Audit Guidelines
Commercial Audit

Auditor-General of Pakistan

DEPARTMENT OF
THE AUDITOR-GENERAL OF PAKISTAN

GUIDELINES FOR THE AUDIT

OF

THE DIRECTORATE GENERAL OF COMMERCIAL AUDIT AND EVALUATION



VISION

A Model Supreme Audit Institution Adding Value to National Resources



MISSION

Serving the Nation by Promoting Accountability, Transparency and Good Governance in the Management and Use of Public Resources

Core Values

- **Integrity** — Our way of life
- **Quality** — Our way of doing business
- **Partnership** — Our way of interaction

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PREFACE TO REVISED EDITION

The Financial Audit Manual (FAM) was commissioned in June 2006 by the Auditor-General of Pakistan for use in Field Audit Offices (FAOs) for conducting Certification and Compliance with Authority audits. The Manual is based on the INTOSAI Auditing Standards and the international best practices. It covers the entire Audit Cycle and provides guidance with regard to the methods and approaches to audit that can be applied by auditors for conducting the audit of government entities in Pakistan.

FAM has been implemented in the Department of the Auditor-General of Pakistan (DAG). However, during the course of its implementation, it was found that the Sectoral Guidelines developed by the consultants under the FAM project did not provide sufficiently detailed and specific guidance to the FAOs for conducting audit. As a result, the FAOs continued to rely on their old and outdated codes and manuals for conducting audit.

On the basis of lessons learnt from the implementation of FAM and its Sectoral Guidelines, it was decided to revise and update these Guidelines. This has been done with the help of consultants engaged by PIFRA for different FAOs, and in close coordination with the experienced auditors in the field. The results of these efforts are contained in these Guidelines. Though the document, as a whole has been revised, the section on the Audit Execution phase, in which detailed audit steps have been added is a significant addition.

I hope that the Guideline will prove useful to the FAOs and will go a long way in ensuring quality improvement in audit reports.

(Tanwir Ali Agha)
Auditor-General of Pakistan

Dated: March, 2010

PREFACE TO FIRST EDITION

These Guidelines are being issued after the commissioning of the Financial Audit Manual and are to be used for planning and conducting audits under the mandate of the Department of the Auditor-General of Pakistan (DAGP).

The Guidelines and the other audit tools are an important foundation for bringing our work in the line with international best practices. Our auditors will have to apply with dedication the guidelines provided by the Financial Audit Manual while auditing in the field.

Implementation of the new audit methodology, and adoption of the Guidelines, will be carried out according to a schedule to be determined by my office according to a gradual phasing across the government entities that are covered in the audit mandate of the Auditor-General of Pakistan. Since the implementation of the new audit methodology is contingent upon professional training, it shall be the responsibility of the heads of the Field Audit Offices to get their personnel fully trained in the Financial Audit Manual and these Guidelines, with the help of Audit and Accounts Training Institute. Continued professional training of the officers and the staff of the Department shall remain the main focus of our efforts towards modernization and professionalism.

Keeping in view the future changes in the international best practices and the changing demands of the stakeholders, these Guidelines will be required to be updated and expanded. Field Auditors using these Guidelines are therefore encouraged to make suggestions for improvements in these Guidelines and other tools on an ongoing basis. Suggestions for improvements will be duly considered and incorporated in these Guidelines where necessary, by the Research and Development Wing of the Department of the Auditor General of Pakistan.

(Muhammad Younis Khan)
Auditor General of Pakistan

Dated: March, 2006

Chapter 1

INTRODUCTION TO AUDIT GUIDELINES

1.1 Purpose of the Guidelines

These Guidelines aim to provide specific and detailed guidance to auditors engaged in the audit of Commercial entities. They do not replace the Financial Audit Manual (FAM) that establishes a general framework for conducting audit, but complement it. An auditor is expected to continuously refer to FAM in developing a general understanding of audit concepts, standards and methodology. The Guidelines assist in their practical implementation.

The guidance provided is primarily meant for Regularity Audit that includes Certification Audit and Compliance with Authority Audit. Though these audit types have been discussed in detail in FAM (Chapter 4), they have also been defined in these Guidelines under Scope of Audit (Chapter 3). They provide specific and detailed set of instructions for an auditor for preparing a permanent file, planning and conducting audit, which processes finally culminate in the Evaluation and Reporting Phase of audit results.

1.2 Guiding Principles

FAM, which was issued in 2006 by the Department of the Auditor-General of Pakistan (DAGP) under the Project to Improve Financial Reporting and Auditing (PIFRA), contains guiding principles that should be observed at the time of conducting an audit under the authority of the Auditor-General's Ordinance, 2001.

1.3 Auditors' Responsibility

Every auditor engaged in Government audit is required to be familiar with audit theory, practice, standards, and techniques described in FAM, which includes the Audit Working Papers Kit. Because of the importance of ensuring a high standard of work by the DAGP, particular attention needs to be paid to the quality assurance programme. DAGP's quality assurance framework ensures that its work is performed as efficiently and effectively as possible and complies with the INTOSAI Auditing Standards. Quality is performing an audit effectively, following up all errors and deviations with a rigorous evaluation, reporting clearly on the results, while at the same time respecting the resource and time constraints established by the budget. Therefore, quality assurance occurs throughout all the phases of audit, not at the end. (Ref: Financial Audit Manual Para 15.1.1)

It needs to be highlighted that the audit strategy and methodology, recommended under FAM, provides for continued quality assurance through all the phases of audit. While reviewing the audit plan/permanent file and other phases of audit, the functionaries, entrusted

with the quality assurance of audit, should ensure that various steps recommended in these Guidelines and respective forms have been followed in all respects.

The Director General must ensure that the audit is carried out efficiently, effectively, and with a high standard of professional competence. This requires auditors to be properly supervised during each audit assignment. (Ref: Financial Audit Manual Para 9.11.4).

1.4 Practical Tools

FAM is supported by standard Audit Working Papers Kit that provides the auditor with practical tools for conducting audit. These working papers are a generalised set of forms and schedules designed to help each audit team perform audit in compliance with the principles set out in FAM. These Guidelines have been prepared to assist the audit teams to apply the Audit Working Papers Kit to a specific type of audit. These Guidelines also comply with the INTOSAI Auditing Standards. While developing these Guidelines, the work done by the Professional Standards Committee of the INTOSAI and its Sub-Committees on Financial and Compliance Audit has also been kept in view.

The software tools acquired under PIFRA as a part of the Computer Assisted Audit Techniques (CAATs) and the Audit Management Software will be required to be used by the audit. For more information about these software tools, the auditor should refer to the Manuals of the respective software. In addition, Appendix C of FAM provides a discussion on the use of CAATs.

1.5 Continuous Improvement

It is the DAGP's intention to use FAM and the Audit Working Papers Kit for continually improving its methods to ensure that the highest quality audits are achieved with maximum efficiency. While using these Guidelines in performing audit, the auditors are encouraged to identify ways of improving either the Guidelines or the underlying tools, and submit a written suggestion to the Audit Policy and Special Sectors (AP&SS) Wing in the DAGP.

1.6 Using the Standard Audit Working Paper

The audit process generally follows a standard Audit Cycle comprising the following phases:

- General audit planning
- Detailed activity and resource planning
- Fieldwork
- Evaluation
- Reporting
- Follow-up

These phases are common to all types of audit. An overview of the Audit Cycle as a whole is provided in Chapter 6 of FAM. Additional detail is provided in Chapters 7 through 14.

The Audit Working Papers Kit has been designed to guide audit teams through these phases in a structured manner, and are presented in the four sets of working papers. Once completed and supplemented with additional information gathered during the course of audit, each of these sets of working papers represents a "file" that documents audit activities and supports the conclusions reached.

The files that represent the work done in each of the phases of audit are:

- Permanent file,
- Planning file,
- Working Paper file, documenting the execution phase, and the
- Evaluation and Reporting file

It is recommended that the electronic versions of forms given in the Audit Working Papers Kit are used during the conduct of audit. The auditor is reminded of the importance of keeping back-ups of filled-out forms (electronic and hard copy) to ensure that they are adequately protected.

Kindly note that each form or schedule included in the Audit Working Papers Kit incorporates notes on how to use the form. These notes are printed in italics to differentiate them from other material on the form. In some cases, the note may relate to a specific item on the form, in which case it will follow the item it relates to. Notes that apply to the form as a whole are presented either at the beginning or the end of the form.

These Guidelines do not repeat the instructions for each form. Its purpose is to provide some additional guidance specific to the type of audit being planned or conducted. Forms and schedules given in the Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of these forms, marked with an asterisk (*), can also be used for Compliance with Authority Audit. In both the cases, the notes on the form are sufficient to guide the auditor and no additional information is required in these Guidelines.

Ultimately, it is the audit team leader who will have to use his/her judgment in determining how best to apply the Audit Working Papers Kit in conducting a specific audit.

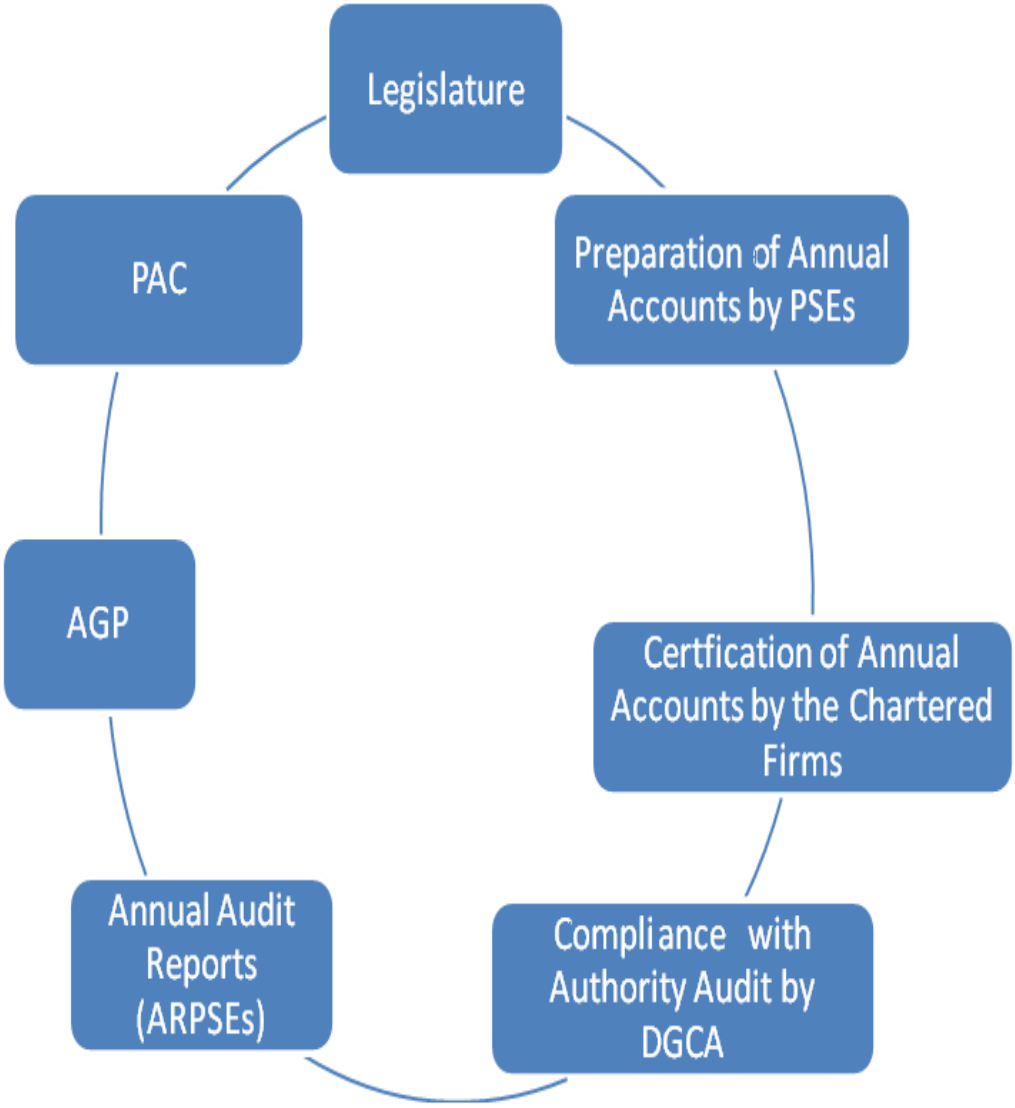
1.7 The Accountability Cycle

The accountability cycle starts with the preparation of annual accounts by the Public Sector Enterprises. A detailed elaboration is as follows;

1. Each year the Public Sector Enterprises (PSE) prepares their annual accounts and get these certified according to the statutory requirements of the Companies Ordinance/ relevant ordinance.
2. The PSEs submit their annual accounts to Commercial Audit Directorates who conduct Compliance with Authority Audit and also prepare Audit comments.
3. The serious irregularities observed during the Compliance with Authority Audit, are discussed with the management in Departmental Accounts Committee (DAC) and un-resolved issues along with audit comments on annual accounts are compiled in the

Annual Report on Public Sector Enterprises (ARPSE). The ARPSEs for Federal and Provincial Governments are printed individually. Commercial Appendix to Appropriation Accounts of Defence Services is published separately.

4. The Auditor-General of Pakistan signs these annual reports every year.
5. These reports are then discussed in the Public Accounts Committee who then reports to the National Assembly.



Chapter 2

OVERVIEW OF THE DIRECTORATE GENERAL OF COMMERCIAL AUDIT AND EVALUATION

2.1 Overview of Office

The Commercial Audit and Evaluation Wing had its beginnings in 1925 when a Commercial Audit Branch of the Indian Audit Department was created. After the establishment of Pakistan, the Audit of statutory Corporations and Government Commercial Undertakings was started by the Commercial Audit Branch w.e.f. 1st April 1956 when it was created on a temporary basis. The Commercial Audit Department was placed on permanent footings by the Government on 29th October 1961. Due to expansion in activities, regional offices were opened in Karachi and Lahore in August 24, 1962 under the Director of Commercial Audit, Karachi as its head office. The Circle Office Karachi and Lahore started functioning w.e.f. December 20, 1962 and March 1st 1963 respectively. In 1965, Wah Circle office was also opened. In 1982, these circle offices were declared Directorates with a Central Directorate at Karachi. Director General, Commercial Audit (North), Lahore was established in 1997 by splitting the Central Directorate of Karachi which was renamed as Director General, Commercial Audit (South).

2.2 Jurisdiction

Commercial Audit and Evaluation (North)
Federal

Sr no.	Entity name	Division	Mandate
1	Printing Corporation of Pakistan (Pvt) Limited	CABINET DIVISION	Compliance with Authority
2	Oil and Gas Regulatory Authority		Compliance with Authority
3	Pakistan Tobacco Board	COMMERCE DIVISION	Compliance with Authority
4	Pakistan Ordnance Factory	DEFENSE DIVISION	Compliance with Authority &Certification
5	Wah Industries Ltd		Compliance with Authority &Certification
6	National Book Foundation	EDUCATION DIVISION	Compliance with Authority
7	Pakistan Environment Planning and	ENVIRONMENT DIVISION	Compliance with Authority

Sr no.	Entity name	Division	Mandate
	Architectural Consultants (Pvt) Limited		
8	Agricultural Marketing and Storage (Pvt) Limited	FINANCE DIVISION	Compliance with Authority
9	Federal Bank for Co-operatives		Compliance with Authority
10	Small and Medium Enterprises Bank Limited		Compliance
11	Zarai Taraqiati Bank Limited		Compliance with Authority
12	Pakistan Revenue Automation (Pvt) Limited	REVENUE DIVISION	Compliance with Authority
13	Pakistan Agricultural Storage and Services Corporation Limited	FOOD, AGRICULTURE AND LIVESTOCK DIVISION	Compliance with Authority
14	Livestock And Dairy Development Board		Compliance with Authority
15	National Institute of Health	HEALTH DIVISION	Compliance with Authority
16	National Construction Limited	HOUSING AND WORKS DIVISION	Compliance with Authority
17	Pakistan Housing Authority		Compliance with Authority
18	State Engineering Corporation (Pvt) Limited	INDUSTRIES, PRODUCTION AND SPECIAL INITIATIVES DIVISION	Compliance with Authority
19	Heavy Electrical Complex (Pvt) Limited		Compliance with Authority
20	Heavy Mechanical Complex (Pvt) Limited		Compliance with Authority
21	Pakistan Machine Tool Factory (Pvt) Limited		Compliance with Authority
22	Pakistan Engineering Company Limited		Compliance with Authority
23	ENAR Petrotech Services (Pvt) Limited		Compliance with Authority
24	State Enterprises Display Centre Pvt Limited		Compliance with Authority
25	National Fertilizer Corporation of Pakistan (Pvt) Limited + Units		Compliance with Authority

Sr no.	Entity name	Division	Mandate
26	Ghee Corporation of Pakistan		Compliance with Authority
27	Small and Medium Enterprises Development Authority (SMEDA)		Compliance with Authority
28	Utility Stores Corporation of Pakistan (Pvt) Limited		Compliance with Authority
29	Engineering Development Board (Ex EAC)		Compliance with Authority
30	Pakistan Broadcasting Corporation	INFORMATION AND BROADCASTING DIVISION	Compliance with Authority
31	Pakistan Television Corporation Limited		Compliance with Authority
32	Associated Press of Pakistan Corporation		Compliance with Authority
33	Pakistan Software Export Board		Compliance with Authority
34	Northern Areas Transport Corporation Ltd.	KASHMIR AFFAIRS AND NORTHERN AREAS DIVISION	Compliance with Authority
35	Overseas Employment Corporation (Pvt) Ltd.	LABOUR AND MANPOWER DIVISION	Compliance with Authority
36	Overseas Pakistanis Foundation	OVERSEAS PAKISTANIS DIVISION	Compliance with Authority
37	Kaghan Brick Works Limited		Compliance with Authority
38	Sui Northern Gas Pipelines Limited	PETROLEUM AND NATURAL RESOURCES DIVISION	Compliance with Authority
39	Oil and Gas Development Company Limited		Compliance with Authority
40	Government Holding Private Limited		Compliance with Authority
41	Pirkoh Gas Company (Pvt) Limited		Compliance with Authority
42	Pakistan Mineral Development Corporation (Pvt) Limited		Compliance with Authority
43	Lakhra Coal Development Company		Compliance with Authority

Sr no.	Entity name	Division	Mandate
	Limited, Karachi		
44	National Logistic Cell	PLANNING AND DEVELOPMENT DIVISION	Compliance with Authority
45	Pakistan Institute of Development Economics		Compliance with Authority
46	Pakistan Science Foundation	SCIENTIFIC AND TECHNOLOGICAL RESEARCH DIVISION	Compliance with Authority
47	Pakistan Bait-ul-Mal	SOCIAL WELFARE AND SPECIAL EDUCATION DIVISION	Compliance with Authority
48	National Textile University	TEXTILE DIVISION	Compliance with Authority
49	Pakistan Tourism Development Corporation	TOURISM DIVISION	Compliance with Authority
50	PTDC Motels North (Pvt) Limited		Compliance with Authority
51	PTDC Motel South (Pvt) Limited		Compliance with Authority
52	Pakistan Tours (Pvt) Limited		Compliance with Authority
53	PTDC Associated Hotels of Pakistan		Compliance
54	Malam Jabba Resort Pvt Ltd.		Compliance
55	National Engineering Services Pakistan (Pvt) Limited	WATER AND POWER DIVISION	Compliance with Authority
56	National Power Construction Company (Pvt) Limited		Compliance with Authority
Government of the Punjab			
1	Agricultural Engineering &Well Drilling	AGRICULTURE DEPARTMENT	Compliance with Authority
2	PAD&SC (Defunct), Lahore		Compliance with Authority
3	Punjab Seed Corporation		Compliance with Authority
4	Punjab Teachers Foundation	EDUCATION DEPARTMENT	Compliance with Authority

Sr no.	Entity name	Division	Mandate
5	Punjab Education Foundation		Compliance with Authority
6	Government Opium & Alkaloid Factory	EXCISE & TAXATION DEPARTMENT	Compliance with Authority
7	Punjab Pharmacy Council Lahore	HEALTH DEPARTMENT	Compliance with Authority
8	Punjab Health Foundation		Compliance with Authority
9	Government Medical Store Depot, Lahore		Compliance with Authority
10	Government Printing Press Bahawalpur	INDUSTRIES DEPARTMENT	Compliance with Authority
11	Government Printing Press Lahore		Compliance with Authority
12	Punjab Small Industries Corporation (PSIC)		Compliance with Authority
13	Punjab Industrial Dev. Board (Defunct) Lahore		Compliance with Authority
14	Irrigation Workshops Division Mughalpura Lahore	IRRIGATION DEPARTMENT	Compliance with Authority
15	Punjab Employees Social Security Institution (PESSI) Lahore.	LABOUR & HUMAN RESOURCE DEPARTMENT	Compliance with Authority
16	Punjab Mineral Development Corporation (PUNJMIN)	MINES & MINERAL DEPARTMENT	Compliance with Authority
17	Punjab Information Technology Board (PITB)	PLANNING & DEVELOPMENT DEPARTMENT	Compliance with Authority
18	Punjab Bait ul Mal Lahore	SOCIAL WELFARE DEPARTMENT	Compliance with Authority
19	Tourism Development Corporation of Punjab (TDCP)	TOURISM & RESORT DEVELOPMENT DEPARTMENT	Compliance with Authority
20	Technical Education and Vocational Training Authority	TEVTA	Compliance with Authority
Government of N.W.F.P			

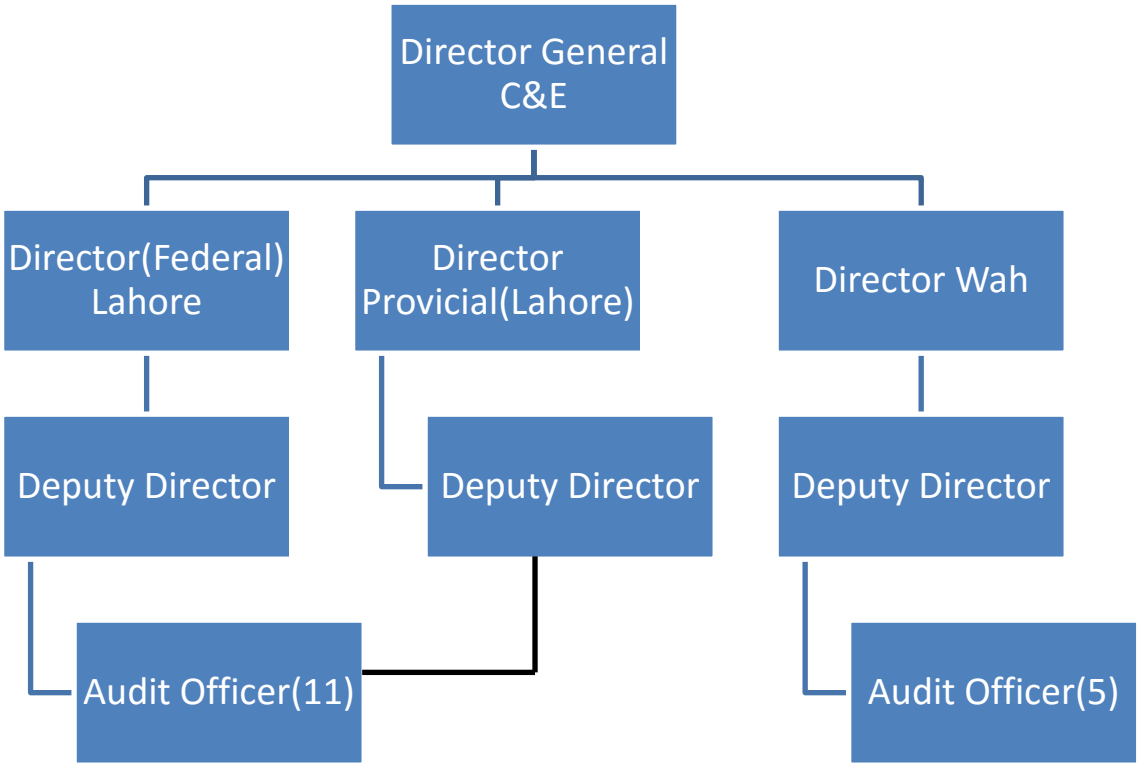
Sr no.	Entity name	Division	Mandate
1	Agricultural Engineering Workshops	AGRICULTURE LIVESTOCK & COOPERATION DEPARTMENT	Compliance with Authority
2	Forest Dev: Corporation Peshawar	ENVIRONMENT DEPARTMENT	Compliance with Authority
3	General Provident Investment & Pension Funds	FINANCE DEPARTMENT	Compliance with Authority
4	Sarhad Development Authority (SDA) +IEs+ EPZ +Projects	INDUSTRIES, COMMERCE, MINERAL DEVELOPMENT & TRANSPORT DEPARTMENT	Compliance with Authority
5	Small Industries Development Board, (SIDB) Peshawar		Compliance with Authority
6	Sarhad Mineral Ltd (SML), Peshawar		Compliance with Authority
7	Government Stationary and Printing Department Peshawar	PRINTING AND STATIONERY DEPARTMENT	Compliance with Authority
8	Sarhad Tourism Corporation Peshawar	SPORTS , CULTURE , TOURISM, ARCHAEOLOGY & MUSEUMS DEPARTMENT	Compliance with Authority
9	Arbab Niaz Stadium, Peshawar		Compliance with Authority
10	Abaseen Construction Company Peshawar	WORKS & SERVICES DEPARTMENT	Compliance with Authority
Commercial Audit and Evaluation(South)			
1	Pakistan Petroleum Limited	Petroleum & Natural Resources	Compliance with Authority Audit
2	State Bank of Pakistan	Finance	Compliance with Authority Audit
3	Pakistan State Oil – PSO	Petroleum & Natural Resources	Compliance with Authority Audit
4	Sui Southern Gas Company	Petroleum & Natural Resources	Compliance with Authority Audit
5	State Life Insurance Corporation	Commerce	Compliance with Authority Audit
6	Employee Old Age Benefit Institution	Labour & Manpower	Compliance with Authority Audit
7	Pakistan Steel Mills	Industries,	Compliance with Authority Audit

Sr no.	Entity name	Division	Mandate
	Corporation	Production & Special Division	
8	Pakistan National Shipping Corporation	Ports & Shipping	Compliance with Authority Audit
9	Pakistan International Airlines	Defence	Compliance with Authority Audit
10	Sky Rooms (Pvt) Limited	Defence	Compliance with Authority Audit
11	Gawadar Port Authority	Ports & Shipping	Compliance with Authority Audit
12	Gawadar Implementation Authority	Ports & Shipping	Compliance with Authority Audit
13	Gawadar Fish Harbour	Ports & Shipping	Compliance with Authority Audit
14	Export Processing Zone Authority	Industries, Production & Special Division	Compliance with Authority Audit
15	Trading Corporation of Pakistan	Commerce	Compliance with Authority Audit
16	Pakistan Reinsurance Company Limited	Commerce	Compliance with Authority Audit
17	National Insurance Company Limited	Commerce	Compliance with Authority Audit
18	Port Qasim Authority - PQA	Ports & Shipping	Compliance with Authority Audit
19	HBFC	Finance	Compliance with Authority
20	Pakistan Security Printing Corporation	Finance	Compliance with Authority Audit
21	PIDC	Industries, Production & Special Division	Compliance with Authority Audit
22	Pakistan Institute of Management	Industries, Production & Special Division	Compliance with Authority Audit
23	Sindh Engineering Limited	Industries, Production & Special Division	Compliance with Authority Audit
24	Industrial Development Bank Of Pakistan	Finance	Compliance with Authority Audit
25	Karachi Shipyard and Engineering works Limited	Defence Production	Compliance with Authority Audit
26	Pakistan Steel Fabricating Company Limited	Industries, Production & Special Division	Compliance with Authority Audit
27	Baluchistan water &	Public Health	Compliance with Authority Audit

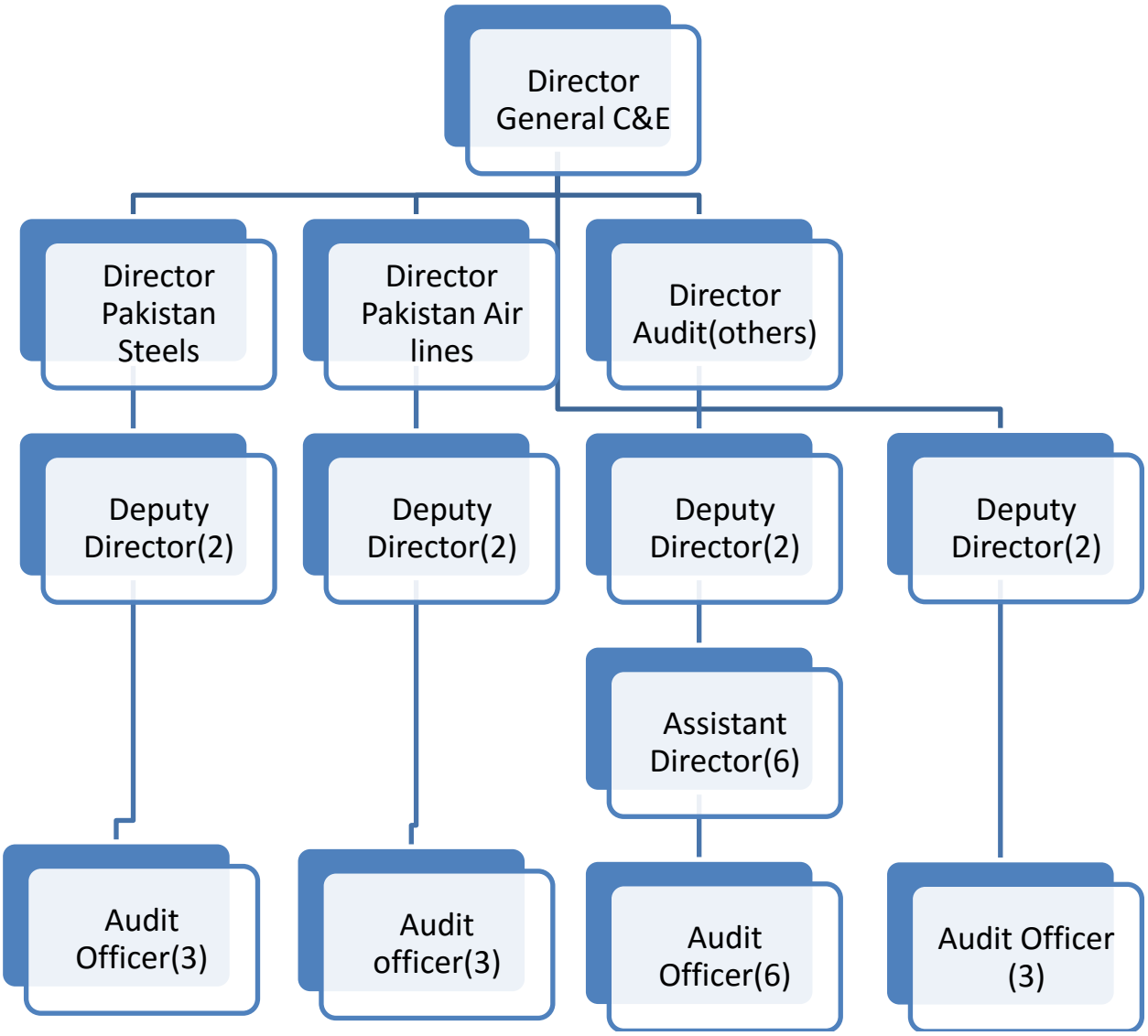
Sr no.	Entity name	Division	Mandate
	Sanitation Authority	Engineering	
28	Agricultural Engineering Workshop - Sindh	Agricultural	Compliance with Authority Audit
29	Quetta Development Authority	Planning & Development	Compliance with Authority Audit
30	Light House & Light Ship Department	Ports & Shipping	Compliance with Authority Audit
31	Agricultural Engineering Workshop - Quetta	Agricultural	Compliance with Authority Audit

2.3 Organogram of DG, Commercial Audit and Evaluation

Directorate General Commercial Audit and Evaluation (North)



Directorate General Commercial Audit and Evaluation (South)



Chapter 3
SCOPE OF AUDIT

3.1 Types of Audit[1]

Directorate General Commercial Audit and Evaluation conducts the following types of audit:

1. Certification Audit
2. Compliance with Authority Audit
3. Performance Audit

Additionally the Directorate General also carries out special audit, special studies and the audit of foreign aided projects. Separate guidelines have been issued by the DAGP for the audit of foreign aided projects.

The following section defines Certification Audit, Compliance with Authority Audit and Performance Audit.

3.2 Definition of Government Audit

According to the INTOSAI Auditing Standards, the full scope of Government auditing includes regularity and Performance Audit. Regularity Audit comprises of the attest of Financial Statements called Certification Audit and Compliance with Authority Audit. Regularity Audit embraces:

1. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinion on Financial Statements;
2. Attestation of financial accountability of the Government administration as a whole;
3. Audit of financial systems and transactions including an evaluation of compliance with applicable statues and regulations;
4. Audit of internal control and internal audit functions;
5. Audit of the probity and propriety of administrative decisions taken within the audit entity; and
6. Reporting of any other matters arising from or relating to the audit that the Supreme Audit Institutions considers should be disclosed.

Performance Audit[2] is concerned with the audit of economy, efficiency and effectiveness and embraces:

[1] These Guidelines provide guidance on both the Certification and Compliance with Authority Audit.

1. Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
2. Audit of the efficiency of utilizing of human, financial and other resources, including the examination of information systems, performance measures monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
3. Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

The following sections provide detailed guidance on Regularity Audit which includes Certification Audit and Compliance with Authority Audit.

3.3 Certification Audit

Objectives:

To express an opinion on the accounts to the effect that:

1. The Financial Statements properly present, in all material respects, the Government's financial position, the results of its operations, its cash flows and its expenditures and receipts by appropriation; and
2. Ensure that assessed revenue is promptly collected and deposited in Government treasury and properly classified in the Financial Statements.
3. The sums expended have been applied in all material respects, for the purposes authorised by Parliament and have, in all material respects, been booked to the relevant grants and appropriations.

Financial Statements have a large number of external users and it is necessary that the financial statements properly present the financial position of the auditee. In order to express an opinion on the financial statements, the auditor has to ensure the following:

- Financial Statements are evaluated for adequacy against "Presentation and Disclosure" requirements;
- Significant line items of Financial Statements are tested for the following audit assertions:

    a. Existence and Occurrence
    b. Completeness
    c. Measurement
    d. Regularity (compliance with applicable laws and regulations)

[2] Detailed guidelines for Performance Audit have been issued by the DAGP which are being updated under a special program initiated by PIFRA.

Methodology:

- Understanding the auditee;
- Conducting risk assessment;
- Defining detailed audit objectives;
- Developing audit programmes;
- Performing analytical procedures;
- Testing the internal controls;
- Determining sample size for substantive testing of details;
- Conducting substantive tests;
- Evaluating results;
- Reporting; and
- Follow up.

3.4 Compliance with Authority Audit

Objective:

1. Audit against the provision of funds to ascertain whether the moneys shown as expenditure in the accounts were authorized for the purpose for which they were spent.
2. Audit against rules and regulation to see that the expenditure incurred was in conformity with the laws, rules and regulations framed to regulate the procedure for expending public money.
3. Audit of sanctions of expenditure to see that every item of expenditure was done with the approval of the competent authority in the Government for expending the public money.
4. Propriety Audit which extends beyond scrutinizing the mere formality of expenditure to its wisdom and economy and to bring to light cases of improper expenditure or waste of public money.
5. While conducting the audit of receipts of the Governments, the Auditor-General satisfies himself that the rules and procedures have been properly adopted and ensures that the assessment, collection and allocation of revenue are done in accordance with the law and there is no leakage of revenue which legally should come to Government.
6. Review, analyze and comment on various Government policies relating to different sectors.

Methodology:

- Updating the understanding of the business processes with respect to control structure.
- Identification of key controls on the basis of prior years' audit experience /special directions from the head office etc.
- Prioritising risk areas by determining significance and risks associated with identified key controls.
- Design audit programmes including analytical procedures for testing identified risk conditions.
- Selection of audit formations i.e. DDOs on the basis of:
    - Materiality/significance

  - Risk assessment
- Selecting samples as per sampling criteria.
- Execution of audit programmes.
- Identification of weaknesses in internal controls and development of audit observations and recommendations relating to non compliance of laws, rules, regulations and prescribed procedures.
- Integrating the work with financial attest audit, where possible.
- Evaluating results;
- Reporting; and
- Follow up.

3.5 Important Audit Components of Commercial Audit

Some of the specific risks relating to Commercial entities include:

- The risk of bypassing the prescribed procedures of providing new gas connections in order to favour the specific industrials/commercial & domestic consumers
- The risk that consumers committing default in payment of gas bills, continue to use gas and remain unidentified
- The risk that defaulter succeeding in getting re-connections without paying their dues
- The risk of un-authorized use/theft of gas
- Risk of non-recovery of dues from the defaulters
- Risk of favouritism to specific contractors/ suppliers.
- Risk of un-necessary purchases resulting into blockage of funds
- Risk of splitting of purchases to avoid tendering procedures and specific approval of authorities.
- Risk of un-competitive purchases
- Risk of non compliance of PPRA rules and entity specific rules and regulations.
- Un-authorized salary payments
- Un-necessary hiring of staff
- Over-payments
- Un-economical staff strength and salary packages
- Violations of entity rules and regulations
- Risk of weak project controls
- Risk of non-conducting environmental assessment/ project feasibility
- Risk of in-appropriate and in-adequate information
- Risk of non-availability of Contingency plans wherever feasible
- Risk that payments are made without observing the agreed-upon quality and quantity of materials, construction, etc.
- Risk of inappropriate system of monitoring and reporting of progress
- Risk of incomplete and in-appropriate maintenance of record regarding grants received
- Risk of misuse of grants
- Risk of misuse of PLA/Assignment accounts funds

The auditors should decide what aspects of these risks should be taken into account when planning the audit.

The major focus of the Directorate General Commercial Audit and Evaluation is on:

- Revenue received by the auditee entities.
- Expenditure incurred by the auditee entities.
- Assets maintained by the auditee entities.

3.5.1 Audit of Revenue

The main components of revenue are:

- Sale of Petroleum based products.
- Natural Gas
- Advances to customers(in case of banks) and
- Others (which depend on type of operational activities done by the entity).

The receipts of money should be reviewed to check that they have been properly dealt with from a revenue perspective in accordance with the INTOSAI Auditing Standards. The auditor, therefore, needs to keep him/her knowledge up to date in auditing standards. The auditor should also conduct an examination of the attached terms and conditions to ensure compliance with applicable laws and regulations.

3.5.2 Audit of Expenditure

The expenditure incurred on major types of activities in the auditee entities are:

- Oil exploration and drilling costs.
- Cost of gas purchased.
- Payroll
- Procurement
- Capital works; and
- Others (which depend on type of operational activities done by the entity).

The activities of Commercial entities are widely dispersed across the country. A significant challenge for the audit team is to decide on the appropriate and judicious use of audit effort and resources.

In deciding what type of operational expenses to audit, the audit team should begin with a list of expenses (given in the annual audited Financial Statements of the audit entity and which have been incurred in the period being audited. The type of expenses to be audited will then be selected from these Financial Statements. The audit team will select those areas of expenses:

- on which substantial expenditure has been incurred,
- which are long-term, extending beyond one year in implementation(in case of capital work in progress),
- in which weaknesses or problems were identified in previous audits.

The auditor may also include a random sample of smaller items of expenditure, as available audit resources allow.

A sound knowledge of operations will help the auditor identify potential problem areas. For example, if money was spent in the previous year on fixing a problem and then in the current year, there is further expenditure on the same work, the auditor may decide to investigate reasons for further expenditure.

3.5.3 Audit of Assets

The auditors should check that the auditee entities have maintained proper records of purchase and sale of assets, and that all rules and regulations are being followed in this regards. The auditors should also check that the auditee entities have maintained a Fixed Asset Register which must reflect the current status of assets. Moreover, the auditors should observe that necessary steps have been taken by the entities for the safety of assets.

The auditor needs to understand the level of implementation of entity specific policies regarding assets and verify the true and fair presentation of those assets in accordance with International Accounting Standards.



Chapter 4

PERMANENT FILE OF AUDITEE DEPARTMENTS

4.1 Introduction

Audit objectives and plans are developed based on an understanding of the entity's operations. The auditor needs to have a detailed knowledge of those aspects of the entity that relate to audit; the auditor should have cognizance about the other areas.

As its name implies, the Permanent File (PF) is used to collect information about the entity that will be useful not just for the current audit, but also for future audits of the same type for the same entity. For example: information about the entity's size and business helps in assessing materiality; understanding the entity's operations can help to determine what components to audit; and, knowing the types of transactions entered into by the entity helps to assess inherent risks to the entity. This information will be fairly consistent and relevant for at least a few years' audits.

Even though the information on the Permanent File is expected to be useful across more than one audit periods, the audit team should validate the accuracy of that information at the time of next audit and update the Permanent File where significant changes have occurred.

The Permanent File includes information that will be of continuing importance to the audit activity in the particular area of audit. This may include:

- Copies of relevant Government legislation, regulations, guidelines and other rules affecting the operations of an entity.
- Organization charts, detail of key contacts and locations of operation.
- Role of entity, Vision and Mission Statements and the most recent corporate plan.
- Copies of the Estimates.
- Copies of long-term contracts.
- Loan agreements, schedules of amortization for debts and special assets.
- Extracts of the minutes of meetings.
- Reports to management and management's response thereon.
- Chart of accounts.
- Summary of accounting policies used by the auditee entity.
- Special remuneration, if any, for senior officers.
- Previous years audited Financial Statements.
- Others as appropriate.

Policies and Procedures Manuals may be in the Permanent File, if they are brief or, alternatively, a copy should be in the auditor's bookcase or filing cabinet.

Note: Where the supporting documentation is voluminous, the auditor may decide to include only a reference to the title of the documentation and its physical location rather than keeping the whole document in the Permanent File.

4.2 The Audit Team's Responsibility

The audit team is responsible for gathering the information required to be put in the set of working papers associated with the Permanent File. These are listed in the next section. The preparation of Permanent File for the first time will be a time-consuming exercise and sufficient audit resources should be allocated to this task in the audit resource plan.

For subsequent audits of the same type for the same entity, the audit team simply needs to confirm that the information is still relevant, and to update the Permanent File at planning stage where necessary. The dates on which updates occurred should be recorded on the Update Control Sheet (Form PF) provided.

Members of the audit team should be familiar with the information in the Permanent File as it is required to have an understanding of the entity's business in order to check that an effective and efficient audit is conducted.

It needs to be highlighted that the audit strategy and methodology recommended under FAM provide for continued quality assurance through all the phases of audit. While reviewing the permanent file, the functionaries entrusted with the quality assurance of audit should ensure that the various steps recommended in these Guidelines and respective forms have been completely followed in all respects.

4.3 Documentation in Permanent File

Titles of various forms specified in the Audit Working Papers Kit are listed below:

- Update Control Sheet (PF)
- Status of the Entity (PF-I)
- Background Information (PF-II)
- List of Auditable Locations (PF-III)
- List of Bank Accounts (PF-IV)
- List of Authorized Signatories (PF-V)
- External Factors (PF-VI)
- Accounting Records and Accounting System(PF-VII)
- Key Controls (PF-VIII)
- Significant Audit Areas (PF-IX)
- Significant Accounting Policies (PF-X)

The following paragraphs provide general guidance for using the above mentioned forms. Instructions for filling in these forms are contained in the Audit Working Papers Kit which the auditors are required to follow.

4.4 Update Control Sheet - PF

The Permanent File should be updated each year at the planning stage. This form should document the name of the person responsible for updating it.

4.5 Status of Entity – Form PF-I.

The auditor should document on this form the principal address, status (whether it is a Federal or a Provincial Government, semi-Government, self accounting, centralized or exempt accounting entity, etc.) and its relationship with other Government departments/ministries (attached department, branch office, etc).

4.6 Background Information – Form PF-II.

The auditor should gather financial and other background information about the operations whose results are included in the Financial Statements of the entity. This includes information about total assets, total liabilities, total revenue and total expenditure, corporate plans, and organization structure, main functions, etc.

Note: Accounting/Financial information pertaining to the last three years should be documented.

4.7 List of Auditable Locations – Form PF-III.

The auditor should document the addresses of all locations including:

- Headquarter;
- Field Offices (e.g. different regional offices);
- Project sites or other operational locations that collect, record, process and report the financial information of auditee activities; and,
- Locations where assets are located and their existence can be checked by the auditor.

4.8 List of Bank Accounts – Form PF-IV.

The auditor should list names, addresses and account numbers of all bank accounts maintained in the name of the entity. These may include bank accounts maintained by:

- Head office
- Regional offices.
- Others as appropriate.

These bank accounts can further be classified into:

- Bank accounts for receipts.
- Bank accounts for payments.
- Bank accounts for grants.
- Other classification if appropriate.

4.9 List of Authorized Signatories – Form PF-V.

The auditor should list the names of personnel with authority to certify, approve and authorise the collection, recording, processing and reporting of financial information of the entity in accordance with the delegation of powers of the relevant department.

4.10 External Factors – Form PF-VI.

The auditor should list external factors that may have an impact on the performance of the operational activities of an auditee. The auditor should use professional judgment to decide what these factors are. They may include:

- Economic trends and conditions affecting input costs and revenue.
- Variation in budgets.
- Threats from competitors.
- Exchange rates and Government policies relating to particular entity.
- General financial indicators and trends.
- Economic trends and conditions affecting input costs.

4.11 Accounting Records and Accounting System - Form PF-VII.

This form has two requirements:

a. List the accounting records maintained by the auditee departments for the collection, recording, processing and reporting of financial information of all the formations at the Regional and Divisional accounting levels.

b. Document a brief description of the accounting system (the means, including staff and equipment, by which an organisation produces its accounting information).

The major accounting records maintained by the auditee departments include:

- Payroll records
- Accounts payable
- Accounts receivable record
- General Ledger
- Trial Balance
- Profit and Loss Account and Balance Sheet
- Cash Book
- Cheque Book
- Vouchers/Bills
- Contractor’s Ledger
- Expenditure Statement
- Advance Register
- Expenditure Register
- Stock Register

Note: The above list is not comprehensive; it may include other additional records to support the nature of activities an auditee is involved in.

Accounting Manuals and Codes:

- General Financial Rules
- Treasury Rules
- Manuals for Financial Control and Budgeting
- Procurement Manual
- Human Resource Manual
- Billing Manual
- New connection and disconnections procedures.
- Rules for sanctioning of agricultural finances
- Public Procurement Rules, 2004
- Schedule of Rates
- Book of Specifications

Where there are new administrative policies or procedures with which the auditee organization should comply, the auditors must become familiar with them and ensure that the audit is conducted against these benchmarks. In addition, the auditor should consider whether the policies and procedures in force are effective at reinforcing good management practices. Where a rule or procedure does not contribute to good management practices, it is the job of the auditor to recommend changes to such rules and procedures.

The audit team should also document a process mapping for each process maintained for collecting and recording transactions. This will help the auditor in understanding the complexity of control structure and documentation. The process mapping will depend on the nature, flow of transaction and significance of operations. For process mapping, the audit team may analyse an entity's manuals, applicable rules and regulation. There are two approaches to process mapping namely Financial Statements approach (a top down approach) and transactions based approach (a bottom up approach).

Note: It is most important that the auditor, in carrying out the audit work, does not reinforce outdated or inappropriate procedures. In particular, the auditor should determine whether any changes are introduced in Government practices and other relevant regulations that will apply to the auditee organizations.

4.12 Key Contacts – Form PF-VIII.

The auditor should list the names and contact information of key personnel at the principal accounting office, and all subsidiary accounting locations.

4.13 Significant Audit Areas – Form PF IX.

The auditor should obtain a current and up to date chart of accounts. The auditor should ensure that the chart of accounts follows the accounts classifications and the regulations imposed by the applicable reporting framework.

The auditor should list critical audit areas/significant financial statement components (including individually significant transactions and events), and their impact on the Financial Statements. This will help the auditor to plan the audit for specific Financial Audit objectives and related compliance with authority objectives.

In order to determine significant components of the audited formation's financial statement, the whole activity of the auditee organization should be divided into manageable parts, for example:

- By regions/sub offices.
- by capital projects, operations, ongoing facilities maintenance, major repairs, etc.; or
- by major activities (revenue, payroll, procurement etc)

Where the selected components have separate locations with decentralized management, each location should be considered separately. On the other hand, if the activity operates under a centrally controlled accounting system, the auditor should consider all locations together.
For a financial Certification Audit, the most logical way of dividing up the financial statement is to consider each line item in the Financial Statements to be a separate component. The line item would be each amount reported in the financial statement, including amount disclosed in the notes thereto.
Sometimes the financial statement includes several different groupings of the same total amount. For example, in the Financial Statements of auditee department, financial data/expenditure may be grouped by:

- Separate regions/sub offices
- Subsidiaries/Associated companies.
- Economic, or business, function.

The financial items to be audited might include the following, as applicable:

Income

- Sales.
- Rentals (self generating income).
- Related party transactions.
- InterGovernmental or interdepartmental transfers

Expenditures/Costs

- Major capital projects
- Equipment (vehicles / heavy construction)
- Goods and services procurement
- Utilization of inventory

- Depreciation
- Payroll
- Personnel benefits such as Pensions and Provident Funds

Assets

- Fixed assets (land / buildings / infrastructure)
- Capital work in progress
- Major equipment
- Current assets (stores)
- Cash

Liabilities

- Long-term loans and advances(both domestic and foreign)
- Provision or retirement benefits
- Security deposits
- Current liabilities (creditors, etc.)
- Liabilities subject to finance lease

AUDIT AREAS

Audit Area	**Critical Area**
Expenditure	• Oil exploration and drilling costs. • Cost of gas purchased. • Payroll • Procurement • Capital works; and Others
Revenue	• Sale of Petroleum based products. • Natural Gas • Advances to customers(in case of banks) and • Others (which depend on type of operational activities done by the entity).

4.14 Significant Accounting Policies – Form PF-X.

The auditor should list significant accounting policies that are consistently applied in the auditee department and should verify that these are consistent with the current policies implemented by the Federal Government.

Significant policies may include:

- Policies for revenue recognition
- Policies for current and deferred
- Accounting for Contracts
- Treatment of inventory of raw materials and other inputs to projects and operations
- Fixed assets valuation and depreciation
- Accounting for foreign currency transaction and interest payments
- Accounting for staff retirement benefits
- Valuing work in progress
- Accounting for liabilities and commitments
- Accruing for expenses incurred but not recorded

Note: A sample of the permanent file prepared of NESPAK has been annexed as Appendix-A.

Chapter 5

AUDIT PLANNING PHASE

5.1 Introduction

Under the existing guidance available to the Field Audit Offices (FAOs), all the FAOs are required to prepare an Annual Corporate Audit Plan covering audit operations pertaining to Certification Audit, Compliance with Authority Audit and other audits like Performance Audit, Special Audit, Special Studies and Audit of Foreign Aided Projects. This chapter contains guidance that the auditor can use to plan their Regularity Audit which includes Certification Audit and Compliance with Authority Audit. These guidelines do not replace the use of professional judgment.

Individual audits must be planned to ensure that:

- appropriate and sufficient evidence is obtained to support the auditor's opinion;
- the INTOSAI Auditing Standards are complied with;
- only necessary work is performed.

The planning phase involves the following:

- Determining the overall objectives and scope of audit; *
- Understand the entity's business; *
- Assessing materiality, planned precision and audit risk.
- Assessing the entity's system of internal controls.
- Determining the components by which the audit will be conducted.*
- Determining Financial Audit and compliance with authority objectives, and error/irregularity conditions *
- Assessing Inherent Risks and Control Risks.*
- Determining the appropriate mix of tests of internal control, analytical procedures and substantive tests of details**.**

** These steps of Planning Phase are common for both the Certification and Compliance with Authority Audits, whereas the unmarked steps relate to Certification Audit only.*

5.2 The Audit Team's Responsibility in Planning Phase

The activities performed during the preparation of the Planning File are complex and varied. Each member of the audit team should check that they have a good understanding of the activities that have been assigned to them. For details, please refer to Chapter 7 of the FAM.

Based on the information noted above, the head of the office is responsible for planning the activities and associated resource requirements in conducting audit. The Audit Management Software is a valuable tool to apply to this task. See Chapter 8 of the FAM and the Audit Management Software Manual for additional information.

It should also be noted that the INTOSAI Auditing Standards require that "Auditors should adequately document the audit evidence in working papers, including the basis and extent of planning, work performed and the findings of the audit. Therefore, the audit team leader is responsible to check that the Planning File is complete and provides evidence of the basis and extent of planning work performed by the audit team.

It needs to be highlighted that the audit strategy and methodology recommended under FAM provide for continued quality assurance through all the phases of audit. While reviewing the planning phase, the functionaries entrusted with the quality assurance of audit should ensure that the various steps recommended in these Guidelines and respective forms have been completely followed in all respects.

The key to maintaining the quality of the planning process itself is a review of the plan, which the concerned Deputy Auditor General (DAG) should supervise and approve (Ref: FAM-Para 15.3).

5.3 Documentation in Planning Phase

Titles of various forms specified in the Audit Working Papers Kit are listed below:

- Audit objectives and scope *
- Points for attention at next audit (from last year) *
- Entity communication letter *
- Audit planning memorandum *
- Memorandum on post-planning changes *
- Important dates *
- Tour programme *
- Information requested from entity officials *
- Materiality assessment form *
- Expected aggregate error and planned precision form
- Audit risk assessment form *
- Inherent risk assessment form *
- Internal control questionnaire – control for overall environment *
- Internal control questionnaire – general computer controls *
- Internal control questionnaire – application controls *
- Control risk assessment form *
- Analytical procedures assurance form
- Source of audit assurance form
- List of applicable laws and regulations *
- Sample selection checklist *
- High value item selection form **
- Key item selection form *

- Sample sizing for tests of internal control
- Sample sizing for substantive tests of details
- Checklist of accounting estimates to be reviewed *
- Points for attention at next audit *
- Audit planning checklist *

Note: These forms recommended under FAM and Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of these forms, marked with asterisks (*), can also be used for Compliance with Authority Audit.

The following paragraphs provide general guidance for using the above mentioned forms. Instructions for filling in these forms are contained in the Audit Working Papers Kit which the auditors are required to follow.

5.4 Audit Objectives and Scope

The audit is conducted to address a particular objective. Each audit will be designed to address one or more of the following objectives:

- Expressing an opinion on Financial Statements;
- Expressing an opinion regarding compliance with current rules and regulations;
- Testing compliance with authority or controls on selected transactions with no opinion being expressed; and
- Evaluating operational performance.

Note: For a comprehensive discussion of audit objectives, please see Section 7.1 of FAM.

The nature and size of audit entity determines the scope of the audit, and is generally defined by the audit mandate. For financial statement audit, that are required under Section 7 of the Auditor-General Ordinance 2001, the entity to be audited will be defined by the applicable accounting policies of the Government.

5.5 Points for Attention at Next Audit (from last year)

The purpose of this form is to highlight matters that should be taken into account when planning the following year's audit. The auditor should record expected developments in the entity's activities that may require changes in the audit planning. This form can also be used to document practical suggestions for changes to the next year's audit. All audit staff are encouraged to suggest improvements in the audit plan and procedures.

5.6 Entity Communication Letter

The Audit Working Papers Kit includes the template of a letter which needs to be issued to the management of the auditee. It sets out the terms of the audit and will include the issues that the auditor wants to bring to the attention of entity's management. This letter will clarify between what is expected from auditors during the course of audit and leads to cooperation between both the parties.

5.7 Audit Planning Memorandum

The audit planning memorandum should comprise a concise and easy to understand summary of important factors and decisions made during the planning phase. Emphasis should be placed on changes that have been made to the previous year's plan. The audit planning memorandum should not duplicate all of the details set out elsewhere in the planning file, the permanent file, or in the audit programmes.

The actual contents of the audit planning memorandum will depend on specific circumstances of the audit. It should include any changes in the nature of entity's business, structure of business, accounting policies or systems, internal controls or operational environment that will affect the planned audit. It should also explain and establish an audit strategy, time tables and overall budget together with any significant changes made from the previous year.

5.8 Memorandum on Post-Planning Changes

As the execution, evaluation and reporting phases of the audit proceed, it may be necessary to amend the planned scope of the audit work. This may result from gaining a better understanding of the entity's activities, from unexpected external developments, or from determining a better means of achieving the audit objectives as the audit progresses.

If the changes are significant, such as the one that calls for the development of new audit programmes or a re-consideration of the sources of audit assurance, the auditor should discuss the situation with his/her supervisor. The auditor should then prepare an addendum to the audit planning memorandum. This addendum should follow the same review and approval process as is used for the audit planning memorandum itself.

5.9 Important Dates

Each audit is scheduled around a number of important dates. This form lists dates that are likely to be significant and provides the audit team leader with a tool to track when the work was planned and when it was actually performed.

5.10 Tour Programme

Tour programmes needs to be prepared and approved keeping in view the timelines, resource constraints and audit strategy. The head of office should ensure that tour programmes are prepared, approved well in time and appropriate record is being kept in this regard.

5.11 Information Requested From Entity Officials

The audit team leader should keep track of information requested from the auditee's management, including what information was requested, when it was required to be delivered and when it was actually received. This form provides a suggested format, but the audit team leader may choose to use his or her own format.

5.12 Materiality Assessment Form

Materiality can be defined as follows: "An error (or the sum of the errors) is material if the error (or the sum of the errors) is big enough to influence the users of the Financial Statements".

Assessing materiality is an important aspect of modern systems-based audits. This form provides guidelines and suggestions for assessing an appropriate materiality amount for the audit at hand.

Note: For a comprehensive discussion on Materiality, see section 7.3.l and Appendix D of FAM.

5.13 Expected Aggregate Error and Planned Precision Form

Other values which are important in determining appropriate sample size and in evaluating the results of the audit are expected aggregate error and planned precision. This form provides detailed instructions for arriving at these values for the audit at hand.

5.14 Audit Risk Assessment Form

It is important that the audit team establishes an appropriate level of risk for the audit. The concept of risk is very important in planning system-based audits and is discussed at length in sections 7.7 and 7.8 of the Financial Audit Manual. This form is used to identify whether there are any particular factors that would cause the auditor to reduce the level of risk he or she is willing to accept, therefore requiring additional audit work to be planned so as to raise the level of audit assurance.

The auditor should be observant for any possible risks that could affect the financial and operational performance of organization. The auditor should decide what aspects of these risks to take into account when planning the audit.

5.15 Inherent Risk Assessment Form

Inherent risk is the chance of material error occurring in the first place assuming that there are no internal controls in place. "Material error" may be a single error or the sum of multiple smaller errors.

This form indicates some factors which may influence the auditor's assessment of inherent risk. Inherent risk should be assessed for each Financial Audit and compliance with authority objective. However, because the auditor's assessment of inherent risk may be the same for multiple objectives or components, this form can be used to capture risk for each group of objectives or components that the auditor wishes to treat in the same manner.

5.16 Internal Control Questionnaire - Controls For Overall environment

This form is used to guide the auditor in considering the overall internal control environment in the entity. The better the apparent system of internal control, the less detailed checking of individual transactions will be necessary. Internal controls are discussed at length in section 7.4 of FAM.

The internal control questionnaire provides many questions for the auditor's review. The auditor should decide what questions are relevant to the present audit and is free to add further questions wherever required.

Also, the auditor should be aware of the work carried out by the Internal and external auditors where applicable. Reliance on their work can only be placed when the auditor assures him/herself that their work has been carried out according to the relevant auditing standards. The auditor should make efforts to obtain the copies of the audit reports, management letters and other relevant observations made by the internal and external auditors. Wherever the auditor uses the work of the internal and external auditors, it should be duly acknowledged in his record.

The auditor must be honest in the assessment of internal controls operating in overall environment, general computer environment and specific computer based financial applications. If the controls are weak or non-existent, the auditor should inform the entity management of the need to make improvements and should also offer suggestions. In the first few years of transition to the new auditing paradigm, it is to be expected that the control environment will be weak in most entities. Identifying the weaknesses will be the starting point to developing stronger controls for the future.

5.17 Internal Control Questionnaire – General Computer Controls

This form is used to guide the auditor in considering the internal controls operating in the entity's computerised environment. Internal controls are discussed at length in section 7.4 of FAM.

The internal control questionnaire provides many questions for the auditor's review. The auditor should decide what questions are relevant to the present audit and is free to add further questions wherever required.

5.18 Internal Control Questionnaire – Application Controls

This form is used to guide the auditor in considering the internal controls operating in specific computer-based financial applications. Internal controls are discussed at length in section 7.4 of FAM.

The internal control questionnaire provides many questions for the auditor's review. The auditor should decide what questions are relevant to the present audit and is free to add further questions wherever required.

5.19 Control Risk Assessment Forms

This form is used by the auditor to summarise the assessment of risk in the general control environment, the overall computer environment and in specific computer applications (from the previous three forms).

The risks identified through the assessment of controls may impact different components differently, so the auditor should consider control risk separately for each component (or group of similar components). The assessment of risk is very much a matter of professional judgment. In general, during the first few years following the introduction of new auditing paradigm, it is suggested that all control risks are assumed to be high unless there is sufficient evidence to support lowering that assessment.

5.20 Analytical Procedures Assurance Form

The audit team leader uses this form to document the analytical procedure(s) that are planned for each component. The type of procedure selected is important as different procedures (i.e. comparative, predictive, statistical or overall verification procedures) provide a different level of assurance when it comes to planning substantive tests of details.

Detailed instructions are provided with the form.

Note: A discussion on analytical procedures is provided in the Financial Audit Manual, section 7.8 and Appendix E.

5.21 Source of Audit Assurance Form

In conducting audit, the audit team is looking for sources of assurance that the Financial Statements provide a true and fair view. One source of assurance is a detailed review of individual transactions (substantive tests of detail). However, this is very time consuming, so the audit team looks for other sources of assurance that might enable them to reduce the amount of substantive tests of details. The audit risk model provides an arithmetic method of using the assessments of inherent risk, control risk, analytical procedures and overall audit risk to arrive at the level of assurance that is required from substantive tests of details.

This form leads the auditor through this arithmetic model. A detailed discussion of the risk calculation is presented on the reverse of this form.

5.22 List of Applicable Laws and Regulations

A major component of a Regularity Audit is the verification that the entity has complied with applicable laws and regulations. The audit team should enlist all applicable laws and regulations on this form for checking the entity's compliance with laws and regulations.

5.23 Sample Selection Checklist

In preparation for performing the substantive tests of detail, the audit team must select samples of items to be tested. This form is used to record the identity of each sample and the date on which it was collected. CAATs should be used (where applicable) to select and record samples taken during audit.

The following section lists some of the sampling techniques which can be used both for the Certification Audit and for the Compliance with Authority Audit. Use of Monetary Unit Sampling is recommended for Certification Audit and when the auditors use alternative sampling technique during Certification Audit, they will be required to exercise professional judgement.

Sampling risk

Sampling risk is the chance that a sample is not representative of the population from which it was selected.

Statistical sampling

Statistical sampling is the selection of a sub-set from a population in such a way that each sampling unit has an equal and known chance of selection.

Non-statistical sampling

Non-statistical samples are samples selected by other means which are intended to approximate the representative character of a statistical sample. However, they lack the objectivity of a statistically selected sample.

Note that the only difference between statistical sampling and non-statistical sampling is the method of selecting sample items. Planning requirements and the evaluation process remain the same.

Monetary Unit Sampling (MUS) for substantive tests of details

The key feature of MUS is that the population is considered to be composed of individual monetary units, as opposed to physical transaction vouchers like individual supplier voices, cash disbursements, etc. The auditor selects an individual Rupee from the population and uses it as a hook to catch the voucher in which it occurs, so it can be audited.

Under MUS, all sampling units (individual Rupees) will have the same chance of being selected. This means that, the larger the supplier invoice, the greater the chance of it being selected.

Methods of sample selection

There are several sample selection methods that are very good at ensuring that the sample is representative of the population from which it is selected, as follows:

1. Random;
2. Fixed interval (systematic);
3. Cell (random selection); and
4. Stratified random.

1. Random selection

Random selection involves numbering all of the items in the population and then using a random number table or software programme to select 200 random numbers. The auditor, then, identifies the sampling unit that corresponds to each number. This method is difficult to use unless the sampling units are already pre-numbered (pre-numbered sales invoices, for example) or can easily be numbered

2. Fixed interval (systematic) selection

This method involves selecting a random start and then every *n*th item.

3. Cell (random interval) selection

This method essentially combines the previous two methods. The auditor divides the population into cells and then picks a random item from within each cell.

4. Stratified random selection

CAATS may offer a fourth method – stratified random sampling. Using this approach, the population is first stratified based on monetary ranges, type of expenditure, etc., and then a random sample is drawn from each range. This could be used, for example, to weight an attribute sample to the larger dollar items or specific expenditure types, or to ensure that at least one sample item is drawn from each expenditure type.

Selecting the sample – statistical sampling

The "standard" sample selection technique with MUS is fixed interval (systematic) selection. Cell (random interval) selection can also be used if the population has been downloaded into a computer and CAATs is being used to do the selection. Random selection is also possible, but contains all of the difficulties of cell selection. In addition, it has a further disadvantage – should fixed interval or cell selection be used, the sample size will automatically be adjusted for any over or under-estimations of the population value. With random selection, this will not occur. Hence random selection is rarely used with MUS. For both fixed interval selection and cell selection, the auditor needs to know the sampling interval.

Selecting the sample – non-statistical sampling

To select a non-statistical sample that approximates a monetary unit sample, the auditor needs to find a way to bias the sample towards the larger monetary items. Some form of value-oriented selection is therefore required.

For detailed guidance please refer to Appendix B of FAM.

5.24 High Value Item Selection Form

In addition to selecting a random sample for testing, the auditor should also make sure that the items of particular high value are tested, as any errors in these items could have a material impact on the accuracy of the Financial Statements as a whole. Therefore, the auditor will identify the high value items which will receive individual attention (and will remove them from the population of items from which the samples are selected).

The auditor will identify the high value items on this form and will cross-refer each item to the working papers that records the audit tests performed on that item.

5.25 Key Item Selection Form

As with high value items, the auditor may also want to individually review items which are unusual and which warrant special attention. Generally, these items will include transactions that cause an account to show a negative balance (e.g. an asset account with a credit balance) or unusual non-recurring items. The auditor will use judgment and experience to help identify these key items.

Therefore, the auditor will identify the key items which need individual attention and will remove them from the population of items from which the samples are selected.

The auditor will identify the key items on this form and will cross-refer each item to the working papers that records the audit tests performed on that item.

5.26 Sample Sizing for Tests of Internal Control

This form presents a manual arithmetic process for determining the appropriate size of a sample of transactions which will be selected to test the controls in a specific audit component. The process is the same for all audit entities, and is fully explained on the form.

The use of CAATs (see Financial Audit Manual Appendix C) will avoid having to follow this manual process.

5.27 Sample Sizing for Substantive Tests of Details

This form presents a manual arithmetic process for determining the appropriate size of a sample of transactions which will be selected for a substantive test of details in a specific audit component. The process is the same for all audit entities, and is fully explained on the form.

The use of CAATs (see Financial Audit Manual, Appendix C) will avoid having to follow this manual process.

5.28 Checklist of Accounting Estimates to Be Reviewed

Financial Statements, especially those produced on accrual basis, will often contain accounting estimates, such as allowances for bad and doubtful debts and contingent liabilities. The auditor should discuss with entity's management to identify these estimated amounts and record them on this form for subsequent validation when the audit is performed.

5.29 Points for Attention at Next Audit

During the course of preparation of Planning and subsequent Working Paper files, the auditor may come across items in the current year that should be followed up in the next year's audit. These may be accounting estimates that were contingent upon events that have not yet happened or items that are expected to show up in the following year's accounts or other matters specific to the audit at hand.

Use this form to record these items so that they can be reviewed in next year's audit planning phase.

5.30 Audit Planning Checklist

This form presents a checklist of the major activities that should have been completed by the audit team leader to meet his responsibility for adequately planning audit and for documenting the basis of the plans. Chapter 8 of FAM provides detail regarding the auditor's planning responsibility.

This form is also a key component of the DAGP's quality assurance process, since it provides a vehicle for communicating the planning process to the DAGP management so they can review and approve that adequate planning was completed in respect of the audit.

5.31 Centrally Led AUDIT

These are audits where a central team is responsible for the overall planning, performance, evaluation, reporting and follow up. With a centrally led audit, there will be a division of responsibilities between the central team and field audit teams of the same Directorate and/or other Directorates contributing to the centrally led audit.

Para 6.4.5 to 6.4.10 of FAM gives guidance about a centrally led audit. The central team is responsible for:

- Setting the basic planning parameters (materiality, planned precision, audit risk, etc.);
- Setting inherent risk, control risk, other substantive procedures risk and substantive test of details risk for each component and each specific Financial Audit Objective and compliance with authority objective and error condition;
- Determining the optimum mix of tests of internal controls, analytical procedures and substantive tests of detail for each component and for each specific Financial Audit objective and related Compliance with Authority objective and error condition;
- Performing the overall error evaluation; and
- Reporting the results of the audit.

The Field audit teams of the same or other Directorates are, in turn, responsible for:

- Providing advice to assist the central team to plan the audit;
- Reviewing the material received from the central team to ensure audit programmes, forms and checklists reflect the optimum mix of tests for that particular Directorate, and contain all the work required to obtain the required amount of overall assurance;
- Performing the audit work; and
- Reporting the results of the work, including individual errors and significant matters of note, to the central team.

The Directorate General of Commercial Audit is solely responsible for the audit of the Public Sector Enterprises (PSE) with the involvement of his other Circle office.

Chapter 6

AUDIT EXECUTION PHASE

6.1 Introduction

This chapter provides guidance for the auditors work at the execution stage. This stage includes compliance testing (test of controls), substantive testing, collecting and reviewing evidence and maintaining working papers files. It needs to be noted that the audit programmes given at the end of this chapter provide guidance to the field auditors for Certification Audit and Compliance with Authority Audit. However, there are very few audit programmes as 'compilation of accounts' which relate specifically to Certification Audit.

Overall audit execution guidance is available in Chapter 9 of the FAM.

The Audit Working Papers Kit provides:

- Evidence that the auditor has complied with the DAGP auditing standards;
- A basis to determine that the work delegated has been performed properly;
- A source of information for preparing reports and answering enquiries; and,
- Assistance in planning and executing future audits.

6.2 The Audit Team's Responsibility in Execution Phase

The audit team has a major responsibility for documenting audit evidence in the working papers including work performed and findings (the DAGP's Auditing Standards, Para 3.5.5).

As noted in FAM, the content and arrangement of the working papers is a reflection of an auditor's proficiency, experience and knowledge.

Sections 9.9 to 9.11 of FAM provide details of the auditors' responsibility for documenting the work performed and standards for maintaining and keeping custody of the Working Papers file. Each auditor should be familiar with these responsibilities.

The Audit Working Papers file should contain various financial documents provided by the auditee management, including:

a. Financial Statements
b. Trial balance
c. Any inter-Governmental accounts for elimination.
d. Supporting documents (important agreements, bills, vouchers other documents that are important for the audit record)

e. In addition, the audit team should maintain detailed minutes of all the meetings with the auditee representatives, which should be placed in the Audit Working Papers file.

It needs to be highlighted that the audit strategy and methodology recommended under FAM provide for continued quality assurance through all the phases of audit. While reviewing the execution phase, the functionaries entrusted with the quality assurance of audit should ensure that the various steps recommended in these Guidelines and respective forms have been completely followed in all respects.

6.3 Forms and Schedules for Audit Execution Phase

Titles of various forms specified in the Audit Working Papers Kit are listed below:

- Summary of Analytical Review Procedures Performed *
- Details of Analytical Review Procedures Performed *
- Completed Internal Control Questionnaires *
- Internal Control Deviations Form *
- Internal Control Deviations Summary *
- Compliance Summary
- Substantive Tests of Accounting Estimates
- Errors in Accounting Estimates
- Substantive Test Sample Summary for each Audit Programme
- Substantive Test of High Value/Key Items – Summary*
- Details of Errors in Samples, High Value Items and Key Items
- Exit Interviews*

Note: These forms recommended under FAM and Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of these forms, marked with asterisks (*), can also be used for Compliance with Authority Audit.

The following paragraphs provide general guidance for using the above mentioned forms. Instructions for filling in these forms are contained in the Audit Working Papers Kit which the auditors are required to follow.

6.4 Summary of Analytical Review Procedures Performed

This form is used to summarize the analytical procedures that were performed. The auditor should note the procedures that were performed and cross-refer each procedure to the working paper that provides the details of the test (i.e. Details of Analytical Review Procedures Performed form).

6.5 Details of Analytical Review Procedures Performed

Details of each analytical review procedure conducted by the audit team, including type of test, data used, calculations performed, results and auditor’s conclusion, are documented on this form.

6.6 Completed Internal Control Questionnaires

The auditor must test the control environment to determine whether the system of internal controls on which the audit team intends to rely is actually working effectively. This is done by following the detailed guidance provided in the Internal Control Questionnaires for different aspects of the audit. The auditor will select the ICQs that are to be used in this audit and tick them off on the checklist provided. The auditor does not have to apply all the possible ICQs in every audit.

The key ICQs to consider for commercial audit are as follows:

- Employee related expenditure
- Goods and Services
- Contracting
- Project Costs and Performance
- Receipts
- Investments
- Cash
- Major Assets
- Stores and Inventory
- Land and Buildings Management
- Budgeting and Expenditure Controls
- Grant in Aid

Note: Detailed guidance for filling in the ICQ's is provided in the Audit Working Papers Kit under the section Execution file.

6.7 Internal Control Deviations Form

While working through the ICQs, the auditor should identify deviations from the prescribed internal controls in the operations of the audited entity. The auditor will document each individual deviation and its potential impact on the entity's Financial Statements on this form. There should be one form for each deviation encountered.

Where the operations of the auditee organisation are decentralized, it is important to assess which weaknesses are due to scattered nature of department/policy weaknesses and which are due to the inadequate application of these internal control systems and policies within the decentralized sites being audited.

6.8 Internal Control Deviations Summary

For each significant type of deviation detected, the auditor should report it to the entity's management and make a recommendation for rectifying the control weakness. The purpose of this form is to help the auditor track each weakness identified by applying the ICQ, the problem and their recommendation which were reported to the entity. The year in which the entity took corrective action should also be considered.

6.9 Compliance Summary

The auditor will use this form to identify the legal or regulatory provisions that the entity should comply with, to document the control that is in place to check compliance, to document whether the auditor considers the control to be satisfactory, and whether compliance was evident.

6.10 Substantive Tests of Accounting Estimates

This form summarises the errors identified during the performance of substantive tests on accounting estimates. The auditor will use it to summarise errors that were identified in the Errors in Accounting Estimates Form (see next form) for later use in aggregating the errors in the Evaluation and Reporting phase.

6.11 Errors in Accounting Estimates

For the accounting estimates that were identified in the Planning file form called "Checklist of accounting estimates to be reviewed", the auditor will document his or her review of the estimate and the nature and value of any errors that were identified. These errors will be summarised in the Substantive Tests of Accounting Estimates form as described above.

6.12 Substantive Test Sample Summary for each Audit Programme

The auditor must test the sampled transactions to identify the incidence of errors in the sample. This is done by following the detailed guidance provided in the Audit Programmes for different aspects of commercial audit given at Section 6.16 onward of this chapter under the heading Audit Programmes. The auditors are expected to select the relevant audit programmes for each audit as they do not have to apply all the possible Audit Programmes in every audit.

Substantive testing examines a sample of individual transactions to determine whether the transactions selected comply with all applicable laws, regulations, and rules and to find any errors or anomalies that may exist. Each Audit Programme provides a basic set of steps for the auditor to follow to perform substantive tests.

The substantive testing section of the Audit Programmes includes a basic set of audit objectives, which are described below:

Audit Objectives:

To determine whether, on the basis of the transactions examined (selecting a representative sample of transactions or other form of sample), the entity complies with the following assertions[3]:

[3]Another set of assertions commonly used are: Existence / Completeness / Valuation / Rights and Obligations (or Ownership) / Presentation and Disclosure. The set used in these Guidelines is more appropriate for the audit of transactions in the public sector.

- **Presentation and Disclosure:** the transactions have been appropriately recorded, classified and presented.
- **Existence and Occurrence:** all transactions relevant to the year of account have been recorded and all recorded transactions have occurred.
- **Completeness:** all transactions relevant to the year of account have been recorded and included – the test has also been extended to include the completeness of what should have been included not just the recorded transactions: i.e. all taxes due, not just those collected.
- **Measurement:** the recorded transactions have been correctly valued, accurately calculated and appropriately measured.
- **Regularity:** all activities and financial transactions examined comply with relevant laws and regulations (based on the selection of all significant activities/transactions and a sample of the remainder); and on the basis of this audit work conclude whether the relevant laws and regulations are being properly applied.

The key Audit Programmes for this purpose type of audit are given in section 6.16 of the guidelines.

6.13 Substantive Test of High Value/Key Items – Summary

This form is used to summarise errors found by the Substantive Tests of High Value/Key Items that were performed. The auditor should note what procedures were performed and the nature and value of the errors, and cross-reference the procedure to the working paper that provides the details of each test (Details of Errors in Samples, High Value Items and Key Items).

6.14 Details of Errors in Samples, High Value Items and Key Items

The auditor will complete one copy of this form for every single error discovered in any of the substantive tests of details (from sampled transactions and High Value Items and Key Items). Details of the voucher on which the error occurred, the nature and cause of the error and its value should be documented on this form.

6.15 Exit Interviews

Section 9.8 of FAM stresses the importance of keeping entity officials informed during the course of audit. In addition to open communications during audit, it is a good practice to arrange a meeting with senior entity management at the end of the fieldwork at each location.

The audit of decentralized sites, remote from the Audit Office (out of which the audit team operates), is complicated by the fact that briefing of the management at the site cannot be done after the senior audit management has reviewed the audit findings. This means that the

team should provide feedback to management at the decentralized site prior to conducting a full review of findings. It is a good practice for the audit team leader to determine whether there are any sensitive issues that need to be brought to the attention of senior audit management prior to discussing with entity management at the site. Where potentially sensitive matters are involved, the audit team leader should get instructions from senior audit management before the exit briefing.

6.16 Audit Programmes

The remaining part of this section contains the detailed audit programmes for the following audit areas:

- Agricultural Financing
- Financing for Small and medium Enterprises
- Sui Gas connections
- Disconnection, Billing and Recovery.
- Exploration activities
- Revenue from sale of petroleum products
- Wheat procurement and Dispatch
- Procurement
- Fixed Assets
- Payroll
- Projects
- Grant in aid and contribution
- Insurance
- Employees old age benefits
- Steels expenditure and revenue
- Revenue from consultancy services
- Investments
- Pakistan Airlines

The Audit Programmes given in this section cannot provide an exhaustive set of checks. Although in certain cases specific references to the current rules and regulations have been given in the audit programmes, it needs to be noted that the auditor should be familiar with the operations of the audit entity and should have a sound knowledge of the relevant laws, regulations and rules with which the transactions must comply. This will allow him/her to make appropriate adjustments to the audit programme guides. Furthermore, if the audit programmes do not cover the auditor's requirements, he can add an audit work sheet on which he notes the details of transaction(s) (revenue/expense /investment etc), his audit procedure(s) and findings. The audit programmes have been developed by keeping in view the risks mentioned in 3.5

6.17 Audit Programme – Agricultural Financing

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
General Provisions **Regulation R-3** **Standardized Documents** • Check that the banks/Development Finance Institution (DFIs) use standardized documents, and these comply with the Circular No. 05/2744-2762/A&B/2003 dated 11th August, 2003. **Regulation R-4** **Expeditious Processing And** **Communication Of Decision To Borrower** • Check that the banks/DFIs disburse short term loans within seven working days and long term loans within fifteen working days of the receipt of the pass book from the Revenue Officer with bank's charge created thereon and completion of all other formalities as per banks/DFIs internal operational manuals. **Regulation R-5** **Maximum Per Party Limit** • Check that the maximum exposure on any single borrower (fund based and non-fund based) by a bank/DFI does not exceed 30% of the bank's/DFI's equity (as disclosed in the latest audited Financial Statements). • Check that the maximum outstanding amount against fund based exposure does not exceed 20% of the bank's/DFI's equity. • Check that the total outstanding exposure (fund based and non-fund based) by a bank/DFI to any group shall not exceed 50% of the bank's/DFI's equity. • Check that the maximum outstanding amount against fund based exposure does not exceed 35% of the bank's/DFI's equity. **Regulation R-6** **Maximum Unsecured Financing** • Check that the Maximum unsecured financing, which can be availed by a borrower, from all banks/DFIs, does not exceed Rs. 500,000.		

Audit Procedure	Done By:	WP Ref.
Regulation R-7 **Repayment Schedule And** **Relaxation To Agricultural Borrowers** • Where a borrower has adversely effected by economic conditions check that maximum relaxation given to the borrower does not exceed one year. • Check that mark-up accrued during the relaxation period has not been credited to income account, but has rather been kept in a memorandum account. **Regulation R-8** **Proper Utilization Of Loan** • Check where the agricultural loans have been extended for the purposes specified in the disbursement letter ; • Check that the loans have been utilized for the same purposes for which they were obtained. **Regulation R-9** **Credit Report** • Check that before extending any financing facility in excess of Rs. 500,000 (after netting of the liquid assets) the bank obtained credit report of the borrower from Credit Information Bureau of State Bank of Pakistan. **Regulation R-10** **KYC And Basis Borrower Fact Sheet** • Check the basic borrower's fact sheet and 'Know Your Customer' checklist. Also check agricultural passbook, khasra gurdawari and fard jama bandi duly attested by revenue officer. **Regulation R-12** **Bar On Adjustment Lending To Avoid** **Classification Or Meet Indicative Targets** • Check that no new loan has been disbursed under any arrangement of adjustment lending (adjusting the outstanding loan with a fresh loan).		

Audit Procedure	Done By:	WP Ref.
Note: In case of running finance, where the outstanding mark-up has been received by the banks/DFIs, the principal may be rolled over/renewed and this rollover/renewal shall not be considered adjustment lending for the purpose of this regulation. **Regulation R-15** **Regularization Of The Non-Performing Loans** • Check that rescheduling/ restructuring has not changed the status of classification of a loan/advance etc unless the terms and conditions of rescheduling/restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling/restructuring and at least 10% of the outstanding amount is recovered in cash. • Check that, the unrealized mark-up on such loans (declassified after rescheduling/restructuring) has not been taken to income account unless at least 50% of the amount is realized in cash.		
Farm Credit For Input • Check that the loan/advance sanctioned has been fully secured by mortgage of property etc as per bank rules. • Check that finance has been extended as per bank rules for per acre finance limits for specific crop. • Check valuation of security from 'Ostbai' record duly attested by revenue officer and check forced sale value of land etc. • Check valuation of property. Specially check some transactions of defaulters and check what was realized from sale of property (this would ensure that original valuation as claimed by the bank was correct) • Check that regulation 17 was properly implemented in case of provisioning in respect of defaulters.		
Farm Development Finance • Check that these types of loans are only extended for 5 years or more with a loan to value ratio of 90:10. • Check that adequate security has been obtained as per bank rules. • Check compliance of regulation 18 in case of default and provisioning.		
Loans For Machinery/Equipment • Check that the machinery/ equipment have been hypothecated in favour of bank (R-19).		

Audit Procedure	Done By:	WP Ref.
• Check that the same has been insured at all times to protect the interest of bank (R-20).		
Financing For Livestock • Check that where livestock has been accepted as security; the age, sex, breed etc has been taken into account(R-22). • Check that periodic inspections and results have been documented at least twice a year(R-23). • Check that maximum tenure of loan is not more than 5 years (R-24). **Corporate Farming** • Check that while taking any exposure, banks/DFIs have ensured that the total exposure (fund-based and non-fund based) availed by any borrower from financial institutions does not exceed 10 times of the borrower's equity as disclosed in its Financial Statements. Moreover, the fund based exposure does not exceed 4 times of its equity. • Check that the current ratio of the borrower is at least 1:1 as per latest Financial Statements. • Check valuation of security from 'Ostbai' record duly attested by revenue officer and check forced sale value of land etc. • Check that in case the crop has been hypothecated, it is fully insured.		

6.18 Audit Programme – Small and Medium Enterprises Financing

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
For The Selected Sample: • Check that loan is only provided to SME's i.e. -Ideally not a public limited company -Does not have more than 250 employees(in case of manufacturing concern) -Does not have more than 50 employees(in case of trading concern)		

Audit Procedure	Done By:	WP Ref.
-A trading / service concern with total assets at cost excluding land and building upto Rs 50 million. -A manufacturing concern with total assets at cost excluding land and building upto Rs 100 million. -Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest Financial Statements. • Check that basic borrower's fact sheet and know your customer checklist have been filled (as per annexure-I &II of SBP regulations) before lending any finance to a borrower and match these with other documents provided by the borrower. • Check repayments made by the borrower and match these with the repayment schedule. **Regulation R-1** **Source And Capacity Of Repayment** **And Cash Flow Backed Lending** • Check that Banks / DFIs have specifically identified the sources of repayment and assessed the repayment capacity of the borrower on the basis of assets conversion cycle and expected future cash flows. **Regulation R-2** **Personal Guarantees** • Check that all facilities, except those secured against liquid assets, extended to SMEs are backed by the personal guarantees of the owners of the SMEs. In case of limited companies, guarantees of all directors other than nominee directors shall be obtained. **Regulation R-3** **Limit On Clean Facilities** • Check that clean exposure, i.e., facilities secured solely against personal guarantees, on a SME are not more than Rs 3 million provided that funded exposure should not exceed Rs 2 million. **Regulation R-4** **Securities** • Check that all financing above 3 million has been fully secured.		

Audit Procedure	Done By:	WP Ref.
Check that regulations in respect of valuation of securities have been complied (see annexure IV of prudential's) **Regulation R-5** **Margin** • Check that margin requirements as per rule 4 of SBP regulations and bank policies have been complied with in respect of securities kept on behalf of financing to SME's. **Regulation R-6** **Per Party Exposure Limit** • Check that maximum exposure of a bank / DFI on a single SME does not exceed Rs 75 million. The total facilities (including leased assets) availed by a single SME from the financial institutions should not exceed Rs 150 million provided that the facilities excluding leased assets shall not exceed Rs 100 million. **Regulation R-8** **Minimum Conditions For Taking Exposure** • Check that CIB (Credit Information Report) has been obtained in case of loans greater than 500,000. • Check that loans have not been provided to SME's who have been indicated as defaulter in CIB report. • Check that information from SME associations have been obtained in respect of borrower about its credit worthiness and character. **Regulation R-9** **Proper Utilization Of Loan** • Check periodic inspection reports issued by the bank to ensure that the loan(s) sanctioned to the SMEs are utilized for the purpose they were granted. **Regulation R-10** **Restriction On Facilities To Related Parties** • Check that the bank / DFI has not taken any exposure on a SME in which any of its director, major shareholder holding 5% or more of the share capital of the bank / DFI, its Chief Executive or an employee or any family member of these persons is interested.		

Audit Procedure	Done By:	WP Ref.
Regulation R-11 **Classification And Provisioning For Assets** **Loans / Advances** • Check that in case of defaulters, classification has been done as per annexure-III of SBP regulations and other criteria laid in rule 11 has been followed by the bank. • Check the annual statement of classified portfolio submitted to banking inspection department.		

6.19 Audit Programme – Gas connections

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By	WP Ref
Industrial Gas Connections **SNGPL Sales Manual Section-V** • Obtain revisions (if any) made in the procedure of providing gas connections /Revised Sales Manual. • Select a sample at random from the list of Industrial Gas Connections provided by SNGPL during the year and perform the following audit steps: i- Check that application for commercial gas connection has been received on the prescribed proforma as per Annex-54 of 'Gas Sale Manual'. ii- Check that the application has been thoroughly checked by Sales Officer and formal acknowledgement letter has been issued after receiving all the required documents to the applicant. iii- Check that application has been entered in the "Cases Under Process CUP Register"/Software (Obtain soft copy of the total list of applications received during the year along with list of pending application) iv- Check that site survey has been carried out on the basis of turn/merit. v- Check that proposal letter has been issued to the applicant at the earliest possible time. vi- Check that the sale supervisor has ensured that no gas		

Audit Procedure	Done By	WP Ref
connection has earlier been provided/ disconnected at the applied premises and clarification/ confirmation regarding factual position has been checked out from the billing section. vii- Check that Load Survey Form has been filled according to Annexure-11 of the Sales Manual along with House Line Plan. viii- Check that after receiving the test report, Site Visit has been carried out by the Engineer who will ensure: a. That the installation has been carried out as per House Line Plan HLP b. That same appliance are installed at site as mentioned in load survey form c. That there is no change in trade/ purpose from that mentioned in original application. d. Security has been calculated/ determined as per company's procedure according to connected load. ix- Check that separate service line has been installed for each connection. x- Check that security deposit equivalent to 90 days estimated gas consumption has been recovered in the form of Bank Guarantee or equivalent to 60 days in form of Cash at the time of receipt of signed Gas Sales Contract and other documents. xi- Check that before sending the Proposal letter, a formal Concurrence Letter as per Annexure-55 has been sent and received back duly signed by the applicant. xii- Check that formal Proposal Letter has been prepared as per Annex-56 and following documents are attached a. copy of HLP b. Industrial Gas Supply Contract as per Annex-57 c. Proforma of Supplement Agreement as per Annex-58 d. Proforma regarding pipe line extension to be laid at consumer's cost (if applicable) e. Proforma Bank Guarantee f. Copy of load survey form xiii- Check that seniority list of industrial applications has been maintained by the incharge sales and proposal letter has been issued strictly on first-come-first served basis. xiv- Check that after the receipt of service line charges and security deposit by the accounts department, contract document has been sent to sale centre to prepare the Consumer Master Card (CMC) as per Annex-7d has		

Audit Procedure	Done By	WP Ref
been prepared and entered in the CMC Register. xv- Check that CMC has been sent to development centre for providing the connection and then sent to the billing centre for marking the Consumer Number. xvi- Check that industrial gas connections has been processed as per current policy i.e. a. within 9 months b. within 12 months for CNG Stations		
Commercial Gas Connection **SNGPL Sales Manual Section-IV** • Select a sample from a list of Commercial Gas Connection provided by SNGPL during the year and perform the following audit steps: i- Check that application for commercial gas connection has been received on the prescribed proforma as per Annex-50 of gas sale manual. ii- Check that procedure has been followed for acknowledging commercial application. iii- Check the application fee has been received. iv- Check that commercial application has been registered in a separate " Case Under Process" (CUP Number Register) v- Check that side survey has been under taken on the basis of turn/merit. vi- Check that proposal letter has been issued to the applicant at the earliest possible time. vii- Check that the sale supervisor has ensured that no gas connection has earlier been provided/ disconnected at the applied premises and clarification/ confirmation regarding factual position has been checked out from the billing section. viii- Check that Load Survey Form has been filled according to Annex-11 along with House Line Plan (HLP). ix- Check that the certificate confirming the gas installation of internal house line is in accordance with the specification and house line plan. x- Checked that site visit has been carried out by the sales supervisor and ensure the installation has been carried out as per HLP. xi- Check that the security has been calculated /determined as per Company's procedure. xii- Check that separate service line/ independent Regulator has been installed for each commercial connection. xiii- Check that no low pressure commercial gas connection		

Audit Procedure	Done By	WP Ref
is installed for an industrial unit. xiv- Check that security deposit equivalent to 90 days estimated gas consumption has been recovered in the form of cash. xv- Check that After the survey of premises Commercial Proposal letter as per Annex-50 has been issued to the applicant along with Gas Supply Contract as per Annex-51 xvi- Check that after the receipt of service line charges and security deposit by the accounts department, contract document has been sent to sale centre to prepare the Consumer Master Card (CMC) has been prepared and entered in the CMC Register. xvii- Check that CMC has been sent to development centre for providing the connection and then sent to the billing centre for marking the Consumer Number. xviii- Check that after the approval of House Line Plan Survey, the case has been transferred from the CUP Register to Master Register. xix- Check that the installation of commercial house line has been completed by the consumer himself. xx- Check that procedure for conversion from commercial to industrial connection has been followed. xxi- Check that on increase in gas load of commercial consumer, additional security has been recovered. xxii- Check that service line charges and security deposit have been refunded if the applicant opts to withdraw application for gas connection.		

6.20 Audit Programme – Gas Billing- Disconnection/Reconnection

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedures	Done by	WP Ref
Disconnection / Reconnection **Ref: SNGPL Billing Manual Chapter 14.** • Obtain Disconnection Register and Reconnection Register, select a sample on random basis and check: • Gas connection is disconnected on:		

Audit Procedures	Done by	WP Ref
a. Default in payment of gas bills b. Breach of Gas sales contract c. Deficiency of Security Deposit d. Consumers' own request e. The basis of 9 months contract i.e. gas connection shall be disconnected during winter for 3 months. a. Disconnection due to default in payment of gas bills • Check that first disconnection notice is served when arrears accumulated to 75% of security deposit • Check that second disconnection is served when arrears accumulated to 90% of security deposit • Check that the gas connection has been disconnected as soon as arrears accumulated to 100% of the security deposit b. Check that disconnection has been made as per relevant terms of the contract with individual consumers. c. Check that preference for disconnection has been given to the • Consumers with arrears exceeding or nearly exceeding their Security Deposits. • Habitual defaulters • Consumes whose stay orders have been vacated. • Check that no due dates of defaulters be extended. d. Check that no "Disconnection Advice" by the customers remained unattended after time period as per relevant rules and regulations of the company. e. Check that in case of all special customers having 9 months contracts, the gas connection is terminated for 3 months as per relevant clauses of the agreement • Check that reconnection is affected only after recovery of outstanding gas dues including penalties		
Recovery of Arrears **Ref: SNGPL Billing Manual Chapter-13** Select a sample from list of Industrial and Commercial Gas Defaulters and perform the following audit steps; • Check that after the expiry of "due date" for payment of gas bills, a "Disconnection Notice" has been served.(13.2)		

Audit Procedures	Done by	WP Ref
• Check that no new connection has been provided in the premises already declared as defaulters (13.4) • Check that security / bank guarantee has been adjusted within 3 months of date of disconnection. (13.6) • Check that "Area Billing Manager" has sent a letter to the consumer to inform the details of Outstanding gas dues after adjusting the security (13.6.1) • Check that final notice for payment of outstanding arrears has been served to the consumers within one month after issuance of letter as mentioned above. (13.6.2) • Check that Regional Billing Heads have sent the lists of defaulters to Distribution / Operation Department who will arrange their disconnection (14) • Check that particulars of disconnected consumers have been entered in "Disconnection/ Reconnection Register" (Appendix "AN" of Billing Manual) • Check that legal proceedings have been started within reasonable time. **Use Working Performa-Legal Cases** • Use Working Performa for Legal Cases and check that recovery of arrears has not become time barred (the period of time barred is 3 years from the 1st default of gas bill). • Check the complete history of legal cases maintained by the Legal Department (Chapter 19 Clause 19.11)		
Violation Charges 1. Take a Sample of Industrial and Commercial Consumers on random basis and check that schedule of meter replacement has been followed as mentioned below; (UFG Manual Chapter 3 Clause 5) (a) Industrial & Hi-Pressure Commercial = After 1 Year of Service (b) Low Pressure Commercial Meters = 5 Years (c) Domestic Meters = 10 Years (d) General Industry Meters = Once in a year (e) Industrial Consumers involved in gas theft = 6 monthly basis. i. Check that FPR of the replaced meters received in billing department. ii. Check that billing department has booked the pilferage/ theft charges after checking the premises iii. Check the booked amount has been recovered from the billing history of the consumer. iv. If not recovered, check the procedure for disconnection/ reconnection and recovery of arrears, as mentioned in section A		

Audit Procedures	Done by	WP Ref
and B above, have been followed. 2. In SNGPL, Area Offices, obtain the "Unaccounted For Gas" (UFG) Raids Reports selected on random basis from the UFG Section and check the compliance of instructions of UFG manual as mentioned below; i. Check that Physical/ visual appearance of the suspected meter tampering/regulator tampering must be documented preferably in the presence of a representative of the consumer , Clause 3.1.1. ii. Check that the disconnected meter/regulator have immediately been taken into custody by a responsible designated officer in a bag, which shall be sealed at site, Clause 3.1. iii. Check that the disconnection advice shall be signed by all members of the disconnection team. All physical defects visually noted must be endorsed in the disconnection advice, Clause 3.1.3. iv. Check that the suspected tampered meter removed from Industrial / Commercial premises must reach Central Testing Workshop within a maximum period of one (1) week of its disconnection, Clause 3.1.4. v. Check that secure/safe handling during transportation, against possible damage has been ensured, Clause 3.1.5. vi. Check that the physical condition of meter; date of disconnection; receipt in the Testing Workshop is properly documented before handing over to Central Metering Workshop authorities, Clause 3.1.6. vii. Check that the person taking charge of items in Central metering Workshop has broken/opened the seal of the bag in the presence of the delivering person and confirmed the physical/visual status of the equipment, Clause 3.1.7. viii. Check that GM metering has submitted the Flow Proving Report (FPR) to Area GM within five working days in case of industrial category and ten working days in case of commercial /domestic category. ix. Check that Billing Section recorded UFG/FPR in the violation Register. x. Check that violation charges have been booked against the consumer. xi. Check that in case of direct tapping, the recoveries were based on the total "Connected Load" worked out on 16 hours per day operation for a minimum period of 6 months, and if the period was identifiable, then recoveries were based on		

Audit Procedures	Done by	WP Ref
actual period, Clause 7.1. xii. Check that for self-reconnection cases, the recovery was based on the total "Connected Load" worked out on 16 hours per day operation basis, for the period w.e.f. date of disconnection, Clause 7.2. xiii. Check the calculation of violation charges computed by Regional Detection Committee. xiv. Check that all the cases involving theft of 1000 HM3 gas volume and above are sent to Head Office Detection & Evaluation Committee xv. Check the Decision of Head Office Detection & Evaluation Committee. xvi. Check that violation charges have been billed to the consumer after the decision of Head Office Detection & Evaluation Committee. xvii. Check that consumer had deposited 25% of the violation charges, to go into Review Committee, OR xviii. In respect of the reconnection cases forwarded to the Review Committee, check that consumer had deposited 40% of violation charges for reconnection (Clause 8.1.1) xix. Check the Decision of Review Committee. xx. Check that violation charges booked and recovered from the consumer billing history.		

6.21 Audit Programme – Exploration, Development and Production Activities

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By	WP Ref
Non-participation of the company in the bidding process for award of various concession agreements in the new areas ***General*** • Obtain the list of petroleum concession areas offered for bidding by Directorate General Petroleum Concessions (DGPC) in the audit period. • Obtain the list of concessions in which the company has participated in bidding process and check if the company has participated in all biddings. • In case the company has not participated in all, inquire from the management about the reasons of non-participation, as being a state owned company, it has to follow the general policy regarding exploring more and more oil and gas resources. • Check the number of times the company's bids were turned down by the DGPC. • In case of repeated cancellations check the 'Work Plan(s)' submitted and also inquire from the management their point of view. • If the reasons are not justified, incorporate the observation in the audit findings. ***Minutes of BoD meetings*** • Obtain the minutes of BoD meetings held during the year and previous two years. • Check the resolutions pertaining to drilling targets, hiring of rigs, procurement of rigs (if any), new areas to be explored, progress of shut-in fields, finalisation of sales agreements and other exploration and production activities. • Inquire from management about the status of compliance/actions taken by the management on the BoD directives. • In case the directives are not followed either entirely or within the given time period, evaluate the financial impact on the company and incorporate the findings in the audit report.		

Audit Procedure	Done By	WP Ref
Non-compliance with the individual terms and conditions of the exploration license • Obtain the list of concession agreements of the company, including the concession licenses (if any) received during the current year. • Select at least one concession area for compliance testing each year on continuous basis. • Check if the company has incurred the minimum expenditure as committed in the relevant concession agreement in the first, second and third year. • If the expenditure is not incurred as per minimum work commitment, check the correspondence with DGPC and also inquire from the management about the reasons. • If the reasons are not justified, or the company has to pay minimum expenditure as liquidated damages, incorporate the same in audit findings. • Check, if the company has obtained the 2D/3D Seismic data and completed the Seismic surveys in the time period as per concession license. • If the seismic data is not acquired and/or surveys are not conducted as per agreement, check the correspondence with DGPC and also obtain the reasons from management. If not satisfied incorporate the findings in the report. • Check the time interval between the grant of exploration license and signing of Petroleum Concession Agreement as required in the exploration license, and assess the delays (if any). • Obtain the list of unskilled and other manpower deputed at the concession area. • Check, if a fair percentage of the contract employees constitute the locals of the area, preferably the displaced land owners. • Check, if the locals of the area were given priority for sub-contract works. • In case of violation of the above, first discuss with management, and if the reasons are not justified incorporate the findings in audit report. • Check, if the company has to pay any fine on account of the involvement of employees in illegal hunting/ trapping of wild life, and if this is the case incorporate the same in audit findings. • Check, if the company has to pay any compensation on account of any loss caused to the public/ private property due to illegal interference in the existing grazing or felling rights, and if this is the case incorporate the same in audit findings.		

Audit Procedure	Done By	WP Ref
• Check, if the company has paid proper compensation to the owners of the land, prior to commencement of exploration, if not; incorporate the same in audit findings. • Check, if the prior clearance from security agencies/ DGPC has been obtained in respect of: ▪ Aerial surveys/ photography of the license area. ▪ Construction of roads/ tracks etc. If not, incorporate the same in audit findings. • If any foreigners are working at the license area, check that they are: ▪ Cleared by the security agencies ▪ Registered with FRO under the Foreigners Act. If not, incorporate the same in audit findings. • Check that the NOC from Irrigation Power Department of Provincial Government has been obtained before starting any operations near the channels/ main canals, and other irrigation structures. If not, incorporate the same in audit findings. • Check if prior clearance of DGPC was obtained before exporting any data or test results. If not, incorporate the same in audit findings. • Check if advance rental was paid in accordance with the rules, and a copy of treasury challan submitted to DGPC. If not, incorporate the same in audit findings. • Check if the company has incurred/provided expenditure on social welfare and trainings as required by Petroleum Policy. If not, incorporate the same in audit findings. **Non-compliance with the individual terms and conditions of the concession agreement, joint operating agreement and accounting procedures** Obtain the copy of the concession agreement of the selected concessions, and specifically check the following. This shall include the joint operating agreement in case of joint venture (JV) partners and the accounting procedure. ***General provisions of concession agreements*** • Check, if there is any clause regarding assignment of a company's share to other E&P Company. • If yes, check the amount of initial costs incurred in G&G activities or drilling of wells etc. have been agreed to be paid by the other JV partner(s). • Check whether the same has been received by the company from other partners within the time schedule, as mentioned in the		

Audit Procedure	Done By	WP Ref
concession agreement. If not, incorporate the same in audit findings. ***General Price, Quality, Quantity and Forex provisions*** • Check and recalculate the realised price and wellhead value as per the requirements of the concession agreement. • Check that the same price is being charged on the sale of products. • Check that the title and risk of loss has been transferred to the purchaser at the point of sale as mentioned in the agreement. • Check that the price of crude oil has been increased by taking the effect of transportation costs incurred by the purchaser from the wellhead to the point of sale. • Check that the quantity and quality testing and measurement of the crude oil are in accordance with the A.P.I. standards. • Check that the rate of exchange for conversion of US $ to PKR is the same as the official rate of exchange as established by SBP on the day when the transaction was made. • Check that the company's measurement standards have been approved by the DGPC. • In case of any alteration in the measurement standards, check if the company has obtained prior approval of DGPC. ***Imports & Exports*** • Check if there is any provision regarding exemption or reduced rates of taxes (custom duties, sales tax, and surcharge) on the import of specified machinery and equipment for exploration and development activities. (This is normally contained in "Imports and Exports" article of the PCA) • If yes, check if the exemption was availed by the company on such imports. • Check, if the company is submitting monthly reports to the DGPC as required in the PCA. • Obtain samples from the reports and check if these include full particulars of surveys and drilling of any area, indications of petroleum, any discovery of minerals other than petroleum and statement of all petroleum recovered from the area. • Check, that the company has submitted to DGPC, statements of expenditure on annual basis within 3 months of each calendar year. • In case of surrender by company or termination of PCA, check if all the data was submitted by the company to DGPC in original.		

Audit Procedure	Done By	WP Ref
• Check, if the company is preserving and correctly labelling the samples of strata and any petroleum discovered for a minimum period of twelve months. ***Audit and Accounts*** • Check, if the company is preparing separate accounts for all expenditure made, all productions obtained and all properties acquired for the concession area. • Check, if the same are being audited by the public accountants on annual basis with effect from 31st December each year. • Check if the copies of accountants' reports are being submitted to the President of Pakistan. (Note that the Auditor-General can conduct the audit of the financial affairs of any concession area in which company is working as an operator, within two years of the submission of the report to the president) • Obtain a copy of latest audited accounts of the concession and analyse the accounts and reports for the purpose of audit or risk analysis. (DGCA can conduct the Financial Statements analysis of the Joint Venture Accounts just like other commercial entities and provide the audit comments) • Check if the company has submitted to DGPC within three months (or such extended time as sanctioned by the SECP) of each calendar year, the accounts in respect of: ▪ Overall crude oil won and saved ▪ Overall gas sold and ▪ The quantity of petroleum used in the field. ***Flaring of Natural Gas*** • Obtain the annual data of natural gas being flared from the concession. • Analyse the data and if excessive gas is being flared, inquire from the management about non-utilisation of associated gas for commercial purposes or for recycling purpose. • If the company doesn't have capacity of or any plans for utilisation of such gas, inquire from the management if it has informed the President about the availability of such gas to be used at the downstream flange of the gas/oil separation facilities. *Note: If the President has communicated his inability or Un-willingness to take the delivery, then the company has right to flare such gas without any liability.*		

Audit Procedure	Done By	WP Ref
Minimum Expenditure • Check if the company has incurred minimum expenditures and other geological and geophysical expenditures as per Exhibit-I and approved work program. • Check if the company is paying rent in accordance with the formula mentioned in the PCA, to the Government of Pakistan annually in advance. **Correspondence with DGPC** • Check if the company has properly communicated with DGPC: ▪ Before the commencement of any well. ▪ Before re-commencement of any well, if the work was suspended for more than six months. ▪ Before abandoning or plugging in any well. ▪ Any discovery made. (This can be done by obtaining the files of correspondence with the DGPC in respect of concession being tested) ***Joint Operating Agreement (JOA) & Accounting Procedure*** • In case of joint venture check the compliance with the all the terms and conditions of joint operating agreement, specifically with respect to: ▪ Approval of expenditure from JV partners, through AFEs. ▪ Minutes of the meetings of Operating Committee (OCM) and Technical Committee (TCM). ▪ Insurance of joint venture assets as required by the applicable laws. ▪ Approved budgets and work programs. ▪ Monthly cash calls. (All these provisions are available in detail in the 'Joint Operating Agreement' (if applicable)). • Like JOA, accounting procedure is also a part of the PCA. The auditors are also required to check the compliance with the general provisions of accounting procedure specifically with relation to; ▪ Allocable charges. ▪ Material procurements and supply by the operator. ▪ Transportation and relocation costs.		

Audit Procedure	Done By	WP Ref
▪ Indirect expenses of employees and other costs which are used for both company's own fields and joint venture fields. ▪ Basis of charging to the joint account. ▪ Pricing of new materials supplied by the company from its own warehouses. ▪ Pricing of used materials supplied by the company from its own warehouses. ▪ Premium prices in case of materials whose replacement costs are not available. ▪ Disposal of equipments and material. ▪ Periodic inventory checks etc. (All these provisions are required to be specifically focused on by the auditor, as on these bases the expenses are allocated to JV partners. In case of incorrect allocation, there are chances that the other JV partners are given benefit on account of public money.) **Non-Observance of Proper Procedures in awarding contracts for hiring of rigs** • Obtain the list of rigs hired during the year or in immediately preceding years. • Obtain list of contracts renewed with the existing rig operators. • Select the contracts for the purpose of compliance testing depending on the volume of contracts awarded and contracts renewed. • Scrutinize the procedure for awarding of contracts as per OGDCL procurement procedure as well as PPRA Rules. • In case of renewals of contracts, check if the current market trend was analysed by the company before renewals. • Specifically compare the terms and conditions of the old contracts with the renewed ones. • In case the terms and conditions have been revised or rates have been enhanced then specifically check if all the procedures, as applicable in case of renewed terms and conditions and rates were properly followed. • In case of any non-compliance discuss with the management about the reasons. If reasons are not justified, incorporate the same in the audit report.		

Audit Procedure	Done By	WP Ref
Overpayments to the contractors on hired rigs • Obtain the list of hired rigs working during the year. • Obtain the detail of total payments made to the contractors on account of rig rentals and other payment for other ancillary charges. • Select at least 50% of the number of contracts on the high value payments basis. • Obtain payment vouchers of selected operators along with supporting documents. • Compare the actual payments with the rates as agreed in the contracts. • Specifically check that payments of mobilisation of rigs between the wells (inter-move rate) is as per the agreements. • Check if rig mobilisation, in case of a new contract, and de-mobilisation in case of termination, are being paid the company. (This is specifically important as the rig operators get double benefit and get the mobilisation and de-mobilisation from both the present and the new E&P Company). • Specifically check if the per-head expenditure of the operator's crew is reasonable and justified keeping in view the market trend. (This can be done by obtaining the terms and conditions of any other rig contract made with some other E&P company. We can get the help of GHPL in this regard). • Check if the payment of operator's crew expenses is being made as per agreement. • Specifically check the liabilities of the Company and the rig operator in case of inventories to be provided for drilling and rig operations activities. • Obtain the detail of inventory utilised: ▪ On operations of the rigs ▪ In drilling activities • Compare the inventory utilised with that as agreed in the individual contracts. (This is normally critical as the controls on inventory utilisation for rig operations are normally weak and there are always chances of provision of excess inventory). • Check total payments made to the contractor on account of idle time during the year. • Check if the idle time of rigs was due to the company, contractors, or law and order situation.		

Audit Procedure	Done By	WP Ref

• Scrutinize in detail the reasons of any idle time, and
  • In case of company, inquire the reasons from management and if not justified incorporate in the audit findings
  • In case of contractor, must ensure that the no payment has been made or payment has been deducted in respect of such idle time.
  • In case of contractor if the payment has been made or not deducted, incorporate the same in audit findings.
 	
Non-efficient utilisation of OGDCL own rigs
 	
• Obtain summary of the rig deployment report for the year
• Obtain rigs deployment plan for the year
• Compare the rigs actual deployment with that is planned
• Obtain the total idle time of all the rigs during the year
• Specifically check if the time during which the company's own rigs remained idle, whether any payment has been made to the leased rigs.
• Inquire reasons of the idle time from the company and if reasons or not satisfactory, incorporate the expenditure incurred during the idle time in the audit report, as ineffective utilisation of resources.
 	
Excessive Manpower Engaged on Rigs than Required
• Obtain organogram of each rig own/ hired along with detail of sanctioned strength of employees for each rigs from the management.
• Compare the actual deployment of staff with organogram /sanctioned strength.
(If the actual staffs deployed are not according to the sanctioned strength inquire about the reasons of excessive/less deployment).
• If the results/reasons are not satisfactory, incorporate the same in audit findings.
Un-Necessary Delays in Completion of Development Plan and Transfer of Shut-In Fields to Producing Fields Resulting in Loss of Revenues
 	
• Obtain the list of shut-in fields of the company.
• Obtain detail of time period since these are shut-in.		

Audit Procedure	Done By	WP Ref

• Obtain wells status report of the company, to check from what period the fields are shut-in.
• Select at least one shut-in field for the purpose of detailed study, on the basis of longest period of shut-in.
(The selection may be of more than one fields, depending upon the availability of time).
• Obtain the copy of development plan of the selected shut-in field.
• Compare the actual progress of the field as per development plan.
• Inquire from the management about the reasons of temporary shut-in.
(These may be due to non-availability of the prospective buyer, non-availability of the reserves required for commercial production, change in the original estimates of the reservoirs, law and order situations etc.).
• Analyze the reasons provided by the management, if reasons are not satisfactory; incorporate your findings and reasons of the management in the audit findings.
(Normally the auditors are not expected to have the knowledge to analyze the technical justifications of temporary shut-in of the fields. However the normal reasoning may be lack of management proper interest or delays on the part of management to finalize the contracts or other facilities for the commercial production)
(Being public sector auditors at least we should inform the policy makers about the potentials of petroleum reservoirs being not capitalized in the shut-in fields)
 	
Non-Compliance with the relevant petroleum policy
 	
• Obtain the copy of the latest/ relevant petroleum policy
• Specifically check the changes/revisions in the applicable provisions of the following:
  • taxes,
  • royalty
  • rentals
  • production bonuses
  • other tariffs
• Scrutinize the policy, whether the revisions in tax rates are		

Audit Procedure	Done By	WP Ref
applicable to the concessions/D&P leases issued in the light of previous petroleum policies. • If the revisions in tariffs are effective for all petroleum productions, check if the company is paying taxes and tariffs on the basis of revised petroleum policy. • For this purpose just obtain at least one voucher of tax, royalty, lease rental etc, along with the supporting for calculation of expenses. • In case any of the offshore drilling area is selected, all the requirements and rates, tariffs of the revised petroleum policy shall have to be tested for compliance. • Check, if there are changes in the determination of the petroleum prices in the new petroleum policy. • In case of any such revision, check if the company has adopted new methods as required in the relevant petroleum policy. • If not, inquire from the management about the reasons and if not justified incorporate in the audit findings. • Check, if there are any revisions in determination of sales volume for the purpose of determination of royalty expense. • If there are any such revisions, check that the management has implemented the same. • Obtain one voucher of royalty payment along with the detailed calculations and supporting documents and verify the same. • Review the Petroleum Policy and check for any other clauses that may be applicable during the course of audit. **Non-Compliance with the Relevant Petroleum Production Rules** • The main focus of the auditor in respect of non-compliance should be with respect to payment of royalty and other taxes. (Other clauses have almost been covered above in various areas of the guidelines). **General Conclusion** • All findings of non compliance with authority violations should be clubbed in respect of each category of rules. • The monitory findings should be incorporated separately. • Non-monitory findings should be incorporated in line with each applicable laws.		

6.22 Audit Programme – Revenue (sales of petroleum products)

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done by	WP Ref
General • Obtain the product wise schedule of total sales during the year. • Obtain the copies of total sale agreements of all the products. (GSAs, COSAs, LPG and other products) (All the sale agreements of all the products should be in the permanent file, and the file should be updated with new agreements (if any) made during the year) • Each year on rotation basis, select at least two agreements each from the GSAs and COSAs on the basis of volume of sales. • Also obtain the copies of relevant section of PCAs for the purpose of reviewing the price set by the company for Gas and Oil. • Obtain list of all the contracts of associated products awarded in the current year. • From the contracts for sale of associated products (LPG, sulphur, naphtha etc) select agreements covering at least 30% of the revenue from the associated products. (The auditor should check that contracts selected have a fair percentage of both the ongoing and new contracts).		
Un-necessary delays in finalization of contracts resulting in loss of revenue due to provisional pricing • Obtain detail of all concession agreements, in which production has started, however provisional pricing is being charged due to non-finalisation of sale agreements • Obtain schedule of sales made during the year from those concessions. (The schedule should contain the quantity sold, provisional prices charged, and total sales volume for the year) • Obtain copies of un-finalised / proposed agreements of the aforementioned fields. • Calculate the price as per the proposed agreement and the PCA		

Audit Procedure	Done by	WP Ref
of the respective field. • Recalculate the sales volume on the basis of calculated price per unit. (Price x Quantity sold) • Compare calculated sales volume with that reported in schedule and work out the difference. • Inquire from the management the reasons of delays in the finalisation of the agreements. • Incorporate the worked out differences and the management point of view of delays in the audit findings. (If this exercise is being conducted for the first time in any field, the auditor should work out the total difference in the sales reported and actual sales as per the proposed agreements for the entire period since the start of production till date)		
Wrong calculation of sales price of gas and oil in non-compliance of the PCAs, GSAs and COSAs, resulting in loss of revenue • Obtain copies of GSAs and COSAs of two selected fields along with the relevant extracts from the PCAs containing the provisions relating to the price fixation. • Check that the notifications pertaining to revision in oil and gas prices issued by OGRA are implemented. • In case of crude oil, obtain copies of the minutes of the meetings between the company and the refineries in which the prices have been revised. • Obtain copies of all the detailed workings along with the complete supporting documentation in which the calculations of the prices of oil and gas have been made by the company. • Review all the workings in the light of the PCAs, GSA and COSAs. In general, the auditor should focus on the following areas in price calculations:		
Crude Oil Prices • Basket price of oil used from the Platt's Oilgram Report (the figure as well as time period) • Adjustments made w.r.t. Yield difference of Arab Light Crude Oil. (This is a technical point as the differences normally arise due to difference in the specification of the crude oil extracted from the field and that of the gulf oil. The auditor should review the workings and reports of the technical department w.r.t. quality mally, PCAs contain the formula for the adjustment) • Marine transportation cost added. (This can be checked from the notifications of DG, Oil) • Discount rate applied, if any (Discount rates are field specific and contained in the respective PCAs) • Eastern hemisphere adjustments w.r.t. fields discovered after		

Audit Procedure	Done by	WP Ref
petroleum policy, 1994. (Currently only Chanda field) • Use of appropriate conversion rate as the prices are to be calculated in US $ and then converted to PKR. (Rate is also mentioned in COSAs).		
Natural Gas Prices • Calorific value (CV) from the production reports • BTU factor from the production reports • Conversion in BTU (BTU = MCF /1000 *CV) • Use of appropriate conversion rate as the prices are to be calculated in US $ and then converted to PKR. (Rate is also mentioned in GSAs). • Check that prices are added with the federal excise duty, sales tax, petroleum development levies, gas development surcharge as per the relevant rules. • In case of difference in the prices calculated, discuss with the management the reasons for the difference. • Recalculate the sales volume as per our workings, and incorporate the difference in prices, differences in sales volume and the reasons of the management in the audit findings.		
Non-compliance with individual agreements with NLC for transportation of crude oil, resulting in loss in transit of crude oil • Obtain list of total agreements with National Logistic Cell (NLC) for the transportation of crude oil from fields to refineries. • Select at least two agreements, depending upon the volume of sales for compliance testing. (The auditor may select the same fields which have been selected for COSAs compliance verification) • Obtain the reports containing the quantity delivered from the fields and the verification reports of the quantity received at the refineries. (The auditor should select the samples from the total reports as the volume will be high in this regard. The selection should be random using ACL or other sampling techniques) • Check, if the losses have been recovered as per the relevant clauses of the agreement. • Check that the differences / shortages have been properly treated		

Audit Procedure	Done by	WP Ref
as per the relevant clauses of the agreements. • Obtain the total cases of losses reported in case of crude oil during the year. • Specifically check the clauses about insurance of major losses in transit of crude oil. (This should be done in respect of all fields in which the losses have been reported.) • Check, if the major losses have been treated as per the clauses of the agreements. • Discuss with the management in case of non-compliance and incorporate your findings in the report. **Errors in measurement of oil and gas** • Each year select at least one field for the purpose of field visit, the selection should be on the basis of number as well as volume of the products. • In case of natural gas obtain the following: ▪ Correspondence files with the customers containing the issues on the measurements. ▪ Monthly comparison reports of gas measurement ▪ Obtain the cases of total differences/disputes on measurements. • Study in detail the measurement differences and relevant point of views of both the parties as per the sale agreements. • Check how many (in percentage terms) discrepancies have been resolved on the basis of company accepting the customers' readings. • In case of repeated differences resolved on the basis of accepting the customers readings, obtain the reasons the management. (Normally there are differences of opinions in gas chart readings. The company (SNGPL, SSGCL)reads the chart manually and have digital chart reading instruments and the company has to accept their readings) • Work out the total quantity of gas lost due to differences in chart readings and calculate the total volume of loss by using the applicable price, and • Incorporate in your report the total loss suffered by the company on this account along with the reasons of the management. • In case of crude oil normal discrepancies arise due to the following: ▪ Shrinkage during transit		

Audit Procedure	Done by	WP Ref
▪ Difference in temperature than as agreed in COSAs • Obtain the detail of total differences in the measurement of crude oil and obtain the reasons from the management. • Work out the total loss in this regard and incorporate in the report.(This should be done if the amount is material)		
Delays in raising of invoices as per sale agreements having adverse affects on the cash flows of the company • Obtain copies of total invoices raised during the year in respect of the fields already selected for compliance testing above. • Check the date of individual invoice raised as per the agreements. (Sale agreements contain the time period of raising of invoice and time period for payment) • Work out the delays in number of days and incorporate the same in the report. (This is particularly necessary as the payment period starts from the date of invoice. As the company has huge sales volume, delay of even a few numbers of days can have significant effect on the company's cash flows.)		
Non-preparation of proper reconciliations in respect of production of gas, oil condensate etc. • Obtain the daily production statements of Oil, Condensate etc. • Inquire from the management about the preparation of production statements. • Physically check the meters installed for measurement of crude oil and condensate to see whether or not these meters are in working condition. (This is particularly important as normally the production measurement meters are not serviced and the production volume is taken as a balancing figure (i.e. Closing + Dispatches – Opening)) (There are chances of misstatements or fraud if the dispatches are not properly recorded, the difference is automatically adjusted in the production) • Check if the timing of the measurements is as per the relevant agreement. • In case of gas sales, check if the company's representatives are		

Audit Procedure	Done by	WP Ref
present at the time of measurement. (There may be chances of recording the measurements made by the customers especially if the sale point is in the jurisdiction of the customers) • Discuss all your findings with the management and incorporate in the audit findings.		
Non-imposition of liquidated damages on account of late payments by the customers • Select at least two fields for testing; these may be the same as selected above for other compliance testing. • Obtain the total invoices raised during the year in respect of oil and gas. (This will not be much volumetric work as normally one customer has 24 invoices in each year) • Obtain the copies of payment challans/cheques /other instruments evidencing the date and amount of payment. • Work out the delays (if any) in the receipt of payment from the date as agreed in the sales agreements. a) Calculate the liquidated damages/delayed payment surcharge as per the sales agreements. b) Compare your calculations with that of c) Surcharge (if any) made by the company d) Discuss with the management and incorporate the differences in the audit findings.		
Withholdings / deductions by the customers on account of off-specification gas or crude oil shrinkage etc • Obtain detail of amount withheld/deducted by the customers in respect of off-specification gas or inferior quality crude oil. • Select at least 30% of the total cases for the purpose of proper verification. • Obtain the relevant correspondence with the customers in respect of the selected cases. • Check in detail the reasons of the differences and their resolution as per the relevant sale agreements. • If not satisfied, discuss the same with the management and incorporate in the audit report. • Withholdings / deductions by the customers on account of penalties for less supply of gas than the minimum as agreed in the agreements		

Audit Procedure	Done by	WP Ref
• Non-imposition of the liquidated damages / penalties by the company on account of less delivery lifted than the minimum as agreed in the agreements • Obtain the total cases where amount of customers' deductions on account of supply of gas/oil are less than that agreed in the sale purchase agreements. • Inquire from the management about the reasons of less supply, along with the complete documentary evidence. • Check the reasons, if these are due to company's fault and if not satisfied, discuss with the management and incorporate the audit findings. • Also obtain the monthly despatch/sale statements of oil and gas from the selected fields. • Compare the sales with the minimum quantity as agreed in the respective sale agreements. • In case of less off take by the customers, specifically check if the company has raised invoice to the extent of minimum sales quantity. • If not, work out the total amount of loss in this regard. • Discuss the same with management and incorporate in the audit findings.		
Errors in fixation of LPG, Sulphur and other associated products' prices in non-compliance of the Government notifications • Obtain the total notifications issued by the LPG Association of Pakistan (LPGAP), in respect of LPG price during the year. • Depending upon the number of notifications select different notifications from different time periods in the year for the purpose of verifications. • Obtain the detailed workings of the LPG price as the company is heading the LPGAP. • Specifically check the following in this regard: ▪ Saudi Arabian export price ▪ Exchange rate used ▪ Discount applied (if any) • Compare your price calculation with that company and discuss the differences (if any) with the management and if the response is not satisfactory, obtain the total quantity sold and re-calculate the sales volume.		
Irregularities in award of the LPG contracts to the individual customers in violation of the quotas fixed, specially as the minimum signature bonus has been fixed w.r.t. minimum off take • Obtain the list total contracts awarded during the year for sale of		

Audit Procedure	Done by	WP Ref
LPG. Also obtain the list of total LPG sale contracts of the company. • Select all the contracts for the purpose of testing. (In case no contract was signed during the year, select at least two contracts each year from the already signed contracts) • Obtain the relevant bidding documents for award of contracts. • Inquire from the management about the criteria of selection of bidders as the price and signature bonus has already been fixed. • Review the bidding process and check if the highest bidder (in respect of signature bonus / any other criteria) has been selected. • Check if the performance bond/guarantees have been obtained from the successful bidders as per the agreements. Also check in case of ongoing contracts, whether the guarantees are being extended on continuous basis.		
Irregularities in the bidding process for the award of contracts for sale of other associated products, sulphur etc. • Obtain the list total contracts awarded during the year for sale of sulphur. Also obtain the list of total sulphur sale contracts of the company. • Select all the contracts for the purpose of testing (In case there has been no contract signed during the year, select at least two contracts each year from the already signed contracts) • Obtain the relevant bidding documentation for award of contracts. • Review the bidding process and check if the highest bidder (in respect of signature bonus / any other criteria) has been selected. Check if the performance bond/guarantees have been obtained from the successful bidders as per the agreements. Also check in case of ongoing contracts, whether the guarantees are being extended on continuous basis.		

6.23 Audit Programme – Wheat Procurement & Dispatch

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By	WP Ref.
Achievement of Targets • Obtain the targets fixed by MINFAL regarding wheat procurement • Obtain the support price of wheat fixed by the Government • Check the report regarding target achievement from the management and highlight the under/over achievement and find out the specific reasons of under/over achievement.		
Financing Arrangement • Obtain the Wheat Procurement Policy for the year under audit. • Obtain the files regarding Credit Line arranged from the Commercial Banks and check that financing have been arranged keeping in view the procurement target • Scrutinize the files to check that competitive financing have been arranged. **In the Field Offices/Procurement Centres** • Obtain the weakly cash requirements sent to GM Field. • Obtain the cash disbursement letters/ advices sent by the GM Finance to the concerned banking authorities and field offices. • Obtain the bank statement of the relevant period and check any un-utilized cash balances.		
Selection of Sites for Procurement Centres • Obtain the SOP regarding establishment of procurement centres from the PASSCO Head Office. **In the Regional Offices** • Check that sites for procurement centres have been selected according to the SOP. • Scrutinize the Agreements of hiring of sites for Purchase Centres / Storage / Godowns and check any discrepancies. • Check that Market Committee Fee has been paid. • Check that basic facilities such as lighting, tents, water and furniture etc. has been provided by the Market Committee in return of the fee at procurement centres, if not provided by the committee highlight the irregularity. Check the payment vouchers		

Audit Procedure	Done By	WP Ref.
to ascertain that whether local management was making the payments for these services. If found, raise observation. • Check that whether procurement targets have been achieved or not by each procurement centre. Highlight any under/over achievement.		
Staff Deployment • Obtain the policy for staff deployment at procurement centres • Check on sample basis that the staff deployment has been made according to the prescribed policy. • Scrutinize the inquires against the staff involved in mal practices.		
Purchase of gunny bags / bardana, tarpaulins / ropes and sutlies etc. • Obtain the purchase files of bardana, tarpaulins/ropes / sutlies /fumigation and pesticides. • Check that compliance of Public Procurement Regulatory Authority Rules has been made or not. (use the audit program of procurement.) • Check that procurement planning has been made keeping in view the available stocks and targets of procurement of wheat. • Check that administrative approval from the competent authority for purchase have been obtained • Check whether the Tendering Procedure was same as prescribed in Public Procurement Rules (PPR) • Check that the proper Delivery Schedules have been given to suppliers. • Check that before dispatch of bags/tarpaulins/sutlies etc, samples have been sent to the laboratory for quality check. • Check that after passing the sample, Release Orders for the supply have been issued and also check that delivery schedule have met in letter and spirit. • Check that field offices have given proper receiving note and proper entries have been made in the stock registers. • Check the payments vouchers on sample basis to ensure that payments have been made according to supplies and late deliveries have been properly accounted for.		
Issuance of Bardana • Check that allocation of bardana at zonal offices level/ project director office wise and procurement centres wise • Check that at the time of issuance, the farmers have provided Personal / cash guarantees. • Check that bardana has been issued as per prescribed procedure. • Check any delays in providing the bardana to the farmers.		

Audit Procedure	Done By	WP Ref.
• Check that management at procurement sites has been maintaining proper record of farmers demand and issuance of bardana. • Reconcile demand and issuance of bardana and enquire the management in respect of any discrepancies. • Check that complaint cell has been working to address the farmers' complaints regarding issuance of bardana. • Check Reconciliation statements of stocks of bardana. • Check that un-utilized bardana has been returned by the farmers or otherwise cost of un-returned bardana has been adjusted against the cash security of the concerned farmer. • Check the conversion of bardana of A, B, C, D grades and check reconciliations.		
Wheat Procurement • Check that farmers, to whom bardana was issued, have brought the wheat at the procurement sites. • Check that at the receipt of wheat, minimum quality check as per FAQ (Fair Average Quality) has been observed • Check that six copies Purchase bill has been prepared and issued to following; a. Two copies – Farmer b. One copy- Project Office c. One copy-Zonal Office d. One copy –Head Office e. One copy - Record • Check that proper entry of wheat procured has been made in the stock Register. • Check that transfer entries had been made at the procurement centres regarding transfer of wheat to storage centres. • Reconcile the transfer entries of storage centres and procurement centres. • Check that at storage centres, SOPs regarding wheat preservation have been followed and proper fumigation has been done.		
In the Zonal Office • Check that bank branches relevant to the zone, have been sending daily scrolls • Check that the zonal offices have reconciled the scroll with the purchase bills issued. Check any un-reconciled payments and ascertain the reasons.		
Wheat sale/Dispatches and Receipt of payments. • Obtain the quota/allocation of wheat decided by Fed. Govt. MINFAL to different Departments. • Obtain the centre wise allocation communicated to zonal office by		

Audit Procedure	Done By	WP Ref.
the PASSCO keeping in the view the strategic reserves according to the Govt. Instructions. • Check that the Lifting Schedule has been communicated to zonal offices and the same has been followed. • Check that Fair Average Quantity and Quality (FAQQ) has been observed at the time of lifting. • Check that proper Delivery Notes and Gate Passes have been issued and proper entries have been made in the Stock Registers. • Check that reconciliation of Gate Passes with the Delivery Notes have been done regularly. Highlight any un-reconciled dispatches. • Check that Reconciliation of wheat dispatched by PASSCO and wheat received by respective Department has been done. Inquire any un-reconciled dispatches. • Check that after reconciliation, Bills have been raised to respective Departments. • Check that payments against bills raised have been received from the respective Departments. • Check that overall Stock Reconciliations and physical verifications have been done and any shortages/sub-standard wheat stocks have been pointed out and recoveries from the persons held responsible have been made. Ensure that strategic reserves have been maintained. • Check that external audit has been conducted timely and annual accounts have been finalized. • Check that after finalization of accounts, Incidental Charges Claim has been lodged to Federal Government on the basis of audited Financial Statements. • Check the Claim of Incidental Charges and high light any discrepancies.		

6.24 Audit Programme – Procurement

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
• Select a sample of transactions – if possible, this sample should focus on large transactions and a representative sample of the rest; and include a sample of transactions close to year end		

Audit Procedure	Done By:	WP Ref.
• For this sample of transactions, collect all related documentation (purchase order / purchase authorisation / invoice / delivery receipt / any receiving documentation / payment) and check entry in Inventory Register and in general ledger • Check payments for product/service entered into ledger for correct year • Check that the payment was made to the correct payee by comparing information on cheque register with invoice and delivery information • Through CAATs or other means, identify in the records any situations of "identical" transactions and check whether they are two separate purchases (tracing through to physical check of goods/services received) or are cases of double payment for same goods/service. Follow up on cause(s) of duplicate payments (including possibility of fraud). • Check also whether any "identical" transactions resulted from a practice of "order splitting", i.e. purchase orders split to avoid need for sanction from a higher authority. • At least for large transactions and transactions close to year end, conduct physical check on existence of goods and services (if these are distant from site where conducting audit, may seek confirmation in writing from appropriate entity's officials) • Review suspense account for un-cleared payments or for inappropriate clearances • Reconcile total expenditures on product/material with the amount recorded in the ledger. • Check that all material recorded as acquired in the year are charged against that year. • For the sample of transactions, check that the documentation (purchase order / purchase authorisation / invoice / delivery receipt / any receiving documentation / payment) is consistent in quantity, pricing, product description (particularly checking for substitution of lower quality/grade product) • Check whether the individual items add up to the total given on the voucher / purchase order and the appropriate amounts of tax have been supplied • Follow up on any short-fall / substitution / missing items / multiple deliveries to ensure that only what was received was paid for • Check that the invoice and payment have proper prices applied (include any negotiated prices or other arrangements) and reflect correct freight charges if applicable. • Check also that any payment advances have been properly		

Audit Procedure	Done By:	WP Ref.
reflected in the invoice and correspondingly deducted from payment • Check arithmetical accuracy of the invoices • Check inclusion of applicable guarantees, service support etc. • If any products / services to provide maintenance or spare parts for a product (i.e. an expenditure to service a product previously acquired) are included in the sample of transactions, check that no payments were made for maintenance / replacement parts that should have been covered by warranties. • Check in case of late delivery, whether any penalties apply under contract and if so, whether payment was adjusted accordingly • Check for any duplicate payments (see application of CAAT / analytical review under Analytical Review activity) • Check that proper authority to enter into the acquisition process and that the size of the purchase is within the authority limit of the authorizing officer. • (In the cases of large purchases) Check for supporting material to justify the acquisition of materials: identify in budget are proper defining the needs and requirements. • Check that supplier's name is on list of approved vendors. **Transparency in tendering of works, procurement of goods/ material and hiring of consultancy services** • Check the tender is announced publicly in accordance with the PPRA rules (i.e. over hundred thousand and upto 2 million-advertisement on website & over 2 million on website and print media) • Check envelop is attached with all the bidding applications. • Compare the content of tender with the estimates. • Ensure the cost of administratively and technically sanctioned is recorded in the tender register. • Check the bidding applications of potential suppliers are recorded in the tender register. • Compare bidding applications and tender register to ensure the accuracy of particulars (e.g. rates, quantity etc) quoted by the applicants. • Check that there are no interpolations and corrections made to the tender. Check that all the changes should be approved by the competent authority. • Check the comparative statement of all the bid applications is prepared in the tender register. • Check the basis on which bidding applications were accepted or		

Audit Procedure	Done By:	WP Ref.
rejected. • Check the arithmetic accuracy of the calculations made in the tender and estimates. • Check the attendance sheet of potential bidders to ensure participation of all the bidders. **Violation of PPRA rules, purchase procedures and Authority instructions** • Check that all the tenders are generated in accordance with the provisions of PPRA rules, purchase procedures and authority instructions. **Modification in standard clauses of contracts/ supply orders** • Check that all the tenders and changes thereon are approved by the competent authority. • Compare the terms of actual contract with bidder and tender. In case of any variation investigate the matter. **Non imposition of liquidated damages in late completion of works/ supply of goods** • Check the works register, progress report and stock register with contract entered into with the supplier. • In case of delay in execution of contract, or supply of material check that liquidated damages (LD) charges have been recovered in accordance with the provisions of entities purchase procedures and book of financial power. **Failure and termination of contracts/ supply orders** • Check the civil works register and stock register and compare it with the purchase order to identify difference in the pending civil works and quantity of material due to be received. • In case of non-compliance with the terms and conditions of the contract, check that the contractor is penalized in accordance with the provisions of the contract/ purchase order. **Repeat orders** • Check the contractor register and ensure the repeat contract is not entered into with same supplier/ contractor over the ceiling limit specified in purchase procedures(i.e. 15% of original contract)		

Audit Procedure	Done By:	WP Ref.
• Check the rate analysis including current and previous year rates and identify variation in prices. In case on any downward movement in prices investigate the matter. **Extra financial assistance to the contractors** • Check contract agreement and compare it with payment voucher through which payment was made to the contractor. • In case of any deviation from the contract agreement, record the instances and probe into the matter. **Escalation claim of the contractors** • Check escalation provisions of the contract agreement and compare with the payment voucher. • In case of deviation record the instances and probe into the matter. **Variation/ change orders in original contracts/ work orders** • Check that the variation order is approved by the competent authority as mentioned in the book of 'Delegation of Financial Power'. • Check that the variation was recommended by the engineer (nominated consultant) of the contract. • Check that the cost of variation order was prepared in accordance with the terms and conditions of the contract agreement or prevailing market rates. **Non-recovery/adjustment of loans and advances to contractors/ suppliers/ departments/ employees** • Check that the loans and advances issued are approved by the competent authority. • Check loans and advances issued to the suppliers are in accordance with the terms and conditions of the contract. • Check accurate booking of all loans and advances in the Financial Statements. • Check the progress reports, contract/ pay bills and ensure the loans and advances are recovered in accordance with the terms and conditions of the agreement. **Non-encashment of performance bonds/bank guarantees** • Check that the performance bonds/ bank guarantee received		

Audit Procedure	Done By:	WP Ref.
from the supplier/ contractor in accordance with the terms and conditions of the contract. • Check the authenticity of the performance bonds/ bank guarantees being submitted by the contractors/ suppliers. • Check the guarantee register and ascertain the completeness and safe custody of the bonds/ guarantees. • Check that the bonds/ guarantees are en-cashed in accordance with the provisions of the contract.		

6.25 Audit Programme – Fixed assets

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
Fixed Asset Register • Check that the entity has maintained fixed asset register in accordance with the provisions of entities rules and regulations and requirements of Companies ordinance 1984. • For a sample selected out of the Fixed Assets Register check that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. • Check that all additions (purchase / transfer in) and deletions (sale/of fixed assets have been properly incorporated in Fixed Asset Register. • Check whether the manager(s) responsible for asset management receive(s) regular reports from the Fixed Assets Register that the information is presented in a way that it can be used by the responsible managers section.		
Physical Verification • Check for a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. • Check from physical inspection of a sample of assets on site that they are entered into the Register and that the information about them is accurate. • Check for a sample of expenditures (identified in General		

Audit Procedure	Done By:	WP Ref.
Ledger) that they have been recorded correctly in the Fixed Assets Ledger and that they are on site, according to location information in Ledger, and that they are operational and being used. • For any items still in storage, or non-commissioned, determine reasons for non-functional state. • For any assets not delivered, determine why payment was made before delivery. (May need to follow-up on contract arrangements.)		
Fixed Assets Additions **Purchases** Check for a sample of additions that: • Budget was approved for the particular purchase. • Purchase Indent is approved by the competent authority. • Tendering process was done in accordance with PPR Rules 2004. • Purchase Order generated in favour of selected/approved supplier. • For the sample of purchased items during period audited, check that the cost listed in the Fixed Assets Register is the same as the purchase price (including cost of installation & commissioning) and check against supporting documentation. **Transfer in** • For items transferred in, check whether any transfer payments were made and if so whether for an appropriate amount. • Ensue that any donation/gift of fixed assets received, met the requirements of the Accounting Policies and Procedures Manual. **Subsequent Capitalization** • Review any expenditure on improvements to assets and check that these have been identified as capital expenditures in accordance with IAS-16.		
Fixed Assets Deletions **Disposals** Check for a sample of fixed assets disposal: • Whether proper authority was obtained to dispose of the asset • That an appropriate price was obtained (either by a competitive bid process or by benchmarking the value of the asset before determining the price) • Where possible, compare prices obtained for similar assets and investigate any assets apparently sold below value		

Audit Procedure	Done By:	WP Ref.
• For any revenue, check that this was properly recorded in the General Ledger, or other account **Transfer out** • For items transferred in, check whether any transfer receipts were obtained and if so whether for an appropriate amount. • Check that the accumulated depreciation of the assets transferred out has been excluded from the accounts. • Check that any income earned on the transfer out of fixed assets was correctly recorded. • Confirm that assets were received by the organizations to which they were transferred.		
Depreciation of Fixed Assets • Checked on sample basis that the depreciation is accounted for accurately and in accordance with IAS-16 wherever applicable.		
Revaluation of Fixed Assets • If during the period fixed assets were revalued, ensure that revaluation process in accordance with rules/policies adopted by the entity. • Check that any gain/loss on revaluation of fixed assets had been accounted for in accordance with rules/policies adopted by the entity and IAS-16 wherever applicable. • Where assets have been revalued, determine reason for revaluation and if necessary obtain an opinion whether they are fairly valued. {This could be an issue where operations to be privatized.}		
Ownership of Fixed Assets • For assets examined, check, where appropriate, that the Government entity has clear ownership and title to the asset. {This check is more likely to be important for any used items acquired (equipment, buildings, etc.) or for any construction on lands where the entity may not have clear ownership of the land)		
Reporting • Check that the fixed assets are presented and disclosed in accordance with the requirements of IAS-16 and Companies ordinance 1984.		

6.26 Audit Programme – Payroll

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By[4]:	WP Ref[5].
• Select a sample of transactions as required for certification requirements / testing controls / Regularity Audits • Obtain the Payroll record for all selected employees in the sample • Check that: employee is identified in Payroll record; and the payment was made to correct payee • Check attendance records to determine that employees in sample earned the amount paid (this is a test of attendance, not of effort) • Select a sample of employees who recently retired / transferred out / otherwise left the office and check whether they received any payments after date of leaving (adjusting for timing of last payment) • Select a sample of employees recently joining the office and confirm that they were not paid before the date of joining and correct payment was paid. • Conduct a reconciliation between {Direct Credit Advice / cash salaries/salaries paid through cheques} and Monthly Schedule of Employees' Salaries and General Ledger		
• For the sample of transactions check: 1) Payment received by employee is correct according to Payroll records; 2) Payroll record is consistent with relevant Rules applying to promotion, pay rates and entitlements; and 3) Deductions are correct (according to the GP Fund rules / the income Tax Ordinance, 2001 and other deductions in accordance with rules and regulations governing deductions such as rent deductions, loans and advances / etc.)		
For the selected sample of transactions selected: ***Joiners:*** • Check that the job was properly requisitioned by the relevant department and all the process including advertisement were completed in a transparent manner in accordance with relevant		

[4] The name/initials of the auditor who undertook the work
[5] Cross referenced to the working papers that contain the supporting details.

Audit Procedure	Done By[4]:	WP Ref[5].
rules and regulations. • Check that the salary and grade for the employee has been fixed according to the relevant HR rules and regulations. • Check that a Medical Certificate acknowledging the fitness of the employee has been issued by the Medical Officer • Check that the appointment letter of the employee has been signed by the relevant authority. • Check that the personal file of the employee contains the following o Application and CV of the employee o Attested copy ID Card o Experience Certificate (if any) o Appointment letter o Joining report o Medical certificate o Interview score sheets o Leave applications (if any) • In case the age of appointee is more than 60 years check that the appointment has been made in accordance to finance rules for appointment after superannuation age. **Promotions & Increments:** • Check that an Annual Performance Report is maintained by the Administration Department for the employee • Check that the promotion of the employee has been approved by the relevant authority. • Check that the employee has received the annual increment as per the increment order, and his salary does not exceed the maximum basic scale limit except in case of move over where there is no higher position vacant. • Any rules regarding receipt of increments in pay should be checked (including for example disciplinary actions / satisfactory performance / qualifications or certifications required to advance beyond barriers / etc) **Contract Renewal &Regularization:** • Check that the contract of the employee is renewed after the approval from the relevant authority • Check that the contract employee has been made regular after the approval of the relevant authority **Resignations& Terminations:** • Check that all resignations/terminations have been approved		

Audit Procedure	Done By[4]:	WP Ref[5].
by the relevant authority after complying with all the applicable rules and regulations. • Check that the employee after the date of termination/resignation doesn't appears in the monthly salary sheet.		
Presentation and Disclosure • Check that payroll payments are correctly identified in the General Ledger under Payroll Object and correctly coded according to the Chart of Accounts. • Check from the sample of transactions that the net pay and deductions have been correctly coded according to the Chart of Accounts codes. • For a sample of months, check that the total pay (gross, net and deductions) are correctly presented in the General Ledger by making the necessary calculations (which will be much easier through the use of CAATs).		

6.27Audit Programme – Projects Audit

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref
Decisions to proceed based on appropriate and adequate information • For those projects in the sample selected, check whether decisions relating to the project were made with supporting analysis and information available (such as: reliable estimates of cost[6]; requirements specified; and risks identified and assessed) • Where possible, conclude on the adequacy of the analysis {this may require expert opinion to guide the auditor} • The auditor should note where the decision on the project is inconsistent with the available analysis.		

[6] Note: the estimates of cost are usually produced in increasing levels of accuracy according to the stage reached in the project.

Audit Procedure	Done By:	WP Ref
All prerequisites met before commitments made / or contracts entered into • For a sample of projects, check whether the appropriate activities have been successfully completed before entering the next stage of the project. • In particular, ensure that commitments to proceed have not been made until all substantial requirements have been completed at the previous stage • Specifically, no contracts or other written or verbal undertakings have been made before the funds have been allocated to the next stage of the project and all prerequisites have been met		
Environmental Assessment of the projects • Where required, an conduct an appropriate environmental assessment relating to the proposed project • For those projects in the sample selected, check whether an environmental assessment is/was required (***refer to here Environment Audit guidelines and the Act No. XXXIV of 1997)*** • Where an environmental assessment is required, check whether one was done (or is being done) and submitted to Environmental Protection Agency for review and comments. • Conclude whether the environmental assessment process was completed before any significant effort or commitments made on the project – and did not contribute to any serious delays {The auditor should be careful to recognize complexities surrounding this requirement}); and adequate - judgment on adequacy might require expert opinion to guide the auditor}		
Appropriate approvals and project controls in place before any commitments, or actions, can be taken on a project • For a sample of projects, check whether the appropriate project approvals and project controls were in place before any commitments were made to proceed (specifically, no contracts or other written or verbal undertakings had been made) • In particular, ensure that the funds had been allocated to the project before any contractual arrangements were entered into • Check that there have been no payments prior to date of contract		
• For a sample of projects and/or project expenditure transactions, check whether payments of bills/invoices are promptly and correctly entered into accounting records • Trace each payment / deposit to relevant bank account and check that recipient of payment was the party who carried out the work and billed against the project • For a sample of expenditure records in the General Ledger and/or		

Audit Procedure	Done By:	WP Ref
project accounts, check that these were correctly charged to the project (and were consistent with the terms of the contract)		
• For a sample of projects, reconcile the total payments, during the year of audit, (as determined by inspection of vouchers or from project accounts) with the amount recorded in the General Ledger • Take a sample of vouchers, close to the beginning or end of the year, and check that the work was conducted (or goods delivered) in the year against which the cost was allocated		
• Where project bills/invoices are based on volume of materials used (and/or contract hours consumed) check for a sample of vouchers that the total cost is correctly calculated on the basis of volume times unit price (and/or number of hours times hourly rate), taking into consideration any discounts / overtime rates • Where payment is based on progress, check a sample of payments to verify that the amount paid does not exceed the work certified by the consultant, technical officer, or project manager as applicable, and where feasible, confirm by observation or reading of project progress reports, measurement books that the stated progress has actually been achieved • Where the terms and conditions of the contract were not met, check whether the necessary approvals, and corresponding contract amendments, were obtained to either: a) waive one or more of these specifications / requirements, and/or b) change the amount of payment prior to payment		
• Confirm that, a project manager was appointed for each project, and given delegated financial powers as laid down in the "Delegation of Financial Powers" as issued by Ministry of Finance. • Check that the instructions of Government regarding appointment of consultants and consultancy firms have been complied with.		
• For a sample of projects, and (where there are a large number of payments per project) on a sample of payments, check that only valid project expenses have been paid and correctly recorded in the General Ledger.. . • Review project reports and check on a sample basis that items in the report correspond to the records in the General Ledger (this is more critical if the report is not a computer generated) • Check whether commitments were recorded, for the sample of projects examined, in accordance with the accounting policies laid down in Section 4.3 of the Accounting Policies and		

Audit Procedure	Done By:	WP Ref
Procedures Manual • Check that no expenditures were made against the project for any indirect costs, such as interest, depreciation, or administrative overheads unless specifically provided for under the project budget (as directed under paragraph 10.3.3.4 of the Accounting Policies and Procedures Manual)		
Contingency plans developed for major risk situations, wherever feasible • The auditor should enquire whether there are any policies or directives regarding contingency planning for specific high risk situations (possible labour disputes, availability/cost of particular technologies, environmental constraints, local support for the project) • For those projects in the sample selected, check whether there are situations where a contingency plan would be appropriate (or required under policy) • Where in the opinion of the auditor, a contingency plan would be appropriate, determine whether one was prepared and assess its appropriateness for the risks / requirements identified		
Where a prototype is required, major specifications met before the production phase is entered into • For projects that involve the production of a prototype (or conduct of a pilot study) prior to full implementation, determine whether there was an evaluation report produced after the pilot/prototype stage • On the basis of this report, and/or from interviews and observation, determine what weaknesses existed at this stage (and what major specifications were not met) • Conclude whether full implementation / production was entered into before such weaknesses were resolved • Determine (in retrospect) what problems resulted from premature embarkation on next stage before resolving issues raised at the pilot/prototype stage		
Appropriate monitoring and reporting of progress • The auditor should enquire what policies, directives and procedures exist with regard to the monitoring and reporting of projects (particularly large and/or complex projects) • As covered in the ICQ (question G), determine whether there are		

Audit Procedure	Done By:	WP Ref
regular project reports containing information on: a) the progress of the project; b) expenditures against budget; c) forecast of total completion cost and completion date; d) project difficulties and/or delays; e) proposed corrective actions; f) contingency plans? for each of the projects in the sample of projects • Assess the quality of information contained in these reports and conclude whether the entity conducts appropriate monitoring and reporting of progress		
Corrective actions taken in a timely and effective manner • If any of the projects in the sample encountered problems or setbacks, examine what issues had to be resolved • Conduct an analysis of what corrective actions had been identified as necessary • Document what actions were taken and conclude whether: a) these were taken in a timely manner b) at a reasonable additional cost (compared to action plan if available), and c) impacted on the success of the project		
Testing conducted to ensure all components are in operational condition • Check what actions were taken to assure that the facility / equipment / computer system / or other output met the original (or amended) requirements • Was a commissioning report (or report on satisfactory completion of the project) produced • Did this report, or other communications indicate examples of deficiencies (or unsatisfactory performance)		
Any failures to meet operational specifications corrected in a timely manner • With regard to any deficiencies identified above (under audit objective P), what actions were taken in response to these deficiencies (such as hold back of final payment) • Determine whether these corrective actions were taken in a timely manner and furthermore, whether these problems were eventually resolved • Through interviews, physical inspection and review of documents, conclude whether the facility / equipment / or whatever was satisfactory or whether there was evidence of		

Audit Procedure	Done By:	WP Ref
incomplete / unsatisfactory product(s) and workmanship		
Where applicable, all warranties in place and no expenditures on items covered by warranty nor poor operational performance that could be corrected under warranty and/or contract • For the projects in the sample, that had reached contract stage, determine whether considerations of warranty were covered in the contract(s) • For those projects in the sample that were completed, or close to completion, identify what, if any, corrective actions were required • Check for these cases, whether they were covered under warranty, and if so, that the costs of corrective action were born by the contractor / supplier according o the terms of the warranty • Where there was inadequate operational performance, determine whether it could have been corrected under warranty • In these cases, determine why corrective action had not been taken under the warranty		

6.28 Audit Programme – Grants-in-Aid and Contributions

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By[7]:	WP Ref[8].
• Select a sample of transactions (as required for certification requirements / testing controls / additional substantive compliance testing) – if possible, this sample should focus on large transactions and a representative sample of rest; and include a sample of transactions close to year end • For this sample of transactions, collect all related documentation (request for grant or contribution / letter of agreement / applicable authorisations / acknowledgement of receipts {***does this happen?***}) and check entry in Grant Register (***whatever this is called***) and in general ledger • Check payments of grant / contribution entered into ledger for correct year • Confirm that the payment was made to correct payee by		

[7] The name/initials of the auditor who undertook the work
[8] Cross referenced to the working papers that contain the supporting details.

Audit Procedure	Done By[7]:	WP Ref[8].
comparing information on cheque register with details on grant / contribution information • At least for large transactions and transactions close to year end, may decide to contact recipient of grant/ contribution to obtain confirmation that the monies were spent on what was agreed to (if these are distant from site where conducting audit, may seek confirmation in writing from DDO or independent party) • Review suspense account for un-cleared payments or for inappropriate clearances		
• Reconcile total expenditures on grants / contributions with the amount recorded on the general ledger (if practical or use of CAAT available) • Check that all grants / contributions recorded as issued in the year are charged against that year (if practical or use of CAAT available) • Check for recently provided grants / contributions that payments are recorded and/or monies allocated for payment (particularly important if audit is conducted close to year end)		
• For a sample of contributions, check that payments under the agreement were fully supported by proper documentation (showing how monies were spent) • Check that the calculations supporting payments under a contributions programme were accurate and included only allowable expenses under the agreement (and/or met the conditions and criteria laid out under the programme) • Check also that any payment advances under the contribution agreement have been properly taken into account before additional payments made and correspondingly deducted from payment • Check for any duplicate payments (see application of CAAT / analytical review under Analytical Review activity)		
• Check there has been proper authority to enter into the process of supplying the grants / contributions and that size of the grants / contributions is within the authority limit of the authorising officer (***use of certification and authorisation register?***) • Check the expenditure is consistent with the nature of the appropriation to which it was charged - check for each in the sample, whether the particular grant / contribution is a correct expenditure against the budget (consistent with the object / appropriation / objectives of the programme). • Check that in all major respects, the laws, regulations, rules and policies applying to the acquisition are complied with (***need to include the relevant policies, rules, etc.***)		
• Check that the grants / contribution payments are correctly		

Audit Procedure	Done By[7]:	WP Ref[8].
identified in the General Ledger under the correct Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes. • Check whether the respective managers responsible for the provision of grants / contributions and for the payments on grants / contributions receive timely reports from the General Ledger under the relevant Object Codes and that the information is presented in a way that it can be used by the responsible managers section. • Check whether the managers reconcile the information in the accounting report with the grants / contributions payments made for the period reported.		
Grants-in-Aid and Contributions are Administered Properly • Review the procedures used for administering the programme, including: a) Information about the programme b) Application forms c) Criteria for qualifying / selecting d) Review committee (or other decision making body) e) Authorisation of awarding grant / contribution f) Documentation of rejection / letter of rejection g) Documents for making offer: conditions of funding (agreement / letter of offer) h) Acceptance by recipient of conditions of funding i) Basis of providing funds j) Authorisation of payments k) Reporting requirement (by recipient) • Assessment of procedures as to whether they provide adequate controls over the programme • For a sample of grants or contributions, determine whether they complied with the administrative procedures (provided that step 2 has concluded that the existing procedures are appropriate for administering the programme) • By step 3 and by analytical methods, determine whether there are any anomalies (or transactions that require greater examination) amongst the grants / contributions • Conclude whether there are adequate controls over the management of the funding programme and whether the approval process and financial payments processes are satisfactory		
Sufficient and Appropriate Audit • Examine: o audit plans		

Audit Procedure	Done By[7]:	WP Ref[8].
○ completed audits ○ audit reports ○ actions taken in response to audit findings and recommendations ○ unresolved problems / issues • Conclude whether audit coverage is sufficient and appropriate for the size of funding programme being administered • Conclude whether audit activities are assuring funds are spent as intended		
Operation of Assignment/PLA Accounts according to the instruction of Accounting Policies and Procedure Manual • Check that all cheques have been drawn by the authorised cheque signatory. Clause 17.3.4.2 • Check that all cheques drawn from assignment accounts and PLA's have been countersigned by a delegated authority in the responsible ministry or department. Clause 17.3.4.3 • Check that all cheques drawn in respect of PLA's have been endorsed by a delegated officer in the DAO / treasury office prior to encashment. Clause 17.3.4.4 • Check that the concerned DDO of the responsible ministry / department has submitted a copy of the schedule of payments, in the prescribed format, to the concerned DAO / treasury office on a daily basis Clause 17.3.5.1 • Check that no cheques are permitted to be drawn from assignment accounts or PLA's after 30 June, against the Schedule of Authorised Expenditure from the previous financial year. Clause 17.3.6.1 • Check that Assignment accounts and PLA's have been promptly closed upon completion or winding up of the relevant activity for which they were established. Clause 17.3.7.1 • Check that, on a quarterly basis ministries and departments shall submit a detailed Statement of Expenditure for all assignment accounts and PLA's under their control, to the respective AG/AGPR offices for verification purpose. Clause 17.3.9.2		

6.29 Audit Programme – Insurance

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
Amounts Due to and from (Receivables / payables with) Agents, Brokers, and Policyholders Related to Insurance Contracts • Reconcile agents' balances and premiums receivable sub-ledgers with the general ledger balances and investigate large and unusual reconciling items. • Verify the existence of agents' balances/premiums receivable through subsequent cash receipts on samples selected by ACL or other CAATs. • Reconcile the receivable balances with premium registers and agent statements. • Send direct confirmations to agents selected on test basis. • Determine the validity of agents' balances and premiums receivable for which replies to confirmation requests are unsatisfactory. • Perform "roll-forward" of steps performed in interim audit upto the balance sheet date. • Compare the activity with current and prior period's activity levels (e.g., premium written volume and related cash receipts activity). • Investigate unusual items and consider confirming (at the balance sheet date) significant balances/premiums receivable with the new agents. • Test the cut off by inspecting the premium registers, billings, back-log reports, suspense accounts, and other supporting documents immediately before and after the balance sheet date. • Check that the transactions were recorded in the appropriate period. • Check the reasonableness of the allowance for doubtful accounts as per policy. • Recalculate the allowance for doubtful debts on test basis and compare with that booked in accounts. • Obtain aging of receivables / payables, perform trend analysis and specifically check long outstanding balances. • Document explanations for unexpected variances from analytical review performed above • Review the procedures for netting off of debit and credit balances with the same agents.		

Audit Procedure	Done By:	WP Ref.
• Check that netting off of balances is done in accordance with the entity's accounting policies or applicable financial reporting framework. • Review the calculations for pipeline (pending) premiums. • Check whether the assumptions used for pipeline premiums are appropriate and consistent with the prior periods. • Compare pipeline premiums accrued to actual premiums received subsequent to the balance sheet date. • Compare the assumptions used by the management in the assessment of pipeline premiums with that used by the actuary. **Amounts Recoverable From Reinsurers and Other Reinsurance Balances** • Verify the appropriateness of selected reinsurance balances through confirmations and examination of supporting documents. • Confirm significant outbound reinsurance balances and related contract terms with assuming and ceding entities. • Review significant contracts with fronting arrangements. • Review ratings from rating agencies and obtain audited financial statements to assess the financial condition of reinsurers. • Review reinsurance recoverable balances identified as being in dispute or subject to arbitration / litigation for possible uncollectible balances. • Based on the results of the above reviews, consider the need for a specific allowance for possible uncollectible reinsurance. • Review the loss reserve adequacy, considering the ratio of collectability. • Test significant reinsurance contracts to determine that losses are being properly ceded or assumed in accordance with contract terms. • Check whether risk transfer has occurred and the amounts recoverable are carried in accordance with the entity's accounting policies or applicable financial reporting framework. **Claim Reserves** • Select samples from claims incurred (reported and paid) for checking proper inclusion in claims databases. • Check that the claims paid are in accordance with the terms and conditions of the individual policy. • Check that recorded liabilities are adequate considering claims reported or paid subsequent to the balance sheet date. Check		

Audit Procedure	Done By:	WP Ref.
entity's projections or perform independent projections of claim liabilities. • Check that actuarial assumptions are appropriate and consistently applied. **Premiums** • Check that the premiums are received and recorded in accordance with the relevant policies. • Select sample of individual policies to check that details are correctly included in the policy master file. • Check that the annual and modal premium in force is appropriately computed based on authorized premium rates, policy coverage applied for, and other data on the policy application. • Check that underwriting procedures were properly applied in accordance with the relevant policy and the premium reflects any unusual ratings adjustments. • Check whether the policy details (policy number, account number, amount, period and premiums) are properly recorded in the policy master file, premium register, commission register, and cash receipt records. • Check the entity's reconciliations of premium registers, suspense accounts, commission registers, and general ledger for a selected period on sample basis. • Check for timely, accurate, and appropriate treatment of reconciling items, and inquire for unusual and long outstanding un-reconciled items. • Check selected financial transactions from policy master file for validity and recording. • Check that the selected automated transactions were properly generated and the policy master file was properly updated. **Policy Benefits (Increase/Decrease in Policy Reserves)** • Check authenticity of selected claim transactions used as a basis of project liability estimates. • Check that policy details such as policy number, claim number, line of business, claim amount, incurred date, reported date, paid date, and other relevant data, are properly recorded in claims database • Review reconciliations of claim statistical databases with detail accounting records and the general ledger. • Investigate significant or unusual long outstanding reconciling items and check appropriate treatment of the reconciling items.		

Audit Procedure	Done By:	WP Ref.
• Check that reinsurance recoverable is properly off-set against gross claim liabilities.		

6.30 Audit Programme – Employees' Old-Age Benefits Institution

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By	WP Ref
Registration Process • Obtain List of Registered Employers and Insured Persons. • Select a sample of registered employers/insured persons to check their authenticity through direct confirmations, if possible. • Check that registration is done as per legal requirements. • Review Process how EOBI ensures completeness of registration of entities/Insured Persons covered under EOBI Laws/rules. • Compare registered entities with other Independent Databases, if applicable (Federal Board of Revenue (FBR), Provincial Employees Social Security Institutions, etc.). Note difference, if identified. • Obtain List of Entities closed and delisted and select a sample to check that no contribution was received after the date the entities closed their operations or delisted. • Review minutes of committee meetings held during the period and check the compliance. • Obtain and review list of entities registered under self assessment scheme. Check that the details submitted by the entities are in accordance with Content requirement and rules of Self Assessment Scheme. **Contribution Fixation** • Obtain and review minutes of the meeting of Contribution Fixation Committee. Prepare extracts of minutes. • Check the basis used for fixing contribution amount. • Check that regulations are consistently applied over the period of time, by performing comparative analysis of contribution fixed for at least last 3 periods. • Compare contribution with other countries in the region (if any) e.g. India, Japan, Iran (via website, other information). Identify relevant improvement, if any.		

Audit Procedure	Done By	WP Ref
Contribution Collection • Select a sample of entities to check that contributions are collected in accordance with the process for contribution collection. • Obtain and analyze Schedule of Contribution receivable on the basis of regions, employers, insured persons, and collection. • Compare the said schedules with last period(s) to check for significant variations. • Check reports generated by database (with MIS departments) for accuracy and completeness of contribution received. • Obtain and review region wise targets and compare the targets with actual results to check the relevance of target setting process. • Review approvals of Committee/board for targets. • Check that incentives given to employees are directly linked with the achievement of targets. • Review ageing of ***outstanding receivables***. Check the procedures applied for collection of long outstanding receivables. • Calculate Receivable Turn over for the period under review and compare it with prior years to check for significant variations. • Obtain, review, and reconcile details sent by National Bank to EOBI for collection deposits. Note un-reconciled items. **Investments** • Select a sample of Investments Proposals to check that investments are made in accordance with EOBI (Investment Rules) 1979. • Obtain and review Investment Portfolio. Review movements there in with supporting documents (on test basis). • Check that investments made were in most profitable ventures available for investment (in current and past periods). • Check how risks associated with investments are secured and review risk mitigation criteria. • Review earning per share and dividend distributions rates of investee organisations. • Compare the return on individual investments within the same period. • Check proper classification of Investments as per accounting policies. Identify inadequacies (especially where classification may affect profits). **Investment Property** • Obtain Schedule of Investment Property and select samples to check supporting (ownership) documents.		

Audit Procedure	Done By	WP Ref
• Check that the tenancy arrangements are in accordance with the EOBI tenant, acquisition, retention and renewals policies.. • Review the effectiveness of process of exploring profitable and low risk opportunities pertaining to investment property. • Obtain the detail of vacant investment property and calculate the unearned revenue for vacant period. • Check that the maintenance of the investment property is being done in accordance with the building maintenance policy. • Obtain and review Insurance Policies covering investment property. Check that total of investment property sum is insured as per relevant policy. **Pension Distribution** • Select a sample of insured persons to check that pensions are paid in accordance with relevant EOBI laws / regulations for pension distribution. • Obtain List of insured persons due for Pension (from MIS Database) and check accuracy and completeness on the basis of sample selected. • Analyze how management ensures completeness of database for Pension Disbursement. Note observation and recommendations (if any). • Review minutes of Distribution Committee meetings held during the period and check the compliance. • Obtain and review rates for payment distribution as revised from time to time. Check on sample basis that the revised rates were applied properly to all payments made to insured persons. • Perform comparative analysis of distributions of current year with previous year(s). Note significant variations, if any. • Obtain Reconciliation for Pension Disbursement (for the period) between EOBI Statements and National Bank Details. Check for un-reconciled differences, if any. • Check that adequate funds are available with the organization for discharge of its Pension Liability as per actuarial valuation reports.		

6.31 Audit Programme – Pakistan Steel Mills (PSM)

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
Production Targets and Achievements • Obtain and review Production Plans, Summary of Department wise Daily Production Reports and Check that production is in accordance with the plan. • Obtain estimates of department wise Production Costs, actual production costs and check the deviations from estimates. • Obtain standards/norms of production (Production unit wise) and compare same with actual production. Identify differences (if any). • Review timings of preparation and approval of Production plans. Check that production plan is prepared and approved before the relevant period. • Obtain strategy/ plan to control cost for the period. Select sample of monthly production reports to check that cost cutting measures are properly followed. • Obtain and review detail of break-downs, idle machine hours and idle manpower time. Evaluate its significance to production plans. Calculate the financial impact of the idle time/breakdowns and incorporate the same in audit report. • Review efficiency and effectiveness of supply system to ensure un-interrupted, efficient and quality production. • Check compliance of stock maintenance policy. • Conduct physical stock count on samples selected from different stores (Raw Material, WIP, Finished goods, scraps). Note deviations and their financial impact. • Check that applicable safety, health and environmental laws/regulations are properly implemented. **Production Accounting** • Check the method, timing and basis of production cost recording is in accordance with the relevant policy. • Obtain and review Statements of Cost comprising Product wise sales, and costs loaded (variable and fixed, normal loss, abnormal loss, auxiliary items including any scraps). • Check that the above statements are prepared in specified format after fixed intervals and are properly approved.		

Audit Procedure	Done By:	WP Ref.
• Identify and enquire reasons for losses, specifically events of mishandling and negligence. • Calculate contribution margin and pattern of fixed cost absorption. Compare results with the standard norms. • Obtain product wise break even analysis and maximum profit calculation and compare the same with budgets. Identify and enquire differences. **Service Engineering Contracts** • Obtain annual Engineering Works requirement plan and compare the actual requirements for the period with the plan. • Check that Engineering Contract (EC) Procurement manual is in accordance with PPRA rules, 2004. • Obtain department wise list of total requirements/ requests contracts initiated and check the compliance of PPRA, EC Procurement manual and bidding documents on sample basis. • Obtain list of relevant committees, their composition and minutes and check the compliance of minutes • Obtain and review selected contract files for: ▪ Authenticity ▪ Rates (fluctuations) ▪ Availability (including quantity) ▪ BOQ (where applicable) ▪ Performance (time and compliance) ▪ Rotation ▪ Waivers, Penalties, cost recoveries ▪ Termination, cancellation, force majeure ▪ Insurance ▪ Guarantees • Check contract terms with actual transactions during the period on sample basis. • Identify overlapping cost contracts i.e., unnecessary duplication of works awarded to outsiders despites availability of relevant facilities and staff at PSM, or work already executed by another contractor earlier. • Obtain and review (selected) material and services received and compare with contract schedules. Note any differences, if identified. **Sales** • Check contract, sales prices with International/ local market (where applicable and available). Prepare analysis.		

Audit Procedure	Done By:	WP Ref.
• Obtain Product wise / region wise sales and check the trend of sales over the years. • Obtain schedule of sales to major customers for last three years and perform the trend analysis. Also check the terms of agreements in case of repeat orders. • Obtain region wise sales targets and compare with the actual results. Identify difference (if any). • Review terms of agreement with downstream consumers regarding pricing and supply of products and check compliance of terms and mode and form of returns to PSM. • Review pre-agreement feasibilities of downstream consumers. Compare and analyze with agreement and actual transactions.		

6.32 Audit Programme – Consultancy services and receipts

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence Select a sample of Bills and trace them in the Cheque Receipt Register • Trace the amounts of bills in NESMAN report, time sheets & attendance leave record & also ensure that time sheets are approved by section in charge. • Check the supporting documents (copies of bills/deposit slips) to verify that it relates to correct account and is correctly entered. • Match the invoice generated with the NESMAN report and time sheets to check correctness as to number of hours worked and that the amount of bill is correct • Check the that the amount received/receivable against the bill relates to its particular job and division • Check that listing of bills in Cheque Receipt Register for period covered by one or more of receipts sampled correspond with amount entered into bank for that period • Ensure that the Journal Voucher, showing the entry to record receivables, is approved by the manager accounts and is manually numbered. • Check the posting of the above-mentioned Journal Voucher in the system. **Completeness** • Check that proper records/bills are generated for all billable services performed by the company personnel from NESMAN report & time sheets. • On a sample basis, test that services provided resulted in amount due and correct entry is passed i.e.: Consultancy Fee Receivable a/c DR Receipts against Engineering Services CR • Check on a sample basis the Bank receipt vouchers that all invoices resulted in payment, with an accounting entry mentioned below: Bank A/C DR Consultancy fee receivable (Job #) CR **Measurement / Valuation** • Select a sample of invoices and match them with billing rates and		

Audit Procedure	Done By:	WP Ref.

agreement to check correct billing rates are used on invoices and bills are raised in accordance with agreement.
• Check that the salary cost shown in the bill is calculated according to the detail of man-hours and approved by the project manager.
• Check that the direct cost shown in the bill is charged according to the detail sent by the Finance division/Accounts department.
1. Check calculation and casting verify any errors in totals
2. Select a sample of invoices to check recording on timely basis by matching the date of invoices and bills raised
 	
Regularity
 	
• Check that the procedures for collecting revenue comply with relevant legislation.
• Note whether receipts against consultancy services are booked in accordance with the mentioned accounting policy
• Check that the application of discounts, penalty and interest charges etc. if applicable, comply with legislation.
• Ensure that the following procedures are consistent with legislation and regulations:
  • Maintaining accounts receivable
  • legal procedures
  • Collection methods
  • process for write-off of bad debts		

6.33 Audit Programme – Investments

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By	WP REF
Approval of Investment Decision • Acquire the investment agreement and minutes of meetings of investment committee (investment targets are fixed). • Check that risk factors are kept in view while making investment (assess through professional judgment). • Check that investments are made according to the terms and conditions of the agreement and under the approval of investment committee or board of directors where applicable.		

Audit Procedure	Done By	WP REF
Implementation of Government Instructions • Check that the bank/financial institution where money is deposited is holding a minimum ranking of "A" according to the rating awarded by the standard rating agencies on the panel of State Bank of Pakistan (Pakistan Credit Rating Agency, JCR-VIS credit rating company, Moody's Fitch's and standard and Poor's rating). • Prior to placing deposits with bank and in case of working balance exceeding 10 million, check that the bank selection has been made on the basis of competitive bids from at least three independent banks. • In case of working balance exceeding 10 million, check that not more than 50 % of such balance has been deposited with one bank. • In case, bank rating drops below "A" check that the new deposits and old deposits have been shifted to a bank with at least "A" rating within one month and two month respectively. • Check that the working balance limit of each organization has been determined with the approval of the administrative ministry in consultation with finance division. • For Investment in Non-Government securities, check that the investment of surplus funds in the non-Government securities/TFCs/Shares does not exceed 20% of the total funds under management. The above condition is not applicable on public sector enterprises/autonomous bodies that have statutory restrictions on their investing in non-Government securities. • Check the non-Government investment instruments meet the ***Eligibility Criteria**** as mentioned below. • Check the annual certificate is issued by the Chief Executive of PSE/Local/Autonomous body regarding the implementation of instructions in respect of the working balance and surplus fund.		
Physical Verification of Investment Instruments • Ensure that the physical verification of investment instruments is carried out. • Check that all investment instruments are serially numbered.		
Recording Investments in the Accounting Record • Check that all investments have been properly recorded in the books of accounts. Compare the investment schedule with the ledger and bank records. • Explain movements and investigate any unexpected or unusual relationship between current period and prior period accounts. • Compare investment held at year end with prior year and budgeted amounts and enquire the variances. • Check that income from investment has been accounted for		

Audit Procedure	Done By	WP REF
correctly. Perform recalculation of income on investment. • Check that the investment has been properly classified		
Approval of Disinvestment Decision • Check that the encashment of investment instruments is made on favourable rates under the approval of proper authority and in accordance with the withdrawal policy. See the minutes of meeting in which disinvestment decision was taken. • Verify receipt of principal and interest income on the investments matured during the period.		

**Eligibility criteria of non-Government investment instruments will be as follows:*

1. Non Government debt instruments should have a major rating category of A and above.

2. Public listed shares/units should have a total return comprising the dividend paid and appreciation in value, which exceeds the average six months Treasury bill rate for the last three years, the formula for the calculation of the total return would be provided by the Securities and Exchange Commission of Pakistan from time to time.

3. Initial public offering (IPO) of shares of existing companies should have a track record of three year profitability at least equal to the average of twenty best performing companies on Karachi Stock Exchange.

4. Total investment in debt instrument of a company not to exceed 10% of size of the issue or 10% of the total size of funds managed by the public sector entity, whichever is lower.

5. Total investment in the shares of a company not to exceed 5% of the paid up capital of that company or 5% of the total funds managed by the public sector entity, whichever is lower; and

6. Investment in shares of Greenfield projects/companies will not be eligible.

6.34 Audit Programme – Pakistan International Airlines Corporation

Audit Entity: **Audit Period:**
Date(s) Conducted:

Audit Procedure	Done By	WP Ref

Precision Engineering Complex (PEC)
 	
• Obtain and review annual Plans / budgets.
• Compare budget with actual, check for differences above 2%.
• Select sample of transactions to check whether transactions are in accordance with the SOPs / Manuals.
• Obtain and review list of approved suppliers, contractors associated with PEC Department and check that these are updated on regular intervals.
• Select sample of transactions–procurements/services to check;
  ▪ procurement of goods/services are made from the approved suppliers only.
  ▪ transactions are in accordance with the contract terms.
  ▪ procurements are in compliance with PPRA rules, 2004 and procurement manual.
• Analyze how PEC function/ performance is evaluated by PIAC. Check that criteria for assessing performance of functions by PEC are appropriate and reasonable.
• Obtain Schedule of repair and maintenance expense and select a sample of contracts to check the compliance of PPRA rules, 2004.
• Obtain details of revenues (if any) generated by PEC Department. Select sample of transactions to check that they are properly classified and recognized.
• Select samples from fixed assets registers for physical verification to check existence, proper coding, and obsolescence.
• Select a sample of transactions from Research and Development (R&D) costs, to check proper authorization and allocation.
• Check that adequate governance/ controls over operations (Planning, forecasting, legal compliance, authenticity, allocation and recording) exist, documented, implemented, monitored and reviewed.		

Pax Revenue • Obtain and review statement of Pax revenue comprising revenue from GSA (General Sales Agent), SA (Sales Agent), international Units etc at each location during the period. • Check that reports submitted by each location are in compliance with		

Audit Procedure	Done By	WP Ref
Schedule "R". • Review the completeness and efficiency of the reports generated by COSSAP System. • Select a sample of transactions from e-ticketing and check that booking and reporting is done in accordance with the e-ticketing manual. • Review the minutes of committee meetings relating to Pax revenue and check their compliance on test basis • Check that controls for completeness, accuracy, monitoring and cost effectiveness of the Pax Revenue are appropriately designed and implemented, and operating effectively. • Check that tax collected from passengers is timely deposited in government treasury. • Obtain List of contracts with agents and on samples basis check the compliance of terms, especially for reporting, collections, refunds, deposits, liability, termination, breach, force majeure, cost compensation, payments, and billings. • Obtain and review reconciliation between Pax Revenue's reports and reports submitted by agents, international units. • Check the detail of incentives given to Agents as per individual contracts and their impact on PIAC. • On sample basis check that revenue booked in accounts matches with the approved tariffs and inquire the differences (if any). • Obtain and review schedule of outstanding receivables, provisions, write offs and refunds. Identify long outstanding receivables and check specific approvals for write offs, provisions and refunds. • Obtain schedule of commission paid to agents. Analyze the rates agreed with different agents and note unusual trends and impact thereof. • Check the effect of each new booking pattern or arrangement on PIAC revenue. • Obtain details of lines started/ closed (including locations) during the period and analyze their effect on revenue. • Compare passenger/line/location wise PIAC Pax Revenue with other air lines of the region. • Obtain details of revenues from for excess baggage and compare the same with approved tariffs.		

Chapter 7

AUDIT EVALUATION AND REPORTING PHASE

7.1 Introduction

There are two audit phases covered in this section namely, Evaluation of Audit Findings/Results and Report of audit conclusions.

Evaluation of Audit Findings/Results

By the end of the fieldwork stage, the auditors will have completed their audit Programmes and documented the results of their work. Part of this work would have involved the identification of monetary errors, compliance with authority violations, internal control deviations, etc. These errors and deviations need to be dealt with during the evaluation phase.

Error evaluation is done in stages. First, the auditor reaches a conclusion on the results of each test. Next, the auditor reaches a conclusion on each component. Finally, the auditor reaches a conclusion on the Financial Statements as a whole.

The optimum mix of tests of internal controls, analytical procedures and substantive tests of details for one specific Financial Audit or Compliance with Authority objective for one component may be totally different from another objective or component. Appendix D of FAM provides a technical discussion on the theory behind the overall error evaluation process – how the auditor can combine different sources of assurance to reach an overall conclusion on the Financial Statements.

Reporting of Audit Conclusion

The Auditor's normally issues:

- A formal opinion or a disclaimer on Financial Statements and
- Long form reports containing auditors' observations resulting from Compliance with Authority Audit and Performance Audit.

The audit report is issued by the external auditor as a result of an external audit or evaluation performed on a legal entity or subdivision thereof (called an "auditee"). The report is subsequently provided to the auditee organisation in order for the users to make decisions based on the results of the audit.

Whatever the audit type, the same considerations apply:

- Audit reports should be easy for entity management to read (brief and clear);
- The Audit reports will be read by Parliamentarians, the media and the public and should be written with a minimal technical terminology and not assuming a prior understanding of the detailed business of the entity;
- The contents of the audit report should focus only on material and significant matters;
- Any conclusions and recommendations should be useful; and
- All audit observations should be fully supported by reliable and sufficient evidence.

7.2 The Audit Team's Responsibility

It is the duty of the auditor to complete audit in the light of audit objectives and arrive at reliable conclusions for the purpose of audit. In addition, the auditor needs to identify any weaknesses in internal controls, any errors and/or irregularities, and potential risks or exposures of the organization and issue recommendations accordingly.

It is critical that the audit team works diligently through forms and schedules in the Evaluation and Reporting section of the Audit Working Papers Kit since it provides the documentation that supports the Auditor-General's opinion on the entity's Financial Statements and compliance with Government rules and regulations.

The audit team leader will ensure that each form is signed off, reviewed and approved by an appropriate official before it is considered complete.

It needs to be highlighted that the audit strategy and methodology recommended under FAM provide for continued quality assurance through all the phases of audit. While reviewing the reporting phase, the functionaries entrusted with the quality assurance of audit should ensure that the various steps recommended in these Guidelines and respective forms given in the Audit Working Paper Kit have been followed in all respects.

The following tools are provided to ensure the quality of the auditors' opinion on the financial statements and their audit reports:

a. Management representation letters;
b. Audit completion checklist;
c. Memoranda recommending signature. and
d. Quality assurance checklist.

These documents and the diligent performance of quality assurance procedures given in section 15 of FAM help ensure that the DAGP has the audit evidence that it requires, and that the Auditor-General is signing the most appropriate opinion and approving the Compliance with Authority report based on valid audit findings.

A formal process, governing how audit observations are developed, cleared and reported in the most appropriate reporting style ensures quality. This process helps ensure that the contents of the report are correct, and that the findings, conclusions and recommendations contained in the report are easily understood and appreciated by the readers of the reports.

Detailed guidance is provided in the following sections of the Financial Audit Manual:

Chapter 10	Evaluating Audit Results
Chapter 11	The Reporting process
Chapter 12	The Audit Report

To facilitate auditors understanding of the reporting process, the Reporting Cycle of the Commercial Audit and Evaluation is given below.

Reporting Cycle of Compliance with Authority Audit

1. *Development of Draft Audit Report (DAR)*
2. *Departmental Accounts Committee (DAC) meeting*
3. *Quality assurance review at DAGP*
4. *Audit report issued to President*
5. *Pre-PAC meeting with the Auditor-General.*
6. *Public Accounts Committee (PAC) Meeting*

The following paragraph explains the various steps of the Reporting Cycle.

Development of Draft Audit Report (DAR)

i) The reporting cycle begins by issuing Observations Statements (OS) during field work.
ii) Audit and Inspection Report (AIR) is issued to the PAO based on initial management response on the OS.
iii) Management response is obtained on the AIR.
iv) Draft Audit Report (DAR) is prepared by incorporating management response on the AIRs.
v) Internal Quality Control Checks are performed by supervisors to ensure that the information given in the DAR is complete, relevant and supported with audit evidence.
vi) The DAR is issued to the PAOs for Departmental Accounts Committee (DAC) meeting.
vii) The Paras finalized for Audit Report are retained in the AR section, while those which cannot find a place in the Audit Report are sent back to the concerned IR sections. These Paras are compiled and issued as MFDAC by the IR sections for further pursuance. The MFDAC is compiled and issued on a yearly basis to respective PAOs.

Departmental Accounts Committee (DAC) meeting

i) Paras and their replies are discussed with the respective PAO.
ii) Minutes are prepared and signed.
iii) DAR is updated based on the DAC minutes.
iv) Further Audit comments are incorporated in the end as a final recommendation of the Audit Para.

v) Final Audit Report is prepared PAO wise and is sent to the AGP office for Quality Assurance Review.

Quality assurance review at DAGP

i) Quality assurance is carried out using DAGP's quality assurance framework.

ii) The framework ensures that the work is performed efficiently and effectively as possible and complies with INTOSAI Auditing Standards.

Audit report issued to President

Under Article 171 of the Constitution, reports of the Auditor-General of Pakistan shall be submitted to the President, who shall cause them to be laid before the National Assembly.

Pre-PAC meeting with AGP

i. Pre –PAC meeting is held with the Auditor-General of Pakistan/Additional Auditor-General. The audit paras are discussed thoroughly before being presented at the Public Accounts Committee (PAC) meeting.

ii. During the pre-pac meetings, the audit observations are categorised according to their significance. Cases, where remedial measures have been taken by the audited departments, are also marked for the consideration of the PAC.

Public Accounts Committee (PAC) Meeting

i) The DAGP, supports the PAC for appropriate action against the paras included in the Audit Report.
ii) The PAC accordingly disposes of the audit paras by giving necessary directives to the executives/PAOs.

7.3 Documentation in Evaluation and Reporting Phase

Titles of various forms specified in the Audit Working Papers Kit are listed below:

- Internal Control Weaknesses – Impact Analysis
- Analytical Procedure Thresholds
- Evaluation of Analytical Procedures
- Evaluation of Internal Control Deviations
- Substantive Tests Evaluation – Projectable Errors from Sample
- Substantive Tests Evaluation – Non-Projectable Errors
- Substantive Tests Evaluation – Summary
- Achieved Level of Assurance Form
- Error in Each Component
- Overall Error in Financial Statements

- Compliance-With-Authority Violations *
- Checklist of Management Representation Letter*
- Sample Management Representation Letter*
- Audit Completion Checklist *
- Memorandum Supporting Signature
- Auditor's Opinion
- Follow-up Continuity Schedule *
- Quality Assurance Checklist *

Note: These forms recommended under FAM and Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of these forms, marked with asterisks (*), can also be used for Compliance with Authority Audit.

The following paragraphs provide general guidance for using the above mentioned forms. Instructions for filling in these forms are contained in the Audit Working Papers Kit which the auditors are required to follow.

7.4 Internal Control Weaknesses – Impact Analysis

This form tracks the disposal of internal control weaknesses identified at the time of applying ICQs during the performance of audit. Each control weakness should be noted. Each weakness indicates whether the entity management agrees with the auditor's assessment of the weakness, and whether the weakness is so significant that it affects the audit plan and will require additional unplanned audit work to be performed.

7.5 Analytical Procedure Thresholds

Analytical procedures work by comparing an actual value from the Financial Statements with a baseline value (normally the comparative figures of previous audit year is used as baseline value). If the difference between the actual value and the baseline value exceeds a certain threshold, then the analytical procedure has not provided the required assurance, and additional audit work may be required.

This form is used to calculate the thresholds that the auditor should apply to each analytical review procedure used in audit. Complete instructions are provided on the form.

7.6 Evaluation of Analytical Procedures

The auditor will complete this form to determine whether each analytical procedure has provided the required assurance. The auditor will describe the data used, its observed value and the baseline value, and a comparison of the difference with the threshold calculated on the Analytical Procedure Thresholds form.

If the difference exceeds the threshold value, the auditor will obtain an explanation from entity management which will be recorded on the form together with the auditor's comments. The auditor will decide whether the explanation of the difference is acceptable. If the

difference warrants a re-assessment of audit risk, reduced reliance on analytical procedures or an increase in substantive tests of details, the auditor's decision is recorded on this form.

Note: See Appendix E of FAM for a full discussion of Analytical Procedures.

7.7 Evaluation of Internal Control Deviations

Using the data from the number of control deviations found in the Internal Control Deviations forms, the auditor follows the steps in this form to determine whether the control deviations lead to a conclusion that these may be relied upon or whether the deviations warrant a re-assessment of control risk, reduced reliance on controls or an increase in substantive tests of details. The auditor's decision is recorded on this form.

7.8 Substantive Tests Evaluation – Projectable Errors from Sample

The auditor enters each projectable error from the Substantive Test Sample Summary form, separating overstatements and understatements, following the step-by-step instructions provided on the reverse of the form.

7.9 Substantive Tests Evaluation – Non-Projectable Errors

The auditor enters each non-projectable error from the Substantive Test Sample Summary form, plus errors from the Substantive Tests of High Value and Key Items and Errors in Accounting Estimates separating overstatements and understatements. These are summed at the bottom of the form.

7.10 Substantive Tests Evaluation – Summary

The auditor uses this form to calculate the figures of most likely error (MLE) and upper error limits (UEL) for over- and under-statements based on the evaluations of sample results for Projectable and Non-projectable errors from the preceding two forms. This is done by carefully following the step-by-step procedures included in the form.

The MLE and UEL are then compared with the previously calculated materiality amount to determine whether the results of the audit are satisfactory or not, to provide the auditor with the basis for his/her conclusion.

7.11 Achieved Level of Assurance Form

The Audit Plan was based on the audit team's estimation of the audit assurance that could be achieved with respect to Inherent Risk, Control Risk, Analytical Review and Substantive Test of Detail (see Source of Assurance Form) in arriving at the desired level of acceptable risk for this audit.

While the assessments should be made for each Financial Audit objective and Compliance with Authority Audit objective for each component, the form permits the auditor to list more

than such specific objectives and/or component on each form. This is because the auditor will likely have planned to use the same sources of assurance assessments for several different objectives and components, and will, therefore, have listed more than one component, specific Financial Audit objective and related Compliance with Authority Audit objective on his/her Source of Assurance form.

This form is designed to assist the auditor to determine whether he/she has achieved the desired level of overall audit assurance (i.e. reduced audit risk to the desired level). Detailed instructions are provided on the reverse of the form.

7.12 Error in Each Component

Before evaluating error in the Financial Statements as a whole, the auditor uses this form to evaluate the error in each component. The auditor, following the directions on the form, completes one form for each component being audited.

The information on this form is consolidated in the Overall Error in Financial Statements form.

7.13 Overall Error in Financial Statements

This form is designed to summarise errors in the Financial Statements – first the errors in receipts/revenues, expenditures and net income, and then the errors in assets, liabilities, equity and opening residual equity. The last table of this form then shows the overall most likely errors in assets, liabilities, receipts/revenues, expenditures, equity and opening residual equity, culminating with a Summary of Most Likely Errors.

7.14 Compliance-With-Authority Violations

This form is used to capture information on each violation of a compliance requirement. For example, an entity may have reported under-spending a particular grant, whereas the auditor has concluded that expenditures have not all been properly charged to that grant. This type of error, and other compliance violations, would be evaluated using this form.

7.15 Checklist of Management Representation Letter

During the course of the audit, entity management will have provided the auditors with financial and many other pieces of information, both verbally and in writing, which the auditors will have relied on during the audit. The audit team should draft a Management Representation Letter that the entity management will sign to acknowledge in writing their responsibility for the completeness and accuracy of the Financial Statements and for all other representations made to the auditors.

This checklist will help the audit team Check all necessary matters are properly referred to in the Management Representation Letter.

7.16 Sample Management Representation Letter

This form provides the audit team with a sample letter to use as a starting point in obtaining a Management Representation Letter for their particular audit. This letter is a very important component of the audit as it clearly establishes that management is responsible for the Financial Statements presented to the auditors and for all additional information provided by them. It will help focus management's attention on the importance of the audit, and their participation in it.

7.17 Audit Completion Checklist

Before the Auditor-General or other delegated DAGP official signs the final audit report for presentation to Parliament, they must be satisfied that the audit team has diligently carried out a proper audit. This checklist will be completed and signed by the Director General of the particular audit to confirm that the audit has been conducted in accordance with the DAGP audit standards.

7.18 Memorandum Supporting Signature

The Audit Completion Checklist provides the official signing the audit with assurance about the audit procedure but not about the Financial Statements or audit findings. This Memorandum provides the signing official with this additional information and will provide the basis for a briefing on the conduct and conclusions of the audit.

7.19 Auditor's Opinion

Based on the work of the audit team, the Auditor-General prepares audit reports, which also contain the Auditor's Opinion. The audit team will recommend the opinion which it believes is appropriate in the circumstances.

Chapter 12 of FAM provides extensive discussion on the Audit Report. All auditors should be familiar with the concepts presented in this chapter since all the audit work they perform culminates in the Audit Report.

The Audit Working Papers provide examples of the different standard audit reports: Unqualified Audit Opinion; Qualified Audit Opinion – Scope Limitation; Qualified Audit Opinion – Departure from Government's Accounting Policies; Qualified Audit Opinion – Uncertainty; Qualified Audit Opinion – Inappropriate Accounting Policies; Adverse Audit Opinion; Disclaimer of an Opinion.

Audit teams should be prepared to recommend Qualified, Adverse or Disclaimed opinions where circumstances warrant. The purpose of these opinions is to highlight situations where Government policies are not being followed so that corrective action can be taken and improvements can be made. It is likely that many audits will result in Qualified, Adverse or Disclaimed opinions during the first years of applying the new audit paradigm, as it will take the audit entities some time to bring their accounting practices fully up to the new standards.

7.20 Follow up Continuity Schedule

Follow up is an integral part of the audit function. The auditor's objective is not fulfilled unless any errors or deficiencies identified during the audit have been corrected or at least addressed. Both the DAGP and the Public Accounts Committee (PAC) should check that the entity officials take action to correct all errors found, and deal with all the recommendations made.

The entity officials themselves are responsible for ensuring that their Financial Statements, and that their internal control structures are operating as efficiently and effectively as possible. They should be encouraged to view the auditor as an ally in this endeavour and should actively work with the auditor to address any concerns.

To achieve these objectives, there should be a formal follow up of every Regularity Audit. All observations, conclusions and recommendations should be pursued and reported until they are satisfactorily dealt with, or until circumstances have rendered them no longer relevant.

The follow-up phase involves checking the relevant record pertaining to observations raised at a later date to determine if entity officials have:

- Corrected errors identified during the audit; and
- Implemented recommendations made by the auditors.

The errors identified during the Financial Audit could include:

- Monetary errors or related compliance with authority violations that led to a reservation in the auditor's opinion (a qualified, adverse or disclaimer of opinion); and
- Other monetary errors and compliance with authority violations.

Recommendations made by the auditor can relate to:

- Reservations being expressed in the audit report;
- Comments on the form and content of the Financial Statements;
- Comments on the accounting policies used to prepare the Financial Statements;
- Compliance with authority violations;
- Internal control weaknesses; and
- Performance (value-for-money) matters.

Audits frequently identify situations that require follow-up in the following years. For example, control in one year should result in recommendations for future improvements, so future audits should see if the recommendations have been followed.

This form summarises issues that previous audits have identified and tracks how they were handled in the current year's audit and whether any additional follow up in future years is required.

Note: Please refer to Chapter 14 "Audit Follow up" of FAM for details on the subject.

7.21 Quality Assurance Checklist

Just as the auditors are concerned with the quality of the audit entities' Financial Statements, they must check the highest quality of their own work, if they are to earn and keep their professional credibility. Consequently, quality assurance procedures are implemented through comprehensive working papers and sign-offs throughout the audit. At the conclusion of audit, an appropriate official should review the audit files to check whether the audit team has fulfilled all the requirements of a quality audit.

It is emphasised that the primary purpose of this post-audit review is to encourage continuous improvement in the quality of the DAGP's work. The reviews are not intended to praise or criticize the work of the audit team or individual auditors. In this spirit, those being reviewed should be comfortable in offering their own suggestions as to how the audit could have been performed more effectively or efficiently.

7.22 Centrally Led Audit

As discussed in the Planning Chapter at 5.31, in case of centrally led audit, there will be a division of responsibilities between the central team and each branch office of the same Directorate or other Directorates.

Chapter 8

KEY TASKS AND RESPONSIBILITIES

8.1 Introduction

With the up gradation of the sectoral Guidelines it was felt that key tasks, revised roles and responsibilities need to be assigned for effective and structured implementation of these Guidelines. This section of the Guidelines specifies key Tasks and Responsibilities of various functionaries in a Field Audit Office (FAO) involved in performing audit related tasks during the course of the audit cycle. Main areas for which Key Tasks and Responsibilities have been defined are given below;

- Permanent File
- Audit Planning Phase
- Audit Execution Phase
- Audit Evaluation and Reporting Phase
- Quality Assurance

The purpose of the key Responsibility Matrices given at the end of this section is to provide the functionaries with an overview of their roles and responsibilities in the Audit Cycle. Moreover this will also serve as a monitoring tool and will facilitate in measuring the performance of the personnel involved in various phases of audit.

8.2 Assigning Roles and Responsibilities

These Key Tasks and Responsibilities have been developed for the four standard tiers of functionaries in an FAO. They are Audit Officer/Assistant Director, Deputy Director, Director and Director General. It is recommended that functionaries below this level may not be involved in the auditing processes. However, in cases where the DG of an FAO considers appropriate, he may assign the responsibilities of an Audit Officer to an Assistant Audit Officer.

In all cases where key tasks have been assigned to a functionary and that functionary is temporarily or structurally not available in the office, the head of the office will be required to assign the key tasks and responsibilities appropriately.

The Director General will be required to assign specific responsibilities to all the officers in the FAOs for each audit and the performance of officers can then be monitored accordingly.

For High Profile Audits and studies of public significance, the DG may like to raise the level of the audit team by substituting Audit Officers/Assistant Director with Deputy Directors and Directors. The roles and responsibilities which are specified in this section pertain only to the

Audit Cycle. For other functions like clerical record keeping, administration, budgeting etc, the existing job descriptions available in the FAO should be used for defining the key tasks in each area.

8.3 Key Tasks and Responsibilities: Permanent File

Guideline Reference	TASKS	RESPONSIBILTIES			
		AO/Assistant Director	Deputy Director	Director	Director General
4.4	Developing and Updating the control sheet-PF	**P**	**S**	**R**	
4.5	Updating Status of Entity Form/information.	**P**	**R**		
4.6	Gathering and updating financial & Operational background Information.	**P**	**S**	**R**	
	Documenting the Background Information.	**P**	**S-R**		
4.7	Listing all the possible Auditable Locations.	**P**	**R**		
4.8	Listings of names address and account no of all Bank Accounts in the name of Entity.	**P**	**R**		
4.9	Documentation and Listing Authorized Signatories.	**P**	**R**		
4.10	Listing External Factors related to performance of the operational activities of an auditee.			**P**	**R**
4.11	Listing the accounting records maintained by the auditee.	**P**	**R**		
	Development of a brief description of the accounting system used by the auditee.		**P**	**R**	
4.12	Listing Key Contacts.	**P**	**S-R**		
4.13	Listing Significant Audit Areas.		**P**	**S-R**	**A**
	Updating determination of components.		**P**	**R**	
4.14	Listing Significant Accounting Policies.		**P**	**R**	

	Update and review of Significant Accounting policies.		**P**	**R**	
	Review and Sign Off of all the forms within the Permanent File.			**R**	**A**

A= Approve, R= Review, S=Supervise, P=Perform

8.4 Key Tasks and Responsibilities: Audit Planning Phase

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.4	Determining Audit objectives and scope.				**P**
5.5	Listing/ Updating Points for attention at next audit.	**P**	**S**	**R**	
5.6	Preparing/Issuing Entity communication letter.		**P**	**R**	**A**
5.7	Preparing Audit planning memorandum.		**P**	**R**	
5.8	Revising Memorandum on post-planning changes.		**P**	**R**	
5.9	Scheduling Important dates.	**P**	**R**		
5.10	Preparing Tour Program..	**P**	**S**	**R**	**A**
5.11	Pursuing Information requested from entity officials.	**P**	**S**		
5.12	Preparing Materiality assessment form		**P**	**R**	**A**
5.13	Computing Expected aggregate error and planned precision form.		**P**	**R**	
5.14	Preparing Audit risk assessment form.		**P**	**R**	
5.15	Preparing Inherent risk assessment form.		**P**	**R**	
5.16	Developing Internal control questionnaire - controls for overall environment.		**P**	**R**	
5.17	Documentation of the internal control questionnaire – general computer controls.		**P**	**R**	

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.18	Documenting Internal control questionnaire – application controls.		**P**	**R**	
5.19	Developing Control risk assessment form.		**P**	**R**	
5.20	Documenting Analytical procedures assurance form.		**P**	**R**	
	Updating optimum combination of procedures.			**P**	**R**
5.21	Documenting Source of audit assurance form.		**P**	**R**	
5.22	Listing all applicable laws and regulations.	**P**	**S**	**R**	
5.23	Documenting and Updating Sample selection checklist.	**P**	**S**	**R**	
5.24	Preparing High value item selection form.		**P**	**R**	
5.25	Preparing Key item selection form.		**P**	**R**	
5.26	Computing Sample sizing for tests of internal control.		**P**	**R**	
5.27	Calculating Sample size for substantive tests of details.		**P**	**R**	
5.28	Documenting Checklist of accounting estimates to be reviewed.		**P**	**R**	
5.29	Recording Points for attention at next audit.	**P**	**S**	**R**	
5.30	Documenting Audit planning checklist.		**P**	**R**	**A**

A= Approve, **R= Review,** **S=Supervise,** **P=Perform**

8.5 Key Tasks and Responsibilities: Audit Execution Phase

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
6.4	Documenting Summary of Analytical Review Procedures Performed.		**P**	**R**	
6.5	Documenting Details of Analytical Review Procedures Performed.	**P**	**S**	**R**	
6.6	Documenting Internal Control Questionnaires.		**P**	**R**	
6.7	Documenting Internal Control Deviations Form.		**P**	**R**	
6.8	Preparing Internal Control Deviations Summary.		**P**	**R**	
6.9	Preparing Compliance Summary.		**P**	**R**	
6.10	Documenting Substantive Tests of Accounting Estimates.		**P**	**R**	
6.11	Identifying and listing Errors in Accounting Estimates.		**P**	**R**	
6.12	Documenting Substantive Test Sample Summary for each Audit Program.	**P**	**S**	**R**	
6.13	Preparing Substantive Test of High Value/Key Items – Summary.		**P**	**R**	
6.14	Documenting Details of Errors in Samples, High Value Items and Key Items.		**P**	**R**	
6.15	Conducting Exit Interviews.		**P**	**S**	
6.16	Updation of Audit Steps given in the Audit Programmes, if needed.		**P**	**R**	**S**
6.16	Execution of Audit Steps as per the Audit Program	**P**	**P-S**	**S-R**	
	Ascertaining Execution of relevant Audit Programs		**P**	**P-S**	**S**

A= Approve, R= Review, S=Supervise, P=Perform

8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
7.4	Documenting Internal Control Weaknesses – Impact Analysis.			**P**	**R**
7.5	Calculating Analytical Procedure Thresholds.		**P**	**R**	**S**
7.6	Documenting Evaluation of Analytical Procedures.			**P**	**R**
7.7	Evaluating Internal Control Deviations.			**P**	**R**
7.8	Conducting Substantive Tests Evaluation – Projectable Errors from Sample.		**P**	**S**	**R**
7.9	Documenting Substantive Tests Evaluation – Non-Projectable Errors.		**P**	**S-R**	
7.10	Calculating Substantive Tests Evaluation – Summary.		**P**	**S-R**	
7.11	Documenting Achieved Level of Assurance Form.			**P**	**R**
7.12	Evaluating Error in Each Component.		**P**	**R**	**S**
7.13	Summarizing and preparing Overall Error in Financial Statements.		**P**	**R**	**S**
7.14	Documenting Compliance-With-Authority Violations.	**P**	**P-S**	**R**	
7.15	Drafting Checklist of Management Representation Letter.		**P**	**S**	**R**
7.16	Obtaining Management Representation Letter.		**P**	**R**	
7.17	Documenting Audit Completion Checklist.		**P**	**R-S**	**A**
7.18	Memorandum Supporting Signature.		**P**	**R**	**A**
7.19	Recommending Auditor's Opinion			**P**	**R-A**
7.20	Following up the Continuity Schedule		**P**	**R-S**	

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
7.21	Reviewing the Quality Assurance Checklist			**P**	**R**

A= Approve, R= Review, S=Supervise, P=Perform

8.7 Key Tasks and Responsibilities: Audit Quality Assurance

* The Comprehensive Quality Assurance Checklist present in the Audit Working Papers Kit covers all the phases of audit. This checklist is the master guide for assuring the quality of audit processes throughout the audit cycle.

Guideline Reference	TASKS	RESPONSIBILITES			
		AO/Assistant Director	Deputy Director	Director	Director General
Planning					
5.3	Review that Planning has been carried out as per the recommended planning process			**R**	**S**
FAM 15.3.6	Assigning Appropriate staff, required strength and skill set of the audit team			**P**	**R**
FAM 15.3.7	Preparation, revision and approval of the Audit Budget.		**P**	**R**	**A**
5.30	Ensuring that audit programs are in place as required in Audit Policy Checklist		**P**	**R**	
Execution					
5.8	Ensuring revision of the planning decisions, if required		**P**	**R**	**A**
	Supervision of all phases of execution as per the tasks assigned in "key tasks related to execution phase" list.		**P**	**R-S**	
	To ensure review of audit working paper files		**P**	**R**	**S**
6.16	To ensure executing audit steps as per the Audit Programs.		**P**	**R**	**S**
	Ensuring reporting and		**P**	**R-S**	

Guideline Reference	TASKS	RESPONSIBILITES			
		AO/Assistant Director	Deputy Director	Director	Director General
	monitoring of audit activities with reference to "execution task list."				
Evaluation & Reporting					
7.3	To ensure detailed review and approval of monetary errors, compliance with authority Violations and internal control deviations found.	**P**	**R-S**	**A**	**P**
7.15,7.16,7.18	Ensuring tools for the auditor's opinions and statements are used.	**P**	**S**	**R**	**P**
7.17	Ensuring Documentation of Audit Completion Checklist	**P**	**R-S**	**A**	**P**
7.21	Reviewing the Quality Assurance Checklist. *	**P**	**R**	**A**	**P**

A= Approve, R= Review, S=Supervise, P=Perform



ANNEXURE

Permanent File of Nespak (Pvt) Limited

Main Reference	Supporting Schedules		Done by:
PF	Update Control Sheet	SJH	09.02.10
PF-I	Status of the Entity	-do-	-do-
PF-II	Background Information	-do-	-do-
PF-III	List of Auditable Locations	-do-	-do-
PF-IV	List of Bank Accounts	-do-	-do-
PF-V	List of Authorised Signatories	-do-	-do-
PF-VI	External Factors	-do-	-do-
PF-VII	Accounting Records and Accounting System	-do-	-do-
PF-VIII	Key Contacts	-do-	-do-
PF-IX	Significant Audit Areas	-do-	-do-
PF-X	Significant Accounting Policies	-do-	-do-
	Supporting Documents List	-do-	-do-
	Certificate of Incorporation	-do-	-do-
	Memorandum and Articles of Association	-do-	-do-
	Company Profile	-do-	-do-
	Organization Chart	-do-	-do-

Main Reference	Supporting Schedules		Done by:
	Accounting Manual	-do-	-do-
	Delegation of Powers		
	Work Instructions – Purchase	-do-	-do-
	Service Rules	-do-	-do-
	Medical Rules	-do-	-do-
	Leave Rules	-do-	-do-
	Gratuity Rules	-do-	-do-
	Minutes of Board Meeting	-do-	-do-
	Financial Statements and Accounting Policies	-do-	-do-

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

Update Control Sheet

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited (NESPAK)

Original file prepared by: Salman Javed Hashmi, Audit Supervisor

Date: February 09, 2010

File updated by: _____ Date: _____

File updated by: _____ Date: _____

File updated by: _____ Date: _____

File updated by: _____ Date: _____

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File updated by: _____ Date: _____

File updated by: _____ Date: _____

File updated by: _____ Date: _____

File updated by: _____ Date: _____

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

Form PF- I

Understanding of Entity's Business – Status of Entity

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Principal Address:

Nespak House: 1-C, Block-N, Model Town Extension Lahore - 54700, Pakistan

Status of the Entity:

The Company was incorporated in 1973 under the Companies Act, 1913 (now Companies Ordinance, 1984) as a private limited company and is engaged in providing engineering consultancy services in Pakistan and abroad. The Company has authorized share capital of 500,000 shares @ Rs 10 per share out of which 150,000 shares have been issued (50,000 are fully paid in cash and 100,000 are fully paid bonus shares).

Inter-Governmental Relationship:

All the shares of the Company are owned by the Federal Government Ministry of Water and Power. Nespak is an autonomous body. The Company is self sufficient and does not receive any funds from the Government. However, it pays dividends to the Government out of profits.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- II

Understanding of Entity's Business – Background Information

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Size of Entity:

The total assets, liabilities, revenue and expenses of the Company in the last two years are as follows:

Item	2008-09 (Rs in thousands)	2007-08 (Rs in thousands)
Total assets	4,257,404	3,067,914
Total Liabilities	1,163,466	856,303
Total Revenue	4,546,466	3,391,255
Total expenditure (excl tax)	3,411,250	2,513,337

The Company operates at a number of locations in major cities of Pakistan under the following divisions:

- Central Office
- Power Division
- Agriculture Division
- Water Resources Division
- Highway Division
- Construction Management
- Sabakzai Dam Project
- ERRA Division
- Nai Gaj Project
- E&PHE Division
- ISR Project
- A&P Division
- Tarbela Project
- Mega Irrigation Project

Core Operational activity:

The core operational activity of the Company is providing engineering consultancy services in Pakistan and abroad through its various divisions and regional offices. These services include appraisals, feasibilities, construction supervision, inspection, asset valuation, surveys, mapping, designing, model testing, etc. In addition to this Nespak has the capacity to provide

services in every field of engineering and economic development such as water resources, agriculture, energy, transportation, communications, oil and gas, architecture, etc.

Nespak is an engineering consultancy organization. The objective of the Company was to create a pool of talented engineers and attain self reliance so as to avoid the need for foreign consultancy.

Major Beneficiaries:

Most of the projects taken up by Nespak are related to the Government which is the main recipient and beneficiary of its services. Some of these services were providing engineering services from planning to commissioning of power plants, preparing feasibilities and conducting construction supervision of dams, designing roads and underpasses, designing the architecture of Government buildings, etc.
Nespak has also supported and helped other smaller consultancy firms in Pakistan by improving their experience and credentials through joint venture or associate arrangements.

Major Profit/Cost Centres:

Major divisions of the Company and its regional offices work independently as profit centres and have their own budget. Trial balances are separately made at each of these locations/divisions. At the year end, these trial balances are consolidated at the central office and Financial Statements are prepared.

Revenue collection is made at the central office but it is recorded in the respective locations/divisions so as to prepare a separate profit and loss account at each location to compare performance. The central office is responsible for administrative controls such as hiring and firing, however each division and regional office incurs its own expenditure such as payment of salary.

Reporting Authority:

Nespak is reportable to the Federal Government under its Ministry of Water and Power. However, the Ministry does not control the budget preparation process. The accounts department prepares the budget which is then approved by the Board of Directors.

Accounting Process Revenue:

The services provided by Nespak can be segregated as follows:

- Designing of the project
- Review of the design formulated by another consultant in the case of supervision to be done by Nespak
- Construction supervision of the project

Intimation of New Projects

Nespak is intimated about the new projects in the following manners:

- Clients such as WAPDA, CAA and Irrigation Department communicate Nespak

directly for the services.

- Most projects are advertised in the newspapers. The Business Development Division (BDD), which resides in the Central Office, is responsible for scanning all the newspapers for such advertisements. Potential projects are traced by BDD. BDD then prepares an internal memo and sends it to the relevant Division Head along with a cutting of the newspaper.

Initialization and Finalization of the Proposal

On receipt of the internal office memo, the Division Head acknowledges the letter and informs the BDD whether to proceed with project or not. It is mentioned in the advertisement whether to submit a proposal directly or to initially forward Pre-qualification Documents to the client. In the latter case, the Division Head appoints a Proposal Manager, who prepares the Pre-qualification Documents. Such documents include the following details:

- Experience of the company
- Credentials
- Details of the resources

Before forwarding the Pre-qualification Documents to the client, a Quality Assurance Committee appointed by the Division Head, who checks and analyses the documents. In case of any queries raised by the committee, the Proposal Manager answers those queries. The committee then sends the documents to the client.

A Letter of Intent/Interest is prepared where pre-qualification documents are not sent. This letter enables the client to assess the capability of the company before a final bid or proposal is filed. It mainly includes the following contents:

- Relevant experience of the company
- Details of the related staff
- Scope of work
- Related projects executed by the company

If satisfied and if the client decides to qualify Nespak to bid or propose the project, a Terms of Reference (TOR) or Scope of Services or Tender for Consultancy Services is sent to Nespak. No proposal is prepared unless the above documents are received by Nespak. Such document(s) invite submission of the proposal containing the following details:

- Specimen of tender
- Specimen of final contract
- Pattern of technical and financial proposal
- Format of the final contract
- Understanding of the project
- Methodology
- Detail of the survey and investigation
- Design criteria

The Division Head forwards the TOR to the Proposal Manager.

The Proposal Manager takes in to consideration the requirements of the project. Where the project relates to the combined work of two or more divisions, the relevant Division Heads

are also consulted. The division(s) is then required to prepare a Technical and Financial Proposal, which is to be attached to the final consolidated proposal or bid. The final proposal contains the following details:

1. Technical Proposal
    - Introduction of the project explaining the understanding and scope of work
    - Work plan and logistics involved
    - Details of the staff including the name of the nominated Project Manager and their deployment schedule
    - Reproduction of the TOR

2. Financial Proposal
    - Salary cost detailing the cost of time to be spent by the staff
    - Direct staff

After receiving the afore mentioned from all relevant divisions, the Proposal Manager compiles them in to a single document and sends it he client after receiving authorization from the Division Head. The proposal is also checked by the Quality Assurance Committee registered with ISO 9001, who also assigns a clearance code, before being sent to the client. A project cannot be forwarded unless the documents meet the requirements of ISO 9001.

Where a number of companies forward their proposals, the client evaluates each proposal and awards points mainly considering the technical proposal. The party attaining the highest technical points is invited first for negotiation on the financial proposal. If no agreement is finalized, the party with the second-highest points is invited and so on.

Sometimes all parties are invited for negotiations irrespective of the technical points received.

Nespak is represented by the Division Head and Project Manager in such negotiations. Negotiations normally take 6 months to one year to be finalized.

In the case of approval of the proposal, the final contract is signed by the Division Head after negotiation. The final contract is awarded to Nespak by the client through the issuance of a Letter to Award and a Letter to Proceed. This is done to start the work before the final agreement is signed to save time. The final agreement is signed by the client, the MD or VP and the GM or Chief Engineer. The original agreement is then sent to BDD for record purposes whereas one copy is sent to the client and one is kept by the relevant division.

After the final agreement, the job is assigned to the relevant division and the responsibility of the job is shifted on the Project Manager. The Project Manager then prepares a Control Estimate which contains the following information based on the financial proposal accepted:

- Total costs (salary cost and direct costs)
- Division wise details of salary cost
- Estimated figure of profit
- Time period

After approval from the Division Head, the Control Estimate is sent to the Monitoring and Information Technology Division (M&IT) for evaluation and analysis. Usually, the profit

margin is 10% of the total cost. In case of any negative deviation, the respective Project Manager is required to get approval from the MD. A job number is then allocated to the project by the M&IT. All expenses of the assignment are booked through this number. The job allocation sheet is sent to the MD, Division Head, Project Manager and the Internal Audit Department. One copy of the Control Estimate is kept with the Project Manager to run the project accordingly.

Billing and Receipts

Billing of a project is done through the following methods:

Cost Plus Method

The Project Manager, according to the input utilized by the staff, raises monthly bills to the client. This cost comprises of salary and direct costs.

Salary Costs

The management has circularized a circular to the Accounts Department, containing details of billing rates. Salary cost is calculated at such rates by the Project Manager.

Direct Costs

This comprises of costs other than salary costs. The Accounts Department prepares a summary of the direct costs with the help of the records maintained. The Project Manager charges such costs to the client on actual basis.

- **Lump sum Method**

  The contract is divided in usually three stages for billing purposes. The bill is raised after the completion of each of these stages:
  1. Pre-feasibility stage
  2. Interim stage
  3. Final stage

Monitoring and Evaluation

The M&IT Division is responsible for the monitoring and evaluation of the projects undertaken by Nespak. M&IT is using NESPAK Manpower Management System to generate reports and perform other functions.

At the end of each month, every staff member of Nespak is required to submit a time sheet to the Division Head. The Division Head has appointed a person who collects the time sheets and submits these to the M&IT. The time sheets show the hours worked by that person against all the respective jobs he is involved in.

M&IT allocates hours worked by all the staff members to their respective jobs. Such detail is input in the computer system each month. The system generates a report called **NESMAN Report 101 (NR 101)**, which is sent to each division each month detailing the total salary cost charged to each project. This report also shows a comparison of the actual and the estimated salary cost. This enables the Project Manager to evaluate his performance.

Apart from the above mentioned report, the Division Head also generates a report every three months summarizing the details of each job. This report is used to assess the performance of each job in the meetings of the Central Monitoring Committee which are held after every three months.

The members of this committee include:

- Managing Director
- VP Finance
- Secretary Monitoring

The respective Division Head and the Project Manager are also present in the meeting.

Joint Venture

The advertisement published in the newspaper does not usually contain any clause requiring a single consultant or a consortium of consultants for the bidding of the proposal. The creation of the joint venture is dependent on the discretion of the consultants.

The initialization and finalization of the proposal in the case of a joint venture Is the same as in the case of Nespak working as a sole consultant.

Billing

In the case of head office of the consortium situated at Nespak House, the input of the staff other than the staff of Nespak is sent to their respective companies so that the hours worked by them can be charged according to the rates mentioned in the contract. The employees of Nespak working for the joint venture submit their time sheets each month, which is then sent to the M&IT division. The M&IT generates a NESMAN report, which shows the allocation of hours worked by the staff to their respective jobs.

The sheets showing the hours charged are consolidated and a final bill showing the salary cost and direct cost is raised by the Project Manager. The Project Manager signs the bill and sends it to the client with the copy of the voucher showing the entry passed in the books of the joint venture.

Representatives of the parties to the venture are located at a single office. Respective bills are sent to the representative of the leader of the joint venture mentioned in the agreement. Where Nespak is not the leader, the bills are raised and prepared in the normal manner and are then sent to the representative of the leader of the joint venture. The leader of the venture then dispatches the bills to the respective client.

Bank Accounts

At the start of a joint venture, two bank accounts are opened in the name of the venture:

- Main Account (Combined Account)

  The monthly payments and the advances given by the client are collected in this account. The share of each company is paid from this account.

- Project Account

  The project account is used for the payments against expenses incurred for the project. The advances given by the client against the project is deposited in this account. Apart from this, a fixed amount is transferred from the main account to this account each month.

Amendment

In case of any changes made in the contract, a new contract is signed; this will be an addendum to the agreement. All revised schedules are checked and verified by the Project Manager before being included in the new/amended agreement.

Completion of the Contract

A Completion Certificate is issued by the M&IT Division.

Accounting Entries

The divisions of Nespak can be segregated as follows with respect to billing and receipts:

Divisions maintaining their own books of accounts and residing in Nespak House

Such divisions are as follows:

- Water and Agriculture Division
- Highways and Transport Engineering Division
- Power and Mechanical Division

In this case, bills are raised by the Accounts Officer under the guidance of the Project Managers and the following entry is passed by the division:

Consultancy Fee Receivable a/c	**DR**
Receipts against Engineering Services	**CR**

In case of receipts, the division passes the following entry:

Current Account (Central Office)	**DR**
Consultancy Fee Receivable	**CR**

The Central Office passes the following corresponding entry in its books:

Bank a/c	**DR**
Current Account (Division)	**CR**

Divisions maintaining their own books of accounts and residing outside Nespak House

These include two foreign offices (Muscat and Riyadh) and six regional/divisional offices. Vouchers of Iran and Abu Dhabi are raised at their respective offices and posted at the central office i.e. their books are maintained at the central office.

In this case, the process of billing is the same as above. In case of receipts, the accounts department of the Central Office passes the following entry:

Bank a/c (Collection account)	**DR**
Consultancy Fee Receivable	**CR**

Intimation in this regard is sent to the Finance Division of the Central Office. Collection accounts are maintained by the Central Office, but appear in the respective trial balances of the divisions/foreign offices.

Divisions whose books of accounts are maintained by the Central Office

In case of divisions, the Project Manager prepares the bills in quadruplicate. These copies are sent to the following:

- Client
- Manager Accounts
- VP Finance
- Office Copy

The Accounts Officer records the bills in the books as follows:

Consultancy Fee Receivable	**DR**
Receipts against Engineering Services	**CR**

On the receipt of cheque, the Finance Division passes the following entry:

Bank a/c	**DR**
Consultancy Fee Receivable	**CR**

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- III

Understanding of Entity's Business – List of Auditable Locations

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Nespak has a number of offices both in Pakistan and abroad and is registered with a number of international funding agencies. It also has two subsidiaries, four associated companies (one of which is in Nigeria) and various joint ventures for consortium projects. The auditable locations of the Company in Pakistan are:

- Head office, Lahore
- Regional and coordination office, Islamabad
- Regional office, Karachi
- Regional office, Peshawar
- Regional office, Quetta

The Company has offices at the following locations outside Pakistan:

- Subsidiary Company in Muscat
- Subsidiary Company in Riyadh
- Associated Company in Nigeria
- Yemen office
- Benin office
- Iran office
- Abu Dhabi office
- Qatar office
- Kabul office

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF - IV

Understanding of Entity's Business – List of Bank Accounts

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

A copy of complete list of bank accounts should be attached as annexure to this form**.**

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- V

Understanding of Entity's Business – List of Authorised Signatories

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

A copy of list of authorized signatures with their specimen signatures should be attached with permanent file.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- VI

Understanding of Entity's Business – External Factors

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Since Nespak is an autonomous body, Government budgets and allocations such as spending on development expenditures do not have any effect on its working. However, all rules, regulations, notifications, etc issued by the Federal Government are applicable to it such as the Public Procurement Rules. Since the Company is owned by the Federal Government, it may have to change its policies to align itself with the Government requirements. These policies may entail criteria for selection of projects, rules and regulations for procurement, administrative costs such as salaries, etc.

Furthermore, Nespak is the premium consultancy engineering firm in Pakistan and as such it has no competitors. Most of the Government projects relating to various departments such as WAPDA and NHA are assigned to Nespak.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- VII

Understanding of Entity's Business – Accounting Records and Accounting System

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Accounting System: The various divisions and regional offices of Nespak use the same accounting software which was developed in-house by one of Nespak's employees using the high command language *FOXPRO*. The records and vouchers are maintained manually, however, entries are made in the system once a voucher is approved and the general ledger and trial balance are automatically updated.

Books of accounts: Regional offices in Pakistan maintain their own books of accounts. The Central Office in Lahore is responsible for maintaining the books of accounts of the divisions situated in Lahore. Overseas operations are controlled at the Central Office and most of the record for the same is maintained here. Directors decide when and to what extent the members may be allowed to inspect the books of accounts.

Bank accounts: As per the accounting manual of the Company, the main bank account of the Company shall be maintained in the National Bank of Pakistan (WAPDA House, Lahore) into which all income shall be credited and main disbursements shall be made. The Company needs the approval of the Managing Director to open bank accounts at other commercial banks or branches of the National Bank of Pakistan.

Revenue collection: Nespak despatches bills along with supporting details and vouchers through its various divisions and regional offices to clients on the dates specified in the respective contracts. All receipts thereof are be handled by the Finance Section at the Central Office or the relevant Project/Regional Offices, however the cheque for payment is eventually sent to the central office and regions/divisions are disallowed from collecting actual money. After a transaction is completed, entries in the system are made at the Central Office or the respective Project/Regional Offices.

Disbursements: All disbursements of central office are made by the accounts officer, and for regional offices or projects the same are made by the head of the regional office or project. However, since the regions/divisions do not collect any cash or payment from clients in their own capacity, the head of the relevant region/division raises a requisition with the central office for transfer of funds to meet his estimated requirements of salary and other running

costs. For disbursements at site, subsidiary bank accounts are opened with prior approval from the Managing Director.

Custody of Cash and Cheques: Cash is kept in strong treasure chests or safes secured by two locks of different patterns. The keys for each lock are kept by two different individuals. The cashier in every office is required to furnish security in cash or a fidelity bond of any amount fixed by the Managing Director. Cheque books are kept under lock and key in the personal custody of one of the persons authorized to sign cheques or another employee nominated with the approval of the Finance Manager.

Cash Book: Each office which receives or disburses money on behalf of the Company maintains a cash book. All cash transactions are entered in the cash book as soon as they occur with sufficient details as to the particulars of the transaction. As per the accounting manual of the Company, an entry once made in the cash book shall in no circumstances be erased.

Current Accounts: The Company has maintained inter-office current accounts to record payments made by a project/division/region on behalf of another project/division/region. For example, if a project makes any payment on behalf of the central office, it will issue a debit advice for the same amount to the central office and book a receivable in its current account with the central office. The central office will receive the debit advice and prepare a voucher; once the voucher is approved it will record a payable in the current account with the respective project. At each month end, the accounts officer at the central office shall prepare a reconciliation statement of each current account balance.

Competent Authority: The competent authority in relation to exercising any power is either the Managing Director or the Board of Directors, or its authorized officer.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- VIII

Understanding of Entity's Business – Key Contacts

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Key Management Personnel	Name	Title	Tel.
Central Office	Asad I. A. Khan	Managing Director	(042) 99231911 (042) 99231912
Finance and Accounts	Amir Rashid	Executive Vice President	(042) 99231927
Overseas Division	M. Ajmal Jameel	Vice President	(042) 99230975
Power Division	Tariq Mehdi	Vice President	(042) 99231935
Water Division	Hassan Javed Afridi	General Manager	(042) 99231939
Highway Division	Qazi Iftikhar Ahmed	Vice President	(042) 99231934
Architecture Div	M. Ilyas Malik	Vice President	(042) 99231920
Islamabad Office	Wasim Ul Haq Ansari	Regional Manager	(051) 99221993
Karachi Office	Ejaz Saeed Khan	Vice President	(021) 5635804

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- IX

Understanding of Entity's Business – Significant Audit Areas

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Significant Financial Statement Components	**Critical Audit Area Y/N**
• Property, Plant and Equipment	Yes
• Assets subject to finance lease	No
• Intangible assets	No
• Capital work in progress	Yes
• Investments	Yes
• Loans and advances	Yes
• Long term security deposits	No
• Deferred tax assets	No
• Drawing and Stationery stores	Yes
• Contract fee receivable	Yes
• Advances, deposits and prepayments	Yes
• Cash and bank balances	Yes
• .Employee retirement benefits	No
• Liabilities against finance lease	No
• Current portion of liabilities	No
• Creditors and accrued liabilities	Yes
• Provision for tax	No
• Consultancy service fee	Yes
• Other income	Yes
• Share of profit of associate	No
• Administrative expenses	Yes
• Financial charges	Yes

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- X

Understanding of Entity's Business – Significant Accounting Policies

Name of Entity/Organisation: National Engineering Services Pakistan (Private) Limited

Significant Accounting Policies

Basis of preparation:

Financial Statements are prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984.

Basis of Measurement:

These Financial Statements have been prepared under the historical cost convention, except for recognition of certain employee benefits at present value.

Significant Account Policies:

1. **Taxation**
   Provision of current tax is based on the taxable income for the period determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated by using the prevailing tax rates. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

2. **Property, plant and equipment**
   Operating fixed assets except freehold land, which is stated at cost, are stated at cost less accumulated depreciation. Depreciation on additions is charged to the profit and loss account on the reducing balance method, so as to write off the historical cost of an asset over its estimated useful life. Depreciation on additions is charged from the month in which the asset is put to use while no depreciation is charged from the month in which the asset is disposed off. The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

   Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. The profit or loss on disposal calculated as the difference between the sale proceeds and carrying amount of the asset is recognized as income or expense.

3. Intangible assets

Intangible assets are carried at cost less accumulated amortization and impairment losses. Amortization is charged to income on straight line basis over a period of three years. Subsequent expenditures on intangible assets are recognized as expense when incurred, unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4. Investments

Investments in subsidiaries are stated at cost less provision for diminution in value, which is considered other than temporary. Investments in associates are accounted for by using the equity method to comply with the requirements of IAS-28 "Investment in Associates."

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting date these investments are re-measured at fair value, unless fair value cannot be reliably measured. Unlisted investments are stated at cost.

5. Employee Benefits

The company maintains an approved gratuity fund for all its permanent as well as contract employees. The contribution to gratuity fund is made in accordance with the actuary's recommendation based on actuarial valuation of these funds as at June 30, 2009. The projected unit credit method, using the following significant assumptions, has been used for actuarial valuation.

Discount rate	12%
Expected return on plan assets	12%
Expected rate of growth per annum in future salaries	15%

The company provides liability for accumulated compensated absences of its permanent and contract staff as per company policy. The company operates a recognized provident fund for all permanent employees. Monthly contributions are made both by the company and employees.

6. Foreign Currencies

Transactions in foreign currencies are accounted for in Pak Rupees at the rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated into Pak Rupees at the rate of exchange prevailing at the balance sheet date.

7. Revenue Recognition

The company recognizes revenue when services are rendered. Dividend income is recognized when the right to receive the payment is established. Income from bank deposits is recognized on accrual basis. Revenue is recognized to the extent that it is

probable that the future economic benefits will flow to the company and the revenue can be measured reliably.

8. Provisions

Provisions are recognized when the company has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.



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