DEPARTMENT OF THE AUDITOR-GENERAL OF PAKISTAN



GUIDELINES FOR THE AUDIT OF DEFENCE SERVICES

TO BE USED BY

THE DIRECTORATE GENERAL AUDIT (DEFENCE SERVICES)



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

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 though it is quite comprehensive for developing an understanding of audit concepts, standards and techniques, it does not provide sufficiently detailed and specific guidance to the FAOs for conducting audit. Realising this need, the DAGP prepared guidelines pertaining to different sectors and departments. Some of these guidelines are specific to an office (e.g. DG, Works), while the others are applicable across the board (Environment).

These Guidelines were circulated among the FAOs for use. However, they were not found helpful, and could not offer the hands-on practical assistance they were meant to provide. The result was that the FAOs continued to rely on their old and outdated codes and manuals for conducting audit.

On the basis of lessons learnt from the field, 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 result of these efforts are contained in this totally rehashed Guidelines. Though the document, as a whole, has been revised, I would like to particularly mention the section on the Audit Execution Phase, in which detailed audit steps have been added.

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)
Dated: March, 2010 Auditor-General of Pakistan

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 Defence Services. 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, practices, 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 Papers

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.

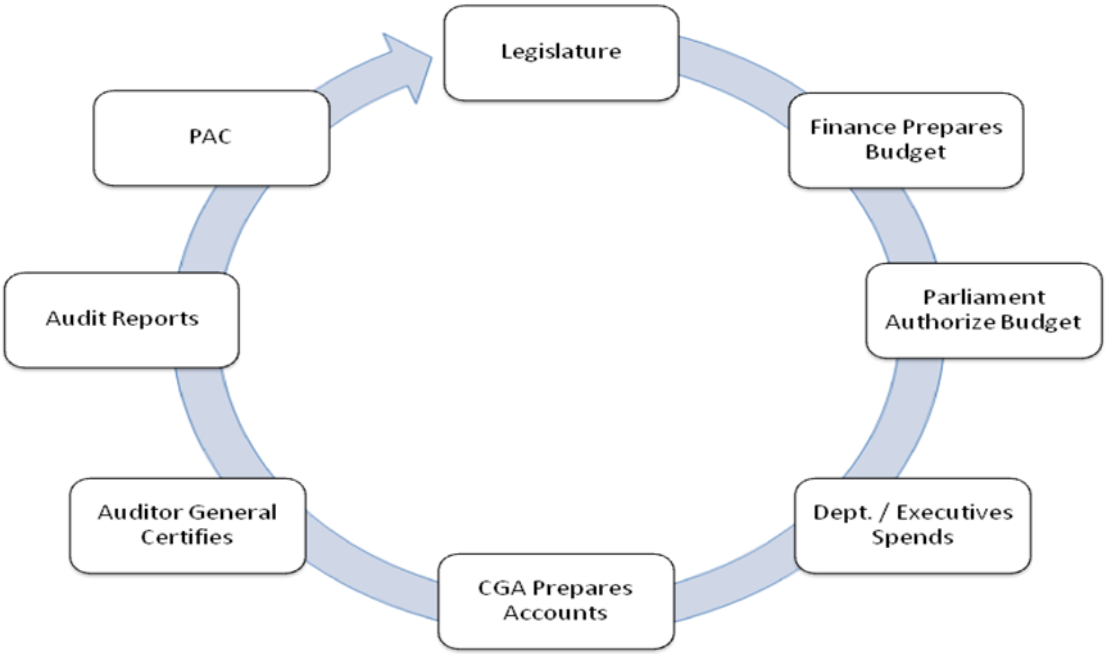
These Guidelines do not repeat the instructions for each form. This purpose is to provide additional guidance specific to the type of audit being planned or conducted. Forms and schedules given in the Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of 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 budget statement which is approved by the Parliament. A detailed elaboration is as follows:

1. Each year, Ministry of Finance receives budget estimates from government agencies.
2. Based on the resources available and priorities of the government the annual budget is prepared.
3. The Parliament approves the budget.
4. Principal Accounting Officers (PAOs) sanction the expenditure.
5. Controller General of Accounts is responsible for the preparation of Annual Financial Statements. This task is accomplished through the sAccountant General Pakistan Revenues (Military Accountant General) who has the primary responsibility for disbursements, keeping a record of transactions and the preparation of Annual Financial Statements of the Federal, Provincial and District governments, whereas for self accounting entities this task is accomplished by the Principal Accounting Officers (PAOs).
6. Each year the Auditor General of Pakistan certifies the Financial Statements of Federal, Provincial and District governments.
7. Audited Financial Statements and Audit Reports are laid before the National Assembly/Provincial Assembly. These reports are then discussed in the Public Accounts Committee (PAC) who then reports back to the National Assembly/Provincial Assembly.


Legislature
Finance Prepares Budget
Parliament Authorize Budget
Dept. / Executives Spends
CGA Prepares Accounts
Auditor General Certifies
Audit Reports
PAC

2. OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT DEFENCE SERVICES- (NORTH & SOUTH)

2.1. Overview of the Office

Auditor General of Pakistan is responsible for the audit of all expenditure from the revenues of Pakistan. To discharge his statutory responsibility in respect of expenditure on Defence Services, the Auditor General has his own Inspection staff working under the supervision of the Director General Audit (Defence Services), in the Military Accountant General Office building in order to check accuracy of expenditures.

Directorate General Audit (Defence Services) is a Field Audit Office of the Department of the Auditor General of Pakistan under the supervisory control of Deputy Auditor General, Defence Services (DAGDS) that caters for the audit requirements of Ministry of Defence and Defence Production and formations / units under the administrative control of these two ministries. This office is continuously playing its role to honour and full fill the constitutional obligations of the Auditor-General of Pakistan (AGP) with reference to its areas of operations.

The office of the Director General Audit (Defence Services), Rawalpindi has been bifurcated into two offices i.e. Director General Audit Defence Services (North), Rawalpindi and Director General Audit Defence Services (South), Karachi during the year 2009 both offices work under the supervision of Deputy Auditor General (Defence Services).

The DGA (DS) is located in Rawalpindi and Karachi and headed by two Director General (BPS-20).Each has the separate jurisdiction to audit and report. Overall they have three Command-offices at Rawalpindi, Lahore and Karachi. Each command office is headed by a Director (BPS-19) and equipped with the Field Audit Staff.

With respect to audit planning, it needs to be recognized that accounting locations which are candidates for audit work are distributed across the country. The documentation supporting transactions which are sampled centrally in the offices of the Controllers of Military Accounts (CMA) may be kept at these decentralized locations rather than at the central accounting locations for Defence. There is centralized pre-audit system prevalent in Pakistan, which requires the Ministries, and Departments to get their payments processed from the pre-audit offices that work under the supervision of the Controller General of Accounts (CGA) and the control of the Ministry of Finance. Since the payments are processed in the pre-audit offices (i.e. Controllers Military Account), the accounts are also prepared by them and consolidated in the offices of the Military Accountant General, which are the field offices of the CGA. In cases where certain departments of the Defence Services are authorized to maintain accounts, they are required to prepare detailed accounts of their payments and receipts, which are merged with the central accounts prepared by the Military Accountant General.

It is not feasible to visit all decentralized locations (where the documentation supporting the sampled transactions is kept) following the close of each fiscal year to check the documentation on file. The audit of Defence Services as a whole, therefore, needs to rely to some extent on results of audit work carried out at other times. The central audit team, in addition to compliance

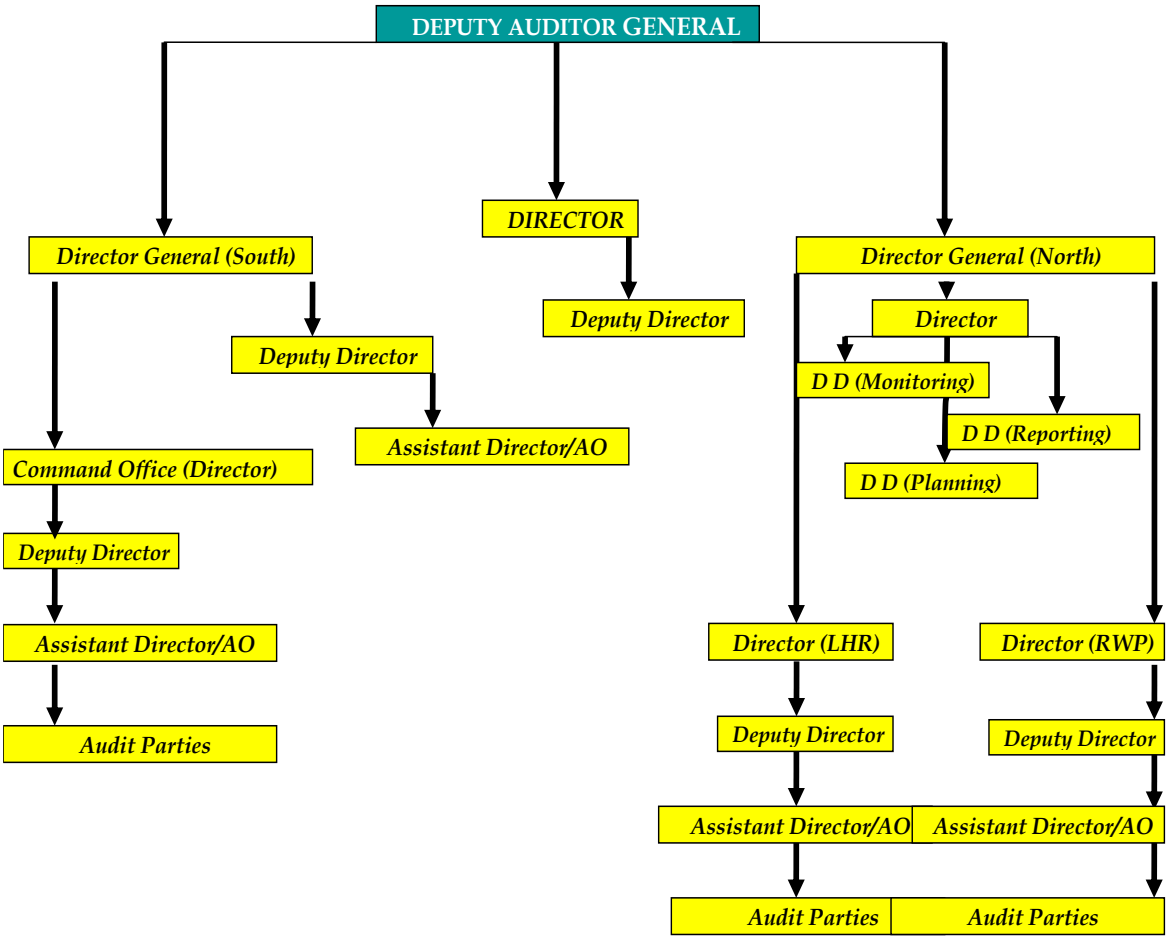
testing, should also use information gathered during visits to decentralized locations to determine the level of reliance that can be placed on internal controls. Thus in addition to the audit of the samples selected in the Controllers Military Accounts, the central audit team should visit decentralized locations in selected cases to check records held at those locations, thus confirming the accuracy of the data examined centrally.

2.2 Jurisdiction

Units / formations of the following departments located in the provinces of Punjab, NWFP, Sindh, Balochistan, Azad Jammu Kashmir & Northern Areas.

S. No.	Principal Accounting Officer (PAO)		Attached Department/ Departmental Accounting Officer	*No. of Formations
1.	Ministry of Defence	Secretary Defence Division	1. Pakistan Army 2. MES (Army) 3. Pakistan Navy 4. MES (Navy) 5. Pakistan Air Force 6. MES (Air Force) 7. ISOs 8. Pakistan Military Accounts Department 9. DGML&C	2,246 73 14 6 58 29 86 30 31
2.	Ministry of Defence Productions	Secretary Defence Production	1. Defence Procurement Agencies 2. Defence Production Establishments 3. MES (DP) 4. CMAs	7 18 17 3

2.3 Organogram of DG, Audit Defence Services



3. SCOPE OF AUDIT

3.1 Types of Audits[1]

Directorate General Audit, Defence Services conducts the following types of audit:

1. Certification Audit
2. Compliance with Authority Audit

Additionally the Directorate General also carries out special audit and special studies.

The following section defines Certification audit, Compliance with Authority 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 Institution considers should be disclosed.

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;
2. Ensure that assessed revenue is promptly collected and deposited in government treasury and properly classified in the Financial Statements; and

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

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:
  - Existence and Occurrence
  - Completeness
  - Measurement
  - Regularity (compliance with applicable laws and regulations)

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 detail;
- 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 ensure 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 Defence Audit

The major focus of the Directorate General of Audit Defence Services is on:

- Expenditures incurred by the diverse range of organizations within the Ministry of Defence and Ministry of Defence Production.

  There is centralized pre-audit system prevalent in Pakistan, which requires the Ministries, and Departments of the Federal, Provincial and District Government to get their payments processed from the pre-audit offices that work under the supervision of the Controller General of Accounts (CGA) and the control of the Ministry of Finance. Since the payments are processed in the pre-audit offices (i.e. Controllers Military Account), the accounts are also prepared by them and consolidated in the offices of the Military Accountant General, which are the field offices of the CGA. In cases where certain departments of the Defence Services are authorized to maintain accounts, they are required to prepare detailed accounts of their payments and receipts, which are merged with the central accounts prepared by the Military Accountant General.

Some of the specific risks relating to Defence Services Expenditure Audit include:

- Unnecessary tying of government funds.
- Over payments.
- Unauthorized Expenditures.
- Award of contract to unsuitable supplier/contractor.
- Completion and certification of work below specification.
- Repeated revisions of drawings/estimates and administrative approvals.
- Huge storage of items in stores.
- Manual Accounting.

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 audit. This may include:

- Copies of relevant Government legislation, regulations, guidelines and other rules affecting the operations of an entity.
- Organization charts, details of key contacts and locations of operation.
- Role of entity, Vision and Mission Statements, most recent business plan or chart of entity.
- Copies of the estimates.
- Copies of long-term contracts/leases.
- Loan agreements, schedules of amortization for debts and special assets.
- Extracts of the minutes of meetings.
- Reports to management and management's response.
- Chart of accounts.
- Summary of accounting policies used by the auditee departments.
- Special remuneration, if any, conditions for senior officers.

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 entities which are represented in the Financial Statements of defence. This includes information about total expenditure of the entity, operational activity/corporate plan of the entity like organization structure, main functions, etc.

- Expenditures incurred by the diverse range of organizations within the Ministry of Defence and Ministry of Defence Production.

The present accounting system of Defence Services does not show assets or liabilities. The Permanent File should, however, contain figures for expenditures for each of the last five years.

4.7 List of Auditable Locations – Form PF-III.

The auditor should list all locations including the Main Accounting Office, other accounting office's including the offices of the Military Accountant General (MAG), offices of the Controllers of Military Accounts (CMA), offices of the Unit Accountants, Military Estate Offices, Ministry of Defence (Budget Section), Ministry of Defence Production (Budget Section), Finance Division (Military), CAO PAF Peshawar and all other accounting locations in the form of units and formations all over Pakistan, that collect, record, process and report financial information of the entity.

4.8 List of Bank Accounts – Form PF-IV.

The auditor may list names, addresses and account numbers of all bank accounts maintained in the name of Defence Services.

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 the 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 factors that may affect Defence's operational activities. The auditor should use his/her professional judgment to decide what factors, internal or external, might have an impact. These factors could include:

- Increased security measures and military activity
- Introduction of new equipment
- Sanctions on imports of weapons and material
- Increases in cost of supplies (such as fuel)

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 Federal, Provincial and District 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).

Also, the auditor needs to understand the structure of authorities and responsibilities relating to the accounting, auditing and reporting of financial information as conducted within the Ministry of Defence; in particular, the responsibilities of Military Accountant General, the role of Pakistan Military Accounts Department, the Controller of Local Audit (CLA) and the Principal Accounting Officer (PAO).

The major accounting records maintained by the auditee departments include:

- Cash Book
- Cheque Book
- Vouchers/Bills
- Contractor's Ledger
- Expenditure Statement
- Budget Releases
- Advance Register
- Expenditure Register
- Stock Register
- Measurement book
- Detailed Estimates

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:

- Financial Regulations Volume-I 1986 (Army & Air Force)
- Accounts Manual (War Army)
- Inter services Ammunition and Ammunition Package Marking Hand Book
- Army Dress Regulations 1989
- Army Officers hand book 1995
- Pakistan Army Officers Mess Rules
- The Army Regulations Volume –I (Rules 1998)
- Army Services CORPS Regulations Volume 1 (Rules 1986)
- Authorized Scales of Books Regulation (Other than Trg. And Tech. Pub 1983)
- Defence Services Accommodation Scale Rules
- Equipment Regulations Volume-I 1974
- Farm Cultivation Manual 1993

Where there are new administrative policies or procedures with which the auditee departments should comply, the auditors must become familiar with them and check 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 regulations. There are two approaches to process mapping namely Financial Statements approach (a top down approach) and transactions based approach (a bottom up approach). A sample business process is attached in Appendix "A".

Note: It is most important that the auditor, in carrying out the audit work, does not reinforce outdated or inappropriate procedures and practices. In particular, the auditor should determine whether any changes have been introduced in government practices that will apply to the auditee department(s).

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. He/she should ensure that it follows the current accounts classifications and the regulations imposed by the CGA (Controller General of Accounts).

The auditor should list critical audit areas/significant components within the Appropriation Accounts (including individually significant transactions and events), and their impact on the Appropriation Accounts of Defence Services and the audited formations. This will help the auditor to plan his/her audit for specific Financial Audit objectives and related Compliance with Authority Audit objectives.

In order to determine the significant components of the Appropriation Accounts, the whole activity of the auditee department should be divided into manageable parts, for example:

- by Directorates; or
- by capital projects, operations, ongoing maintenance of the facilities, major repairs, etc.; or
- by major activities; or
- Object element [MES civil works, repair & maintenance, etc].

Where the selected components have separate locations with decentralized management (for example Controllers Military Accounts), 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 certification audit, the most logical way of dividing up the Appropriation Accounts is to consider main items of expenditures in the Appropriation Accounts to be a separate component.

Expenditures/Costs

Some of the main areas of Expenditure audit include:

- Payroll /TA DA
- Stores
- Miscellaneous
- Projects
- Contracts
- Local Purchases
- Utilization of military lands and buildings (MEO)
- Military Engineering Services
- Procurements
- Military pensions, especially disability pension and pension on compulsory retirement
- DSOP Fund
- Allowances in border defence areas
- Cash in Hand/Bank
- Inter-Entity Transactions
- Procurement

The following table highlights the significant components along with their main account heads and areas critical for auditing.

Significant Appropriatio	Main Heads	Critical Area

n Accounts Component		
Expenditure	Military Engineering Services (Development Expenditure)	1. Planning & Estimation of works. 2. Tendering of works and engagement of consultancy services 3. Post-bid contract amendments 4. Variation /change orders in original contract/work orders 5. Measurement of works 6. Payment to the contractors beyond the terms of contract 7. Escalation claim of the contractors 8. Contract Payments 9. Violation of contract specification/design 10. Non-imposition of liquidated damages due to delay in completion of works 11. Failure and termination of contracts
	Military Engineering Services (Repair and Maintenance)	12. Planning & Estimation of works. 13. Tendering of works 14. Variation /change orders in original contract/work orders 15. Measurement of works 16. work Payments
	Military Estate Office	17. Surplus military land 18. Class A-1 land utilization 19. Class A-2 Land, i.e. camping grounds and other Defence Land, reserved for future Military requirements 20. Rent/Premium on leased land

Assets	Fixed Assets	21. Fixed Asset Register 22. Addition 23. Disposal 24. Excess Vehicles with respect to sanctioned

4.14 Significant Accounting Policies – Form PF-X.

The auditor should list significant accounting policies and changes thereto, which are applied by the entity and ensure that these are in line with the policies and rules of the Ministry of Defence and the Federal Government. The auditor is referred to the Permanent File for detailed description of the budgeting, accounting and administrative processes in place within the Ministry of Defence.

The MAG produces a consolidate figure of expenditure under fourteen heads of accounts. This statement is the mostly instrument to check flow of expenditures within Defence Services. Presently there is no system within the Ministry to prepare and consolidate figures of expenditure incurred by the formations and reconcile the same with the figures compiled by the accounts authorities.

Defence Services are not working under a uniform payment system. Payments are made in Army, PAF, Navy, DP Establishments and ISOs under different systems. In PAF and Navy, payment against most of the transactions is made by PAF & Naval authorities through Imprest Account or Cash Assignment, without pre-audit. The bills are sent to Accounts authorities after payment for post audit. However in case of Army pre-audit of all types of bills including Pay & Allowances is conducted by Accounts authorities.

Significant policies may include:

- Accounting for Contracts
- Treatment of inventory of raw materials and other inputs to projects and operations
- Accounting for foreign currency transactions and interest payments
- Accounting for staff retirement benefits
- Accruing for expenses incurred but not recorded

A number of entity-supplied documents are required to support the forms and schedules:

- Organization chart
- Accounting policies
- Budget & Expenditure Statement
- Entity's business plan or charter
- Applicable financial rules, laws and regulations, and service rules

- Long term contracts
- Extracts of the minutes of meetings
- Previous years' audited expenditure statements
- Previous auditors' reports to management and management's responses
- Others as appropriate

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.

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; and
- 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 Audit 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, 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 see Section 7.1 of FAM.***

The nature and size of the audit entity determines the scope of the audit, and is generally defined by the audit mandate. For the audit of Financial Statements, 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 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 programme 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 and 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 establish an appropriate level of risk for the audit. The concept of risk is very important in planning system-based audits and is discussed in detail 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.

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 the Financial Audit Manual.

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 for 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 detailed 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 detail. 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 detail.

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 techniques during Certification Audit, they will be required to exercise professional judgment.

Sampling:

It is the selection of a sub-set of a population. The auditor takes a sample to reach a conclusion about the population as a whole. As such, it is important that the sample be representative of the population from which it was selected.

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 a 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 record 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. Directorate General Audit (Defence Services) has the prime responsibility to form a consolidated opinion on the Appropriation Accounts of the Ministry of Defence.

Para from 6.4.6 of FAM give guidance about a centrally led audit. With a centrally led audit, there will be a division of responsibilities between the central team and other Directorates contributing to the 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 Audit objective and error condition;
- Determining the optimum mix of tests of internal controls, analytical procedures and substantive tests of details for each component and for each specific Financial Audit objective and related Compliance with Authority Audit objective and error condition;
- Performing the overall error evaluation; and
- Reporting the results of the audit.

The auditors from each of the director offices 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 other matters of note, to the central team.

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. Single Liner Appropriation Accounts.
b. Any inter-governmental accounts for elimination.
c. Supporting documents (important agreements, bills, vouchers other documents that are important for the audit record)
d. 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 Paper 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 Defence audit are as follows:

- *Project's Cost*
- *Payroll*
- *Pension*
- *Defence Provident (DSOP/DSP) Fund*
- *Inter Entity Transfers*
- *Goods and Services / Procurements*
- *Cash in Hand / Bank*

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 Defence audit given at section 6.16 onwards 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 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's Financial Statements /Appropriation Accounts complies with the following assertions[2]:

- **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.

[2]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.

- **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 are given under section 6.16.

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 following detailed audit programmes for various audit areas:

- *Project's Cost*
- *Payroll*
- *Pension*
- *Defence Provident (DSOP/DSP) Fund*
- *Inter Entity Transfers*
- *Goods and Services / Procurements*
- *Works (Military Engineering Services)*
- *Cash in Hand / Bank*
- *Contracts*
- *Land & Building (Military Estate Office)*
- *Pakistan Army Units / Formations*
- *Pakistan Air Force Units / Formations*
- *Pakistan Navy Units / Formations*

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: Project Costs

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

Audit Procedure	Done By	WP Ref.
Existence and Occurrence • 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 Construction Account and/or project accounts, check that these were correctly charged to the project (and were consistent with the terms of the contract)		
Completeness • 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. • For a sample of projects, reconcile the total payments of final bill with Contract Agreement, Schedules, Measurement Billing, Drawings, Sanctions etc • 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		
Measurement • 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 technical officer's, or project manager's, estimate of progress achieved - and, where feasible, confirm by observation or reading of project progress reports that the stated progress has actually been achieved • (For a sample of projects, measure the total payments of final bill, Construction Account, Schedules, Measurement Billing, Deviation		

Order, PLS – Provisional Lump Sum etc)		
Regularity • Confirm that for the sample of projects examined, 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 Defence • Check that project payments have been properly authorized, and there is evidence on file that the work for which the payment is claimed was completed satisfactorily (suitable progress according to contract agreement, satisfactory quality and according to terms and conditions / specifications as laid out in the contract) and approved by technical officer / project manager. • Determine 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 Procedures Manual • For regularity issues relating to the procurement of goods and services and contracting practices, see the audit guides for "Expenditures – Goods and Services" and "Contracting"		
Presentation and Disclosure • For a sample of projects, and (where there are a large number of payments per project) on a sample of payments, check that all payments are correctly recorded in the Construction Account against the project and no payments are made against the project that are not a valid expense against the project • Review project reports and check on a sample basis that items in the report correspond to the records in the Construction Account (this is more critical if the report is not a computer generated report)		
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) (Evaluate Admin Approval, Technical Sanction etc) • 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 contract signed		
Where required, an appropriate environmental assessment relating to the proposed project • Where an environmental assessment is required, check whether it was done (or is being done)**Under section 12 (Pakistan Environmental Protection Act 1997)** • Conclude whether the environmental assessment was timely (i.e.		

completed before any significant effort or commitments made on the project – and did not contribute to any serious delays {although the auditor should be careful to recognise complexities surrounding this requirement}); and adequate - judgment on adequacy might require expert opinion to guide the auditor • Note whether actions on the project complied with the conclusions and recommendations of the environmental assessment		
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; requirements specified; and risks identified and assessed) • Where possible, conclude on the adequacy of the analysis {to do 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		
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 produced and assess its appropriateness for the risks / requirements identified • Like Risk & Cost, Court Decision on litigated matters, Security Deposits, Liquidated Damages		
Proper contracting procedures and practices followed See Audit Guide on Contracting		
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 monies have been allocated to the next stage of the project and all prerequisites have been met		

Payments not made until all agreed-upon quality and quantity of materials, construction, etc. are met • For those projects in the sample, check whether there is documentation on file to demonstrate that all requirements were met, and approvals obtained, before payments were made • In particular, look for evidence relating to (where appropriate): proper inspection carried out, checking that the full amount of materials supplied, existence of quality control over products and services received; proper sign-off procedures followed; etc. • 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 • Ensure final payments made on 30th June, but either work was not actually completed or goods were not delivered / received		
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) • Determine whether there are 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 **(Deviation Orders, Provisional Lump Sum)**		

Testing conducted to ensure all components are in operational condition • For those projects in the sample that have been completed, 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, 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 incomplete / unsatisfactory product(s) and workmanship		

6.18 Audit Programme: Employee Related Expense

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence • Select a sample of transactions (as required for certification requirements / for purposes of testing controls / for additional substantive compliance testing) • Refer to the Payroll Register for all employees in the sample • From the sample of transactions check that: employee is identified in Payroll Register; and that that payment was made to correct payee • Check attendance records to determine that employees in sample earned the amount due in pay (this is a test of attendance, not of effort) • Direct deposit – we need confirmation from bank of employee in sample regarding amounts deposited and identity of individual who holds account • Be present on one or more occasions when cash is distributed to employees below level 5 and check that those receiving money are bone-fide employees and that the total money distributed in aggregate totals the amount of cash authorized by the DDO		
Completeness • Compare list of employees paid against Establishment Register for selected months • Select a sample of employees who recently retired / transferred out / otherwise left the office and check whether any received 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 they commenced • Conduct a reconciliation (and/or check a batch of transactions) between {Direct Credit Advice / Payroll Advice / DDO monthly statement3} and Monthly Schedule of Employees' Salaries and General Ledger • Take a sample of employees (from establishment listing / telephone list / or other source) and check that they have received payment out of the payroll system		
Measurement		

• For the sample of transactions check: • That payment received by employee is correct according to Payroll Register; • That the Payroll Register is consistent with relevant Rules applying to promotion, pay rates and entitlements; • Those deductions are correct (according to the DP Fund / the income Tax Ordinance, 1979 and as modified from time to time / other deductions in accordance with rules and regulations governing deductions such as rent deductions, loans and advances / etc.) • Check for the selected sample of employees recently joining the office that the amount of the first payment was correct according to the start date and according to their Payroll Register • Check for the selected sample of employees who recently left the office that the amount of the last payment was correct according to the date of last day of employment in section and according to their Payroll Register – compare pay-slips with Last Pay-slip Certificate issued • Check for a sample of months that payroll payments are consistent with actual admissibility recorded by the DDOs		
Regulatory • Check that all documents relating to the sample of transactions/employees are completed fully, have proper authorization (including checking signing authority and signatures of the approving officers) • 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) • Check that the total number of employees (by individual units) receiving pay does not exceed stipulated establishment limits		
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 by checking for the sample of transactions that the net pay and deductions have been correctly coded according to the Chart of Accounts codes. • Check whether the payroll section receives 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 payroll section. • 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).		
Additional Checks • Check that the recovery of leave salary and pension contribution of employees on deputation to Foreign Service (other departments / entities) has been properly collected. • Check that the number of employees in each category falls within the authorized strength or sanction of the competent authority exists for additional staff. • Check that payments for conservancy and hot weather establishment are correctly made and that the authorized allotments of funds and the strength of units/formations are not exceeded.		

6.19 Audit Programme: Pension

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence • Select a sample of transactions for the purpose of testing controls / for additional substantive compliance testing • Refer to the Pension Register for all pensioners in the sample • From the sample of transactions check that: pensioner is identified in Pension Register; and that that payment was made to correct recipient • Through application of CAATs or otherwise, search for any payments to pensioners that look as if they might be double payments to the same person – e.g. those pension recipients who have the same home address • Through application of CAATs or otherwise, search for any payments made to an address other than that of the pensioner – e.g. check if the wrong person is receiving the pension payment • Where it is suspected that there could be duplicate payments, it might be possible for the auditor to arrange these pensioners to pick up their cheques at the office of the DDO, with the permission of DDO. • Compare list of pensioners paid against Pension Register for selected months. • For the sample selected, check pensioners in the Pension Register against Establishment Register and confirm that pertinent information are consistent (name, date of birth, level, date of retirement/ start of pension payments, etc.) • Select a sample of pensioners who recently retired and check whether they received correct pension payments. ***Measurement*** • Conduct a reconciliation between (Direct Credit Advice / Pension cheque) and Monthly Statement of Pension Payments and General Ledger • Take a sample of pensioners from Pension Register and check that they have received their pension payment • For the sample of transactions check: ◦ that payment received by pensioner is correct according to Pension Register; and ◦ that the Pension Register is consistent with relevant Rules applying to pension rates and entitlements		

• Check for the selected sample of pensioners recently becoming pensioners that the amount of the first payment was correct according to the start date and according to their Pension Register • Check for the selected sample of pensioners who recently died, that the amount of the last payment was corrected according to the date of death (any documentation, such as death certificate required?) • Obtain a copy of monthly Exception Report for errors and omissions in pension payments: a) Ensure it is checked by supervising officer and appropriate action taken b) Compare with computer pension register c) Consider impact on pension costs in general ledger • For a sample of months, check that the total pension payments is correctly presented in the General Ledger by making the necessary calculations (which will be much easier through the use of CAATs). ***Regulatory*** • For the sample of transactions check that: • the pensioner is governed by the regulations under which his pension has been sanctioned; • retirement of the officer is not due to his own fault; • the period of service allowed to count towards pension is qualifying and the rate of pension has been calculated in terms of the period of qualifying service; • where pension of a particular rank is dependent on a minimum period of service at that rank, the required service has been rendered; • the share of pension contribution is charged to other departments where the officer has rendered service; • there are controls to ensure recovery of leave salary and pension contributions of employees on deputation to foreign service (does the supervisor conduct checks of service statements to ensure such recoveries?); • the total pension sanction is within the prescribed maximum limit • In case of a pension as invalid, check that: • certificate of invalidation is furnished by the proper authority; • period between the issue of the invalid certificate and the date of discharge does not exceed 30 days • In case of disability pension, check that: • disability has been certified by proper medical authority as attributable to, or aggravated by, military service; • in case of injuries due to accidents, proceedings of the court of inquiry as to regards to attributability is attached with the claim; • rate of pension is correctly applied with reference to the class of disability decided by the medical authorities;		

• pension is not continued beyond the original date of termination without examination of the pensioner by a medical board • In case of family pension, check that: • the beneficiary is within the prescribed domain of relationship with the deceased employee whose cause of death has been declared by a medical authority to be directly attributable to military service; • special family pension is not continued beyond second life; • claimant's private income has not exceeded the "means" limit prescribed in grant of the family case; • total of special family pension/ dependent's plus children's allowance, does not exceed pay • In case of commutation of pension, check that: • the amount of commutation does not exceed the maximum limit and residual pension is not less than the maximum fixed; • payment of commuted portion of pension eases on the dates laid down in the pension regulations; • the commuted value has been correctly calculated according to the tables applicable to each case • Check that all documents relating to the sample of transactions regarding pension payments are completed fully, have proper authorization (including checking signing authority and signatures of the approving officers) • Check that these calculations comply with the regulations relating to pensions. • Check that pension payments are correctly identified in the General Ledger under Pension Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the pension payments have been correctly coded according to the Chart of Accounts codes. • Check whether the pension section receives 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 pension section.		

6.20 Audit Programme: Defence Provident Fund

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

Audit Procedure	Done By:	WP Ref.
• **Completeness** • Select a sample of transactions (as required for certification requirements / for purposes of testing controls / for additional substantive compliance testing) • From the sample of transactions providing advances / final payments, check that these have been correctly updated in the DSP Fund register; and that for each transaction: • the payment; • the adjustment to fund balance; and • deductions from payroll for repayment of advance; was to the same subscriber • Check for the sample that the DSP Fund ledger has been updated to reflect the monthly deductions from salary • Through application of CAATs or otherwise, search for any payments (advances / final payments) to subscribers that look as if they might be double payments to the same person • Through application of CAATs or otherwise, search for any payments made to a bank account different from the one used for salary payments – e.g. check if the wrong person is receiving the advance / final payment • Compare list of advance payments paid out of DSP Fund for selected months with list of subscribers and check whether the changes to the payroll deductions reflect the necessary changes to pay back the advance ***Measurement*** • Check that the final payment out of the DSP Fund corresponds with the final payroll payment and initiation of pension payments (where applicable) – in other words, for the sample selected, check that data relating to the final payment corresponds with pensioners in the Pension Register against Establishment Register and confirm that pertinent information are consistent (name, date of birth, level, date of leaving/retirement / start of pension payments, etc.) • Conduct a reconciliation between Direct Credit Advice and Monthly		

Statement of DSP Fund register and General Ledger • Check that final payment has correctly being adjusted for any outstanding advance taken. • Check whether payroll deductions for repayment of advance have been correctly calculated (including interest). • Check that the annual statements provided subscribers are correctly calculated • Advance in excess of allowable amount / incorrect amount of deductions / errors in amount of payments, particularly last payment ***Regulatory*** • From a sample of refusals of applications for an advance, determine whether the refusal was a correct application of the DSP Fund rules • Check that all documents relating to the sample of transactions regarding advance / final payments are completed fully, have proper authorization (including checking signing authority and signatures of the approving officers) and that the credit advance was signed by two delegated officers. • At the same time, check that these calculations comply with the regulations and rules relating to the DSP Fund (including advance is less than 80% of balance in subscriber's account / a non-refundable advance is mostly provided to someone who's age is above the threshold. • Check that advance / final payments are correctly identified in the General Ledger under DSP Fund Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the advance / final payments have been correctly coded according to the Chart of Accounts codes. • Check whether the DSP Fund section receives 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 section.		

6.21 Audit Programme: Inter-Entity Transfers

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

Audit Procedure	Done By.	WP Ref.
Completeness • Obtain from the entity a schedule of inter-entity/government accounts showing separately for the current and previous year: • Receivable from/payable to other department/ section within the entity • Receivable from/payable to other government entities/ departments/self accounting entities/exempt entities. • Obtain Annual reconciliations of inter-entity/government transactions/exchange and settlement accounts between Controller General Accounts / Military Accountant General/Controller Military Accounts/Controller Naval Accounts/Controller of Accounts Air Force, to investigate/analyze unusual reconciling items and differences for following areas. • Transfer between Offices (TBO), Transfer Entries (TE) outlined in chapter 6, 10, 11 and 12 of Military Accounts Code 1982 being followed? • Are these three Annual Reports namely Federal Appropriation Account for Defense Services, PAF (CMA) 235 Annual Statement showing expenditure of Defence Services under Head Q Loans and Advances and Review of Balances Defence Services are being prepared and accounted for properly? • Select a sample of transactions for purposes of testing controls / for 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 (inter-entity transaction form / relevant invoice / notification to State Bank of Pakistan via Accountant General's office and check completeness. • Through CAATs or other means, identify in the records any situations of "identical" transactions and check whether transfer transaction entered as a duplicate • Check that on consolidation of transfer transactions within the government entity, the transactions cancel out or that any not cancelled out can be explained. • Check whether any erroneous debits and credits adjusted in the accounts of		

a previous year have been written back by fresh credits or debits. • Check that the total debits or credits in an exchange account tally with the corresponding entries in the consolidated abstract and the ledger and that any differences have been reconciled. ***Measurement*** • For a selection of transactions, check that Transfer between Offices (TBO), Transfer Entries (TE) outlined in chapter 6, 10, 11 and 12 of Military Accounts Code 1982 being followed? • For inter-government grants, obtain and review the approved final budget to ascertain the grants made for the year • Ensure that all appropriations have received legislature authorization • Check mathematical accuracy of approved grants • Verify supplementary grants allocated during the year. **Presentation & Disclosure** • Ensure that all funds withdrawn from one grant or appropriation for re-appropriation to another grant or appropriation has received the approval of the legislature • Check that inter-entity account balances within the same government have been recognized in the accounts of the individual entity but cancelled out on consolidation • Check that the balances have not been recognized in the Consolidated Monthly Accounts		

6.22 Audit Programme: Goods & Services / Procurement

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

Audit Procedure	Done By	WP Ref
Existence & Occurrence • Select a sample of transactions, as required for certification audit and/or regulatory audit. If possible, this sample should focus on large transactions and a representative sample of the rest; and further focus on transactions close to year end. • For this sample of transactions, collect all related documentation (purchase order / purchase authorization / invoice / delivery receipt / any receiving documentation / payment) and check entry in Inventory Register and in general ledger. • Approval of Demand Order (Purchase Requisition) by competent authority. Demand have been approved by the Financial Advisor of respective services ***Regulatory*** • Quotations from Approved Contractors as per PPRA Rules 2004 • Procurements over Rs. 2,000,000, Advertised on the Public Procurement Authority's (PPRA) website as well as in other print media or newspapers having wide circulation. • Procurements over Rs. 100,000 up to Rs. 2,000,000, Advertised on the PPRA's website in the manner and format specified by regulation by the Authority from time to time and may also be advertised in print media, if deemed necessary by the procuring agency. • Procurements over Rs. 25,000 up to Rs. 100,000 Request for quotations (PPRA Rules 2004). • Procurements up to Rs. 25,000 The procurement process should be conducted in a fair and transparent manner (PPRA Rules 2004). • Also ensure that NTN and Sales Tax Reg. No. are present on quotations • Ensure that the supplier is amongst the List of Approved Contractors/ Registered Suppliers • Approval of rates of the lowest bidder on Comparative Statement (CST) by the Board. If purchase is not made from the lowest bidder, ensure reasons are specified • Acceptance letter issued to Contractor/ Approval on Quotation for other than		

contract supplies • Check that the Contract is in the prescribed format and is duly endorsed by both parties • Confirm that the payment was made to the correct payee by comparing information on cheque register with invoice and delivery information. • At the air force units and computerized naval units, apply CAATs- Audit Command Language (ACL) to identify in the records any situations of "identical" transactions and check whether they are two separate purchases 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 piecemeal acquisition is done to avoid need for sanction from a higher authority. • At least for large transactions (High value items/ Key items) 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 DDO or independent party) • Review suspense account for unclear payments or for inappropriate clearances • Check that all goods and services recorded as acquired in the year are charged against that year (if practical or use of CAAT available) • For the sample of transactions, check that the documentation (purchase order / purchase authorization / 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 income tax and sales tax have been accounted for and withheld accordingly • Follow up on any short-fall / substitution / missing items / multiple deliveries to ensure that mostly what was received was paid for • Check whether the person(s) responsible for the purchasing function(s) receive(s) 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 person(s) reconcile the information in the accounting report with the purchases for the period reported. • Ensure that LPO (Local Purchase Order) is raised in the name of the selected supplier based on Comparative Statement CST • Supplier's bill/ invoice in the prescribed format duly signed by the Contractor/ Supplier. Supplier's Bill details matches with the LPO, the Bill is stamped at the receiving unit • Where purchase is not made by the central store/ procuring unit, ensure that Not Available certificate is obtained from it • Check that convoy note(in case of Hiring of Mechanical Transport) is Acknowledged by receiving authority • Check that supply order is in conformity with the Approved Quotation/ Contract. Further ensure that the details of supply order match with the Local Purchase		

Order **Measurement** • Check that the invoice and payment have applied proper prices / include any negotiated prices or other arrangements / reflect correct freight charges if applicable • Check also that no payment has been made in advance before delivery of goods and services • Check arithmetical accuracy • Check inclusion of applicable guarantees, service support • 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 there has been proper authority to enter into the acquisition process, and that the size of the purchase is within the financial powers of the authorizing officer • Check for supporting material to justify the acquisition of the goods and services, identified in budget • Check that purchase payments are correctly identified in the General Ledger under the correct Object and correctly coded according to the Chart of Accounts Classification Code Book by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes. • Check that the supply has been made within the delivery date mentioned on the Local purchase order, so that no Liquidate Damages charges are applicable • Check that contingent bill duly raised by the respective Commanding Officer and is in line with the supplier's bill • Contract number should be mentioned on the contingent bill, where applicable. • Checked rates of Income Tax and Sales Tax and ensure proper withholding & deposit in Government treasury • Check that bill submitted for payment is for the current period and is not paid before • Check that cheque is signed by designated officer		

6.23 Audit Programme: Works (Military Engineering Services)

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

Audit procedure	Done by	WP Ref
MES Orignal Works: • Check approval of competent engineer authority on Project Estimate (Executive Engineering in-Chief/Director Works & Chief Engineer /Controller Military Engineering Services /Garrison Engineer./Assistant Garrison Engineer) [Technical Sanction as per Updated Financial Powers] • Check sanction of work/ allocation of funds from Budget Directorate based on Engineering in-Chief /Director Works &Chief Engineer / approval (Budget allocation) • Check that comparative statement are prepared and that contract awarded to the lowest bidder by the Board, otherwise specify reasons. • Check that contract is signed by the contractor and competent authority as per the updated contractual powers. • Check Security deposit (2%) & in case of unapproved / unlisted contractors additional standing security has been received. • Check that fresh allocations of funds for the year are made and ensure that it is not drawn / paid twice. Ensure that completion certificate is obtained for all completed projects. In case contract not completed within the agreed period, stipulated penalty (i.e. Liquidated Damages) are imposed. • Check the details of materials at site and work done endorsed by Garrison Engineer, Sub-Divisional Officer and Assistant quality surveyor (AQS) on behalf of Controller Military Engineering Services is properly recorded on Measurement Book (MB) as per the Bill of Quantity (BQ). • Check **Schedule B** for items to be obtained from central store. If the stock is not available, ensure that Not Available certificate is obtained. Also ensure adjustment has been made in Running account receipt (RAR). Further if the items have been purchased from outside, ensure that adjustment has been made mostly for the differential amount, if any. • Check that Running Account Receipt (RAR) is prepared and signed by the Garrison Engineer as per work done. • Specified Contract number should be mentioned on RAR		

(Running Account Receipt) • Match quantity and rates specified in the Running Account Receipt with the Bill of Quantity and the Schedule of Rates respectively and ensure that agreed contractor's margin is included in the Running Account Receipt (RAR). • Check that for any additional work / non scheduled items should be duly approved by the competent authority as per nature of work [Deviation Order] Refer Updated Financial Powers • Check rates of Income Tax and Sales Tax and ensure proper withholding tax deducted and deposited in Government treasury • Check that cheque is issued as per the particulars mentioned in the Contract Agreement and the amount mentioned in the RAR(Running Account Receipt) • Check that cash register is properly prepared, reconciled and approved • Check the recording of transaction in the relevant head of account • Check that Punching medium is prepared by Unit Accountant and matched with the RAR Running Account Receipt). • Check **Schedule III** prepared by Unit Accountant and match details of payment with the Running Account Receipt (RAR). • Check proper examination of site plan / map/ drawing. • Check that completion certificate is duly signed by concerned parties. • Projects estimates should be properly examined. • Examine material at site (MAS) register. • Check proper application of Military Engineering Services schedule of rates • Ensure authorization / scaling as per defence services accommodation scale. **MES Repair Works:** • Check approval of competent engineer authority on Project Estimates (Assistant G.E./G.E.) [Technical Sanction]Refer Updated Financial Powers • Check that expense was incurred after the specified period as per Periodical Services Measurement Book (PSMB). • Check that Tender process is as per PPRA rules 2004 (Website advertisement, news paper cutting, quotations from approved contractors) • Check that comparative statement is prepared and contract is awarded to the lowest bidder by the Board, otherwise specify reasons. • Match the rates of lowest bidder with the schedule of rates and contractor's margin specified by Engineering In Chief for the		

year.(If exceeding 10% take fresh approval). • Check sanction of work/ allocation of fund from competent authority (Administrative sanction) Refer Updated Financial Powers • Check that Contract agreement made in accordance with specified work, time & amount • Contract is signed by the contractor and competent authority • Check Security deposit (2%) & in case of unapproved / unlisted contractors additional standing security has been received • Check fresh allocation of funds for the year and ensure that it is not drawn/paid twice. • Check in case of contract not completed within the agreed period, stipulated penalty, i.e. Liquidated Damage is imposed • Check that Running Account Receipt (RAR) is prepared and signed by the Garrison Engineer as per work done. • Check that specified contract number is mentioned on bill. • Match rates specified in the Running Account Receipts with Contract (both scheduled and non scheduled items). Any additional work should be duly approved by the competent authority. • Check rates of Income Tax and Sales Tax and ensure proper withholding tax is deducted and deposit in Government treasury. • Check that cheques are issued as per the particulars mentioned in the Contract Agreement and the amount mentioned in the Running Account Receipts. • Checked cash register is properly prepared, reconciled and approved. • Check the recording of transaction in the relevant head of account. • Check that punching medium prepared by Unit Accountant and matched with the Running Account Receipts. • Check schedule III prepared by Unit Accountant and match details of payment with the Running Account Receipts • Check for items which are replaced that they are properly reflected in demolition statement. • Check that removed items should be properly accounted for on demolition register. **Measurement:** • Check that voucher number, dates and amount is mentioned on the voucher. • Specify the Contract number. • Check dates of the contract. • Compare amount specified in the contract agreement. • Check payments are made through cheques after the approval of		

Unit Accountant. • Check posting of payment in Cash book and ensure that it is duly incorporated in expenses ledger. • Cash book is signed by the Accounting officer. • Match opening balance of cash book with closing balance of last month. • Cash book is duly closed on monthly basis and sent to Controller Military Accounts along with vouchers. • Check that month end cash balances duly certified by the Garrison Engineer are counted and correct. • Ensure whether there are clear procedures for maintaining imprest cash and making payments in cash that exceed prescribed limits. • Check that corrective entry is made in the cash book for all cancelled cheques. • Check that entry is made in the correct accounting period in the cash book.		

6.24 Audit Programme: Cash in Hand/Bank

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

Audit Programme	**Done By.**	**WP Ref.**
• Obtain a list of bank accounts and their locations. • Obtain a schedule of cash, showing all cash-in-bank and cash-in-hand • Agree all amounts to the cash book. • Obtain bank statement for the period immediately after the closing of financial year to determine whether receipts or disbursements are recorded on a timely basis • From the bank statement immediately after year end: a) Check that all cheques contained therein to see if there are any out of numerical sequence in comparison with cheques currently being used b) Note and investigate any cheques which appear to be out of sequence c) Clear all the outstanding cheques to the bank statements and investigate any un-cleared cheques d) Investigate outstanding cheques of material amount which do not appear on the bank statement • Send bank confirmation letter to bank for verification of closing balance. • Reconcile the balance in the cash book with bank confirmation letter. • Arrange physical count or obtain certificate of cash-in-hand of imprest accounts and un-deposited cash receipts. • Examine the cash book before and after the period end date for items that might not be included in the correct periods. • Check the entity's bank reconciliation procedures and ensure that they are conducted regularly and that the latest is consistent with audit reconciliation results. • Check opening balance this year with closing balance last year. • From year end bank reconciliation statements (for each bank account- as operated by separate cash book): a) Verify accuracy of the bank reconciliation b) Examine approval of reconciliation c) Agree balances per bank reconciliation to the financial statements/ annual accounts d) Investigate any unusual adjustments shown • Check to ensure no bank accounts maintained contrary to policy: • Ensure that units do not have separate bank accounts • For Cantt. boards, ensure that accounts are mostly maintained in govt. treasury i.e. State Bank or National bank		

• For Cantt. boards, ensure that the controls as specified in the Accounting Policies and Procedures Manual are in place, including: a) In normal circumstances, authorized person deal with one bank branch mostly b) The authorized person prepare a monthly reconciliation for expenditures and receipts c) All receipt vouchers sequentially numbered d) Authorized person verify and match the bank scroll with the payment advice note on a daily basis • For Cantt. boards, trace deposits in transit at the end of the period to ensure they have been recorded in the proper period • Check that the cash figures are correctly coded in the general ledger • Match annual accounts with cash book.		

6.25 Audit Programme: Contracts

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

Audit procedure	Done by	WP Ref
A. Lump Sum Contract/ Provisional Lump Sum (P.L.S) Check that : • It is approved by the Competent Financial Authority (.i.e. Financial Advisor) • Contract is concluded within valid period of sanction. • Contract is restricted to the amount of Admin approval. • If contract is beyond the admin approval as well as 10% permissible limit then check revised project estimates is prepared and revised admin approval is obtained. • Match bill of quantity with drawings. • Anything not provided in drawings and is existing/ centered for in Bill of Quantity of contract agreement this is adjusted through Bill of Quantity • Any adjustment within the scope of contract is made through Deviation Order and beyond the scope of contract through amendment. • Size of accommodations as well as the nature of accommodation with Defence Services Accommodation Scale. • PC-I/Engineer's estimate was approved by the competent forum/authority. • Contract Agreement is completed in schedule time and if not Liquidated Damage is imposed or not. • Establishment charges have been correctly booked as well as other changes booked against are direct and duly pertained to the work. • All Contract Agreement claims are properly observed and abided. • Contract Agreement, all the Deviation Order, and amendment are scrutinized and approved by the respective Controllers Military Accounts. • Provisional Lump Sum work is higher of the measurement recorded in Measurement Book and with rates in Military Engineering Services schedule of rates. • Deviation Order works is carried out as were approved in Deviation Order. • Income Tax, security, water charges, store recovery and		

payment of Running Accounts Receipts have properly been deducted from contractor's bill during final payment. **Measurement Contract:-** In addition to all checks as proposed for audit of sum contract, the following checks should be exercised Check that • All the abstract of quantities items should be checked and compared with regard to their quantities and numbers with Measurement Book and with regard to payment with schedule of rates applicable. • Calculations of Measurement Book should be properly checked. • Star rates if applicable should also be checked for their accuracy. **Term Contract:-** It is of significant nature. However the following checks should be applied. Check • That the contract is approved by the Competent Financial Authority. • That the funds were available for audit. • That the rates are correctly applied. • That the expenditure is booked to the correct head of account. • That the works executed through term contracts are within the scope of contract value. • That the works shown executed through term contract were restricted to the legitimate Defence building. • That the proper completion reports of works executed are obtained from the users etc . **Bazaar supply contracts:-** Check: • That the Contract Agreement is approved by the Competent Financial Authority. • That the funds are available for them. • That the items contained therein are those mentioned in schedule of rates for Bazaar Supplier. • That the rates are correctly applied. • That the store has properly been taken on charge.		

• That the store supplied through contract is restricted to the monetary value of the Contract Agreement. • That Income Tax has been deducted from contractor. • That the contract percentage allowed to contractor is justified.		

6.26 Audit Programme: Land & Building (Military Estate Office)

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

Audit procedure	Done by	WP Ref
Completeness: • General Land Register (GLR) in respect of all Defence lands is properly maintained in the prescribed format. • Check that Class A-I land, placed under the administrative control of Defence forces is being used for authorized military purpose as defined in Rule 5 of Cantonment Land Administration Rules-1937, and its misuse if any has been reported to Ministry of Defence for appropriate action. • Check that Class A-2 Land, i.e. camping grounds and other Defence Land, reserved for future Military requirements is being managed by Military Estate Office **(**MEO) and income derived there from is credited to Government account. • Check that lease rent is recovered regularly in advance. • The land is being used by the lessee for the specific purpose as spelled out in the lease deed. • Check in case of conversion of old grants/ leases into regular lease, the premium & rent as per Government policy on the basis of prevailing market rates of land, was recovered from the lessee. • Check that Defence land is mutated in the name of central Government in revenue records. • Check that no class A-1 land un-authorizedly leased out to private parties on handsome premium & monthly rent. • Check that Income earned is credited into public fund accounts. • Check that all the camping grounds have been authorizedly taken over by the Army authorities from Military Estate Office and are not leased out to private parties **Disposal:** • The land declared as surplus military requirement has been disposed off through open auction in the best interest of state and all proceeds or premium should be credited to Government account. • In case of disposal of B-3/B-4 land for residential/commercial purpose the site was put to open auction and leased out to the persons offering highest amount as premium. • Ensure after expiry of prescribed lease period, the land has been resumed immediately for further disposal. • Check that any land was declared surplus to Military requirement by		

the Ministry of Defence and it was decided to dispose it off but it was un-authorizedly retained by Army authorities and leased out for agricultural purpose, the income derived was not credited into Government account. **Acquisition:** • Check that Defence land handed over/leased to Housing Directorates was surplus to Military requirements and prior approval of competent authority was obtained. • Check that residential accommodation has been hired according to prescribed rental ceiling of the occupant and was taken out of hiring on availability of Government accommodation. • Check that any land was purchased without necessity, which is being leased out by the Armed forces for commercial/agriculture purpose and income derived is credited to their private accounts. • Check that defence forces have established commercial concerns like shopping centers, plazas & petrol Pumps etc. • Check that some pieces of defence land are under occupation of private organization like Army Welfare Trust, National Logistic Cell, Frontier Works Organization, Canteen Stores Department, Fauji Foundation etc un-authorizedly without payment of premium rent. • Check that any defence land was transferred to Housing Directorate without its reclassification or sanction of the Ministry of Defence.		

6.27 Audit Programme: Pak Army Units/Formations

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

Audit procedure	Done by	WP Ref
Check that: **FIGHTING UNITS:** • Cash in hand is periodically verified and certified as correct. • Verification of Cash is carried out periodically by the Regimental Audit Board. • Money relating to public fund is duly accounted for and expended only for the purpose for which they are intended. • Reconciliation is prepared with reference to Bank statements. • Un-disbursed pay, etc is not credited to any other fund account. • Under **Para 47-(e) 5 of Financial Regulations Vol-II-1986**,"The unexpected portion of any existing grant shall lapse on 30th June of each year." **RATION:** • Ration is being issued at the prescribed scale to those who are entitled with reference to daily parade statement. • Balance are correctly brought and carried forwarded. • Ration drawn from BSD/SSD is not in excess of authorization of Unit strength • It should be linked with Daily Parade Statement U.R.C. and Part-I orders. **POL:** • POL is authorized for the specific purposes/categories. • POL cannot be transferred from one category to another category. • POL transferred to other units through vouchers but POL consumption report sent to higher authorities does not shows the above transfer. • Movement orders of Advance Party and Units movement are to be checked. • Duration of training to be checked with programme. • Reserve POL is always to be kept full in tank only for emergency and is not transferable. • POL for specific work i.e. Defence Work, operations, flood duty and I.S duty can only be used if activity of such nature is assigned. • POL is not used for private purposes except under proper authority. • Hiring charges are correctly assessed and recovered.		

• Consumption of POL as shown in ledgers/accounts is correct and POL not issued to vehicles, which are not fit for use or have been condemned. • POL consumption of vehicles (Running Mileage per Gallon TMPG) is not below the authorized limit. • Consumption of POL by running Govt. Vehicle for unauthorized purpose. • Consumption of POL by running of vehicle excess than authorized in TO&E. • In the Military units/formations, the vehicles used on payment and released the amenity rate fixed before 1980 and the vehicles requires to be used on cost to cost base of POL, as already mentioned in Military Vehicles Research Establishment but the Military authority do not consider/care of the provision of MVR and in this way the Govt. sustained a huge loss. The vehicles on payment required releasing the cost of POL and not the rate fixed before 1980. **CLOTHING:** • Store issue to the unit has been brought to account in its ledgers. • Unit is entitled to receive the supplies of clothing concerned. • Store issued agrees with the issued vouchers in quantity, description or no men cloture etc and with the stores struck off ledger charge. • The individuals to whom store issued is entitled to it under the regulation. • The issues are within the prescribed scale. • Annual Stock Taking is carried out regularly and discrepancy/loss pointed out or not. • There is no overstocking of store. • Store received but not taken on ledger charges. **ALLOWANCES:** • Pay bills are complete in all respect duly supported with relevant orders. • Pay Bill prepared according to authorized establishment. • Calculation and rates of Pay & Allowances claimed are correct and according to admissibility. • Fixation of pay is according to rule. • Advances if paid and being recovered regularly & according to the rate of recovery. • Arrears bills must be checked with relevant record to verify the claim. • The payment of those recruited over and above the authorized strength. • The payment of those attached with civil Govt. • All the particulars of the individuals are correct and have been attested by the responsible officer.		

• **Under Para-16 (o)** of pay and allowance regulations Volume I - 1995,"Instructor's pay will not be admissible in addition to command / staff charge pay". • Check during evaluation of pay and allowances, **under para – 29 (a)** of Pay and Allowance Regulation Volume-I 1995, "Qualification pay will not be admissible for any qualification which is the basic minimum requirement for entry as a commissioned officer into the arm or service concerned." • Check during evaluation of pay and allowances, under **Para 67 (b)** of Pay and Allowance Regulations Vol-II 1999, "if both husband and wife being Government servant are residing together at the same station in Government residing allotted to one of them, house rent shall be admissible to the other. • Check during evaluation of pay and allowances, under Para – 16 (a) of Army leave rules part I (Rules)," Leave ex-Pakistan will not be granted except with the prior approval of COAS (Chief of Army Staff). He may delicate his power in this respect to the DGPS-GHQ". **ETG & ATG:** • Receipt & expenditure of the grant is duly accounted for & supported with vouchers. • Sale proceeds of surplus/obsolete & material are credited to the funds. • Un-used balance of Educational Training Grant is to be refunded to Govt. at the close of financial year. • Special Annual Training Grant ATG can only be used for the specific work for which it is granted. • Check that local purchase was made without taking the store on ledger charge. • Check that amount of special Annual Training Grant ATG is being granted to the unit / formation to promote the training facilitates but generally observed that this grant is often miss-used and no durable item are purchased. • Check that, if costly items/spare parts are purchased on the demand bases by the workshops against the vehicles for which the purchase is made but the purchase spare parts are used for other vehicles and sometime of these parts are lying for a very long time without any use. • Ensure A.T.G Annual Training Grant consists of following types. (i) Fixed ATG. (ii) Field A.T.G. (iii) Special A.T.G. The detailed Rules are given **F.R. Part-II and A.T.G. Pamphlet.** • **Under Para 47 (e) 5 of Financial Regulation Vol. II 1986**, the unexpected portion of any existing grant shall laps on 30th June of each year. The same must ensure during evaluation of cash book/payment voucher.		

BASE SUPPLY DEPO's/SSD's (PURCHASE, RECEIPT & ISSUES) • Purchase is made as per the requirements with reference to sanction authority. • Opening balance agrees with the closing balances of the previous month. • Check that stores are not obtained in excess of requirement & un-necessary accumulation is to be avoided. • Check that where hired transport is ordered, it should not be in excess of requirements. • Scales & weights are tested periodically. • In fruits & vegetable contracts, contractors sometimes quote very low rates for one or more types to secure contract but actually do not supply these items being disadvantages to them & supply seasonal verities for which they have quoted higher rates resulting loss to the Government. • Check that if rates of payment issue is revised retrospectively, difference between original & revised rates to be recovered from purchaser or amount be got regularized. • Check that various costly items which are purchased through Depots locally at their own arrangement, the rates were found low for the same items supplied through Director General Procurement (Army • **Under Para-41 of Financial Regulation Volume-II-1986** receipt voucher of all sums exceeding Rs. 20 should be stamped, with revenue stamp of appropriate value as prescribed from time to time. The same must ensure during evaluation of permanent vouchers/bills. • **Under Para 36 (J) of Financial Regulation Vol-I-1986**,"with the exception of local payment, all payment should be made by a cheque." **CENTRAL ORDINANCE DEPOT's:** • Check that receipt, holding & issue of store are being kept regularly i.e. day to day account for all store transactions. • Indents are signed by a proper authority & are in order. • Costly stores are always insured. • Check that stores received for stock is inspected & conditioned before being made over to stock. • Stores issued as noted in cards are supported by duly competed vouchers. • Store issued in excess of authorized scale should only be done under orders of the Competent Financial Authority. • Check Loss statements & discrepancy Reports prepared or not. • Check stores are issued on loan only to those entitled. • Stores issued on loan should not be left in possession of issuee beyond the period of sanction. • Check, if store is recovered in condition worse than that of original issue, cost of the store or repair charges should be recovered from		

party concerned.

- Check that local purchases are not made in piecemeal situations.
- Check that local purchases are not made beyond financial powers.
- Check local purchases are not made in installments & without emergent requirement.
- Check local purchases are not made to avoid lapses of funds.
- Check local purchases are not made on single tender basis.

AMMUNITION DEPOTS:

- The receiving, holding & issue of stores are to be kept on regular day to day account of all store transactions.
- Indents received are duly scrutinized.
- Store received is inspected & conditioned before making over to stock group.
- Check that safety measures are adopted for the security/storing of arms & ammunition.
- Check that store sent through rail is covered with credit notes.
- Cards should be duly supported with receive/ issue vouchers.
- Annual Stock taking/periodical stock taking is carried out as per rule.
- Loss statement is prepared for any loss/discrepancy came to notice.
- Check that loss statements are finalized during the period.
- **Under Para-12** of Ordinance Regulation Part II Volume I (Rules 1976), "The, commandants/chief ordinance represented at formation headquarters rested with financial power as given in financial regulation Part I and other Government orders issued from time to time for local purchase of any one item or any number of similar article purchased at one time as per financial powers given in the Financial Regulation (FR) Vol I-1986". Ensure during the Audit of Ordnance Depots).
- **Under Para – 51** of ordnance Regulations Part II Vol-I (Rules) 1976,"Account cards will be maintained for each item of stock. Store will be shown in the stock record as "serviceable" (SA) "Reparable (RA), Part worn serviceable" (PWS), "unserviceable (USVC)." Ensure during the Audit of Ordnance Depots).
- **Under Para-58** of Ordinance Regulations Part II Volume I (Rules) 1976,' All posting will be done should be supported by properly controlled documents etc, viz, issues/receipt vouchers, transfer vouchers, loss statement etc". Ensure during the Audit of Ordnance Depots).
- **Under Para 61** of Ordnance Regulation Part II Volume I (Rules), "Erasing and over writing in accounts etc are forbidden." Ensure during the Audit of Ordnance Depots).
- **Under Para 62** of Ordnance Regulation Part II Volume I (Rules), "All accounts card entries will be checked and any errors brought to the notice of sub depot commander/group officer for rectification." Ensure during the Audit of Ordnance Depots).

• **Under Para 69** of Ordnance Regulation Part II Volume I (Rules), "New and Past worn serviceable (PWS) clothing and Accessories will be accounted for separately." Under Para 61 of Ordnance Regulation Part II Volume I (Rules), "All accounts card entries will be checked and any errors brought to the notice of sub depot commander/group officer for rectification." Ensure during the Audit of Ordnance Depots). • **Under Para 238** of Ordnance Regulation Part II Volume I (Rules), "The investigation regarding loss be finalized by the superior office expeditiously through board of officers." Ensure during the Audit of Ordnance Depots). • **Under Para 239** of Ordnance Regulation Part II Vol I (Rules), "after the investigations have been completed, regularization action will be taken and the case submitted to the CFA through LAO/CMA concerned. It will be ensured: - • The Loss statement is prepared on the correct form. • The columns provided on the form are filled in accurately" • Ensure during the Audit of Ordnance Depots). • **Under Para 241** of ordinance Regulation Part II Volume I (Rules), "Four copies (Including the original) of the loss statement not relating to theft, fraud or neglect will be submitted through the CMA concerned. Two copies duly sanctioned by the CFA (Competent Financial Authority) will send to the CMA concerned and one copy retained as office record". Ensure during the Audit of Ordnance Depots). • **Under Para 252** of Ordnance Regulation Part II Volume I (Rules), "Power to write of losses are vested in CFA (Competent Financial Authority) and revised time to time as per procedure provided in financial regulations (Army) Vol I & II-1986. Ensure during the Audit of Ordnance Depots). • **Under Para 334** of Ordnance Regulation Part-II Volume I (Rules), " the item and quantities to be disposed off will be notified to the depots by the provision officers. • The depots will report on the prescribed forms, the items etc; the DGDP/DP (Army) for disposal action". Ensure during the Audit of Ordnance Depots). • **Under Para 293** of Ordnance Regulations Part II Volume I (Rules) 1976,"All Machinery Benches hand tool etc Use in workshops will be accounted for in machinery an article-in-use ledger as follows. • (a) Machinery Ledger (PAFO-1320) • (b) Furniture Ledger (PAFO-2286-A) • (c) Small tools Ledger (PAFZ-2286-A) • Ensure during the Audit of Ordnance Depots). • **Under Para 293** of Ordnance Regulation Part II Volume I (Rules) 1976, each machinery will be allotted a separate page in the ledger on		

which the following particular will be record.

- A) Full description of machine.
- B) Maker with date and condition on receipt.
- C) Complete list of accessories.
- D) Original volume with revise described value annually.
- E) All machinery items will be allotted Dos number.
- Ensure during the Audit of Ordnance Depots.

WORKSHOPS:

- Repair work is carried out in workshop itself or from local market.
- Spare parts are obtained from COD or locally purchased. NA obtained from source of supply.
- Vehicles repaired generally from local market. If so then the necessity of existence of workshop is questionable.
- The repair work under taken is authorized work covered under rules & approved by competent authority.
- In payment work, additional percentage leviable has been added or not.
- There is no undue delay in repairing the stores .
- The figures shown against debit & credit items agree with the totals in supporting schedules or those in the register of work orders.
- Overtime is not given regularly except with the sanction of Competent Authority.
- The Labour employed is skilled labour.
- Temporary Labour are engaged according to requirement & with prior approval of competent authority (No Significant).
- Workshop if manufacturing any article for sale, sale proceed should be brought into public funds account.

CORPS/DIV. HEAD QUARTERS:

- Sanctions of Minor/Maintenance. Works of Military Engineering Service issued to be checked with reference to prescribed rules/regulations. Refer to detail Military Engineering Service Audit Programme.

LOG AREA / STATION HEAD QUARTERs

- Allotment of accommodation to authorized personnel.
- Re-appropriation of Buildings according to MES Regulations.
- Duty of Cantt. Board president & dealing with MEO Land record.
- Log Areas are being granted annually a huge amount of grant for the purchase of various items for preparation of Pak Day Parade held on 23rd March are totally miss used and no justification of such expenditure for every year.

ADS&T:

- Contract agreement of fresh & dry items of Ration etc .Referred to detailed Contract Audit Programme.

FURNITURE YARD:

- Contract Agreement is concluded according to the prescribed

procedure. • Provision, holding, receipt & issue of all furniture & store & maintenance of accounts is being carried out according to procedure. • 100% check of stock balances to be carried out annually. • Periodical inspection of stock. • Technical soundness & economy of all replacements & repairs of issue and received furniture's from units. • Proper utilization of Maintenance. Grant. • **Under Para 5** of order and instruction on provision and maintenance of furniture 1960 (Revised 1982) QMG furniture pamphlet, "the scale of furniture are laid down in B & H (Barrack and Hospital) schedules. At the time to meet specific situations, scales are also published under independent Government of Pakistan letters but the ultimate aim is that these scales will, therefore be treated in same manners as the scale published in B & H schedules." Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para – 21** of order and instructions on provisions and maintenance of furniture 1960 (Revised 1982) QMG furniture pamphlet. New furniture will be provided under the following conditions: - • a) For new construction of accommodation and any revised requirements due to alterations/modifications or re-appropriation of buildings. • b) Due to increase in scale. • c) Making up of deficiencies caused by write off, losses etc. • Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para – 21** of order and instruction on provision and maintenance of furniture 1960 (Revised 1982), QMG furniture Pamphlet". Transfer of furniture from one unit to another within station may be ordered by the station Headquarter in order to adjust surplus and deficiencies against the authorized scale." Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para 28** of order and instructions on provision and maintenance of furniture 1960 (Revised 1982) "QMG furniture Pamphlet "The authorities competent to order transfer of furniture are given below. • Within station = station Commander • Between station of the same furniture = Formation Commander • Between station of different formation = QMG (Quarter Master General) • Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para 32** of order and instruction on provision and maintenance of furniture 1960 (Revised 1982) QMG furniture Pamphlet".		

• Bulk of furniture requirement will be obtained through contract with civil firms as there is very little furniture manufacturing capacity in the existing Army workshop". Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para 35** of order and instruction on provision and maintenance of furniture 1960 (Revised 1982) QMG furniture Pamphlets". • The financial powers for sanctioning the supply of new furniture will be exercised by the following officers' up to the extent noted against each. • Station Commander Rs. 25,000 • LOG AREA/DIV COMMANDER Rs. 100,000 • CORPS COMMANDER Rs. 300,000 • QMG (Quarter Master General) Rs. 300,000 • Note: These financial Powers has enhanced from time to time, always consider updated and latest financial powers. • Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para 37** order and instruction on provision and maintenance of furniture, "In order to facilitate execution of work by making use of different contracts the percentage (ON/OFF) be shown separately for the following set of articles in the administrative approval: - • Article prescribes through running contracts individually. • Article desired to be contracted individually. • Article and quantities desired to be procured in stages. • Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. • **Under Para 64** of order and instructions on provision and maintenance of furniture 1960 (Revised 1982) QMG furniture pamphlet". • Formation Commanders may authorize the issue of furniture on loan, if available for purely temporary purpose for bonafied military use. The issues envisaged under this provision are for training camps, exercise, examination etc. Ensure during Audit of Furniture Yards/Furniture Issuance at unit/formation levels. **MILITARY FARMS:** • Store accounts to be prepared by farms offices & submitted to Controller Military Accounts. Trading, Profit & Loss Accounts/Capital accounts removed & reserve fund accounts, Balance Sheet, Annual produced Disposal Statement of Dairy Production, Head Statistics Statement Fodder Statement & quantities of dairy sold to be submitted to Controller Military Accounts concerned. • Security Deposit from farm employees. • Value of confess plus cash in sale those clerk does not exceed the amount of his security deposit at any time. • Live stocks do not exceed the strength authorized.		

• Charges of feed of cattle do not exceed the authorized scale • Live stock written off the books is investigated with reference to write off circumstances. • Purchase of fodder for dairy cattle is economical. • Account of Dairy produce is being maintained properly & accordingly to lay down procedure. • Annual accounts are correct and balance sheet exhibits the true & correct state of affairs. **DEFFENCE OPERATIONAL WORKS FUNDS** • No proper record of work carried out is prepared • No measurement book, drawing specification, Contract Agreement. • Store purchase locally generally without tender & at exorbitant rates. • Procedure as laid down in Military Engineering Services regulation is avoided. • Works not carried out through Military Engineering Services. • No proper documentation & record of work carried out. **RECRUIT CENTRE/TRAINING BATALLIEN:** • In Training Centers / Training Bn it has come to the notice during the audit that the centers recruited the recruiter in excess scale ever and above the utilization strength and results in a huge burden on state fund. **TRAVELLING /DAILY ALLOWANCE:** • **Under Para-323** of passage regulation 1980, Daily allowance shall not be drawn for any day on which a government servant doesn't reach a point outside a radius of 16.093 KM from his Head quarters or return to his head quarter from a similar point. (Ensure during evaluation of TA/DA claim. • **Under Para-396 (b)** of passage regulation 1980, where continuous period of duty exceeds 30 day allowance will be regulated at the following rate: - • For the first 30 days at full rate. • For next 20 days at ¾ of full rate. • For the remaining period at ½ of full rate. • Ensure during evaluation of TA/DA claim. • **Under Para-447 (c)** of passage regulation 1980, "one daily allowance as special rate shall be payable to Government servant for every 480 KM of road distance". • Ensure during evaluation of TA/DA claim. **COMBINED MILITARY HOSPITAL-CMH:** • **Under Para-17** of Regulation for medical services of armed forces Vol-I (Rules 1978),"A Medical/dental officer will not engage practice without the sanction of respective Deputy Medical Supertendients." Ensure during the audit of Combined Military Hospital-CMH. • **Under Para-35** Regulation for medical services of armed forces Vol-I (Rule 1978)," Non entitled private individuals will not generally be		

admitted in a service hospitals. In exceptional cases, however, the O.C (Officer Commanding) station may sanction their admission on payment of prescribed charges as laid down. Ensure during the audit of Combined Military Hospital-CMH. • **Under Para-37 (b) (1)** Pay and Allowances Vol-I 1995, " NPA (non practicing allowances) will be admissible to those officers who have not engaged in private practice or who don't apply or not allowed to do private practice by DNS concerned." Ensure during the audit of Combined Military Hospital-CMH. • **Under Para-37 (b) (3)** Pay and Allowances Vol-I 1995," NPA (Non practicing allowance) will not count towards calculating average emoluments for grant of pension/gratuity rent and TA/DA." Ensure during the audit of Combined Military Hospital-CMH. • **Under Para-37 (c) (3)** Pay and Allowances Vol I-1995, "Change of option will not be allowed on temporary moves or on courses and during privilege leave /furlough". Ensure during the audit of Combined Military Hospital-CMH. **OTHER ITEMS:** • Sale proceeds of any kind should be brought to public fund and not any other fund. • Irregular re-appropriation of Military Buildings by station Headquarter as rent free accumulation for the use of various purposes. • Local Purchase of stores in piecemeal. • Local Purchase beyond financial process. • Local Purchase without calling tenders. • Local Purchase in June & rush of expenditure to avoid lapse of funds. • Local purchase without necessity/emergency & un-necessary stock.		

6.28 Audit Programme: Pakistan Air Force Units / Formations Audit

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

Audit procedure	Done by	WP Ref
1. <u>CHECK NON RECOVERY/ADJUSTMENT OF HOUSING, LANDING & NAVIGATION CHARGES</u>. • **Data base Availability / Linking of Records** **Air Traffic Control Squadron:** Ensure Air Traffic Control Log Books Billing forms Calculate hanging charges **Accounts Squadron:** Check monthly returns Ensure billing invoices Landing & Hanging bill register Ensure Hanging/Landing/Navigation charges deposited to account **Rules:** • U.O No. 512/AT-II/2004 dated 19 April 2005 of M.O.D regarding "AERONAUTICAL CHARGES" • PAF Form -10117 • PAF Form-68 **2. <u>NON RECOVERY/ADJUSTMENT OF P.O.L ISSUED TO FOREIGN COUNTRIES/OTHER GOVERNMENT AGENCIES</u>.** • **Data base Availability / Linking of Records** **Logistic Squadron:** Ensure POL flight Check POL Depots record **Accounts Squadron:** Ensure store log books & registers Check monthly return depicting billing & recovery/adjustment of POL charges **Rules:**		

Rule 116 F.R-Vol-1, 1986

3. LOCAL PURCHASE OF STORES

- **Data base Availability / Linking of Records**
  Logistics Squadron.

  Account Squadron

  M.T Squadron

  All other user Squadron

  Ensure & evaluate from logistic Squadron data base & concerned Squadron data base for which the procurement is being made that and ensure the following:

  - Ensure the initiation of user requirements.
  - Ensure either item is Local Purchase coded or not (if LP coded Mean available in store/normal stock or central source of supply like Depots or Director General Defence Procurement (Air).
  - If not a L.P coded and then ensure request on prescribed performa be forwarded to LOG SQN by user unit).
  - Depending on cost of item order placed to contractor supplier Subject to

    $\leq$ 1000 No Tender

    $\geq$ 1000 $\leq$ 50,000 Limited tender

    (Three Quotations)

    $\geq$ 50000 Open Tender — Advertisement in news paper

    (Waiver certificate from open tendering in specific cases admissible only)

  - Ensure that financial powers w.r.t Local Purchase are followed:

    C.A.S (Chief of Air staff) Rs 40,00,000

    DCAS (Deputy Chief of Air staff) Rs 20,00,000

    ACAS (Log) Rs 10,00,000

    Base Commander Rs 250,000

    O.C units (Group Captain) Rs 100,000

    See this endorsement on Form F-530

  - Budget availability/incurring & booking of expenditure & reporting properly

	• Check booking of expenditure in proper code head subject to item classification & nomenclature • Evaluate Form- F-530 in detail, it provide full detail of the item procured from its unit price, past No. & specifications to all other minute detail. This could be verified from Log Squadron. As well as CASH Accounts retained by Accounts Sqn. The better approach is to evaluate all key & high value items from both the Sqn. data base simultaneously. • Scaling/inventory item duly approved by DFA (Deputy Financial advisor) or not as per process in vogue. • Any procurement or induction of new type of technology or system need proper scaling duly approved from Government of Pakistan. • Supplier G.S.T Income Tax & Professional Tax certificates are available in records and all these taxes are properly implanted & deducted as per relevant rules. • Technical stores items when procured, check proper board approval was carried out, finding & recommendations of board be matched with Local Purchase. • All the replaced item ware taken on charge properly & later on. • Any huge & abnormal variation per unit cost within that financial year similar item procurements may also be evaluated & pointed out accordingly. (A) L.P Register (Items, Articles stores) (B) L.P Register (M.T stores) (C) L.P Register (Medicines) (D) L.P Register (clothing) (E) L.P Register (Lubricants) **Rules:** Chapter 3, Rule 42,43,45,46 of F.R Volume-I 1986 Chapter 10, Rule 85 TO 109 of F.R Volume-I 1986 Annex-D Rule 42 F.R Volume-I 1986 Annex-E (Appendix 2& 3) Rule 4**,** F.R Volume-I 1986 (Validity of JSIs) Rule 5, F.R Volume-I 1986 (Sanctioning of Defence Expenditure)		
4.	**<u>IRREGULAR REPAIR & MAINTENANCE OF TRANSPORT</u>**		

- **Data base Availability / Linking of Records**
  M.T. squadron

  Log squadron

  Accounts squadron

  Ensure the following points during the audit

  - Check user requirement!
  - Finding & Recommendations of board of officers.
  - N.0.C/N.A from concerned Depott /Store regarding non availability of repair Facilities or procured items.
  - Authorization of vehicle, Nomenclature wise authorization as per T .O & E, and any surplus vehicle along with relevant financial effect depicting cost of P.0.L etc be object.
  - Cannibalization of vehicle.
  - Running of declared condoned, U/S & auction-able vehicle and expenditure thereon before auction process.
  - Non recovery of amenity charges Form F-793, irregularities due to availing the amenity charges facilities by officers drawing car maintenance allowance. Vehicles on amenity charges can be availed only one in a week basis for officials & official JSI
  - Allotment & running of vehicles by non public fund organizations like Air Museum, Montessori, School, PAFWA, etc.
  - Any change of specification, alteration on special vehicles like cranes, large trawlers and water bowzers etc.

  Rules:
  - Rule 9 to Annexure-A P.R Volume-I 1986
  - JSI 7/79 (Hiring and Free use of Government Transport)
  - Chapter 3, Rule 42,43,45,46 of F.R Volume-I 1986
  - Rule 4, F.R Volume-I 1986
  - Rule 5, F.R Volume-I 1986 etc.

5. <u>IRREGULAR ISSUANCE OF AIR PASSAGE / WARRANTS</u>

- **Data base Availability / Linking of Records**
  The record in this context is checked & evaluated from orderly room/adjutant office relevant register & warrants folio 4th copy. These warrants folio after full utilization of book be available in

Accounts Squadron.

Ensure the following warrants/Forms are usually retained & issued.

PAF T — 1752	FRW for single Journey (Railway warrants)
PAF T- 1750	FRW for sick leave
PAF T — 1707	FRW for party & family
PAF T—1709	Form E
PAF T- 1782 *	APW (Air Passage Warrants)
PAF T-10952	For PIA — 50% Rebated
PAF F—1736	FRW for Sports

- Ensure in case of Air Passage Warrants, approval from Base Commander, P.OR (Personnel Occurrence report) & Non availability of C-130 flights (in case of operational bases) is necessary.
- For 50% rebated on PIA forms, six one way forms or 3 two ways form for calendar year for each family member and self is authorised/admissible.

Rules:
Rule 216,217,221 of passage regulation 1980

6. <u>NON ADJUSTMENT OF TA/DA ADVANCES</u>

Four categories of TA/DA advances prevailed at PAP Bases.

1) TA/DA advance in U.S $ for foreign training & courses
2) TA/DA advance in Pak Rs to commissioned officers (H)
3) TA/DA advance in Pak Rs to non commissioned staff JCO/Warrant Officers / CP-Tech etc.
4) TA/DA advance in Pak Rs to civilian staff.

- **Data base Availability / Linking of Records**
  In this regard monthly return & register depicting all details is available at Accounts Sqn.
- **Rules:**
  Rule 307 passage regulations.

7. <u>NON PUBLIC FUND ISSUES/ RENT OR OTHER INCOME</u>

- **Data base Availability / Linking of Records**
  The relevant record in this context mainly retained by PSI/NPE

flight. P-SQN WORKS FLIGHT ADMIN WING ACCOUNT SQN PSI/NPF FLIGHT • **Rules:** Rule 2 F.R –VOL-II 1986 Government of Pakistan Ministry of Defence letter no. F.2/5/D-12/ML&C/99 dated 02-04-2008 (Policy on use of A-1 Land **8. <u>NON REGULARISATION OF LOSS STATEMENT</u>** • **Data base Availability / Linking of Records** Equipment Accounts Accounts Squadron Logistic Squadron • **Rules:** Rule 37, 38 Financial .Regulations –VOL-I 1986 **9. <u>IRREGULAR PAYMENT OF TUTION FEES FROM A.T.G (ANNUAL TRAINING GRANTS)</u>** • **Data base Availability / Linking of Records** <u>Accounts Squadron</u> • **Rules:** Rule AFI 11/60 **10. <u>IRREGULAR AUCTION (DISPOSAL OF UNSERVICEABLE ITEMS / LESS RECOVERIES OF INCOME TAX /G.S.T</u>** • **Data base Availability / Linking of Records** Accounts Squadron Log. Squadron M. Transport Squadron • **Rules:** Rule 45 F.R Volume I 1986		

6.29 Audit Programme: Pakistan Navy Units / Formations Audit

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

Audit Procedure	Done by	WP Ref
Payment Voucher: • Budget Head, allocation, progressive total and balance is to be mentioned on each voucher for counter check. • Amount on voucher is to be written both in figure and words clearly. • Items are to be taken on charge indicating ledger page number. • Three quotations from different firm are to be enclosed if amount on bill exceeds Rs. 200,000. The lowest quotation would be accepted thereof. Quotation should be a proper printed document with complete address of the supplier. • Comparative statement and lowest quotation are to be signed by the Approving Officer. • Two attested legible photocopies of bills, quotations or any other relevant documents are to be attached with the voucher. • The voucher is to be signed by the purchasing officer and countersigned by the officer exercising the financial power. In case the central financial authority is away on duty or leave may authorize any other officer to exercise the power is to be forwarded along with the vouchers. **Bills:** • Payment more than Rs. Xxx should be in cheque. • Evidence of receipt of payment by the supplier should be available in record. • The bill is to be addressed to the department purchasing the stores. • The bill should bear machine number, date, name of Shop/Supplier printed or stamped on the bill, quantity, rate and total expenditure be clearly mentioned. • Original copy of bill is to be affixed with appropriate Revenue Stamps and an acknowledgment of the receipt of money from the person to whom that bill is addressed. • The bill should bear the signature of supplier. • Cutting/overwriting on the bills will not be accepted. • The total amount of the bill should be in round figure of rupees. • The bill should have complete address of the supplier for counter checking/ready reference and its fairness. **Taxes:**		

• Income Tax against all the bills is to be submitted by the firm and a copy of the same duly stamped by the concerned bank is attached with the vouchers. Income tax is to be deducted at the following rates:- i.On Supplies items purchased @ 3.5% (Add Commission of Income tax letter no. AC/ RII.SF/ 1996-97 dated 23-10-96 ii. On Services @ 5% -do- iii. Supplies against contracts @ 3% -do- • Firms exempted from paying Income Tax by the Govt. are to produce copy of the certificate to this. • Departments are to ensure that the stores are purchased from firms attach a copy of GST registration and GST invoice duly filled along with the vouchers. Bills of non-registered firms are not acceptable as per rules. • i. GST is applicable at the rate of 15% of value of the items purchased 3.2% of GST invoices be retained by CNA (Controller Naval Accounts) and deposited into respective head of Account of Government treasury. ii. GST is exempted on the items as mentioned in (Ministry of Finance letter No. 4/47-SYB/98 dated 01-09-1998. Sixth Schedule. **Naval/Tech Stores:** • Authority of local purchase of Naval Stores/Tech Stores must be attached with the vouchers. Following are to be checked: i. Third copy of the demand rose to NSD (Naval Stores Deptt) along with NIS certificate duly signed by the concerned group officer to be attached with the vouchers. ii. Naval Headquarters approval where required is to be attached. iii. Full description of item is to be mentioned on the bill and demand. • **As per para-0229** of financial regulation (F.R)-Navy-1993 and F/OE 11/87 "No Stores can be purchased till the same are authorized in the warrant of stores (Authorization & scaling) of the Naval Establishment concerned. **Incidental & Miscellaneous:** • Items purchased out of Inc & Misc head in accordance with FOC-3/86 are to carry serial number of each item purchased on the voucher. • Concurrence of Controller Naval Accounts for items other than mentioned in the FOC-3/86 (S.No. 1 to 118) is to be attached. • In case concurrence from C.N.A is obtained for purchase of any particular item, a copy of the same along with approval of competent		

financial authority is to be attached.

- If the amount in question is beyond the Financial Powers of any head of the Department, approval from Administrative Authority or Naval headquarters where applicable is to be obtained.

Hotel Bills:

- The order of bill Nos. that is in ascending order and should be matched with the ascending order of date. If the position is different the bills are doubtful.
- If the serial number of bills are continuously issued to one person. It means that not a single bill was issued to any other person. It will be much more serious with increase of span. As a normal course if does not happen. If such position is persisted the bills will be found factious.
- Each bill should have date of issue.
- Bill should contain check in and checkout time.
- Room number should be mentioned.
- It should be clearly mentioned on the bill that either rent paid for single bed or double bed. Absence of important information creates doubt.
- Only single room rent is admissible under existing rules and payment for other facilities is unauthorized. As such payment of Room Service, laundry, Telephone Charges, Misc. Charges is not admissible.
- According to 6th Schedule of the sales Tax Act, 1990 services like Hotels, Marriage Hall, Lawns, Clubs and Caterers have been brought under sales tax regime through respective provincial Ordinance. Any person rendering these services shall have to get himself registered and pay GST 15%. As such GST No. should be available on the bill otherwise the bill is not acceptable.
- **As per Para-18 of Annex "C" to FOC-14/80 DA** for the period for which hotel charges are claimed should be reduced by 30%.

Quotations Regarding Hiring of Vehicles/Boats

- The amount of tendering should be looked into with a view that whether the tendered amount falls under open/Limited tendering.
- National Tax Number and Sales Tax Registration number should invariable be given by each supplier on their quotations/bills. Whereas under existing rules/orders no Local Purchase can be resorted from unregistered supplier. Full description/specification/nature of commodity or work should be given.
- There should be no over-writing.
- The important contents of all quotations should be same.
- No insertion should be done later on.
- The ink of each quotation is to be looked into.

• On every call bidders should not be the same. • Whether on each call the lowest one was the same or not. • Quotations should be looked into whether there is folding crease exists on the paper or not in any quotation. If there is no crease then the same quotation did not receive from outside the unit by enclosing in the envelop rather fabricated in the unit. • The hand writing of each quotation should be different. • In case of hiring point of start and destination should be existed. • No of hired boats/vehicles should be given in the quotation in absence of these information rate can be evaluated. • During the period of hiring it should be looked into whether the vehicles/boats exists on the record of unit were free not, if free then there is no need of hiring. • If Quotations are called for any work to be done/hiring of vehicles/boats then period should be mentioned, invariably with starting and completion date. **TA/DA Claims:** • Claim should be on prescribed performa. • Sanction should be available. • Budget should be available. • Nature of duty should be mentioned in the sanction like, Temporary Duty, Permanent transfer, sports, course, attachment etc. • If hotel charges are claimed, the original detailed bill and receipt should be attached with the claim in original. • Hotel charges should not be more than 3 C.As for expensive cities and 1 ½ for other cities. • D.A ceiling should according to ceiling fixed by the Govt. from time to time. • Certificates regarding provision of Transpiration/Lodging/Messing are provided free or not. • In case of permanent transfers list of family members should be attached with the claim. • Deductions as per existing rules should be made. • If advance is drawn that should be deducted from the adjustment claim. • Claim should be submitted by with the stipulated time period. • If cost of transpiration of Motor Car/Motor Cycle is claimed, the receipt should be attached with the claim. • **As per para-7 of Annex "B" to F.O.c-14/80** "T.A/D.A advance register will be maintained to watch the adjustment of advances" • The entitlement of one office is 3 Air Concession voucher (PAFT-1752) for both ways or 6 for one way in a calendar year. Air concession voucher (ACV) 50% rebated should have to be issued from the unit where personnel are borne if Air concession voucher is		

issued from other than the unit where he is borne that practice is irregular, because watch over on issue of A.C.V from different unit is difficult. The final adjustment in all such issuances is required otherwise excessive issuance cost be got recovered from the personnel. **Ration:** • Ration should be claimed according to the prescribe scale of rations. • Ration should be claimed according to the strength as per parade statement. • If ration is drawn in excess, the same quantity should be adjusted by under drawl on the succeeding issue. • Payment issue rates should be applied as notified by the Govt. from time to time. • **As per Para. 182 of Annex "J"** to P.N virtually directive 1983" Extra Rations allowed to SSG(N) (Special Services Group) Personnel when they were in harbor or at sea" In training units extra ration is being given to SSG(Special Services Group) Personnel while they were on course rather they were neither in harbor or at sea. Such over drawn ration either to be adjusted by under drawls or recovery thereof be made. **Mechanical Transport:** • Register of Vehicles should be maintained. • Log book of each vehicle, plant & machinery should be available. • No over writing in the POL ledger. • If POL is consumed in excess of annual allocation, the same should be regularized by getting more allocation to the extent of excess consumption. • Amenity charges should be recovered from the beneficiaries. • No vehicle may be given to those officers who have drawing motor car maintenance allowance of drawn motor car advance. • Amenity can be available more than twice in a week. • Batteries and tyres should be replaced after prescribed life or running. • No. AC staff car is authorized to the officer of any rank. • Prescribed rate of recovery should be made from the officers who enjoy the facility of non-duty purpose. • Scales for holding of different types of vehicles/equipment by each unit/formation of Pakistan Navy were revised by Government of Pakistan. Irregular expenditure on POL (Petrol Oil & Lubricants) and Maintenance of M.T held in excess of authorization be pointed out. • As per not-1 below rule-7(b) of MVR and par-1 to 4 of Annex "S" to FOA-5/88. "M.T (Motor Transport) is given to C.O (Commanding Officer) on amenity charges that has not only their own private car/drawn advance for the purpose of a car but also has staff car		

allotted to him for non-duty purposes. No officer who is in possession of a private. Car or had drawn advance for the purpose of a car will be allowed to avail himself of this concession. Unjustified use of M.T on amenity basis should be discouraged. **Service Books:** • Service Book should be maintained for every non-gazetted person. • Entries of annual increments/fixation of pay on each introduction of new pay scale/granting promotion/granting selection grade/granting move over should be made. • Entries of verification of service on completion of 10/25 year qualifying services should be made. • No overwriting. • Leave account should be completed in all respect. **Medical Stores:** • Medical Stores should be obtained through normal source of supply except that in case of emergency medical store can also be obtained through local purchase. Irregular local purchase of medical stores instead of obtaining from prescribed source of supply is pointed out. **Provision of Furniture:** • As per Para. 180 of D.S.R (Defence Services Regulations)-1998 "The provisioning and maintenance of office furniture is the responsibility of the M.E.S (Military Engineer Services) Navy. The lists of articles of M.E.S supply together with the general dimensions and specifications approved by the Government of Pakistan and references to plans etc are given in a departmental publication entitled" List of articles of Barrack and hospital Furniture of MES supply" issued by the E-in-. Approved scales of these articles are laid down in Barracks and Hospital Schedules. Authorized Scales of furniture will not be exceeded without the prior sanction of the government of Pakistan. Only authorized furniture was allowed to purchase. **Scaling / Authorization:** • As per para-20229 of F.R (N) 1993 scales for holding of different types of equipments by each unit/formation of Pakistan Navy are revised by the Government. Irregular expenditure on P.O.L and maintenance of Boats and Diesel Generators held in excess of authorization must be pointed out. **Other Issues:** • Irregular expenditure on account of pay and allowances and other payments of the Defence personal posted/deployed in non Defence organization/ Non public fund based organization be examined properly.		

• Non recovery of rent & allied charges from the occupants of BOQ (Bachelor Officer Quarters)/ MOQ (Married Officer Quarters) are examined properly. • Non recovery of rent of Government accommodation allotted to Bahria Foundation or other similar organization be evaluated properly, because whenever the surplus accommodation is allotted to private persons or organizations, they will pay assessed rent or market rent whichever is more. • Diversion of revenue generated through Government resources into Non public fun like contribution fees of gymnasium. Rent received from canteen, cable operators, PCO Nurses, Pharmacies, Barber, Tailor, Dhobi Contractor etc be pointed out for deposition of such revenue into Government treasury. • Public money was lying unspent on 30th June but not surrendered in favour of the public exchequer, which resulted into unauthorized retention of Government money. Unspent public fund is required to be surrendered on the close of every financial year.		

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 Reporting 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 detail 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 non-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 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 to enable 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 observation should be fully supported by reliable and sufficient evidence.

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7.2 The Audit Team's Responsibilit

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 organisation 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 report:

a. Management representation letter;
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 to 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 Defence Services Audit is given below.

Reporting Cycle of Compliance with Authority Audit

- Development of Draft Audit Report (DAR)
- Departmental Accounts Committee (DAC) meeting
- Quality assurance review at DAGP
- Audit report issued to President
- Pre-PAC meeting with AGP or Additional Auditor-General
- 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 PAO for Departmental Accounts Committee (DAC) meeting.
vii) The paras finalised 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 quality assurance framework.

ii. The framework ensures that the work is performed efficiently and effectively as possible and complies with International auditing standards as well as DAGP's own Auditing Standards.

Audit report issued to President

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

Pre-PAC meeting with AGP or Additional Auditor General

i. Pre-PAC meeting is held with the Auditor - General of Pakistan or the 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) Director General Audit Works (Provincial), on behalf of the AGP, supports the PAC for appropriate action against the paras included in the Audit Report.

ii) 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.

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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 evaluation 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 one

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 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 ascertain whether 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 the 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 opinions: 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 correctly 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 failures 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 field audit teams of the same Directorate or other Directorates.

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	RESPONSIBILITIES			
		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

8.4Key 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**	
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**

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
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: Evaluation & Reporting Phase

		RESPONSIBILITIES			
Guideline reference	**TASKS**	**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**	
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

Guideline reference	TASKS	RESPONSIBILITIES			
		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 monitoring of audit activities with reference to "execution task list."		**P**	**R-S**	
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**
7.15,7.16, 7.18	Ensuring tools for the auditor's opinions and statements are used.		**P**	**S**	**R**
7.17	Ensuring Documentation of Audit Completion Checklist.		**P**	**R-S**	**A**
7.21	Reviewing the Quality Assurance Checklist. *		**P**	**R**	**A**

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

* 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.

ANNEXURE A: PERMANENT FILE

AUDITOR-GENERAL OF PAKISTAN
Permanent File Index / Checklist

Main Reference	Supporting Schedules	Done by:	Date:
PF	Update Control Sheet		
PF-I	Status of the Entity		
PF-II	Background Information		
PF-IV	List of Auditable Locations		
PF-V	List of Bank Accounts		
PF-VI	List of Authorised Signatories		
PF-VII	Accounting Records and Accounting System		
PF-VIII	Key Contacts		
PF-IX	Significant Audit Areas		
PF-X	Significant Accounting Policies		
	Supporting Documents List Corporate Plan (Mission, Vision, Objectives) Financial Rules/Laws & Regulations/Service Rules Organization Chart Accounting Policies Chart of Accounts Environmental laws and regulations Long-term contracts/and regulations Long agreements, mortgages, debt instruments Amortization schedules of major assets Extracts of minutes Previous year's Audited Financial Statements Auditor's Reports to Management and Management Responses Other		

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

Update Control Sheet Form PF

Name of Entity/Organisation: **PAF BASE – FAISAL**

Original file prepared by: **M. AZMAT ULLAH KHAN (A.O)**

Date: _____

File updated by: _____ Date: _____
File updated by: _____ Date: _____
File updated by: _____ Date: _____
File updated by: _____ Date: _____
File updated by: _____ Date: _____
File updated by: _____ Date: _____
File updated by: _____ Date: _____
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

1.8.1

1.8.2 Understanding of Entity's Business – Status of Entity

Name of Entity/Organisation: **PAF BASE FAISAL.**

Principal Address:

PAF BASE FAISAL
MAIN SHAHRAH-E-FAISAL
Karachi - 75350

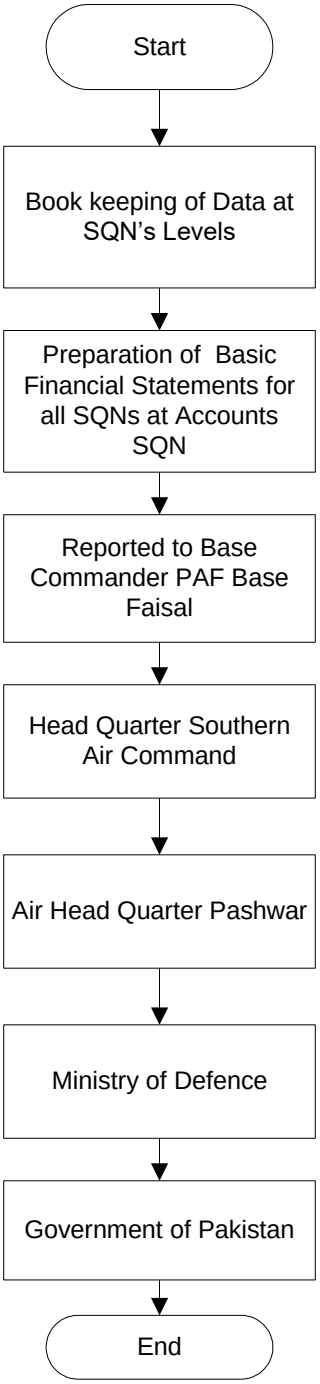
Status of the Entity:

Government Department (Federal)

Self Accounting

Inter-Governmental Relationship: Flow chart attached below

Inter – Government Relationship



AUDITOR-GENERAL OF PAKISTAN
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Form PF-II

Understanding of Entity's Business – Background Information Name of Entity/Organisation: **PAF BASE FAISAL .**

The auditor should gather financial and other background information about the entity.

Size of Entity

- Total expenditure **F.Y 2006 – 2007** **Rs. 109,887,421**
- Budget/ **F.Y 2006 – 2007** **Rs. 112,292,102**

1) Attach last 3 Years Budget & Expenditure Statement

Core Operational Activity/Corporate Plan

Famous saying of the father of our ration Quaid-e-Azam Muhammad Ali Jinnah,

"A country without a strong air force is at the mercy of any aggressor. Pakistan must build up her air force as quickly as possible; it must be an efficient air force second to none."

Mission

To provide, in synergy with other service, most efficient, assured and cost effective aerial defence of Pakistan.

VISION

To be among the most respected air forces of the world.

MOTTO

صحرا است کہ دریا است تہ بال و پر ما است

CORE VALUES

Integrity, Duty, Excellence.

Major Services

To provide, in synergy with other services, the most efficient, assured and cost effective aerial defence of Pakistan

Major Beneficiaries

1) People of Pakistan, our nation
2) Other services (Pakistan army, Pakistan navy)
3) Other ministries & government of Pakistan
4) Friendly countries like china, Saudi-Arabia.

Major Cost Centers

Employee related costs/Equipments, Stores, distributions/other types, etc.

If these major cost centers are the same as the auditable locations listed on form PF III, they need not be repeated here.

Reporting Authority

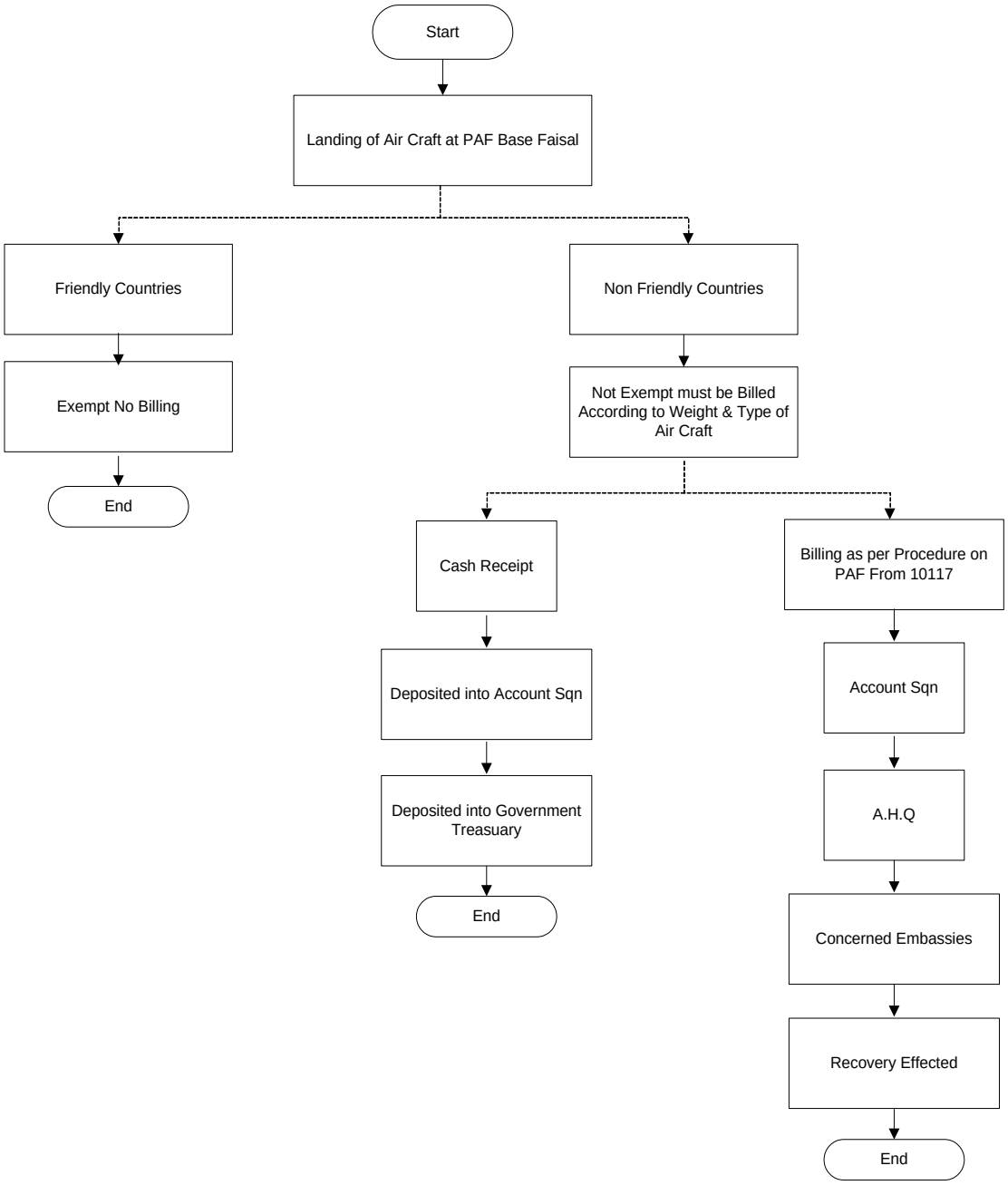
Air Head Quarter Peshawar

STATE OF PUBLIC FUND ALLOCATIONS / EXPENDITURE

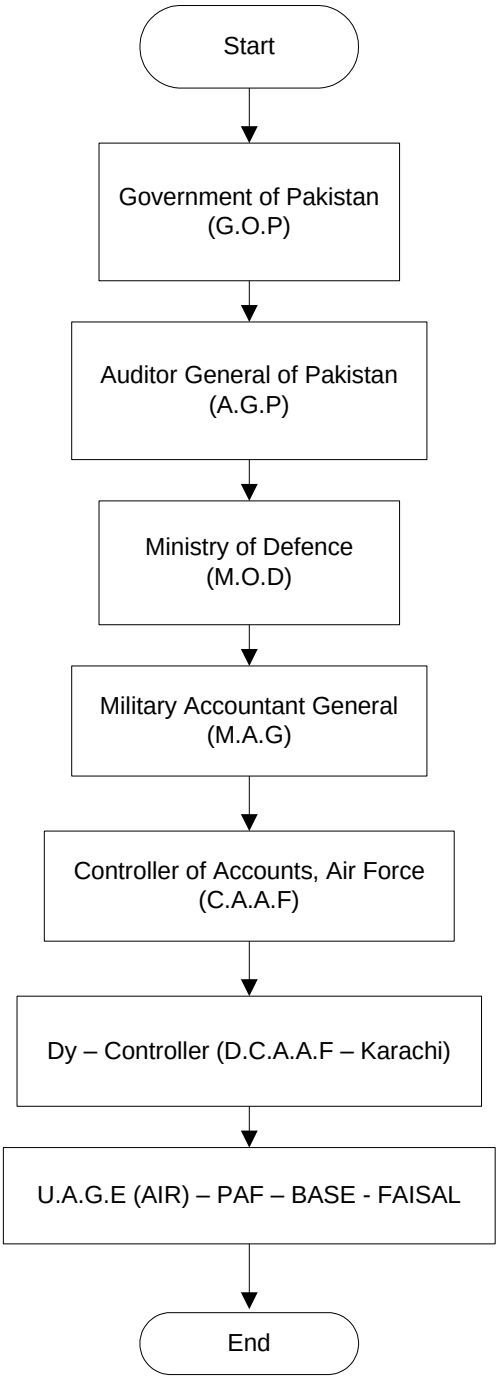
FINANCIAL YEAR	ALLOCATION (In Million)	EXPENDITURE (IN Million)	UNSPENT BALANCE (In Million)
2004 - 05	45.012	43.893	1.119
2005 – 06	81.40	80.80	0.50
2006 - 07	112.29	109.89	2.40

Main Business Processes
These will be elaborated in the form of flow chart diagrams of the main processes going on in PAF Faisal Base as:

FLOW CHART FOR BILLING OF HOUSING & LANDING CHARGES BY "ATC SQN" (PAF BASE FAISAL)



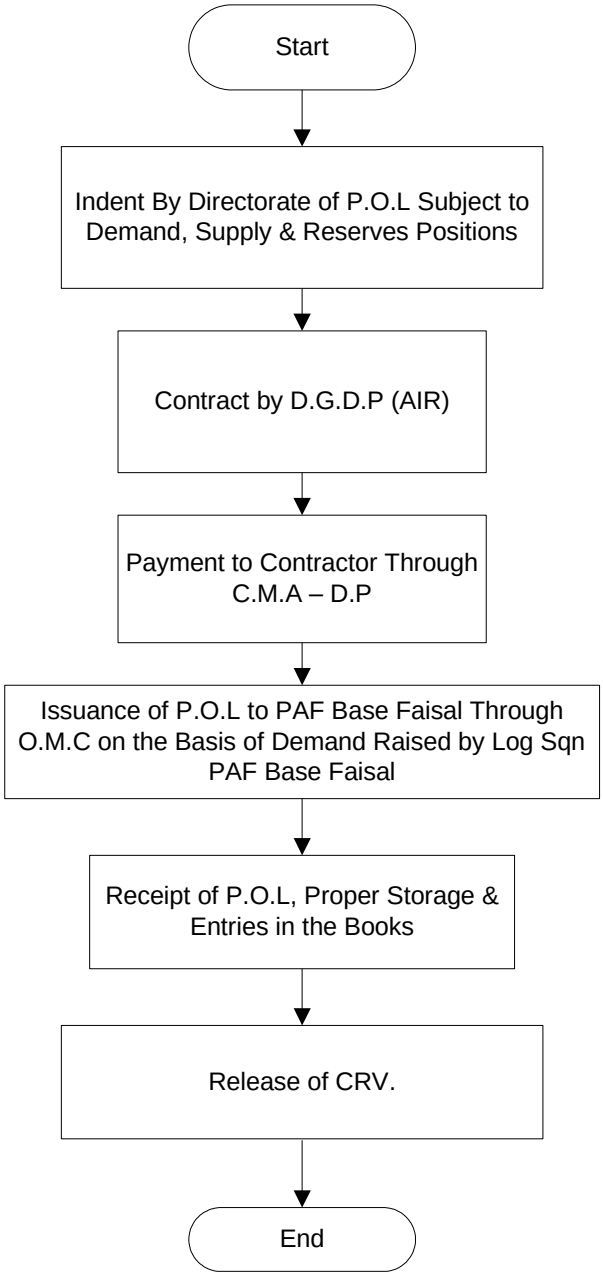
FLOW CHART FOR FUNCTIONING OF U.A.G.E (AIR) PAF – BASE - FAISAL



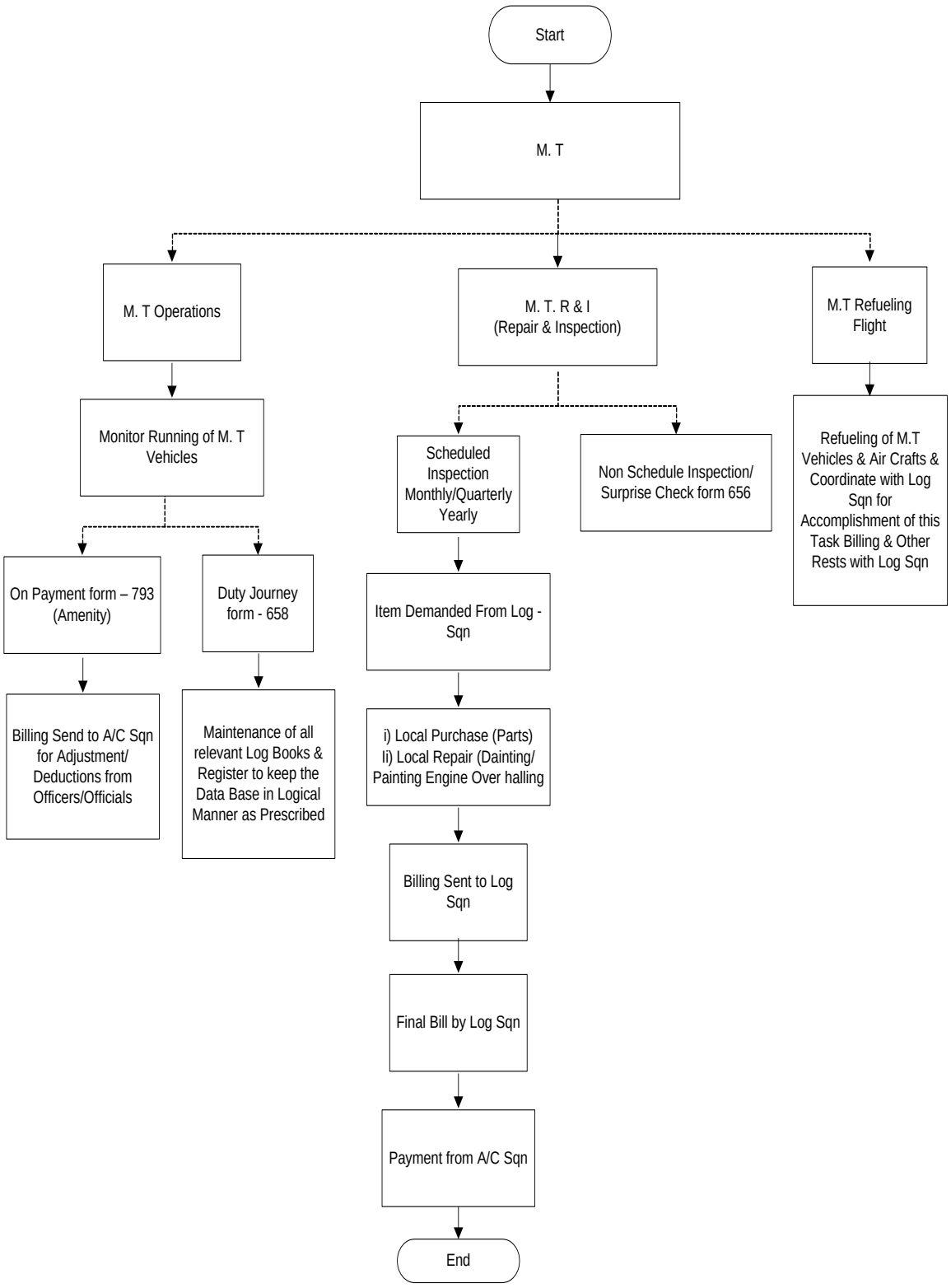
FUNCTIONS

Functions – (i) Internal Check – Works, M.E.S Bills
(ii) Rent & Allied Charges Recovery Raised of G.E (AIR)
Monitoring, Watch that Recovery be Done Regularly

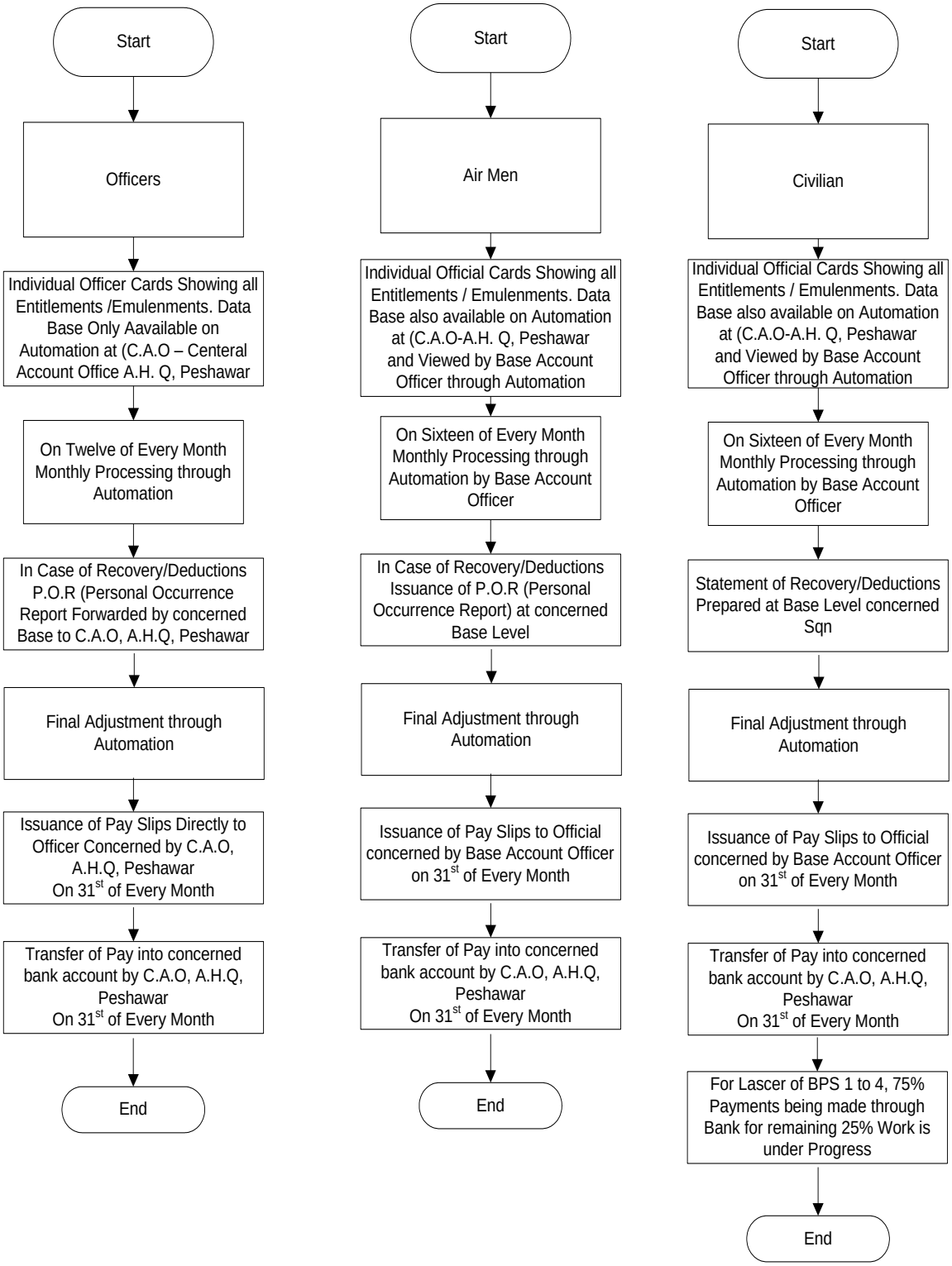
FLOW CHART FOR PROCUREMENT OF P.O.L FOR M.T VEHICLES & AIR CRAFTS BY D.G.D.P (AIR) AND UTILIZED BY RESPECTIVE PAF BASES



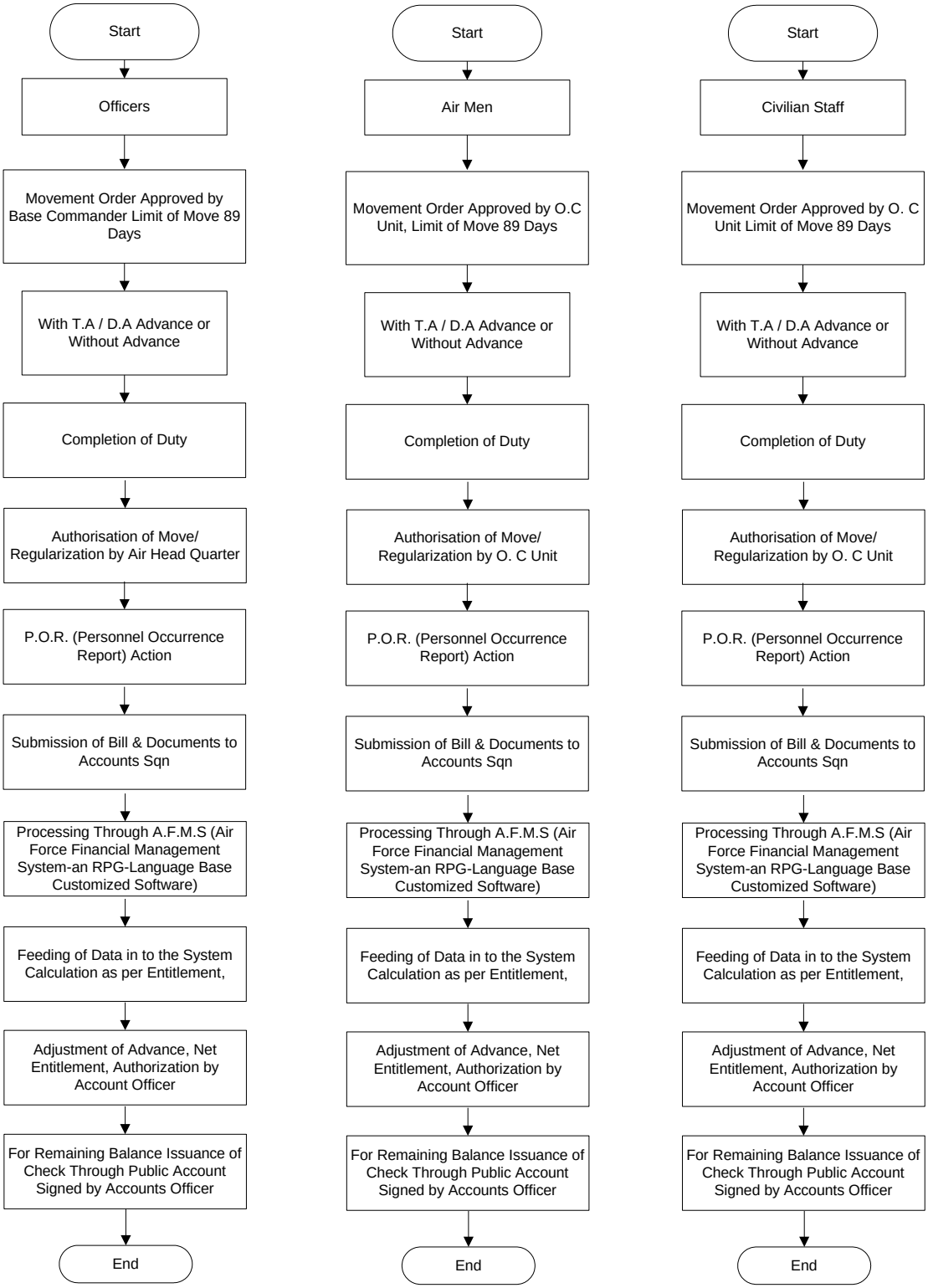
FLOW CHART – MOTOR TRANSPORT SQN – PAF BASE FAISAL



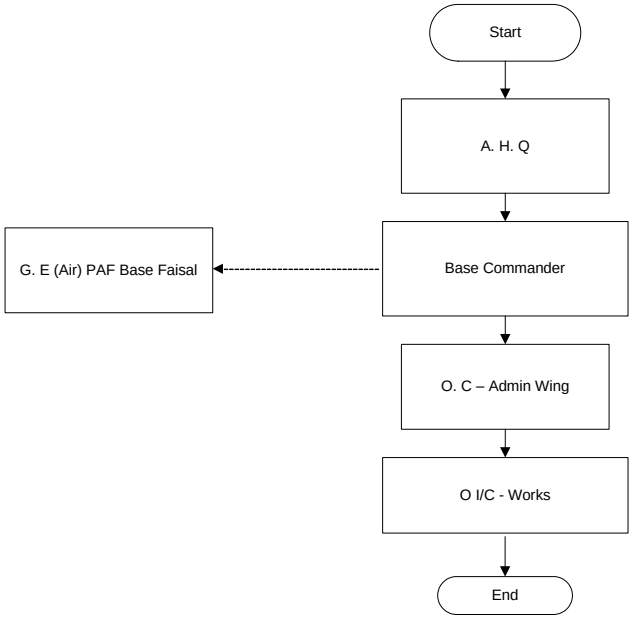
PAF BASE FAISAL – FLOW CHART FOR PAY AND ALLOWANCES



PAF BASE FAISAL – FLOW CHART FOR T.A / D.A ADVANCES & BILLS



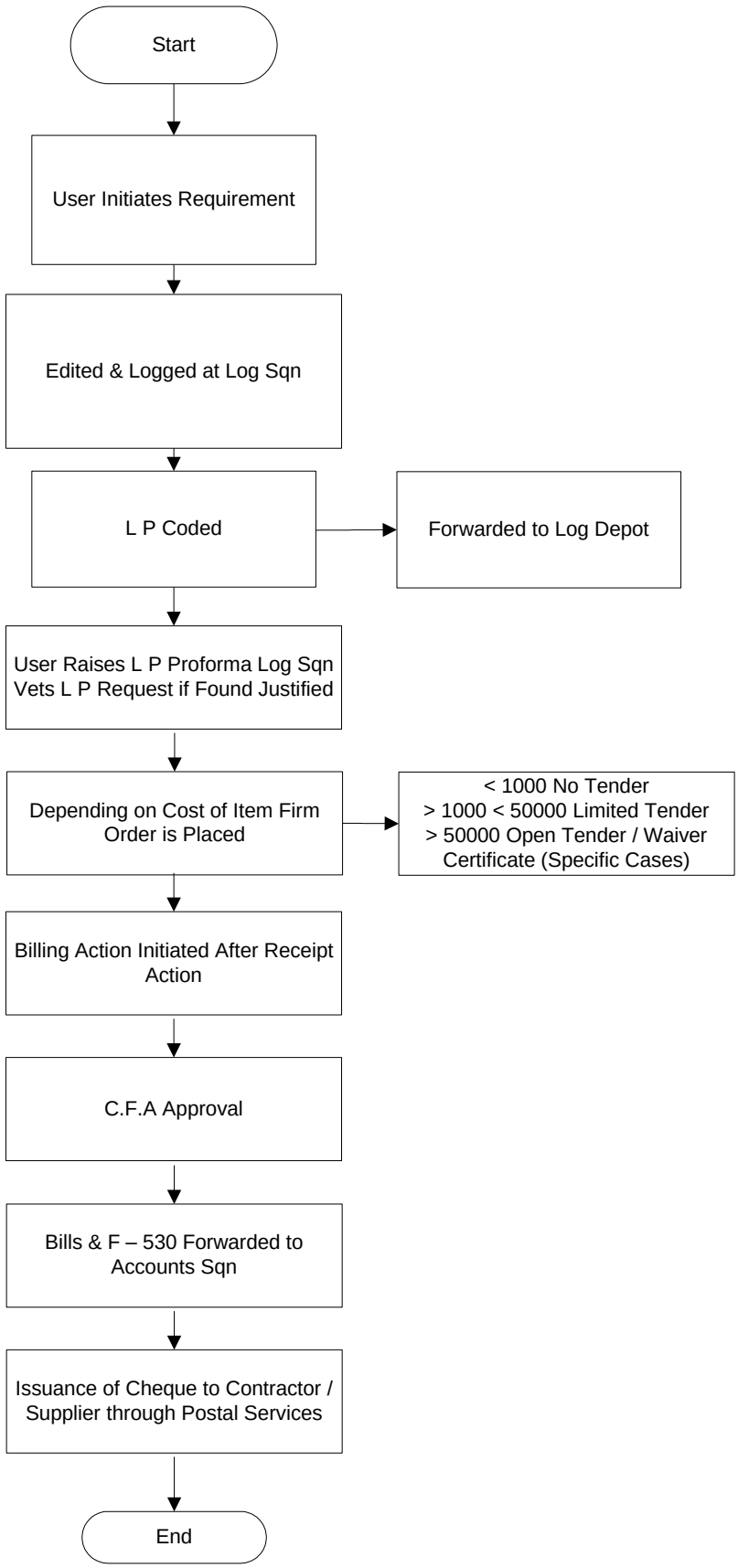
FLOW CHART REGARDING BASIC UNDERSTANDING OF "WORKS FLIGHT" PAF BASE FAISAL



WORK		INITIATED BY	APPROVED BY/SANCTIONED BY	EXECUTED BY
*	Maintenance Works	G.E (Air)/O.I/C Works/Users Requirements	Base Commander / O.C	M.E.S/Contractors
*	Minor Works	-do-	Admin Sanction Bas Approved by A.H.Q	-do-
*	Capital Works	-do-	A.H.Q	-do-
*	Abnormal Works	-do-	A.H.Q	-do-

Note: This is just basic concept. The detail audit of works is being done during audit of M.E.S – G.E (Air) Faisal Separately

LOCAL PURCHASE STEPS – LOG SQN PAF BASE FAISAL



AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

Form PF-III

Understanding of Entity's Business – List of Auditable Locations

Name of Entity/Organisation: **PAF BASE FAISAL**

The auditor should list all locations that collect, record, process and report financial information of the entity.

"Complete organization chart depicting all Sqn & attach units with PAF BASE FAISAL is enclosed."
Location(s) of computer-based accounting systems database(s)

1) Account Sqn – (Pay Roll Monitored At Air Headquarter Level)

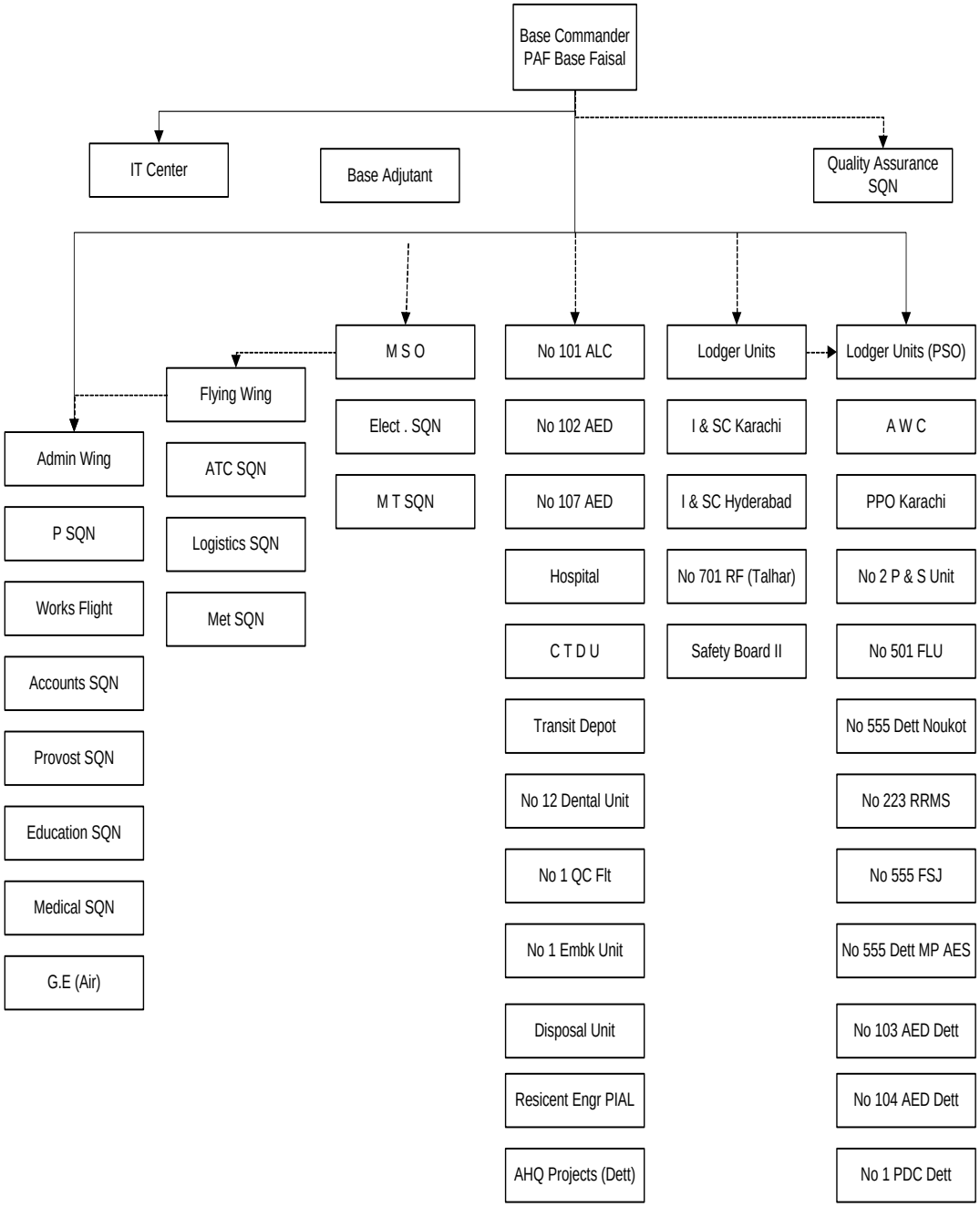
2) LOG SQN –
   All local Purchase data base is on customized software which is also monitored at A.H.Q level)

3) 102 AED –
   Local Purchase data base.

4) 107 AED –
   Local Purchase data base

Organizational chart

PAF Base Faisal Karachi



AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

PF-IV

Understanding of Entity's Business – List of Bank Accounts Name of Entity/ Organisation: **PAF BASE FAISAL.**

The auditor should list the names, addresses and account numbers of all bank accounts maintained and operated by the entity.

1) Public fund A/c No. 39 17 operating at PAF Branch HBL Shahrah-e-Faisal. (Certificate by O.I/C Accounts is enclosed).

Federal Accounting Level

Provincial Accounting Level

District Accounting Level

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

PF-V

Understanding of Entity's Business – List of Authorised Signatories

Name of Entity/Organisation: **PAF BASE FAISAL**

List of Authorized Signatories is enclosed.

Financial Power / Sanction Limit

A) **TYPES OF TENDER** **(LOCAL PURCHASE)**

- SINGLE TENDER UPTO Rs. 1,000
- LIMITED TENDER UPTO Rs. 50,000
- OPEN TENDER MORETHEN Rs. 50,000

B) **FINANCIAL POWERS** **(LOCAL PURCHASE)**

- CAS (Chief of Air Staff) Rs. 40,00,000
- DCAS (Support) (Deputy Chief Air Staff) Rs. 20,00,000
- ACAS (Log) Rs. 10,00,000
- Base Commander Rs. 250,000
- O.C Units (Group Captain) Rs. 100,000

C) **FINANCIAL POWERS (WORKS)**
(As per Latter No. 2 / 12 / D – 15 / 2001 Government of Pakistan, Ministry of Defence, Rawalpindi dated 12th June 2006).

Description	**EXISTING FINANCIAL POWERS**	**REVISED FINANCIAL POWERS**
Government of Pakistan	FULL	FULL
Deputy Chief of Air Staff (A)	4,000,000	Rs. 30,000,000
Base Commander	25,000	10,00,000

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

PF-VI

Understanding of Entity's Business – External Factors

Name of Entity/Organization: **PAF BASE FAISAL**

The auditor's objective is to obtain sufficient appropriate audit evidence to provide reasonable assurance that financial statement items affected by external matters outside control of management such as the economy that can affect the business are fairly presented within the context of the financial statement taken as a whole. To do so, the auditor will need to understand the external factors that could affect the audited entity's financial position.
The auditor should list below entity's assets and liabilities that are affected by the external factors to ensure that costs, contingent liabilities, commitments and assets have been properly recognized, valued and reported in accordance with the government's accounting principles.

1) Overall inflation which affect budget.

2) Extra ordinary war emergency related exercises.

3) Embargo imposed by countries like USA, UK, Germany, which are the main sources of our weapon & air craft systems, and due to re-routing of purchase towards other countries, which resulted into extra expenditure.

4) Natural disasters & calamities in countries like earthquake, massive flood in coastal belt from Thatta to Gawadar.

5) Internal terrorism in countries which resulted into more patrolling more sorties of air craft and increase the POL & other bills.

6) Technological obsolence

7) Induction of new technologies y delay in adjustment / disposal of old technologies. For example in PAF automation is on rise but still the parallel manual system for financial data also exists which lead to extra expenditure for government exchequer.
8) Existence of PAF base faisal hospital establishment on adhoc basis which is not yet got approved from government of Pakistan. From last 5 years a huge capital & revenue expenditures are being made from government budget without audit of the expenditure.
9) Shifting of no 6 sqn (c – 130 aviation flying sqn) from chaklala, Islamabad to PAF base Fiasal from September 2007. The sqn will due for audit during 2008 – 2009 audit plans.

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

PF-VII

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

Name of Entity/Organisation: **PAF BASE FAISAL**

The auditor should list the accounting records maintained by the entity for the collection, recording, processing and reporting of accounting information. Append a description of the system and related Accounts and Financial Authorities and their functions and responsibilities.

1) Organization chart enclosed(Refer to List of Auditable Locations)

2) List of auditable documents enclosed.

LIST OF AUDITABLE DOCUMENTS ACCTS SQN PAF FAISAL.

1. **Cash Account**
   (a) Service Postage Label Register
   (b) Cash Book Register
   (c) Cheque Book folio
   (d) Cash Acct Vouchers

2. **LP Register**
   (a) APW Register
   (b) Contingency Register
   (c) MTG Register

3. **TA/DA Officer's / Airmen**
   (a) TA/DA Advance Register
   (b) TA/DA Registers
   (c) TA/DA Foreign Register

4. **Recovery (F - 793)**
   (a) F - 793 Register
   (b) PTT Call Register

5. **Overtime PAF Civilian**
   Overtime Register

6. **PAF Civilian Office Order**
   Officer Order Folders

7. **PAF Airmen POR**
   Local Allowances POR Folder

8. **Equipment Accts Section**
   Losses Register.

9. Landing & Housing Bill Register.

10. PAF Form - 10117 (Recoveries of Housing and Landing and Allied Charges).

11. PAF Form - 68 (Aircraft Movement Log Book).

LIST OF AUDITABLE DOCUMENTS LOG SUPPLY SQN PAF FAISAL.

(a) MC Note

(b) Loan Card Register

(c) SIB / SOB Register

(d) POL Issued Register

LIST OF AUDITABLE DOCUMENTS NO. 102 AED ORDERLY ROOMS

PAF T - 1752	FRW for single journey
PAF T - 1750	FRW for sick leave
PAF T - 1707	FRW for party and family
PAF T - 1709E	Form - 'E'
PAF T - 1782	APW
PAF F - 10952	For PIA 50% Rebate form
PAF F - 1736	FRW for sports

LIST OF AUDITABLE DOCUMENTS NO 107 AED PAF FAISAL.

1	LPO Register
2	SOB Register
3	SIB Register
4	Expense Register
5	MC Note
6	MTG , FTG 1
7	APWs and ROVs
8	Calibration Charges Register
9	Documents of Avonics Engr SQN
10	Documents of Electronic Engg Sqn
11	Documents of Tele Comm Engg Sqn
12	Documents of General Engg Sqn

1. A.T.G. Grant register (A/C Sqn)

2. Foreign Training Grant Register (A/C Sqn)
3. Foreign Training Charges from allied countries Trainees (A/C Sqn)
4. P.O.L. Ledgers (Log Sqn)
5. Ration Stock Ledger (Catering Flight) Condiments & other miscellanies Stock Ledger
6. T.A/D.A advances adjustment Register (A/C Sqn)
7. Housing, Landing & Navigation Charges ledgers (ATC).
8. Officers Leave Register, APW, ACV, (Base Adjutant)
9. Batman Pay. (Civil Admn)
10. Over time for Civilian Staff Register (Civil Admn)
11. Casual Labour Payments Ledger (Civil Admn)
12. Petty Works / Minor Works Register (O I/C Works).
13. Inventory Ledger. (Now with Log Sqn, in old system rest with A/C Sqn).
14. Pay Roll (A/c Sqn)
15. Loss Statement Register (Now with Log Sqn, in old system rest with A/C Sqn).
16. L.P. Register Medicines (Log Sqn and A/C Sqn)
17. L.P. Register General (Log Sqn and A/C Sqn).
18. L.P. Register M.T. (Log Sqn and A/C Sqn).
19. Stock Ledgers Medicines (Log Sqn and A/C Sqn).
20. Conservancy Contract (P - Sqn)
21. Sports Article Register (Sports Flights).

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

PF-VIII

Understanding of Entity's Business – Key Contacts

Name of Entity/Organization: **PAF BASE FAISAL .**

The auditor should list the names and contract information of key personnel at all management levels of the entity.

(Sqn wise complete list attached) (Telephone directory of P.A.F Base Faisal is also enclosed).
KEY CONTACTS PAF BASE FIASAL

Important Ext no.s Faisal Base

S. NO.	DESIGNATION	OFFICE	RESIDENCE
1	AOC (AIR OFFICER COMMANDING)	2000	2002
2	COMMANDANT AIR WAR COLLEGE (AWC)	7501	7502
3	SASO (SOUTHERN AIR COMMAND SECTOR OFFICER)	2003	2004
4	BASE COMMANDER	2101	2102
5	SECTOR COMMANDER	6200	6202
6	DEPUTY COMMANDANT	7503	7504
7	P.A TO BASE COMMANDER	2111	2112
8	BASE ADJUTANT	2105	2106
9	ORDLY OFFICER	2115	
10	OFFICER COMMANDING ADMIN WING	5001	5002
11	OFFICER COMMANDING FLYING OFF	2201	2202
12	MSO OFFICE	3001	3002
13	OFFICER COMMANDING 102 AIR ENGINEERING DEPOTT	7201	7202
14	2 I/C (2ND IN COMMAND) 102 AED	7203	7204
15	OFFICER COMMANDING (OC) 107 AED	7301	7302
16	2 I/C (2ND IN COMMAND) 107 AED	7302	7304
17	OFFICER CMMANDING (OC) 101 AIR LOGISTIC CENTRE (ALC)	7001	7002
18	2 I/C (2ND IN COMMAND) 101 ALC	7003	7004
19	OC CTDU OFF (MERGED IN 1O2 AED)	7651	7652
20	2 I/C CTDU (MERGED IN 1O2 AED)	7653	7654
21	OC Q.A SQN (QUALITY ASSURANCE SQUARDEN)	2171	2172
22	2 I/C Q.A SQN	2173	2174
23	OC ELECTRONICS SQUARDEN	3301	3302
24	OC II QC FLT (QUALITY CHECK FLIGHT)	7685	7686
25	OC DSG (DEFENCE SERVICES GROUP)	5131	5132

26	OC RMC	3501	3502
27	OC HOSPITAL	5231	5232
28	OC DENTAL	5421	5422
29	OC SAFETY BOARD	7671	7672
30	OC 103 ALC (DETT)	7601	7602
31	OC 104	7621	7622
32	OC TRANSIT DEPOT	7611	7612
33	OC P 721	7721	7722
34	OC I & SC (INFORMATION AND SELECTION CENTRE)	7911	7912
35	VC MUSEUM (P.A.F MUSEUM)	7641	7642
36	OC 223 FLIGHT	7691	7692
37	OC PDC DETT	7701	7702
38	OC MMR DETT	7711	7712
39	OC AFOHS (AIR FORCE OFFICERS HOUSING SCHEME)	7631	7632
40	O I/C LOGISTIC SQUARDEN	2271	2272
41	O I/C MOTOR TRANSPORT SQUARDEN	3771	3772
42	O I/C P SQN	5031	5032
43	O I/C ACCTS	5061	5062
44	O I/C PROVEST SQN (SECURITY)	5101	5102
45	A.P.M (AIR PROVEST MARSHAL) 2P&S FAISAL	5121	5122
46	SMO (SENIOR MEDICAL OFFICER)	5371	5372
47	CMES (COMMANDER MILITARY ENGINEERING SERVICES – P.A.F FAISAL)	5451	5452
48	G.E (GARRISION ENGINEER) P.A.F FAISAL	5455	5456
49	PRINCIPLE DEGREE COLLEGE	5510	
50	O I/C AHQ IT – DETT (AIR HEAD QUARTER INFORMATION TECHNOLOGY DIRECTORATE)	7801	

Note:

1.8.3 In case of dialing from civil numbers, Please Add 954 in start of the above number for example O I/C Accounts Sqn extension is 5061 dials 954 – 5061.

AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE

PF-IX

Understanding of Entity's Business – Significant Audit Areas Name of Entity/Organisation: **PAF BASE FAISAL**

The auditor should list critical audit areas/significant financial statement components (including individually significant transactions and events) and their impact on the financial statements of the entity. For each identified significant component, the auditor can then plan the audit for specific financial audit objectives and related compliance with authority objectives.

The list of significant components provided below is for illustrative purposes only. The list should be updated to reflect the actual components to be used on any given audit.

Significant Financial Statement Components	**Critical Audit Area Y/N**
• Residual Equity/Share Capital	N/A
• Liabilities & Commitments	N/A
• Deposits & Reserves	N/A
• Fixed Assets and Depreciation	Y
• Investments	N/A
• Cash & Bank	Y
• Loans and Advances	Y
• Revenues/Receipts	Y
• Purchase Costs/Payments	Y
• Employee Related Expenses/Payments	Y
• Operating Expenses/Payments	Y
• Grants, Subsidies & Write offs	Y
• Interest Payments	N/A
• Suspense & Clearing	N/A
• Other / Budget	
• (all high value heads showing More than Rs. 245,000/= in budget status)	
• (Detail Budget list attached)	

HIGH RISK AREAS PERTAINING TO P.A.F BASE FAISAL .

Following areas should be audited during audit of P.A.F Base Faisal

1. Account squarden
2. Logistic squarden
3. Motor transport squarden
4. M.I room

5. A.t.c squarden
6. Base adjutant
7. P squarden
8. Works flight
9. O.C admin wing
10. Civil admin

HIGH RISK AREAS PERTAINING TO P.A.F BASE FAISAL .
AND AUDITED AS SEPERATE ENTITIES / UNITS / FORMATIONS

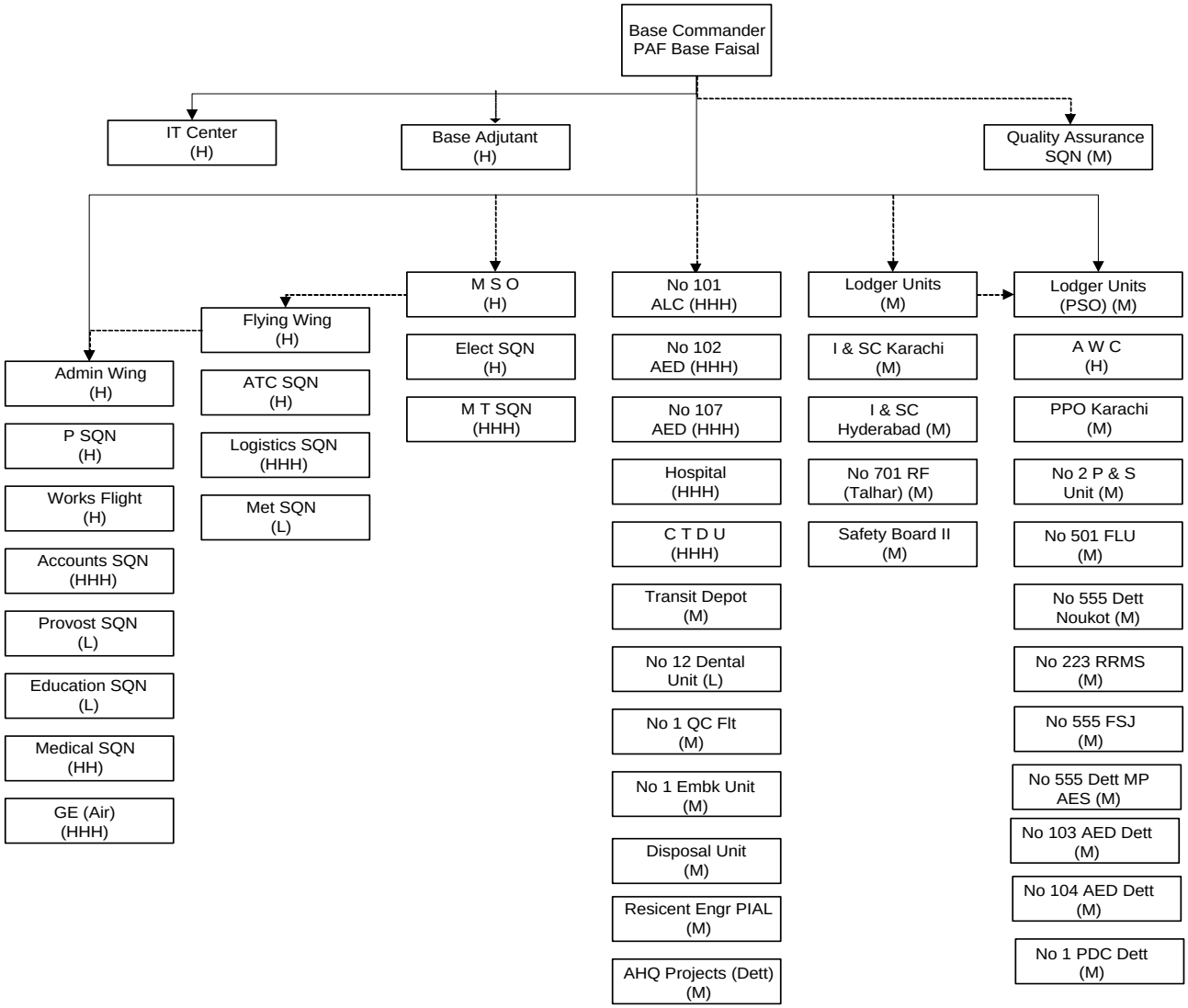
1. 102 A.E.D P.A.F BASE FAISAL (HHH)
2. 107 A.E.D P.A.F BASE FAISAL (HHH)
3. 101 A.L.C P.A.F BASE FAISAL (HHH)
4 AIR WAR COLLEGE (HHH)
5. G.E (AIR) P.A.F BASE FAISAL (HHH)
6. C.M.E.S P.A.F BASE FAISAL (HHH)

7. P.A.F BASE FAISAL HOSPITAL (HHH)
   (It is an adhoc establishment, presently function but not yet come under the preview of test audit because the establishment has not yet regularized from government of Pakistan).

8. P.A.F MUSEUM (HHH)
   (A non public fund entity, having most of the capital expenditure and resources from government exchequer during establishment, not yet come under the preview of test audit. issue is under the notice of higher authorities).

Organizational chart

PAF Base Faisal Karachi



LEGEND:

(H) : High Risk Areas, must be thoroughly Checked and evaluated
(M) : Medium Risk Areas, to be checked and evaluated
(L) : Low Risk Areas, may be checked on the basis of Data and Auditor judgment

AUDITOR-GENERAL OF PAKISTAN
AUDIT PLANNING-PERMANENT FILE

PF-X

Understanding of Entity's Business – Significant Accounting Policies Name of Entity/Organisation: **PAF BASE FAISAL**

The auditor should list significant accounting policies and changes thereto, applied by the entity. Significant policies may include:

- Staff retirement benefits – pension & provident fund

All these benefits completed, calculated & implemented at {Pay & Pension Directorate A.H.Q Peshawar} level. PAF Base Faisal just furnishes initial level case for Pension. However for Provident fund withdrawal OI/C Accounts PAF Base Faisal Perform the function under Government rules & Policies.

- Revenue recognition
  N/A

- Accounting for liabilities and commitments
  N/A

- Fixed assets – valuation and depreciation

i) <u>DEPRECIATION</u>

Normally the recording Depreciation doesn't exist. However during disposal of old vehicles after board of officers, to determine assessed value of vehicle straight line depreciation be computed but no specific practice in this regard exist with a view that the entity maintain their books of accounts on single entry system & cash basis of accounting.

ii) <u>FIXED ASSETS</u>

The scattered data base for fixed Assets will be available mostly showing quantity of Assets. However quantity of some Assets like Air Crafts & sophisticated supporting weapon system doest provided / disclosed due to their non – classified & secret nature. Rest of the assets ensure through.

i) Inventory (sqn wise)

ii) UAL (Unit authorization list – Historically approved with cost effect by DFA – Deputy Financial Advisor it also Provided Scaling of the unit / Sqn)

iii) EAID (Equipment authorization index)

iv) Scaled through AFI (Air Force instructions)

- Interest payment and

N/A

- Foreign currency transactions

i) <u>FOREIGN CURRENCY TRANSACTIONS</u>

Housing & Landing Charges received from other Countries in U.S. $ if U.S. $ received on the spot at base level it will always immediately deposited into Government treasury charging that day Pak. Rupees conversion rate for U.S. $. Other billing be executed at A.H.Q level through concerned embassies for final adjustment of these bills and in similar manner the U.S. $ converted into Pak Rupees.

- Pay Roll

Pay & allowance Paid to officers & officials as Per Polices laid down in Pay & allowances – regulations, along with Polices introduced by Government through finance act & recommendations of Pay & Pension Committees. All the Pay roll is being prepared at A.H.Q Peshawar. Respective bases have authorized access to such data base with strict internal controls & checks.

- Payments to Suppliers & Contractors

These Payments be made with consideration of rules & regulations Provided in Financial regulations, AFO, AFI, JSI along with Proper consideration of financial Powers of respective authorizes. Starting from O.C units level to A.H.Q, M.O.D & Government of Pakistan.

- Loan & Advances

Loan & Advances given to officers & officials as per Government Policies & their in time recoveries also monitored & ensured.

- Overseas Transactions

T.A / D.A awarded to staff who avail foreign training & recoveries of Training Charges from foreign countries be & observed in term of “Passage regulations”, “Financial regulations”, AFO, AFI & JSI.