Audit Guidelines
Federal Government Operations



Auditor-General of Pakistan

DEPARTMENT OF
THE AUDITOR-GENERAL OF PAKISTAN



GUIDELINES FOR THE AUDIT OF FEDERAL GOVERNMENT OPERATIONS

TO BE USED BY

THE DIRECTORATE GENERAL OF AUDIT (FEDERAL GOVERNMENT)



VISION

A Model Supreme Audit Institution Adding Value to National Resources



MISSION

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

Core Values

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

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PREFACE TO REVISED EDITION

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

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 As a result, the FAOs continued to rely on their old and outdated codes and manuals for conducting audit.

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

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

(Tanwir Ali Agha)
Auditor-General of Pakistan

Dated: March, 2010

PREFACE TO FIRST EDITION

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

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

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

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

(Muhammad Younis Khan)
Auditor General of Pakistan

Dated: March, 2006



Chapter 1

INTRODUCTION TO AUDIT GUIDELINES

1.1. Purpose of the Guidelines

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

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

1.2. Guiding Principles

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

1.3. Auditors' Responsibility

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

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

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

1.4. Practical Tools

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

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

1.5. Continuous Improvement

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

1.6. Using the Standard Audit Working 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.

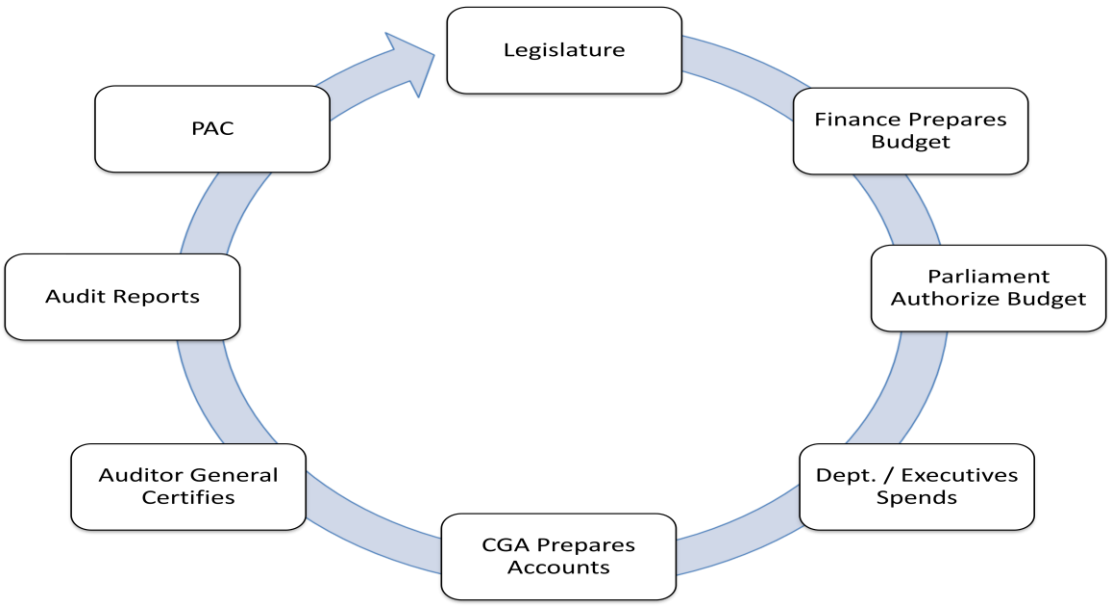
Ultimately, it is the audit team leader who will have to use his/her judgment in determining how best to apply the Audit Working Papers Kit in conducting a specific audit.

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 Accountant General Pakistan Revenues (AGPR), who has the primary responsibility for disbursements, keeping a record of transactions and the preparation of Annual Financial Statements of the Federal Government for centralized accounting entities. In the case of self-accounting entities, this task is accomplished by the 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.



Chapter 2

OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT (FEDERAL GOVERNMENT)

2.1 Overview of the Office

Article 169 of the Constitution of Pakistan, 1973 requires Auditor-General to perform such functions and exercise such powers as determined by or under Act of Parliament in relation to the accounts of the Federation, Provinces and any authority or body established by the Federation or Province. Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 elaborates the duties of Auditor-General of Pakistan and with respect to Federal Government requires that Auditor-General of Pakistan should;

- Certify the accounts of the Federation.
- Audit all expenditure from Consolidated Fund.
- Audit all transactions relating to Public Account.
- Audit all receipts of Consolidated Fund and Public Account.
- Undertake studies and analysis relating to Federal Government Accounts.

In the past Federal Government's auditing and accounting functions were performed by the Accountant General Pakistan Revenues (AGPR). Outside Audit Office of AGPR was responsible for post audit. In 1988, pre and post audit functions of AGPR were separated and Outside Audit Office of AGPR was institutionalized as a separate Directorate General Audit (Federal Government) "DGA (FG)".

The DGA (FG) is presently located at Islamabad with four sub-offices, one each at Lahore, Karachi, Peshawar and Quetta. The office is headed by a Director General (BPS 20). The details can be seen at Organogram at the end of the chapter.

DGA (FG) is a strategic audit unit of the Office of the Auditor-General of Pakistan (OAGP). This office facilitates the Auditor-General of Pakistan to satisfy its constitutional and legislative responsibility of conducting the audit of Federal Government. DGA (FG) has the primary responsibility to certify the accounts of the federation. DGA (FG) also conducts audit of Federal Government Ministries/ Divisions. For the audit of Federal Government, consisting of centralized and self accounting entities, various DG offices are involved. For instance revenue receipts are audited by DG Revenue Receipt Audit and DG Defence Audit is responsible for the audit of receipts and payments of Defence services.

Mandate of DGA (FG) includes;

- Financial Audit and Value for Money Audit
- Certification of Federal Government financial statements

- Certification of Appropriation Accounts of Federal Government
- Certification of financial statements of self accounting entities
- Certification of foreign aided projects

2.2 Jurisdiction

Following is a list of PAOs under the jurisdiction of DGA (FG). The audit entities are categorized according to the Principal Accounting Officers, who are responsible for maintaining complete record of transactions and reconciling ministry's record with that of AGPR.

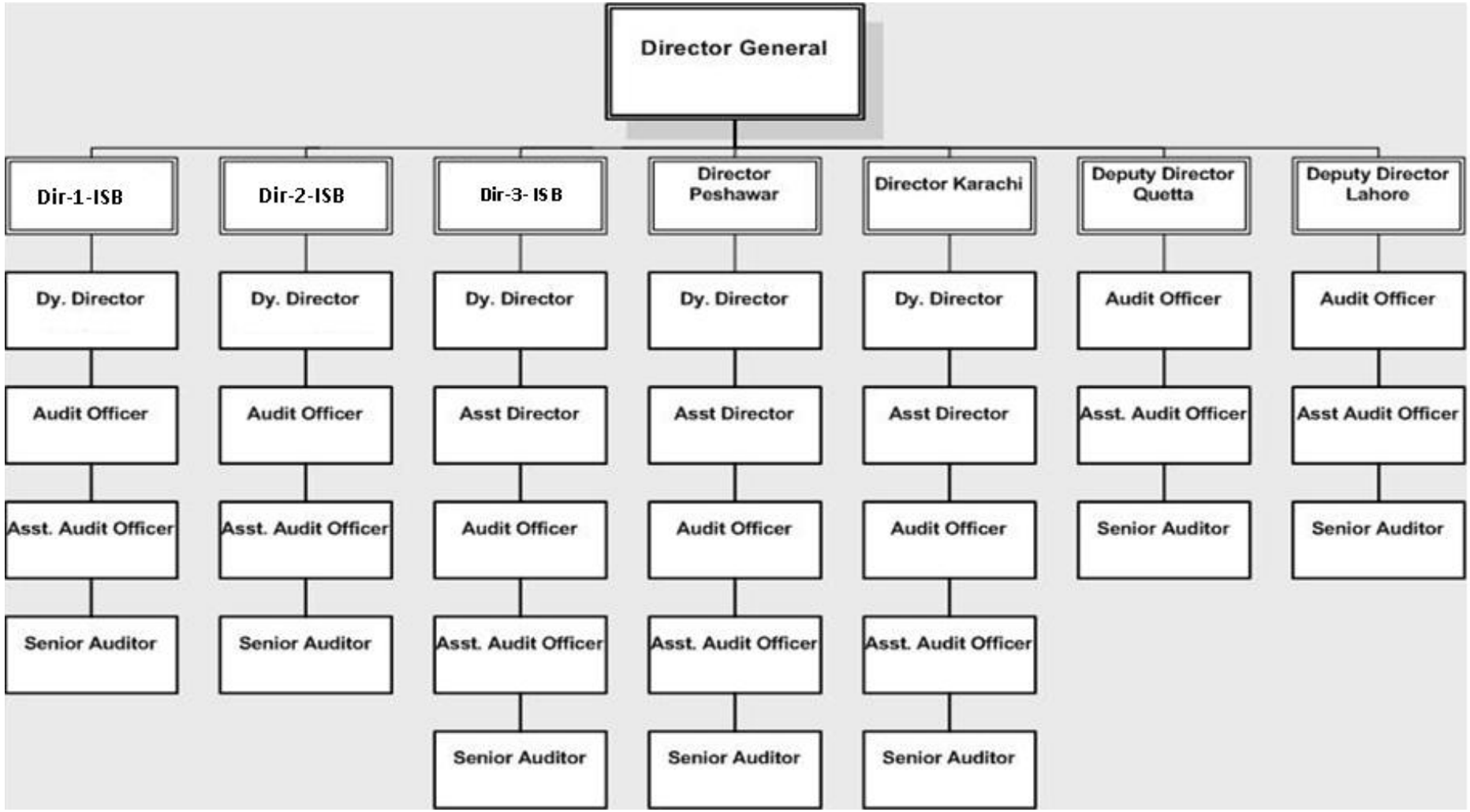
PAO	HQ*	SOK*	SOL*	SOP*	SOQ*	Total
Food and Agriculture Division	75	34	15	6	10	140
Pakistan Atomic Energy Commission	6	0	0	0	0	6
Board of Investment	2	1	1	1	1	6
Cabinet Division	32	2	5	3	0	42
Communications Division	24	1	2	0	1	28
Culture Division	22	13	11	3	2	51
Controller General of Accounts	5	3	4	3	3	18
Defence Division	12	22	10	3	6	53
Defence Production Division	1	0	0	0	0	1
Economic Affairs Division	13	0	0	0	0	13
Education Division	101	8	17	21	10	157
Election Commission of Pakistan	9	25	33	4	31	102
Environment Division	42	8	6	10	2	68
Establishment Division	19	14	14	12	13	72
Fata-Secretariat	99	0	0	0	0	99
Federal Judicial Academy	1	0	0	0	0	1
Federal Shariat Court	1	0	0	0	0	1
Federal Tax Ombudsman	1	1	1	1	1	5
Finance Division	35	12	19	3	3	72
Health Division	71	38	14	24	34	181
Higher Education Commission	29	7	5	4	2	47
Housing and Works Division	2	0	0	0	0	2
Industries and Production Division	6	6	6	1	1	20
Special Initiatives Division	1	-	-	-	-	1
Information and Broadcasting Division	74	10	13	5	11	113
Information Technology and Telecom Division	6	0	0	0	0	6
Interior Division	73	20	21	16	35	165
KANA	6	0	0	0	0	6
State and Frontiers Region	2	1	2	47	5	57
Labor Division	22	21	15	10	5	73
Law, Justice and Human Rights Division	32	60	65	20	11	188
Local Government	9	4	1	1	1	16
Minorities Affairs Division	2	1	2	2	1	8
Ministry of Commerce	10	0	2	0	0	12

PAO	HQ*	SOK*	SOL*	SOP*	SOQ*	Total
Narcotics Control Division	16	1	1	6	2	26
NAB	2	1	1	1	1	6
National Assembly Secretariat	5	0	0	0	0	5
National Commission for Government Reforms	1	0	0	0	0	1
NRB	1	1	1	1	1	5
National Security Council	1	0	0	0	0	1
Overseas Pakistanis Division	2	1	1	0	0	4
Pakistan Audit Department	10	4	14	2	3	33
PNRA	1	0	0	0	0	1
Parliamentary Affairs Division	2	0	0	0	0	2
Petroleum and Natural Resources	20	4	2	3	3	32
Planning Division	31	3	0	0	1	35
Population Welfare Division	42	18	17	10	6	93
Ports and Shipping Division	1	38	2	0	5	46
President Secretariat (Personal)	1	0	0	0	0	1
President Secretariat (Public)	1	0	0	0	0	1
Prime Minister Secretariat (Internal)	1	0	0	0	0	1
Prime Minister's Secretariat (Public)	4	2	0	0	0	6
Privatization Commission	3	0	0	0	0	3
Provincial Co-ordination Division	1	0	0	0	0	1
Religious Affairs, Zakat and Usher Division	8	6	2	2	3	21
Northern Areas	130	0	0	0	0	130
Science & Technology Division	93	26	21	6	5	151
Senate Secretariat	5	0	0	0	0	5
Social Welfare and Special Education Division	36	15	23	9	3	86
Statistics Division	15	13	23	11	9	71
Strategic Planning Division PAEC	5	7	1	2	0	15
Social Welfare	31	17	20	31	17	116
Sports Division	14	6	12	7	8	47
Supreme Court of Pakistan	3	0	0	0	0	3
Textile Industry	4	2	2	0	0	8
Tourism Division	5	2	2	2	2	13
Water and Power	8	0	1	0	0	9
Women Division	11	2	1	3	2	19
NCHD	1	0	0	0	0	1
Youth Affairs Division	3	2	0	0	2	7

*** Key:**

HQ: Head Quarter
SOK: Sub-office Karachi
SOL: Sub-office Lahore
SOP: Sub-office Peshawar
SOQ: Sub-office Quetta

2.3 Organogram of DG Audit (Federal Government)



Chapter 3

SCOPE OF AUDIT

3.1 Types of Audits[1]

Directorate General Audit, Federal Government conducts the following types of audit:

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

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

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

3.2 Definition of Government Audit

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

1. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinion on Financial Statements;
2. Attestation of financial accountability of the government administration as a whole;
3. Audit of financial systems and transactions including an evaluation of compliance with applicable statues and regulations;
4. Audit of internal control and internal audit functions;
5. Audit of the probity and propriety of administrative decisions taken within the audit entity; and

[1] These guidelines provides guidance on both the Certification and Compliance With Authority Audit.

6. Reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

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

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

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

3.3 Certification Audit

Objectives:

To express an opinion on the Financial Statements 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
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.

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

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

- Financial Statements are evaluated for adequacy against "Presentation and Disclosure" requirements;
- Significant line items of Financial Statements are tested for the following audit assertions:
  a. Existence and Occurrence
  b. Completeness
  c. Measurement
  d. Regularity (compliance with applicable laws and regulations)

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 Government, the Auditor-General satisfies himself that the rules and procedures have been properly adopted and ensures that the assessment, collection and allocation of revenue are done in accordance with the law and there is no leakage of revenue which legally should come to Government.
6. Review, analyze and comment on various Government policies relating to different sectors.

Methodology:

- Updating the understanding of the business processes with respect to control structure;
- Identification of key controls on the basis of prior years' audit experience /special directions from the head office etc.;
- Prioritising risk areas by determining significance and risks associated with identified key controls;
- Design audit programmes including analytical procedures for testing identified risk conditions;
- Selection of audit formations i.e. DDOs on the basis of:
    - Materiality/significance
    - Risk assessment
- Selecting samples as per sampling criteria;
- Execution of audit programmes;
- Identification of weaknesses in internal controls and development of audit observations and recommendations relating to non compliance of laws, rules, regulations and prescribed procedures;
- Integrating the work with financial attest audit , where possible;
- Evaluating results;
- Reporting; and
- Follow up.

3.5 Important Audit Components of Federal Audit

The major focus of the Directorate General Audit (Federal Government) is on:

- Revenues due to and received by the Federal Government

- Expenditures incurred by the diverse range of organizations within the Federal Government
- Transfers of money to lower levels of government
- Receipts of foreign aid
- Federal debt
- Fixed and current assets
- Grants

Some risks to be considered during an audit of a Federal Government include:

- Fluctuations in Consumer Price Index and exchange rates that can affect the prices of goods, materials and services consumed by the Federal Government.
- Fluctuations in economic conditions that can influence the amount of taxes collected.
- Keeping track of assets, protecting their condition and maintaining physical custody of the assets.
- Potential liability for environmental damage or damages due to legal action by persons impacted by Federal Government activities.
- Natural disasters and other unforeseen occurrences that can place demands on the resources of the Federal government.
- Prior year audits audit results that may have a bearing during the current year. Some of the instances may be;

    - Over expenditure against one grant and under expenditure against another
    - Lack of reconciliation
    - Lack of disclosure of the terms and conditions attached to loans
    - Need for improved accuracy in reporting
    - Generation of accounts not timely
    - Confirmation of expenditure from Principal Accounting Officers and reconciliation by the DDO not strictly enforced

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

3.5.1. Audit of Revenues

The main components of revenue are:

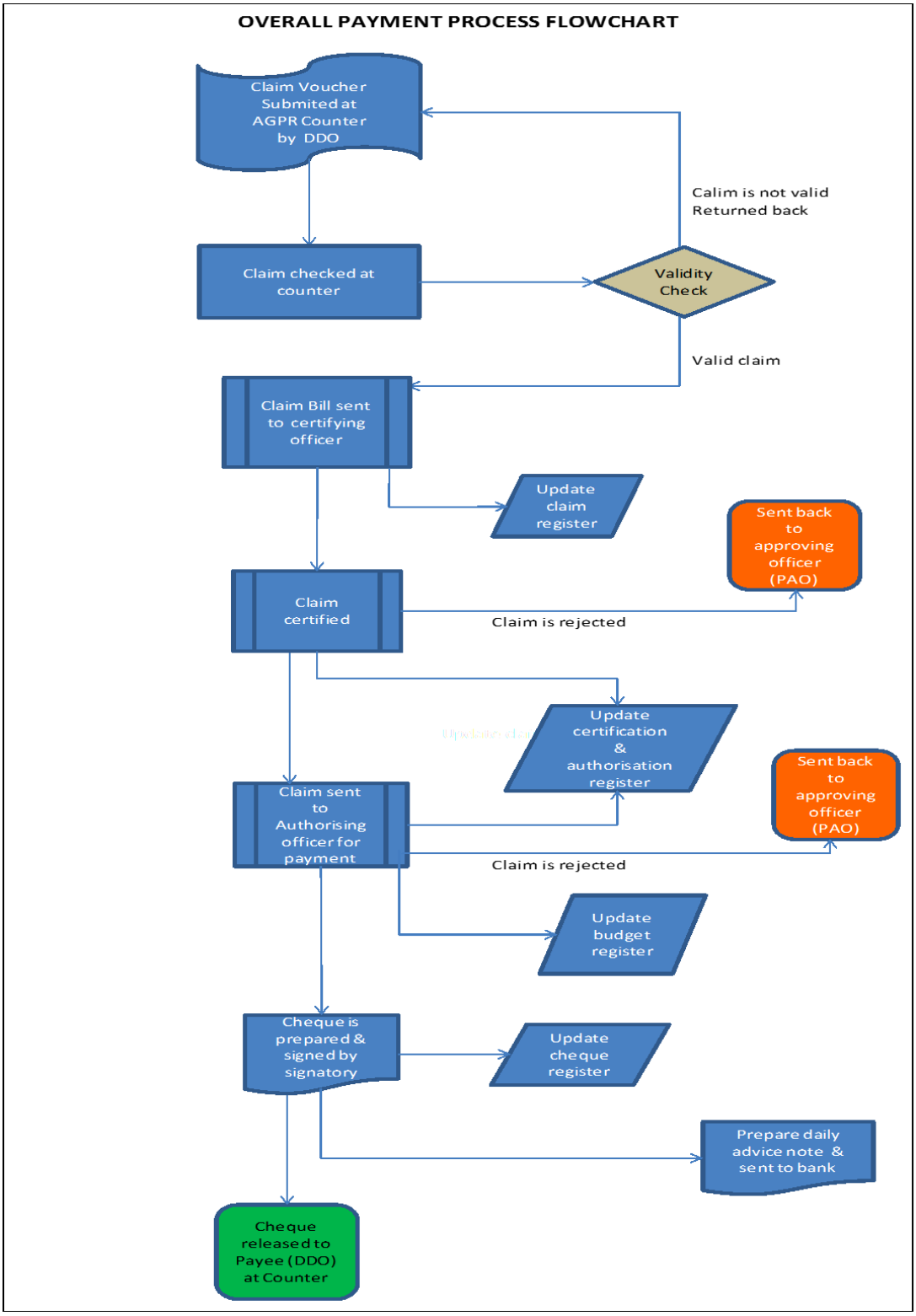
- Federal tax collection (direct and indirect)
- Foreign loans and grants; and
- Domestic debt

Receipts of money and in-kind contributions through loans and grants should be reviewed to ensure they have been properly dealt with from a revenue perspective in accordance with Government of Pakistan accounting standards. The auditor therefore needs to be aware of the current government policies in this area. The auditor should also conduct an examination of the attached terms and conditions to ensure compliance. The debt aspect of these loans is addressed below.

3.5.2. Audit of Expenditures

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, the accounts are also prepared by them and consolidated in the offices of the Accountant General, which are the field offices of the CGA. In cases where certain departments of the Federal and Provincial Governments 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 Accountant General.

The overall payment process of the federal government at Accountant General Pakistan Revenues is illustrated below;


OVERALL PAYMENT PROCESS FLOWCHART
Claim Voucher Submited at AGPR Counter by DDO
Calim is not valid Returned back
Claim checked at counter
Validity Check
Valid claim
Claim Bill sent to certifying officer
Update claim register
Sent back to approving officer (PAO)
Claim certified
Claim is rejected
Update certification & authorisation register
Sent back to approving officer (PAO)
Claim sent to Authorising officer for payment
Claim is rejected
Update budget register
Cheque is prepared & signed by signatory
Update cheque register
Prepare daily advice note & sent to bank
Cheque released to Payee (DDO) at Counter

3.5.3. Audit of Federal Government Transfers

Federal Government transfers to other levels of government should be examined as part of the certification of the financial statements. A specific audit program on this topic, the audit program on transfers, is provided in the Working Papers Kit of FAM.

3.5.4. Audit of Government Debt

Federal Governments may, subject to their legal powers, finance their operations through borrowings from various sources.

The following types of financial liabilities have been identified by INTOSAI[3] as areas for audit attention:

1. **International Borrowing**. Loans from foreign governments or other international bodies.
2. **Domestic Borrowing**. Proceeds of public savings schemes. These include amounts on deposit in savings banks operated by the government and other similar programs.
3. **Securities.** These include traditional borrowings from creditors under formal agreements which normally specify the amount borrowed, the interest rate charged or discount required, the security to be given (if any), and the period over which repayment is to be made. For audit purposes securities include those executed for the short, medium and long term.
4. **Bank loans.** Loans made pursuant to a formal agreement with a commercial or national bank corporation.
5. **Guarantees** to third parties. These would include guarantees for borrowing and for other purposes such as financing for exports and fixing exchange rates.

The auditor should review the Federal Government's debt management policy, especially how it addresses the following key debt management issues:

- Proper disclosure of all debt, commitments and contingencies;
- Tracking total debt value compared to total Federal revenues and the GNP;
- Tracking annual changes in debt balances (annual budget deficit/surplus and other increases/decreases in previous balance);
- Tracking annual debt payments as a proportion of total government expenditures;
- Verifying that all obligations regarding the disbursement of debts are met and reviewing the implications (financial and credit standing) of any failures to meet all obligations;
- Existence of risk management policies;

[3] "Guidance on Definition and Disclosure of Public Debt" issued by INTOSAI

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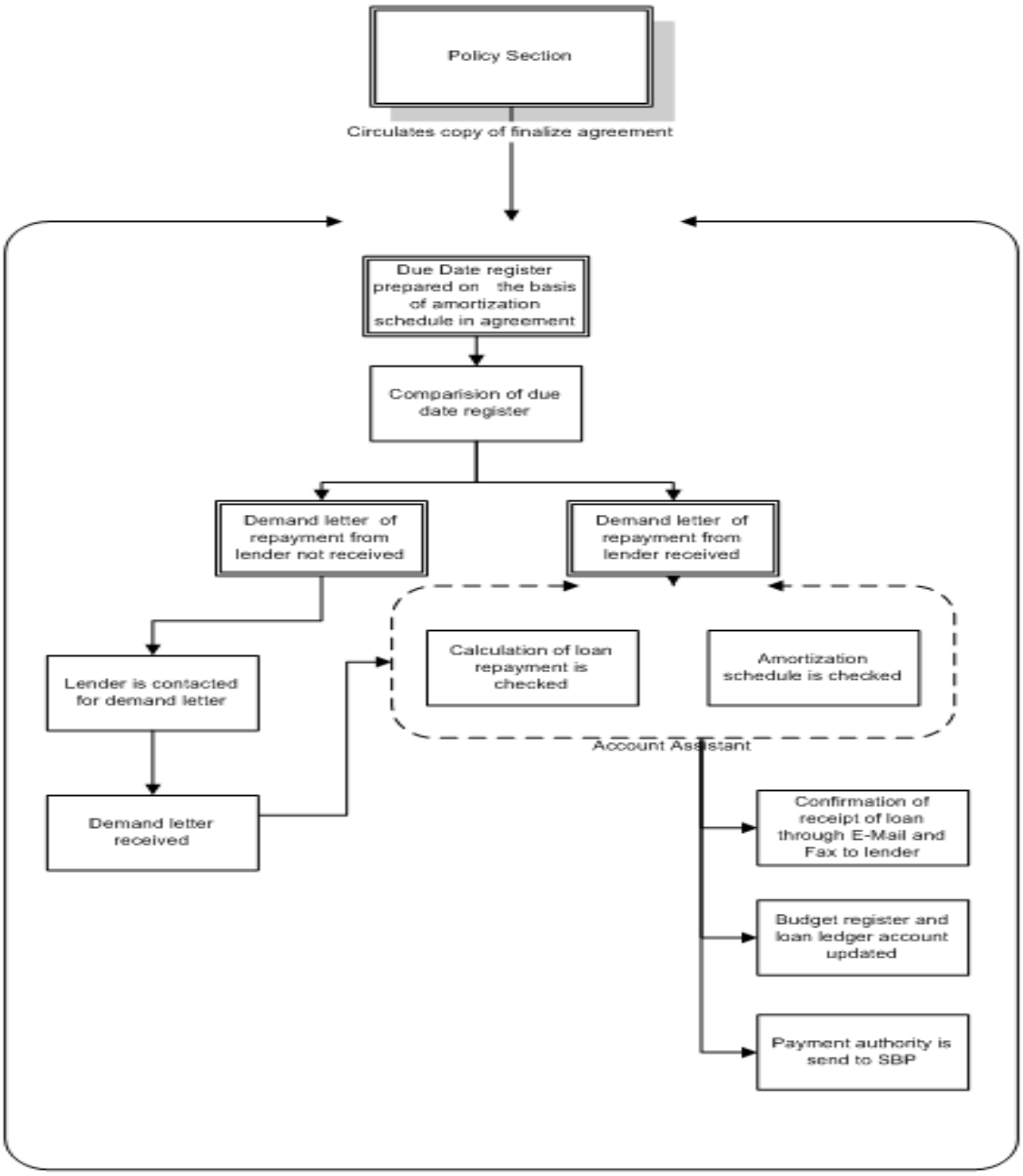
- Procedures for ensuring expenditures against loans are consistent with the purposes of the loans; and
- Distinguishing whether expenditures against loans are for capital investment or for operating purposes.

An analysis of risk relating to government debt should be made to consider:

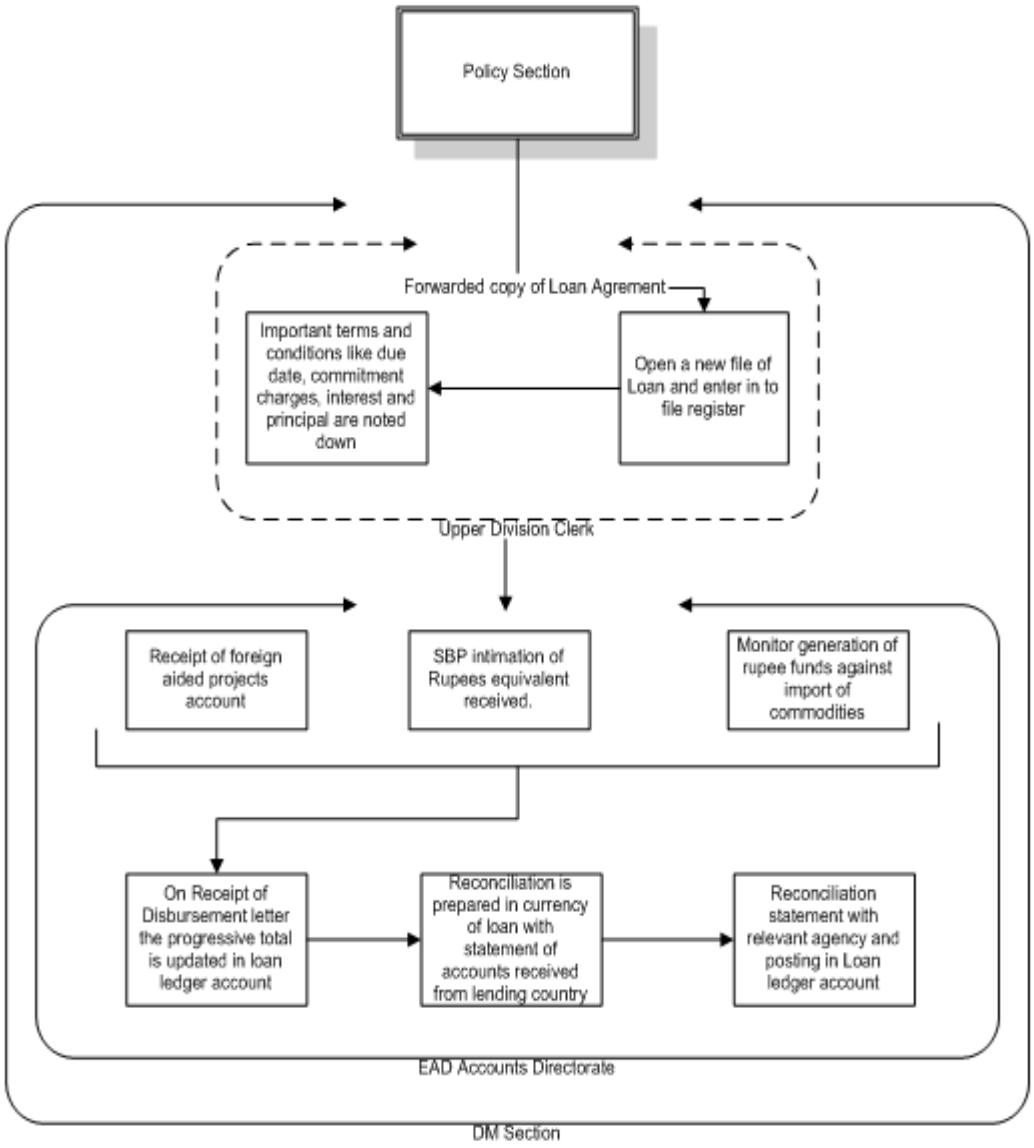
- The timing of debt repayment obligations;
- The mix of short and long term debt;
- The impact of debt payments on the operating costs of the entity;
- The mix of currencies in which debts are denominated, assessing possible impact of changes in rates of exchange between these currencies and the Pakistan rupee; and
- The potential impact of changes in interest rates and their timing (depending on whether variable or fixed interest rates on the loans and when the fixed rate loans come up for re-financing).
-

The detail process flow of foreign debt repayment and receipt is given below;

(a) Foreign Debt Repayment



(b) Receipt of Foreign Debt



In addition to the audit of debt management from a strategic perspective, the auditor needs to examine the internal controls and individual debt transactions. The auditor is referred to the Audit Program on Debt in Chapter 6 of this guideline.

3.5.5. Audit of Assets

The auditors should check that the auditee departments have maintained proper records of purchase and sale of assets, and that all rules and regulations are being followed in this regards. The auditors should also check that the auditee departments have maintained a Fixed

Asset Register which must reflect the current status of assets. Moreover, the auditors should observe that necessary steps have been taken by the departments for the safety of assets.

The New Accounting Model (NAM) provides for the accounting of assets. The auditor needs to understand the level of implementation of NAM and verify the fair and true presentation of those assets in accordance with the policy given in NAM.

3.5.6. Audit of Grants

Government entities receive budgetary grants from the Federal Government annually. AGPR maintains grant files for each grant in which all relevant record of the grant including reconciliation statements of all DDOs, supplementary grants and re-appropriations etc. are maintained. The auditor should review the following with respect to government grants;

a) Review availability of reconciliation statements of each DDO.
b) Check that appropriation account was approved by Accountant General.
c) Check authentication of appropriation accounts by the Principal Accounting Officers.
d) Review grant files to ensure that all relevant documents are available.
e) Check mathematical accuracy to ensure that there are no arithmetical errors.
f) Check that supplementary grant was approved by Deputy Financial Advisor.
g) Ensure that supplementary grant figure is disclosed in appropriation accounts properly.
h) Examine appropriation accounts and grant files to identify all expenditure not printed in the schedule of authorized expenditure.
i) Check recoveries against grants.

Chapter 4

PERMANENT FILE OF AUDITEE DEPARTMENTS

4.1 Introduction

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

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

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

The Permanent File includes information that will be of continuing importance to audit. This may include:

- Copies of relevant Government legislation, applicable financial rules, laws 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 and the most recent business plan or charter of the entity.
- Copies of the estimates.
- Copies of long-term contracts.
- Loan agreements, mortgages and debt instruments, schedules of amortization for debts and special assets.
- Previous years' audited Financial Statements.
- Previous auditors' reports to management and management's responses.
- Extracts of the minutes of meetings.
- Chart of accounts.
- Summary of accounting policies used by the auditee departments.
- Special remuneration, if any, for senior officers.
- Environmental laws and regulations

- Others as appropriate

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

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

4.2 The Audit Team's Responsibility

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

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

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

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

4.3 Documentation in Permanent File

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

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

- Significant Audit Areas (PF-IX)
- Significant Accounting Policies (PF-X)

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

4.4 Update Control Sheet – PF

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

4.5 Status of Entity – Form PF-I

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

4.6 Background Information – Form PF-II

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

The main functions of auditee departments generally are:

- Social and community services
- Foreign affairs
- Taxation
- Construction and maintenance of infrastructure
- Economic incentives, services and regulation
- Relations with other levels of government
- Financial administration (revenue collection, debt management, transfers)
- General administration

Note: Accounting/Financial information pertaining to the last three years should be documented along with the details of fund releases.

4.7 List of Auditable Locations – Form PF-III

The auditor should document the addresses of all locations including:

- The Principal Accounting Officer's address;

- Attached departments
- Project sites or other operational locations that collect, record, process and report financial information of auditee activities; and,
- Locations where assets are located and their existence can be checked by the auditor.

4.8 List of Bank Accounts – Form PF-IV

The auditor should list names, addresses and account numbers of all bank accounts maintained in the name of the Federal Government, its Ministries, agencies and other related organizations.
State Bank of Pakistan (SBP) is the banker of the Federal Government. SBP has 16 branches and National Bank of Pakistan (NBP) as an agent of SBP performs banking function for the Federal Government across Pakistan.
Government of Pakistan operates following bank accounts with SBP;

- Non-food account
- Food account
- Fertilizer account
- Saudi Arabia special loan account
- Government deposit account No. XII

Non-food account is the main account of the Federal Government and government receipts are deposited in this account and majority of payments are made from this account.

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

- Economic trends and conditions affecting input costs.
- Variation in budgets.
- Budget allocation
- Level of debt
- Timing of project completion and carry over into subsequent financial years.
- General financial indicators and trends.
- Pay rates and other terms and conditions of employment (affecting payroll)
- Physical targets and performance indicators

- Natural disasters or other unforeseeable events requiring relief expenditures
- Political conditions
- Environmental considerations
- Technological factors
- Social factors

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).

The major accounting records maintained by the auditee departments include:

- Cash Book
- List of Bank Accounts
- Cheque Book
- Vouchers/Bills
- Expenditure Statement
- Monthly Return
- Funds Releases
- Budget Releases
- Transfer Register
- Advance Register
- Expenditure Register
- Stock Register
- Vehicles Record
- Accounting Ledgers

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

Accounting Manuals and Codes

- General Financial Rules
- Federal Treasury Rules
- Fundamental Rules and Supplementary Rules
- Leave Rules
- Revised System of Financial Control and Budgeting
- Delegation of Financial Powers
- Esta Code

- Accounts Code
- Chart of Accounts
- Financial Reporting Manual
- Public Procurement Rules, 2004
- Use of Staff Car Rules, 1980
- Compendium of Pension Rules
- GP Fund Rules
- Accounting Policies and Procedures Manual - APPM

In addition to the above mentioned list, the following is the list of manuals and codes which are entity specific;

- Charter of the entity organization
- Rules of business
- Fiscal Responsibility and Debt Limitations Act, 2005
- All acts, ordinances and statutes applicable during Audit.

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).

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 at the departmental levels of each of the Ministries, departments, agencies and other related organizations of the Federal Government.

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 Controller General of Accounts (CGA).

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 Federal Government (in liaison with those auditors having responsibility for these audits). This will help the auditor to plan his/her audit for specific Financial Audit and related Compliance with Authority Audit objectives.

For certification audit, the most logical way of dividing up the Financial Statement is to consider each line item in the Financial Statements to be a separate component. The line item would be each amount reported in the Financial Statement, including the amount disclosed in the notes thereto.

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

1. **Income**
   a. Tax Receipts
   b. Non-Tax Revenue and Other Receipts
      i. General Administration Receipts
      ii. Economic Services Receipts
      iii. Defence Services Receipts
      iv. Development Surcharge and Royalties
      v. Citizenship, Nationalization, Passport and Copyright
      vi. Interest on Loans and Advances
      vii. Dividend and Profit Share
   c. Development Grants
   d. Borrowings
      i. Foreign Debt
      ii. Domestic Permanent Debt
      iii. Domestic Floating Debt

   e. Capital Receipts
      i. Privatization Proceeds
      ii. Recovery of Loans and Advances
      iii. Investment Recovery
2. **Expenditures/Costs**
   a. Salaries and Employee Benefits
   b. Operating Expenses
   c. Transfers
      i. Grants, Subsidies and Write-off of Loans
      ii. Other Transfer Payments

d. Expenditures on
   i. Physical Assets
   ii. Civil Works
   iii. Debt and Interest Payments
   iv. Principal Repayment of Debts
   v. Servicing of Debts
e. Other Payments
   i. Loans and Advances
   ii. Investments

3. Public Account

a. Receipt and Payment of
   i. National Saving Schemes
   ii. Deposits
   iii. State Provident Fund
   iv. Other Public Accounts

4.14 Significant Accounting Policies – Form PF-X

The auditor should list significant accounting policies that are consistently applied in the auditee department and should verify that these are consistent with the current policies implemented by the CGA. The auditor should specifically check on the extent of the application of NAM in the auditee entity.

Significant policies may include:

a. Revenue recognition
b. Recognition of expenditure
   i. Payments made through cheque
   ii. Inter government transfers
   iii. Payments directly in bank accounts
   iv. Direct payments by State Bank of Pakistan (SBP)
   v. Imprest payments
c. Foreign currency transactions
d. Employee benefits
   i. General Provident Fund
   ii. Pension
e. Investments
f. Public Debt
g. Payments by third parties

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

- Organization chart

- Accounting policies
- Chart of accounts
- Entity's business plan or charter
- Applicable financial rules, laws and regulations, and service rules
- Environmental laws and regulations
- Long term contracts and leases
- Loan agreements, mortgages and debt instruments
- Amortization schedules for major assets
- Extracts of minutes of meetings
- Previous years' audited financial statements
- Previous auditors' reports to management and management's responses
- Other 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.

A sample of the permanent file prepared for the National Electric Power Regulatory Authority (NEPRA) has been annexed as Appendix – A.

Chapter 5

AUDIT PLANNING PHASE

5.1 Introduction

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

Individual audits must be planned to ensure that:

- appropriate and sufficient evidence is obtained to support the auditor's opinion;
- the INTOSAI Auditing Standards are complied with; 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, please 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 FAM. 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 FAM.

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

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

The auditor must be honest in the assessment of internal controls operating in overall environment, general computer environment and specific computer based financial applications. If the controls are weak or non-existent, the auditor should inform the entity management of the need to make improvements and should also offer suggestions. In the first few years of transition to the new auditing paradigm, it is to be expected that the control environment will be weak in most entities. Identifying the weaknesses will be the starting point 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 allowance for bad and doubtful debts and contingent liabilities. The auditor should discuss with entity's management to identify these estimated amounts and record them on this form for subsequent validation when the audit is performed.

5.29 Points for Attention at Next Audit

During the course of preparation of Planning and subsequent Working Paper files, the auditor may come across items in the current year that should be followed up in the next year's audit. These may be accounting estimates that were contingent upon events that have not yet

happened or items that are expected to show up in the following year's accounts or other matters specific to the audit at hand.
Use this form to record these items so that they can be reviewed in next year's audit planning phase.

5.30 Audit Planning Checklist

This form presents a checklist of the major activities that should have been completed by the audit team leader to meet his responsibility for adequately planning audit and for documenting the basis of the plans. Chapter 8 of FAM provides detail regarding the auditor's planning responsibility.
This form is also a key component of the DAGP's quality assurance process, since it provides a vehicle for communicating the planning process to the DAGP management so they can review and approve that adequate planning was completed in respect of the audit.

5.31 Centrally Led Audit

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

An example of such an audit is the annual audit of the Financial Statements of the Federation Government. In total eight Directorate Generals Audits are involved in the audit of Federal Government in one way or another. Directorate General Audit (Federal Government) has the prime responsibility to form a consolidated opinion on the Financial Statements of the Federal Government. Further four self accounting entities are also included in the scope of Federal Audit are;

- Pakistan Mint
- Central Directorate of National Saving
- Food Account
- Geological Survey of Pakistan

Paras from 6.4.5 to 6.4.10 of FAM give guidance about a centrally led audit. The central team is responsible for:

- Setting the basic planning parameters (materiality, planned precision, audit risk, etc.);
- Setting inherent risk, control risk, other substantive procedures risk and substantive test of details risk for each component and each specific Financial Audit objective, Compliance with Authority Audit objective and error condition;

- Determining the optimum mix of tests of internal controls, analytical procedures and substantive tests of detail for each component and for each specific Financial Audit objective, related Compliance with Authority Audit objective and error condition;
- Performing the overall error evaluation; and
- Reporting the results of the audit.

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

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

Chapter 6
AUDIT EXECUTION PHASE

6.1 Introduction

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

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

The Audit Working Papers Kit provides:

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

6.2 The Audit Team's Responsibility in Execution Phase

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

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

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

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

a. Financial Statements
b. Trial balance
c. Civil Account

d. Appropriation Account
e. Any inter-governmental accounts for elimination.
f. Supporting documents (important agreements, bills, vouchers other documents that are important for the audit record)
g. In addition, the audit team should maintain detailed minutes of all the meetings with the auditee representatives, which should be placed in the Audit Working Papers file.

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

6.3 Forms and Schedules for Audit Execution Phase

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

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

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

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

6.4 Summary of Analytical Review Procedures Performed

This form is used to summarize the analytical procedures that were performed. The auditor should note the procedures that were performed and cross-refer each procedure to the

working paper that provides the details of the test (i.e. Details of Analytical Review Procedures Performed form)

6.5 Details of Analytical Review Procedures Performed

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

6.6 Completed Internal Control Questionnaires

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

The key ICQs to be considered for Federal audit are as follows:

- Employee related expenditure
- Goods and Services
- Receipts
- Investments
- Cash
- Major Assets
- Stores and Inventory
- Budgeting and Expenditure Controls
- Grant in Aid

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

6.7 Internal Control Deviations Form

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

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

6.8 Internal Control Deviations Summary

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

6.9 Compliance Summary

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

6.10 Substantive Tests of Accounting Estimates

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

6.11 Errors in Accounting Estimates

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

6.12 Substantive Test Sample Summary for each Audit Program

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 federal 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 complies with the following assertions[4]:

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

The key Audit Programmes for this purpose 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

[4]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.

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:

- Employee related expenses
- Goods and Services
- Investments
- Debt
- Project Audit
- Fixed Assets
- Grants-In-Aid and Contributions
- Accounts Compilation

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 – Employee Related Expenses

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. From the sample of transactions check that: employee is identified in Payroll Register; and that payment was made to correct payee. 2. Check attendance records to determine that employees in sample earned the amount due in pay. 3. Check that proper personal files of all the officers with all necessary particulars are being maintained. 4. Check Service Book maintained for Non Gazetted Officer and certified by DDO.		
Completeness 1. Compare list of employees paid against Establishment Register. 2. Check that proper particulars are entered in Audit Register for Gazetted Officer and in Scale Audit Register (AR) for Non Gazetted Officer. 3. Check that Office order or Establishment order for new appointment is issued by concerned head of department and amount is paid according to said order and entitlement in AR. 4. Select a sample of employees who recently retired / transferred out / otherwise left the office and check whether they received any payments after date of leaving (adjusting for timing of last payment). 5. Select a sample of employees recently joining the office and confirm that they were not paid before they commenced. 6. Conduct a reconciliation (and/or check a batch of transactions) between {Direct Credit Advice / Payroll Advice / DDO monthly statement} and Monthly Schedule of Employees' Salaries and General Ledger. 7. 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		

Audit Procedure	Done By:	WP Ref.
1. Check that acknowledgement of payment to employees is received from employees / Drawing and disbursement officer (DDO). 2. Check that DDO certified the payment to Non Gazetted Officer 3. Check that Payroll Officer prepares Monthly Schedule of Employees latest by 26 of each month and Approved by Supervising Payroll Officer. 4. Check that Delegated Officer (other than Payroll/ Supervising Payroll Officer) prepares Payroll Credit Invoice or Cheque and sign by at least 2 officers. 5. Check that relevant officer enters all the cheques payments in to Register and prepares Payroll Advice Note (PAN) for bank in case of Cheque payment and Payroll Credit Advice (PCA) for direct bank transfer. 6. 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. 7. For employees recently joining the office, the amount of the first payment was correct according to the start date and according to their Payroll Register. 8. For employees who recently left the office, 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. 9. Check that payroll payments are correctly identified in the Compilation Sheet 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. 10. For a sample of months, check that the total pay (gross, net and deductions) are correctly presented in the Compilation Sheet by making the necessary calculations.		
Regularity **Joiners:** 1. Check that the job was properly requisitioned by the relevant department and all process including advertisement was completed in a transparent manner in accordance with relevant rules and regulations. 2. Check that the salary and grade for the employee has been		

Audit Procedure	Done By:	WP Ref.
fixed according to the relevant HR rules and regulations. 3. Check that a Medical Certificate acknowledging the fitness of the employee has been issued by the Medical Officer **{FR-10}** 4. Check that the appointment letter of the employee has been signed by the relevant authority. 5. Check that the personal file of the employee contains the following; o Application and CV of the employee o ID Card o Experience Certificate (if any) o Appointment letter o Joining report o Medical certificate o Leave applications (if any) 6. In case the age of appointee is more than 60 years check that the appointment has been made in accordance to finance rules for appointment after superannuation age. **Promotions & Increments:** 1. Check that an Annual Performance Report is maintained by the Administration Department for the employee. 2. Check that the promotion of the employee has been approved by the relevant authority. 3. Check that the employee has received the annual increment as per the increment order, and his salary does not exceed the maximum basic scale limit. 4. Check that the first annual increment of existing employees in basic pay scales, in which their pay is fixed on 01-07-2007 shall accrue on 1st December of every year. **{Finance Division O.M. No. FD.PC-2-1/2007, dated 23rd July, 2007}** **Contract Renewal & Regularization:** 1. Check that the contract of the employee is renewed after the approval from the relevant authority. 2. Check that the contract employee has been made regular after the approval of the relevant authority. **Resignations& Terminations:** 1. Check that all resignations/terminations have been approved by the relevant authority after complying with all the		

Audit Procedure	Done By:	WP Ref.
rules and regulations applicable. 2. Check that the employee after the date of termination/resignation doesn't appear in the monthly salary sheet. **Adhoc Relief (Wage Type: 1831)** 1. Employees whose date of joining was 30-6-2005 should be paid adhoc relief allowance as per revised pay scale 2005. **{Para-6 of Finance Division Letter No. FD.PC.2-1/2005}** 2. Adhoc relief allowance shall continue to be admissible at frozen level on existing conditions. **{Finance Division O.M No. FD.PC-2-1/2007, dated July 23, 2007}** 3. Check that this allowance is also admissible to the appointment of Govt. servants from one post to another taking effect after 01-07-2005 provided they were previously in receipt of such benefits immediately before their appointment and such an allowance would also be made admissible to Govt. servants on extra ordinary leaves as soon as they resume duties, at the frozen level which would have been admissible to them had they not proceeded on EOL. **{Finance Division O.M. No.FD.PC-2-2/99, dated July, 21, 2007}** **Special Additional Allowance** 1. Special additional allowance after its discontinuation w.e.f 01-12-2001 was made admissible at frozen level in case of appointments by promotion/transfer / absorption taking place after its discontinuation. It was not allowed on or after 01-12-2001. This category of government employees included those who were appointed from one post to another during the said period despite the fact that they were in the receipt of benefit in their previous appointments. 2. Check that this allowance is also admissible to those Govt. servants who were entitled to and were in receipt of the benefits immediately before their appointment on or after 01-12-2001. However it is inadmissible to those fresh appointees who have not been entitled recipients immediately before such appointments. **{Finance Division O.M. No. FD.PC-2-2/99, dated July, 21, 2007}** **Special Allowance (Wage Type: 1550)**		

Audit Procedure	Done By:	WP Ref.
1. Check that this allowance has been discontinued by finance division with effect from December 04, 2001. 2. An increase @ 15 % on initial of the pay shall be allowed to the contractual appointees as special allowance who are in receipt of pay package slightly higher than the standard pay package prescribed under the contract appointment policy dated: 29-12-2004. **{Finance Division O.M No.FD.PC-2-1/2007, dated 23rd July, 2007}** **Special Relief Allowance** 1. Employees whose date of joining was 30-6-2005 should be paid special relief allowance (@ 15 % of basic pay per month to a civil servant in BPS-1 to 22 vide letter # No. FD.PC-2-1/2003) as per revised pay scale 2005. {**Para-6 of Finance Division O.M # FD.PC.2-1/2005}** 2. Special relief allowance shall continue to be admissible at frozen level on existing conditions. **{Finance Division O.M No. FD.PC-2-1/2007, dated July 23, 2007}** 3. Check that this allowance is also admissible to the appointment of Govt. servants from one post to another taking effect after 01-07-2005 provided they were previously in receipt of such benefits immediately before their appointment and such an allowance would also be made admissible to Govt. servants on extra ordinary leaves as soon as they resume duties, at the frozen level which would have been admissible to them had they not proceeded on EOL. **{Finance Division O.M. No. FD.PC-2-2/99, dated July, 21, 2007}** **Superannuation Age** 1. Superannuation pension is granted to a Government servant on completion of age. Check those Government officials who have attained the age of superannuation but are still in government job. **Dearness Allowance (Wage type: 1864)** 1. Check that the dearness allowance @ 15 % sanctioned w.e.f. 1.07.2006 shall stand frozen at the level of its admissibility as on 30.06.2007 and the amount shall continue to be admissible to the entitled recipients until further orders but it will not be admissible to new entrants joining Govt. service on or after		

Audit Procedure	Done By:	WP Ref.
01.07.2007. {**Finance Division O.M. No. FD.PC-2-1/2007, dated 23rd July, 2007}** **Entertainment Orderly and Senior Post Allowances (Wage type 1518)** 1. Check that these allowances have been paid to entitled officers only.		
Presentation and Disclosure 1. 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. 2. 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. 3. 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.		

6.18 Audit Programme - Goods and Services

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. Select a sample of transactions (as required for certification requirements / for purposes of testing controls / for additional substantive compliance testing) – if possible, this sample should focus on large transactions and a representative sample of the rest; and include a sample of transactions close to year end. 2. 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. **{Para 148 of**		

Audit Procedure	Done By:	WP Ref.
GFR- Vol-1} 3. Check payments for product/service entered into ledger for the financial year. **{Para 66 of GFR- Vol-1}** 4. Confirm that the payment was made to the correct payee by comparing information on cheque register with invoice and delivery information**. {Rule 205 of FTR Vol-1}** 5. Check also whether any "identical" transactions resulted from a practice of "order splitting", i.e. purchase orders split to avoid need for sanction from a higher authority. **{Rule 9 of PPR 2004}** 6. At least for large transactions and transactions close to year end, conduct physical check on existence of goods and services (if these are distant from site where conducting audit, may seek confirmation in writing from DDO or independent party). **{Para 159 of GFR Vol-I}** 7. Review suspense account for un-cleared/unclaimed payments or for inappropriate clearances. **{Rule 635 of FTR Vol-1}**		
Completeness 1. Reconcile total expenditures on goods and services with the amount recorded on the general ledger. **{Para 89 (viii) of GFR Vol-1}** 2. Check that all goods and services recorded as acquired in the year are charged against that year. **{Para 66 of GFR- Vol-1}** 3. Check for recently delivered goods and current service contracts that payments are recorded and/or monies allocated for payment (particularly important if the audit is conducted close to year end).		
Measurement 1. 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). 2. Check whether the individual items add up to the total given on the voucher / purchase order and the appropriate amounts of tax have been supplied. 3. Follow up on any short-fall / substitution / missing items / multiple deliveries to ensure that only what was received was paid for. 4. Check that the invoice and payment have applied proper prices / include any negotiated prices or other arrangements / reflect correct freight charges if applicable. 5. Check also that any payment advances have been properly		

Audit Procedure	Done By:	WP Ref.
reflected in the invoice and correspondingly deducted from payment. 6. Check arithmetical accuracy. **{Rule 183 FTR Vol-1}** 7. Check inclusion of applicable guarantees, service support. 8. 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. 9. Check in case of late delivery, whether any penalties apply under contract and if so, whether payment was adjusted accordingly.		
Regularity 1. For 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 has been made. **{Rule 12(1) of PPR 2004}** 2. For procurements between 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. **{Rule 12(1) of PPR 2004}** 3. For procurements between Rs. 25,000 up to Rs. 100,000, check whether requests for quotations are available. **{42 (b)(i) PPR 2004}** 4. Procurements up to Rs. 25,000 The procurement process should be conducted in a fair and transparent manner. **{42 (a) PPR 2004}** 5. Check that under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice. **{Rule 13(1) of PPR 2004}** 6. Also ensure that NTN and Sales Tax Reg. No. are present on quotations. 7. Ensure that the supplier is amongst the List of Approved Contractors/ Registered Suppliers. **{Rule 15 of PPR 2004}** 8. Ensure that approval of rates of the lowest bidder on Comparative Statement by the Board has been obtained. If purchase is not made from the lowest bidder, ensure reasons are specified. **{Rule 38 of PPR 2004}** 9. Acceptance letter issued to Contractor/ Approval on Quotation for other than contract supplies.		

Audit Procedure	Done By:	WP Ref.
10. Check that the Contract is in the prescribed format and is duly endorsed by both parties. 11. Ensure that LPO (Local Purchase Order) is raised in the name of the selected supplier based on Comparative Statement. 12. 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. 13. Where purchase is not made by the central store/ procuring unit, ensure that "Not Available Certificate" is obtained. 14. Convoy note (in case of Hiring of Mechanical Transport) is acknowledged by the receiving authority. 15. Supply order is in conformity with the Approved Quotation/ Contract. Further ensure that the details of supply order match with the LPO. 16. Ensure that the supply has been made within the delivery date mentioned on the LPO, so that no Liquidation Damages (LD) charges are applicable. 17. Contingent bill duly raised by the respective C.O. and is in line with the supplier's bill. 18. Contract number should be mentioned on the contingent bill, where applicable. 19. Compare rates specified in the bill with Contract/ Approved Quotation/ Comparative Statement, the LPO and the supplier's invoice. 20. Check rates of Income Tax and Sales Tax and ensure proper withholding & deposit in Government treasury. **{Income tax Ordinance, 2001 & Sales Tax Act, 1990}** 21. Cheques issued as per instructions from the suppliers, the particulars mentioned in the Contract and ensured that the budget limit was available. 22. Check that bill submitted for payment is for the current period and is not paid before. 23. Ensure that cheque is signed by designated officer.		
Transparency in tendering and engagement of consultancy services **<u>Engagement of consultants</u>** Check that: 1. Consultants were selected after advertisement in the press. 2. Criteria for pre-qualification were clearly defined. 3. Both technical and financial proposal were evaluated. 4. Selection was made on merit. 5. Consultants were appointed as per approved policy and guideline issued by the Govt. {**Rules 8, 12 & 15 of** P**PR 2004}**		

Audit Procedure	Done By:	WP Ref.
Engagement of contractor Check that: 1. Enlistment/renewal of contractors with the department. 2. Notification for pre-qualification of contractors advertised in the press. 3. Criteria for selection of contractors were followed. 4. Sufficient time was given to contractors for submission of documents for pre-qualification. **{Code of the relevant department}** **Tendering** Check that: 1. Tender was advertised in accordance with the policy of the government. 2. Bids were invited/received from pre-qualified bidders. 3. Bids were evaluated and accepted within validity period. 4. Bid security was obtained. 5. Tenders were opened in the presence of bidders. 6. Tender sale and tender open register maintenance. 7. Compare the content of tender with the estimates. 8. Tender documents were prepared clear, accurate and without any ambiguity. 9. Cost of administratively and technically sanctioned was recorded in the tender register. 10. Criteria of pre-bid meetings/amendments. 11. Compare bidding applications and tender register to ensure the accuracy of particulars (e.g rates, quantity etc) quoted by the applicant and rates quoted by the contractor were provided in figure and words. 12. There were no interpolations and corrections were made to the tender and all the changes should be approved by the competent authority. 13. Comparative statement of all the bidders was prepared in the tender register. 14. The basis on which bidding applications were accepted or rejected. 15. The arithmetic accuracy of the calculations made in the tender and estimates. 16. Acceptance letters were issued to the successful bidders within bid validity period.		

Audit Procedure	Done By:	WP Ref.
17. Award of work without open tendering or on the basis of single tender as per codal rules. **{Rule 20 to 27 of PPR-2004}** **{Relevant contract agreements}**		
Presentation and Disclosure 1. Check that purchase payments are correctly identified in the General Ledger under the correct Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes. 2. Check whether the manager(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. 3. Check whether the manager(s) reconcile the information in the accounting report with the purchases for the period reported.		

6.19 Audit Programme - Investments

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

Audit procedure	Done by	WP Ref.
Approval of investment decision 1. Acquire the investment agreement and minutes of meetings of investment committee (investment targets are fixed). 2. Check that risk factors are kept in view while making investment (assess through professional judgment). 3. Check that investments are made according to the terms and conditions of the agreement and under the approval of investment committee or board of directors where applicable.		
Implementation of government instructions 1. Check that the bank/financial institution where money is deposited is holding a minimum ranking of "A" according to the rating awarded by the standard rating agencies on the panel of State Bank of Pakistan (Pakistan Credit Rating Agency, JCR-VIS credit rating company, Moody's Fitch's and standard and Poor's rating). 2. Prior to placing deposits with bank and in case of working balance		

Audit procedure	Done by	WP Ref.
exceeding 10 million, check that the bank selection has been made on the basis of competitive bids from at least three independent banks. 3. In case of working balance exceeding 10 million, check that not more than 50 % of such balance has been deposited with one bank. 4. In case, bank rating drops below "A" check that the new deposits and old deposits have been shifted to a bank with at least "A" rating with in one month and two month respectively. 5. Check that the working balance limit of each organization has been determined with the approval of the administrative ministry in consultation with finance division. 6. For Investment in Non Government securities, check that the investment of surplus funds in the non government securities/TFCs/Shares does not exceed 20% of the total funds under management. 7. Check the non-government investment instruments meet the eligibility criteria* as annexed. **Finance Division, Budget Wing O.M No. F.4(1)/2002-BR.II, dated 2-07-2003.** **Finance Division, Budget Wing O.M No. F.4(1)/2002-BR.II, dated 6-09-2005.** **Finance Division, Budget Wing O.M No. F.4(1)/2002-BR.II-460, dated 22-07-2005**		
Physical verification of investment instruments 1. Check that the physical verification of investment instruments is carried out. 2. Check that all investment instruments are serially numbered.		
Recording investments in the accounting record 1. Check that all investments have been properly recorded in the books of accounts. Compare the investment schedule with the ledger and bank records. 2. Explain movements and investigate any unexpected or unusual relationship between current period and prior period accounts. 3. Compare investment held at year end with prior year and budgeted amounts and enquire the variances. 4. Check that income from investment has been accounted for correctly. Perform recalculation of income on investment. 5. Check that the investment has been properly classified.		

Audit procedure	Done by	WP Ref.
Approval of disinvestment decision 1. Check that the encashment of investment instruments is made on favourable rates under the approval of proper authority and in accordance with the withdrawal policy. See the minutes of meeting in which disinvestment decision was taken. 2. Verify receipt of principal and interest income on the investments matured during the period.		

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

1. Non government debt instruments should have a major rating category of "A" and above.
2. Public listed shares/units should have a total return comprising the dividend paid and appreciation in value, which exceeds the average six months treasury bill rate for the last three years, the formula for the calculation of the total return would be provided by the Securities and Exchange Commission of Pakistan from time to time.
3. Initial public offering (IPO) of shares of existing companies should have a track record of three year profitability at least equal to the average of twenty best performing companies on Karachi Stock Exchange.
4. Total investment in debt instrument of a company not to exceed 10% of size of the issue or 10% of the total size of funds managed by the public sector entity, whichever is lower.
5. Total investment in the shares of a company not to exceed 5% of the paid up capital of that company or 5% of the total funds managed by the public sector entity, whichever is lower; and
6. Investment in shares of Greenfield projects/companies will not be eligible.

6.20 Audit Programme - Debt

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. From the debt register of foreign debt (obtained from EAD), select large debt obligations. 2. Similarly, from the schedule of domestic borrowing (obtained from Finance Division, Internal Finance Wing) select large debt		

Audit Procedure	Done By:	WP Ref.
obligations. 3. Obtain the corresponding documents (original agreements and all amendments) for these debt obligations. 4. Alternatively, or additionally, select loan payments from ledger and trace back to debt obligations. 5. Inspect supporting documents for subsequent realization or settlement after the end of the reporting time period.		
Completeness 1. On the basis of a sample, or complete examination, check items for receipts and payments in a sample of Monthly Debt Reports and confirm items in Liabilities Ledger. 2. Send balance confirmations to public debt lenders. 3. Review accounting records before and after the year end for unusual transactions. 4. Perform calculation for recognition of public debt expenditure. 5. Check that reconciliation statements are being prepared for debt outstanding balance in Debt Management and Financial Analysis System (DMFAS) record (for foreign debt) and that these are also reconciled with AGPR. 6. Obtain loan wise reconciliation as per loan register of DMFAS and ensure that it is reconciled with AGPR.		
Measurement 1. Determine the outstanding balances against each at close of financial year – obtain previous year's balances and check that change in figures correspond to aggregated contribution to principal over the year (checking against amortization tables showing principal and interest components of payments). 2. Also check opening balance this year with closing balance last year. 3. Seek confirmation of balances from lending institutions and match replies with the amounts shown in the schedules. 4. Check that loan payments are consistent with the agreements (and/or amendments to the agreements). 5. Where there are variable interest rates, check that the interest rates are consistent with the agreement and that the payments are correct. 6. Check and verify basis of currency conversions and confirm correctly applied to calculations of payments, receipts and closing balances of foreign loans.		

Audit Procedure	Done By:	WP Ref.
7. Ascertain commitment charges if any and their proper recording. 8. Ensure that the commitment charges are bifurcated with respect to normal undisbursed loan balances and project delays. 9. Identify any payments of penalties (for late payment or other reason) and determine if consistent with agreement clauses (applicable and/or correctly calculated).		
Regularity 1. Examine if debt conforms to **Article 166 of Constitution** and within limits prescribed by Legislation. 2. Check that debt limitations are being complied with **Section 3(b) of Fiscal Responsibility and Debt Limitation Act, 2005.** Where the total public debt for the year does not exceed 60% of GDP from the year upto June 2013 and be maintained below 60% of GDP for any given year in the future. 3. Check that in every financial year, beginning from first July 2003 and ending 30 June 2013, the total public debt is reduced by not less than 2.5% of the estimated GDP for any given year. **Section 3(c) of Fiscal Responsibility and Debt Limitation Act, 2005**		
Presentation and Disclosure 1. Check that debt has been properly entered into General Ledger according to correct classification under Chart of Accounts. 2. Examine reporting and check against data in General Ledger and Liabilities Ledger. 3. Review the classification of public debt instruments to ensure it is in agreement with the legislation, regulations and practices. 4. Verify that accounting principles applied are in conformity with legislation, regulations and applicable accounting standards.		
Payment of Penalties 1. Check for any penalty payments (such as, for example: a) Late payment of instalment payments; and b) Early re-payment of debts 2. Examine whether these were: a) Valid payments according to the terms of the agreement; b) Correctly calculated; c) Properly authorized; and d) Where appropriate, fully reported to senior management		

Audit Procedure	Done By:	WP Ref.
with applicable explanation. 3. Determine reasons for penalty payments and whether any of these could have been avoided 4. Conclude whether there were any inappropriate conditions in the agreements that caused unnecessary or excessive penalties.		

6.21 Audit Programme - Project Audit

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. For a sample of projects expenditure transactions, check whether payments of bills/invoices are promptly and correctly entered into accounting records. 2. 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. 3. For a sample of expenditure records in the General Ledger and/or project accounts, check that these were correctly charged to the project.		
Completeness 1. 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. 2. 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 1. 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. 2. 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.		
Regularity 1. Confirm that for the sample of projects examined, a project		

Audit Procedure	Done By:	WP Ref.
manager was appointed for each project, and given delegated financial powers as laid down in the **"Delegation of Financial Powers" issued by Ministry of Finance".** 2. Check that project payments have been properly authorised, 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. 3. 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. 4. Check that no expenditures were made against the project for any indirect costs, such as interest, depreciation, or administrative overheads unless specifically provided for under the project budget (as directed under Para 10.3.3.4 of the Accounting Policies and Procedures Manual. 5. Check the compliance of Govt. Instructions regarding appointment of consultants and consultancy firms have been observed or not.		
Presentation and Disclosure 1. 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 General Ledger against the project and no payments are made against the project that are not a valid expense against the project. 2. Review project reports and check on a sample basis that items in the report correspond to the records in the General Ledger (this is more critical if the report is not a computer generated report).		
Appropriate approvals and project controls in place before any commitments, or actions, can be taken on a project 1. Check whether the appropriate project approvals and project controls were in place before any commitments were made to proceed. 2. In particular, ensure that the funds had been allocated to the project before any contractual arrangements were entered into 3. Check that there have been no payments prior to date contract		

Audit Procedure	Done By:	WP Ref.
signed.		
Design Assessment (PC-I Review) 1. Is the proposed method the best one for the intended objective? 2. Are key assumptions of project design valid? 3. Is the question of sustainability addressed in the PC-1?		
Progress Assessment 1. Is it likely to be completed on scheduled time? Compare sequence of ongoing activities with the sequence and timing of such activities given in the PC-1 and assess the extent, causes and impact on project outcome of such deviations. Also examine opportunity cost of delay in terms of benefits lost. 2. Is it likely to be completed within budget? Examine timing and amounts of releases vis-à-vis budgetary allocation, project management capacity in utilization of releases (% of releases made use of in any given year), and impact of pattern of releases/utilization capacity on project outcome.		
Assessment against the principles of Economy Efficiency and Effectiveness (3Es) ***Economy:*** Procurement of inputs at minimum cost. 1. Has project management avoided waste in procuring inputs? Focus on timing, volume, and requirement of inputs vis-à-vis project implementation requirement. ***Efficiency:*** Conversion of project inputs into outputs. 1. Is conversion of inputs into outputs optimal? Has duplication been avoided? Have potential synergies been exploited in converting inputs into outputs? ***Effectiveness:*** How project outputs contribute toward project outcome and subsequently planned impact in the long run. 1. Assess effectiveness from the angles of adequacy, accessibility, timeliness, and coverage vis-à-vis project design.		
Where required, an appropriate environmental assessment relating to the proposed project 1. For those projects in the sample selected, check whether an environmental assessment is/was required **Section 12 of**		

Audit Procedure	Done By:	WP Ref.
Environmental Protection Act, 1997. 2. Where an environmental assessment is required, check whether one was done (or is being done). 3. 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. 4. Note whether actions on the project complied with the conclusions and recommendations of the environmental assessment issued by Pakistan Environmental Protection Agency.		
Decisions to proceed based on appropriate and adequate information 1. For those projects in the sample selected, check whether decisions relating to the project were made with supporting analysis and information available i.e reliable estimates of cost, requirements specified and risks identified and assessed. 2. Where possible, conclude on the adequacy of the analysis {to do this may require expert opinion to guide the auditor} 3. 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 1. 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). 2. For those projects in the sample selected, check whether there are situations where a contingency plan would be appropriate (or required under policy). 3. 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.		
All prerequisites met before commitments made / or contracts entered into 1. For a sample of projects, check whether the appropriate activities have been successfully completed before entering the		

Audit Procedure	Done By:	WP Ref.
next stage of the project. 2. In particular, ensure that commitments to proceed have not been made until all substantial requirements have been completed at the previous stage. 3. 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 1. 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. 2. 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. 3. 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		
Appropriate monitoring and reporting of progress 1. 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) 2. Determine whether there are regular project reports (quarter and annual) containing information on the following; 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. **{PC-III & PC-V}** 3. 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		

Audit Procedure	Done By:	WP Ref.
1. If any of the projects in the sample encountered problems or setbacks, examine what issues had to be resolved. 2. Conduct an analysis of what corrective actions had been identified as necessary. 3. Document what actions were taken and conclude whether: a) these were taken in a timely manner b) at a reasonable additional cost (compared to action plan if available), and c) impacted on the success of the project		
Testing conducted to ensure all components are in operational condition 1. 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. 2. Was a commissioning report (or report on satisfactory completion of the project) produced **{PC-IV}.** 3. Did this report, or other communications indicate examples of deficiencies (or unsatisfactory performance).		

6.22 Audit Programme – Fixed Assets

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

Audit Procedure	Done By:	WP Ref.
Existence 1. Check that the department has maintained fixed asset register in accordance with the provision **of APPM {Form 13A}.** 2. For a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. 3. For the sample of assets, check that they are correctly identified in the Fixed Assets Register under the correct Object and correctly coded according to the Chart of Accounts by checking for the		

Audit Procedure	Done By:	WP Ref.
sample of transactions that the payments have been correctly coded according to the **Chart of Accounts**. 4. Check that all the additions (purchase / transfer in) and deletions (sale of fixed assets have been properly incorporated in Fixed Asset Register. **{Para 154 to 163 of GFR Vol-1}**		
Completeness 1. Check for a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information.**{Rule 159 of GFR Vol-1}** 2. Check from physical inspection of a sample of assets on site that they are entered into the Register and that the information about them is accurate. **{Rule 160 of GFR Vol-1}** 3. Check for a sample of expenditures that they have been recorded correctly in the Fixed Assets Register and that they are on site, according to location and that they are operational and being used. **{Rule 148 of GFR Vol-1}** 4. For any items still in storage, or non-commissioned, determine their reasons for non-functional state. **{Rule 162 of GFR Vol-1}** 5. For any assets not delivered, determine why payment was made before delivery. **{Rule 11 & 12 of GFR Vol-1}**		
Measurement ***<u>Purchases</u>*** Check for a sample of additions that: 1. Budget was approved for the particular purchase. **{Rule 11 & 12 of GFR Vol-1}** 2. Purchase Indent is approved by the competent authority. 3. Tendering process was done in accordance with **{Rule 20 to 27 of PPR 2004}.** 4. Purchase Order generated in favor of selected/approved supplier. 5. For the sample of purchased items during period audited, check that the cost listed in the Fixed Assets Register is the same as the purchase price (including cost of installation & commissioning) and check against supporting documentation. ***<u>Transfer in</u>*** 1. For items transferred in, check whether any transfer payments were made and if so whether for an appropriate amount. 2. Ensue that any donation/gift of fixed asset received, met the		

Audit Procedure	Done By:	WP Ref.
requirements of the {**Accounting Policies and Procedures Manual- APPM [13.4.3 - Donations/gifts of fixed assets]}.** ***Subsequent Capitalization*** 1. Review any expenditure on improvements to assets and check that these have been identified as capital expenditures. ***Disposal*** Check for a sample of fixed assets disposal that: 1. Whether proper authority was obtained to dispose of the asset. 2. That an appropriate price was obtained (either by a competitive bid process or by benchmarking the value of the asset before determining the price). 3. Where possible, compare prices obtained for similar assets and investigate any assets apparently sold below value. 4. For any revenue, check that this was properly recorded in the General Ledger, or other account. **{Para 166-168 of GFR Vol-1}** ***Transfer out*** 1. For items transferred out, check whether any transfer receipts were obtained and if so whether for an appropriate amount. 2. Check the accumulated depreciation of the assets transferred out has been excluded from the accounts. 3. Check that any income earned on the transfer out of fixed assets was correctly recorded. 4. Confirm that assets were received by the organizations to which they were transferred. **{Para 150 & 166-168 of GFR Vol-1}**		
Land Acquisition 1. Check that acquisition of land was made after proper evaluation and award under the rules. 2. Land acquired was in public interest within the ROW of road / building. 3. Land award announced within one year in ordinary case and within six month in emergency case (U/S 17.4(6) and responsibility fixed for extra cost caused due to delay regarding revised land rate or interest beyond six month as per **Clause 7 of Land Acquisition Rules 1982**. 4. Check that name of land owner, actual acquired area, rates applied for land or other item in land award. 5. Check that mutation of land acquired in the name of Govt. done.		

Audit Procedure	Done By:	WP Ref.
6. Check that proper account of PLA (Assignment Account) is available for advance obtained in each case for land acquisition. Reconciliation made. Vouched account issue to concern besides refund of unspent balance. 7. Check that PLA pass book and voucher slips for each account was available. **{Land Acquisition Act 1894 Chapter-Section-4, 5, 6, 10, 11, 16, 17 & 23}**		
Ownership of Fixed Assets 1. For assets examined, check, where appropriate, that the government has clear ownership and title to the asset. {This check is more likely to be important for any used items acquired (equipment, buildings, etc.) or for any construction on lands where the government may not have clear ownership of the land – particularly in the case of new road construction. **{Para 148 of GFR Vol-1}**		
Presentation and Disclosure 1. Through analytical procedures, and by examining changes from previous years audited statements, check that the financial statements are consistent with the information on the Fixed Assets Register and entries in the General Ledger. 2. Check that fixed assets are correctly identified in the Fixed Assets Register under the correct Object and correctly coded according to the Chart of Accounts. 3. Check whether reconciliation is being prepared that reconciles the changes in the Fixed Assets Register with the acquisitions and disposals of assets for the period reported within the General Ledger and that these are correctly presented and disclosed in the Financial Statements.		

6.23 Audit Programme - Grants-in-Aid and Contributions

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. Select a sample of transactions and check that the sanction necessary of grant in-aid exists. **{Para 206 of GFR Vol-1}**		

Audit Procedure	Done By:	WP Ref.
2. Check that every order sanctioning a grant specifies clearly the object for which it is given and the conditions, if any, attached to the grant. **{Para 207(1) of GFR Vol-1}** 3. In the case of non-recurring grants or specified objects, the order should also specify the time limit within which the grant or each instalment of it is to be spent. **{Para 207(1) of GFR Vol-1}** 4. Check payments of grant / contribution entered into ledger for correct year. 5. Confirm that the payment was made to correct payee by comparing information on cheque register with details on grant / contribution information. 6. At least for large transactions and transactions close to year end, may decide to contact recipient of grant / contribution to obtain confirmation that the monies were spent on what was agreed to (if these are distant from site where conducting audit, may seek confirmation in writing from DDO or independent party).		
Completeness 1. Ensure that in cases in which conditions are attached to the utilisation of a giant in the form of specification of particular objects of expenditure or he time within which the money must be spent, or otherwise, the departmental officer on whose signature or counter signature the grant-in-aid bill was drawn should be primarily responsible for certifying to the Accountant-General, where necessary, the fulfilment of the conditions attaching to the grant, unless there is any special rule or order to the contrary. **{Para 208 of GFR Vol-1}** 2. Reconcile total expenditures on grants / contributions with the amount recorded in the Appropriation Account for that year.**{Para 89(viii) of GFR Vol-1}**		
Measurement 1. Check that before a grant is paid to any public body or institution, the sanctioning authority should as far as possible insist on obtaining an audited statement of the account of the body or institution concerned in order to see that the grant-in-aid is justified by the financial position of the grantee and to ensure that any previous grant was spent for the purpose for which it was intended. **{Rule 207(3) of GFR Vol-1}** 2. For a sample of contributions, check those payments under the agreement were fully supported by proper documentation. 3. Check that the calculations supporting payments under a contributions program were accurate and included only allowable expenses under the agreement. 4. Check that any portion of the amount which is not ultimately required for expenditure upon that object should be duly surrendered to Government. **{Para 209(ii) of GFR Vol-1}**		

Audit Procedure	Done By:	WP Ref.
5. Check for any duplicate payments.		
Regularity 1. Ensure that there has been proper authority to enter into the process of supplying the grants / contributions and that size of the grants / contributions is within the authority limit of the authorizing officer. 2. Check that the expenditure is consistent with the nature of the appropriation to which it was charged - check for each in the sample, whether the particular grant / contribution is a correct expenditure against the budget.		
Grants-in-aid and contributions are administered properly 1. Review the procedures used for administering the program, including: a) Information about the program b) Application forms c) Criteria for qualifying / selecting d) Review committee (or other decision making body) e) Authorization of awarding grant / contribution f) Documentation of rejection / letter of rejection g) Documents for making offer: conditions of funding (agreement / letter of offer) h) Acceptance by recipient of conditions of funding i) Basis of providing funds j) Authorization of payments k) Reporting requirement (by recipient) 2. Assessment of procedures as to whether they provide adequate controls over the program.		
Presentation and Disclosure 1. Check that the grants / contribution payments are correctly identified in the General Ledger under the correct Object and correctly coded according to the Chart of Accounts. 2. Check whether reconciliation is being prepared that reconciles the information in the accounting report with the grants / contributions payments made for the period reported and that these are correctly presented and disclosed in the Financial Statements.		

6.24 Audit Programme - Accounts Compilation

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

Audit procedure	Done by	WP Ref.

Audit procedure	Done by	WP Ref.
Preparation of Budget and its approval 1. Check the budget preparation is in accordance with codal provision and approved by the competent authority. 2. Check the actual budget allocation towards the expenditures / revenues. 3. Check the budget appropriations and re-appropriations towards the actual expenditures. **{Para 66 to 82 of GFR Vol-1}**		
Preparation of Financial Statements 1. Check that the components of Financial Statements were prepared in accordance with the applicable laws and accounting standards. 2. Check the existence of assets/liabilities in the accounts. 3. Check the aging of accounts receivable and identify any major outstanding balances. 4. Check appropriate action has been taken to recover long outstanding balances. 5. Check that bad debts have been recorded for long outstanding balances. 6. Check the financial statements were audited by the commercial auditors. ***Operation of bank accounts*** 1. Check the Govt. policies towards operation of bank accounts. 2. Calculate the financial impact of non-compliance with the Govt. polices and check that appropriate action has been taken against the responsible persons. 3. Check that, monthly bank reconciliation statement was prepared and differences were identified.		
Accounting for foreign currency transactions and interest payments 1. Check that the payments of foreign currency are in accordance with the provisions of loan agreement. 2. Check that the foreign currency transactions are recorded in accordance with the applicable accounting policies. 3. Check that the interest calculation and payment are according to the terms and conditions of loan agreement.		
Accounts prepared on prescribed Performa 1. Check that the monthly accounts were prepared on the prescribed format and Performa's. 2. Check the Financial Statements are prepared according to FRM of NAM and in accordance with IPSAS Cash Basis. 3. Check that expenditure was properly classified and booked to its relevant head of account. 4. Check that all transfer entries were incorporated in the Financial		

Audit procedure	Done by	WP Ref.
Statements. 5. Ensure that the disclosure requirements of FRM and IPSAS Cash Basis are complied with. **{Article 282-288 of Account Code Volume-III}** **{Financial Reporting Manual}** **{IPSAS Cash Basis of Accounting}**		
Cash Book 1. Check that no page was missing. 2. Check that page count certificate properly recorded by the Accounts Officer. 3. Check that all cheques were entered in the cash book. 4. Check that all receipts entered in the cash book. 5. No fluid / eraser were used. 6. Check that no page of cash book was left blank. 7. Check that cash book was closed at the end of month. 8. Check that calculations/totals were correct 9. Check that closing balance was correctly brought forward. **{Article 80-85 of Account Code Volume-III}**		
Cheque Books 1. Check that no cheque was missing. 2. Check that all cheques were serial numbered. 3. Check that counterfoils were intact. 4. Check that amount of counterfoils tallies with the amount entered in the cash book. 5. Check that all cancelled cheques were available. 6. Check that entries for cancelled/lost/expired cheque made on counterfoil.		
Sub-Cash Book 1. Check all bills drawn on DDO like pay and allowances, TA/DA, contingencies, GPF Advances / Final payment, Motor Car/Cycle Advance, Cycle Advance etc. entered on receipt side of cash book. 2. Against the bills drawn payment to official concerned properly entered on payment side. 3. Unpaid amount deposited into treasury / short drawn. 4. Entries in cash book was correct according to monthly payment schedule issued by DDO. 5. Cash Book closed monthly and signed by DDO. **{Article 80-85 of Account Code Volume-III}**		

Chapter 7

AUDIT EVALUATION AND REPORTING PHASE

7.1 Introduction

There are two audit phases covered in this section namely, Evaluation of Audit Findings/Results and 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 observations should be fully supported by reliable and sufficient evidence.

7.2 The Audit Team's Responsibility

It is the duty of the auditor to complete audit in the light of audit objectives and arrive at reliable conclusions for the purpose of audit. In addition, the auditor needs to identify any weaknesses in internal controls, any errors and/or irregularities, and potential risks or exposures of the 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 Papers 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 the auditors' understanding of the reporting process, the Reporting Cycle of the DG Audit (Federal Government) is given below.

Reporting Cycle of Compliance with Authority Audit

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

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

Development of Draft Audit Report (DAR)

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

Departmental Accounts Committee (DAC) meeting

i) Paras and their replies are discussed with the respective PAO.
ii) Minutes are prepared and signed.
iii) DAR is updated based on the DAC minutes.
iv) Further Audit comments are incorporated in the end as a final recommendation of the Audit Para.
v) Final Audit Report is prepared PAO wise and is sent to the AGP office for Quality Assurance Review.

Quality assurance review at DAGP

i) Quality assurance is carried out using DAGP's quality assurance framework.
ii) The framework ensures that the work is performed as efficiently and effectively as possible and complies with INTOSAI Auditing Standards.

Audit report issued to President

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

Pre-PAC meeting with the 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) The Director General Audit –Federal Government, on behalf of the AGP supports the PAC for appropriate action against the paras included in the Audit Report.
ii) The PAC accordingly disposes of the audit paras by giving necessary directives to the executives/PAOs.

7.3 Documentation in Evaluation and Reporting Phase

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

- Internal Control Weaknesses – Impact Analysis *
- Analytical Procedure Thresholds
- Evaluation of Analytical Procedures *

- Evaluation of Internal Control Deviations *
- Substantive Tests Evaluation – Projectable Errors from Sample
- Substantive Tests Evaluation – Non-Projectable Errors
- Substantive Tests Evaluation – Summary
- Achieved Level of Assurance Form
- Error in Each Component
- Overall Error in Financial Statements
- Compliance-With-Authority Violations *
- Checklist of Management Representation Letter
- Sample Management Representation Letter
- Audit Completion Checklist *
- Memorandum Supporting Signature
- Auditor's Opinion
- Follow-up Continuity Schedule *
- Quality Assurance Checklist *

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

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

7.4 Internal Control Weaknesses – Impact Analysis

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

7.5 Analytical Procedure Thresholds

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

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

7.6 Evaluation of Analytical Procedures

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

If the difference exceeds the threshold value, the auditor will obtain an explanation from entity management which will be recorded on the form together with the auditor's comments. The auditor will decide whether the explanation of the difference is acceptable. If the difference warrants a re-assessment of audit risk, reduced reliance on analytical procedures or an increase in substantive tests of details, the auditor's decision is recorded on this form.

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

7.7 Evaluation of Internal Control Deviations

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

7.8 Substantive Tests Evaluation – Projectable Errors From Sample

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

7.9 Substantive Tests Evaluation – Non-Projectable Errors

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

7.10 Substantive Tests Evaluation – Summary

The auditor uses this form to calculate the figures of most likely error (MLE) and upper error limit (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 Disclaimer of opinion 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 Disclaimer of opinion 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.

Chapter 8

KEY TASKS AND RESPONSIBILITIES

8.1 Introduction

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

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

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

8.2 Assigning Roles and Responsibilities

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

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

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

For High Profile Audits and studies of public significance, the DG may like to raise the level of the audit team by substituting Audit Officers/Assistant Director with Deputy Directors and Directors. The roles and responsibilities which are specified in this section pertain only to the Audit Cycle. For other functions like clerical record keeping, administration, budgeting etc, the existing job descriptions available in the FAO should be used for defining the key tasks in each area.

8.3 Key Tasks and Responsibilities: Permanent File

Guideline Reference	TASKS	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	**P**	**R**		

	auditee.				
	Development of a brief description of the accounting system used by the auditee.		**P**	**R**	
4.12	Listing Key Contacts.	**P**	**S-R**		
4.13	Listing Significant Audit Areas.		**P**	**S-R**	**A**
	Updating determination of components.		**P**	**R**	
4.14	Listing Significant Accounting Policies.		**P**	**R**	
	Update and review of Significant Accounting policies.		**P**	**R**	
	Review and Sign Off of all the forms within the Permanent File.			**R**	**A**

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

8.4 Key Tasks and Responsibilities: Audit Planning Phase

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.4	Determining Audit objectives and scope.				P
5.5	Listing/ Updating Points for attention at next audit.	P	S	R	
5.6	Preparing/Issuing Entity communication letter.		P	R	A
5.7	Preparing Audit planning memorandum.		P	R	
5.8	Revising Memorandum on post-planning changes.		P	R	

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
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
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	

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.27	Calculating Sample size for substantive tests of details.		P	R	
5.28	Documenting Checklist of accounting estimates to be reviewed.		P	R	
5.29	Recording Points for attention at next audit.	P	S	R	
5.30	Documenting Audit planning checklist.		P	R	A

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

8.5 Key Tasks and Responsibilities: Audit Execution Phase

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
6.4	Documenting Summary of Analytical Review Procedures Performed.		P	R	
6.5	Documenting Details of Analytical Review Procedures Performed.	P	S	R	
6.6	Documenting Internal Control Questionnaires.		P	R	
6.7	Documenting Internal Control Deviations Form.		P	R	
6.8	Preparing Internal Control Deviations Summary.		P	R	
6.9	Preparing Compliance Summary.		P	R	
6.10	Documenting Substantive Tests of Accounting Estimates.		P	R	
6.11	Identifying and listing Errors in Accounting Estimates.		P	R	
6.12	Documenting Substantive Test Sample Summary for each Audit Program.	P	S	R	
6.13	Preparing Substantive Test of High Value/Key Items – Summary.		P	R	

6.14	Documenting Details of Errors in Samples, High Value Items and Key Items.		P	R	
6.15	Conducting Exit Interviews.		P	S	
6.16	Updation of Audit Steps given in the Audit Programmes, if needed.		P	R	S
6.16	Execution of Audit Steps as per the Audit Program	P	P-S	S-R	
	Ascertaining Execution of relevant Audit Programs		P	P-S	S

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

8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
7.4	Documenting Internal Control Weaknesses – Impact Analysis.			P	R
7.5	Calculating Analytical Procedure Thresholds.		P	R	S
7.6	Documenting Evaluation of Analytical Procedures.			P	R
7.7	Evaluating Internal Control Deviations.			P	R
7.8	Conducting Substantive Tests Evaluation – Projectable Errors from Sample.		P	S	R
7.9	Documenting Substantive Tests Evaluation – Non-Projectable Errors.		P	S-R	
7.10	Calculating Substantive Tests Evaluation – Summary.		P	S-R	
7.11	Documenting Achieved Level of Assurance Form.			P	R
7.12	Evaluating Error in Each Component.		P	R	S
7.13	Summarizing and preparing Overall Error in Financial Statements.		P	R	S

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
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		P	R-S	

Guideline Reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
	phase" list.				
	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.



APPENDIX-A

AUDITOR-GENERAL OF PAKISTAN **Appendix-A**
PERMANENT FILE
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-III		List of Auditable Locations		
PF-IV		List of Bank Accounts		
PF-V		List of Authorised Signatories		
PF-VI		External Factors		
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 leases Loan agreements, mortgages, debt instruments Amortization schedules of major assets		

AUDITOR-GENERAL OF PAKISTAN **Form - PF**
PERMANENT FILE

UPDATE CONTROL SHEET

Name of Entity/Organization: National Electric Power Regulatory Authority (NEPRA)

Original file prepared by: Mr. Ghulam Mehdi , Audit Officer
Date: 18-06-2009

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

Understanding of Entity's Business – Status of Entity

Name of Entity/Organization:**National Electric Power Regulatory Authority (NEPRA)**

Principal Address:

The main Office of the National Electric Power Regulatory Authority (NEPRA) is situated at 2nd Floor, OPF Building, G-5/1, Islamabad

Status of the Entity:

National Electric Power Regulatory Authority (NEPRA) is an autonomous body established under NEPRA Act 1997.

Inter-Governmental Relationship:

National Electric Power Regulatory Authority (NEPRA) is under the administrative control of Cabinet Division.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- II

Understanding of Entity's Business – Background Information

Name of Entity/Organization:**National Electric Power Regulatory Authority (NEPRA)**

Size of Entity

- Total Assets Rs. 1,240.384 million
- Total Liabilities Rs. 158.554 million
- Total Revenue Rs. 344.795 million
- Total Grant and Surplus Rs. 1,080.829 million
- Total Expenditure Rs. 177.406 million

Core Operational Activity/Corporate Plan

1. Issue Licences for generation, transmission and distribution of electric power;
2. Establish and enforce Standards to ensure quality and safety of operation and supply of electric power to consumers;
3. Approve investment and power acquisition programs of the utility companies; and
4. Determine Tariffs for generation, transmission and distribution of electric power.

Business Processes

(1) The Authority is exclusively responsible for regulating the provision of electric power services.

(2) In particular and without prejudice to the generality of the foregoing power, only the Authority, subject to the provisions shall:

(a) Grant licences for generation, transmission and distribution of electric power;
(b) Prescribe procedures and standards for investment programmes by generation, transmission and distribution companies;
(c) Prescribe and enforce performance standards for generation, transmission and distribution companies;
(d) Establish a uniform system of accounts by generation, transmission and distribution companies;
(e) Prescribe fees including fees for grant of licences and renewal thereof;
(f) Prescribe fines for contravention of the provisions of NEPRA Act 1997; and
(g) Perform any other function which is incidental or consequential to any of the aforesaid functions.

(3) Notwithstanding the provisions and without prejudice to the generality of the power conferred to the, Authority shall-

(a) Determine tariff, rates, charges and other terms and conditions for the supply of electric power services by generation, transmission and distribution companies and recommend to the Federal Government for notification;

(b) Review organizational affairs of generation, transmission and distribution companies to avoid any adverse effect on the operation of electric power services and for continuous and efficient supply of such services;

(c) Encourage uniform industry standards and code of conduct for generation, transmission and distribution companies;

(d) Tender advice to public sector Projects;

(e) Submit reports to the Federal Government in respect of activities of generation, transmission and distribution companies; and

(f) Perform any other function which is incidental or consequential to any of the aforesaid functions.

(4) Notwithstanding anything contained in NEPRA Act 1997. The Government of a Province may construct power houses and grid% stations and lay in NEPRA Act 1997 transmission lines for use within the Province and determine the tariff for distribution of electricity within the Province.

(5) Before approving the tariff for the supply of electric power by generation companies using hydro-electric plants, the Authority shall consider the recommendations of the Government of the Province in which such generation facility is located.

(6) In performing its functions under this Act, the Authority shall, as far as practicable, protect the interests of consumers and companies providing electric power services in accordance with guidelines, not inconsistent with the provisions of this Act, laid down by the Federal Government.

Major Beneficiaries

- Public.
- Generation, transmission and distribution company.

Major Cost Centres

- Employee related expenses.
- Repair and maintenance.
- Machinery and equipment.

Reporting Authority

- Federal Government

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- III

Understanding of Entity's Business – List of Auditable Locations

Name of Entity/Organization:**National Electric Power Regulatory Authority (NEPRA)**

Principal Accounting Office

Secretary Cabinet Division

District Accounting Offices (DAO) / Drawing and Disbursing Offices (DDO)

Mr. Muhammad Qamar–uz-Zaman, Deputy Director Finance held charge of Drawing and Disbursing Officer (DDO) during the period under audit.

Location(s) of computer-based accounting systems database(s)

Computerized accounting record is maintained by NEPRA in ORACLE. Transactions are entered in to the system at centralized level.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF - IV

Understanding of Entity's Business – List of Bank Accounts

Name of Entity/Organization:**National Electric Power Regulatory Authority (NEPRA)**

The following are the details of bank accounts:

Sr. No.	Account No.	Bank	Branch	Nature
1	750116500465	Askari Bank Ltd	Aabpara	Current Account
2	750116500496	Askari Bank Ltd	Aabpara	Employees Provident Fund
3	750116500502	Askari Bank Ltd	Aabpara	Employees Gratuity Fund

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- V

Understanding of Entity's Business – List of Authorized Signatories

Name of Entity/Organization: **National Electric Power Regulatory Authority (NEPRA)**

The signatories of the cheque were the following during the audit period:

Sr. No.	Name	Designation
1.	Qamar-uz-Zaman	Deputy Director Finance
2.	Hussnain Zaigam Alvi	D.G Technical

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- VI

Understanding of Entity's Business – External Factors

Name of Entity/Organization: **National Electric Power Regulatory Authority (NEPRA)**

External Factors:

- Government Policies.
- General Public.
- Law and Order.
- Industrial Sectors.

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AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- VII

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

Name of Entity/Organization: **National Electric Power Regulatory Authority (NEPRA)**

Following auditable record is available:-

- General Ledger
- Vouchers
- Monthly payroll
- Investment Ledger.
- Employee GP Fund record
- Employee pension record
- Employee advances record
- Personnel file of employees

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- VIII

Understanding of Entity's Business – Key Contacts

Name of Entity/Organization: **National Electric Power Regulatory Authority (NEPRA)**

SR. No.	TITLE	PHONE #.
1.	Chairman	051-9220902
2.	Member Licensing	051-9210209
3.	Member Tariff	051-9206887
4.	Member (Std &Priv)	051-9207300
5.	Member (S)	051-9259261
6.	Registrar	051-9206500
7.	Deputy Director Finance	051-9206798

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

Form PF- IX

Understanding of Entity's Business – Significant Audit Areas

Name of Entity/Organization:**National Electric Power Regulatory Authority (NEPRA)**

Significant Financial Statement Components	Critical Audit Area Y/N
• Physical Assets	N
• Repair and Maintenance	N
• Employee related expenses/ payments	Y
• Operating expenses/payments	Y
• Revenue	Y
• Investments	Y

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- X

Understanding of Entity's Business – Significant Accounting Policies

Name of Entity/Organization: **National Electric Power Regulatory Authority (NEPRA)**

Recognition of Expenditure

- Where payment is made by cheque, expenditure will be recognized and recorded in accounts of the NEPRA on the date the cheque is issued.
- In the case of inter-government transfers, expenditure will be recognized on the date the transfer is made by the transferor.
- For a direct payment in to a government employee's with accounts, expenditure will be recognized on the date the payment advice is issued by the DAO/AGPR office to the bank.
- In the case of payments made from imprest monies, the expenditure will be recognized when the required claim vouchers are submitted and the imprest account reimbursed.
- The financial year to which a payment should be charged is determined by the date on which a cheque or payment advice is issued.

Commitment Accounting

- Following criteria should be applied when determining and recognizing a commitment:
    - A valid purchase order is raised and where applicable a purchase contract has been entered with the supplier. The amount involved should be clearly mentioned in the purchase order/ contract.
    - The officer in accordance with delegation of financial powers has authorized the commitment.
    - The amount involved is above Rs.10,000 or 10% of total budget head, whichever is higher.
    - Exclude employee related expenses.

- Once a commitment is entered and approved it must be recorded by the DDO.



Auditor-General of Pakistan

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