mechanisms, the "Internal Controls Policy" helps the bank to not only maintain the highest standards of transparency and accountability but also adapt to changing market conditions, thereby contributing to the resilience and trustworthiness of the nation's financial institutions.

## Scope

This policy is applicable to Bank's local and overseas operations.

## Objectives of Internal Controls

Internal controls are designed to provide reasonable assurance regarding the achievement of the following objectives:

- Effectiveness and efficiency of operations;
- Reliability, completeness and timeliness of financial and management information;
- Compliance with applicable laws, rules, regulations and standards as well as adherence to Bank's own policies and procedures

## Components of Internal Controls

1. Control environment;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;
4. Accounting, information and communication; and
5. Self-assessment or monitoring and correcting deficiencies

## Responsibility and Accountability

All Groups / Functions of the Bank are required to be conversant with this policy. They are also required to conform to applicable laws, rules, regulations, standards, internal policies, procedures and prudent Banking practices. Internal control is a continuous process which complements changes in the operating environment, therefore the management dynamically reviews Bank's internal control systems to ensure its effectiveness.

## Monitoring and Reporting

Every Group develops processes to identify, measure, monitor and control risks faced by the Bank. All significant issues are reported to the Board of Directors or its Subcommittees. Internal Audit of the Bank and External auditors provide important feedback on the effectiveness of the internal control system through their audit activities. The Chief Financial Officer is responsible to ensure effective implementation of ICFR. Bank's Operations Group (OPG), Risk Management Group (RMG) and Compliance and Controls Group (CCG) perform their roles for strengthening the internal controls as defined in Bank's Policy on Internal Controls.

## Risk & Controls Self-Assessment (RCSA)

For effective implementation of Internal Controls, the Bank has a robust Risk & Controls Self-Assessment (RCSA) Framework in place. Under the framework, a detailed repository of Risks and associated controls is maintained. Severity and probability of risks is managed, adequacy and effectiveness of controls is tested, validated and evaluated and necessary corrective actions are planned and monitored to ensure that the internal control structure of the bank remains efficient and effective at all times.

## Limitations

Internal controls, no matter how well designed and operated, can provide only reasonable assurance to management and the Board of Directors regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems.