Audit Guidelines
Post Telecommunication and Telegraphy Audit



Auditor-General of Pakistan

DEPARTMENT OF
THE AUDITOR-GENERAL OF PAKISTAN

GUIDELINES FOR THE AUDIT OF
POST TELECOMMUNICATION & TELEGRAPH

TO BE USED BY

DIRECTORATE GENERAL OF AUDIT
POST TELECOMMUNICATION & TELEGRAPH



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 As a result, the FAOs continued to rely on their old and outdated codes and manuals for conducting audit.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 Pakistan Post Office Department and the Telecommunication Sector. 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 Audit Management Software will be required to be used by the audit. For more information about these software tools, the auditor should refer to Manuals for 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. Their 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.

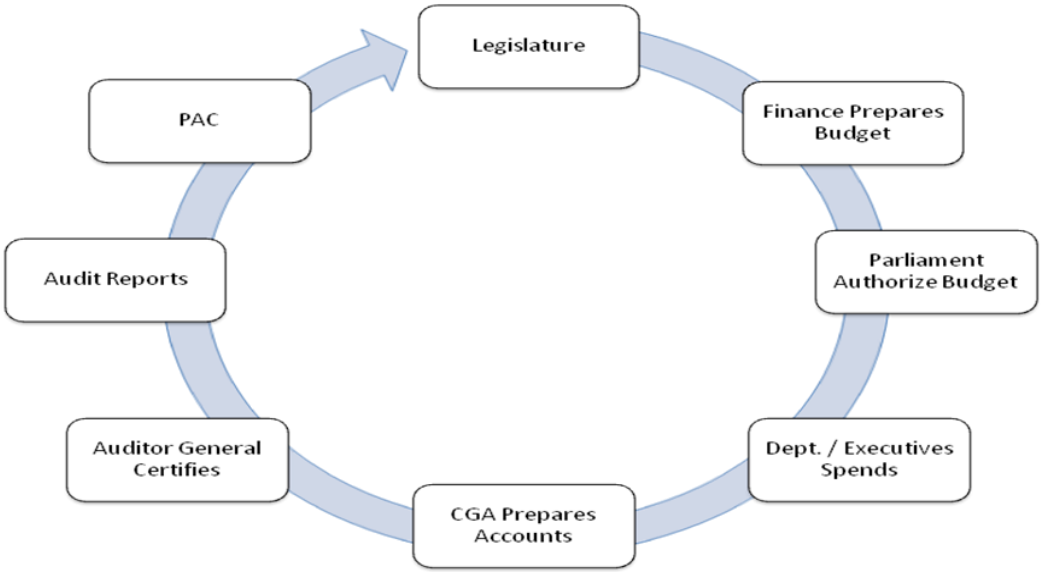
Ultimately, it is the audit team leader who will have to use his/her judgment in determining how best to apply the Audit Working Papers Kit in conducting a specific audit.

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, Provincial and District Governments for centralised 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, departmentalised accounts and autonomous bodies.
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 POST TELECOMMUNICATION AND TELEGRAPH (PT&T)

2.1. Overview of the Office

The audit of erstwhile T&T/PTC and PPO department was assigned to the Directorate General Audit, PT&T, Lahore w.e.f 01.01.1981 being a successor to A.G P&T.

On the promulgation of Pakistan Telecommunication (Re-organisation) Act, 1996, Pakistan Telecommunication Authority (PTA), Frequency Allocation Board (FAB), National Telecommunication Corporation (NTC) and Pakistan Telecommunication Company Limited were established on 1st January, 1996. After the restructuring of the T&T/PTC, the audit of PTA, FAB and NTC is being conducted under section 15(1) & 41(16) of the Act.

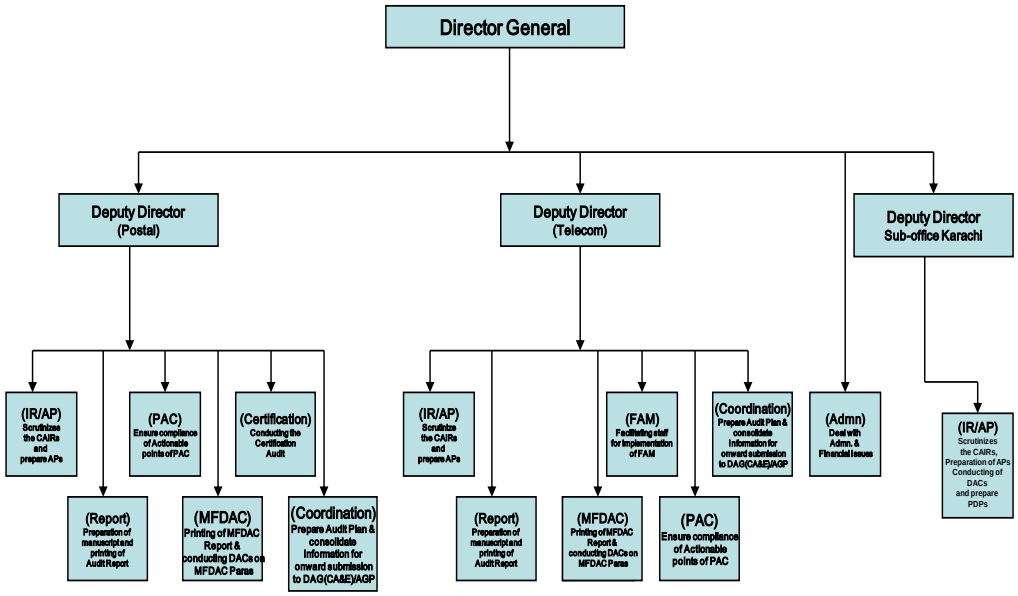
The audit of Special Communications Organisation (SCO), National Radio Telecommunication Corporation (NRTC) and Pakistan Post Office (PPO) department continues to remain under the jurisdiction of this office.

The Directorate General, PT&T Audit performs both the Certification Audit and Compliance with Authority Audit of the Pakistan Post Office Department. The Certification Audit of other six telecommunications sector entities is conducted by their respective commercial auditors. In their case, the DG Audit (PT&T) is only involved in conducting Compliance with Authority Audit.

2.2 Jurisdiction

Sr. No.	Principal Accounting Officer (PAO)	Departments/Organisations	Formations
1.	Ministry of Postal Services	Pakistan Post Office Deptt.	219
2.	Ministry of Information Technology	Special Communication Organisation (SCO)	11
3.		National Telecommunication Corporation	41
4.		Telephone Industries of Pakistan (TIP)	01
5.	Cabinet Division	Pakistan Telecommunication Authority	05
6.		Frequency Allocation Board	01
7.	Ministry of Defence Production (MoDP)	National Radio Telecommunication Corporation	01

2.3 Organogram of DG, Audit PT&T



Chapter 3
SCOPE OF AUDIT

3.1 Types of Audit[1]

Directorate General of Audit PT&T conducts the following types of audit:

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

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

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

3.2 Definition of Government Audit

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

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

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

[1] These Guidelines provides guidance on both the Certification and Compliance with Authority audit.
[2] Detailed guidelines for Performance Audit have been issued by the DAGP which are being updated under a special program initiated by PIFRA.

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 utilising of human, financial and other resources, including the examination of information systems, performance measures, monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
3. Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

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

3.3 Certification Audit

Objectives:

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

1. The Financial Statements properly present, in all material respects, the Government's financial position, the results of its operations, its cash flows and its expenditures and receipts by appropriation;
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.

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 details;
- Conducting substantive tests;

- Evaluating results;
- Reporting; and
- Follow up.

3.4 Compliance with Authority Audit

Objective:

1. Audit against the provision of funds to ascertain whether the moneys shown as expenditure in the accounts were authorised 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 scrutinising the mere formality of expenditure to its wisdom and economy and to bring to light cases of improper expenditure or waste of public money.
5. While conducting the audit of receipts of the Governments, the Auditor-General satisfies himself that the rules and procedures have been properly adopted and ensures that the assessment, collection and allocation of revenue are done in accordance with the law and there is no leakage of revenue which legally should come to Government.
6. Review, analyse 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 PT&T Audit

Some of the specific risks relating to auditee entities include:

Pakistan Post Office Department

- Postage revenue received has not been recorded in the daily account;
- Revenue has been incorrectly coded;
- Omission of receipts from agency functions e.g. Utility bills collected not recorded on scroll;
- Misappropriation of cash, losses and defalcations;
- Undue retention of amounts collected on behalf of other agencies;
- Retention of cash and stamps in excess of authorised limits;
- Excess/less charging of commission on agency functions;
- Non-compliance with approved accounting procedures;
- Non-deduction of income tax/withholding tax from payees;
- Non reconciliation of major operational heads within the department and with external agencies;
- Non-posting and updating of profit on saving schemes;
- Double/Fake payments to military pensioners;
- Non-compliance with PPRs in procurements;
- Non-maintenance of record relating to assets;
- Non-submission of daily/monthly accounts to the accounting office in a timely manner;

Telecom Sector

- Delay in issuance of demand notices;
- Inadequate recovery procedure of receivables;
- Follow up of long outstanding receivables;
- Non-imposition of late payment fines/penalties on telecom operators;
- Appointments and promotions in violation of rules and regulation;
- Non-compliance with PPRs in procurements;
- Award of contract to unsuitable supplier/contractor.
- Time overrun leading to exorbitant cost overrun.
- Local/International orders not completed in time causing fines/penalties being imposed;
- Procurement of stores in excess of actual requirement.
- Non-auction/disposal of unserviceable material/machinery.
- Non-maintenance of record relating to assets.

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

The major focus of the Directorate General of Audit PT&T is on:

- Revenues/Receipts of auditee departments/organisations.
- Expenditure incurred by the auditee departments/organisations.
- Assets maintained by the auditee departments/organisations

3.5.1 Audit of Revenue/Receipts

The main components of revenue/receipts are:

PPOD

- Sale of postage stamps
- Sale of revenue stamps
- Commission on money orders
- Receipts from agency functions (Collection of utility bills, Saving schemes, Postal Life Insurance and collection of provincial taxes etc)
- Commission charged on various agency functions.

PTA & FAB

- Initial License fee
- Spectrum auction fee
- Annual license fee
- Fines and penalties

NTC

- Fixed line revenue
- Interconnect charges
- Multi Services Data Network revenue
- Co- location rent
- Revenue from other services

NRTC & TIP

- Sales of defence equipment to Pakistan Army
- Sale of radio/telephone equipment to Pakistan Army and telecom operators
- Sale of defence equipment to others
- Sale of various types of equipment on demand

SCO

- Fixed line revenue
- Revenue from cellular services
- Revenue from WLL services
- Interconnect charges

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

3.5.2 Audit of Expenditure

The expenditure, apart from employee related expenses, incurred is on the following major types of activities in the auditee departments:

- Civil works;
- Operations, maintenance and repair work;
- Procurement.

These activities are multifarious in nature and widely dispersed across the country. A significant challenge for the audit team is to decide on the appropriate and judicious use of audit effort and resources.
In deciding what projects to audit, the audit team should begin with a list of projects (given in the monthly accounts maintained at the DAPPO) which are either ongoing or have reached completion in the period being audited. The sample of projects to be audited may then be selected from this list. The audit team will include those projects:

- on which substantial expenditure has been incurred,
- which are long-term, extending beyond one year in implementation,
- in which weaknesses or problems were identified in previous audits.

The auditor may also include a random sample of smaller projects, as available audit resource may allow.

In the area of operations, maintenance and repairs, the auditor should apply the following analytical techniques, as applicable, to identify anomalies:

- From one year to the next at particular locations; or
- By comparing similar facilities across the country.

This will provide a basis for selecting locations which should be subject to scrutiny. The auditor may also perform random sampling of transactions.

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

Procurements constitute a significant amount of the budget allocation to any department/organisation every year. This activity is normally centralised and is carried out by either the DG PPO or delegated to the Post Master Generals of the twelve circle/region offices in case of PPOD and in case of the telecommunication sector it is carried out mainly at the headquarter level.

In carrying out their audit auditors may consider selecting unusual/extraordinary large procurements, procurements by way of imports, partial procurements spilling over to the next period and procurement of software.

3.5.3 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. The auditors should obtain evidence that the assets have been valued properly as per record and duly insured as per instructions of the Government. 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.

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.
- Organisation 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 amortisation 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.
- Accounting procedures duly vetted by Controller General of Accounts and approved by the Auditor-General of Pakistan.
- 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 Authorised 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, centralised 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 organisation structure, main functions, etc.

The main functions of the auditee departments generally are:

- Provision of Postal Services to the general public;
- Perform agency functions on behalf of several Government Departments and agencies;
- Regulating the telecommunication sector in Pakistan;
- Provision of telecommunication services to designated subscribers in Pakistan and Azad Jammu and Kashmir and Northern Areas.

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:

- Headquarter;
- Field Offices (e.g. GPOs,DSPS, PLI);
- Accounting office (DA PPO); and,
- Locations where significant assets are located and their existence can be checked by the auditor.

4.8 List of Bank Accounts – Form PF-IV.

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

The Directorate General Audit PT&T, audits both the Government and semi-Government (autonomous) departments. The Government Departments maintain account with Federal Treasury (State Bank/National Bank), whereas the autonomous bodies, along with Federal Treasury account, also have bank accounts with scheduled banks.

4.9 List of Authorised 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 budget allocations.
- Local interventions or events that might have an impact on project progress.
- General financial indicators and trends.
- Industry trends.

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.
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
- Cheque Book
- Pass Book
- Vouchers/Bills
- Saving Bank Ledgers
- Expenditure Statement
- Daily Cash Account
- Monthly Cash Account
- Funds Releases

- Budget Releases
- Transfer Register
- Advance Register
- Contingent Expenditure Register
- Stock Register
- General Ledger
- Party wise 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:

- Initial Account code volume 1&2
- Post office manual (volumes I-VIII)
- Post office guide
- PLI Manual
- General Financial Rules
- Pakistan Telecommunication (Re-organisation) Act 1996
- Telecommunication Rules
- USF & APC Rules 2005
- Accounting procedures for telecom entities
- DDO handbook on autonomous bodies
- Service regulations
- FBA & A procedures
- Memorandum of associations under Companies ordinance 1984
- Articles of association
- Federal Treasury Rules
- Revised System of Financial Control and Budgeting
- FIDIC Guidelines
- WB Procurement Guidelines
- Pakistan Accommodation Allocation Rules 2002
- ESTA Code
- Financial Rules & Service Rules
- P&T Accounts Code
- Departmentalisation Scheme
- Central Public Works Account (CPWA Code)
- Central Public Works Department (CPWD Code)
- Public Procurement Rules, 2004
- Schedule of Rates
- Book of Specifications

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.

It is pertinent to mention here that the accounts and audit codes have not been updated for more than three decades. However, over this period, the functions of the auditee entities have evolved significantly and several new functions and practices have been put in place, which are not covered by these codes. The audits of these entities/functions are performed on the basis of past experience and procedures issued by the management from time to time. New entities created as a result of splitting up of T&T are audited as per their respective legislations under which they have been formed.

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

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

4.12 Key Contacts – Form PF-VIII.

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

4.13 Significant Audit Areas – Form PF IX.

The auditor should obtain a current and up to date chart of accounts. He/She should check that it follows the current accounts classifications and the regulations imposed by the CGA (Controller General of Accounts).

The auditor should list critical audit areas/significant financial statement components (including individually significant transactions and events), and their impact on the Financial Statements of the Federal and Provincial Governments (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 Compliance with Authority Audit objectives.

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

- by circle/region; or
- by major activities (postal functions, agency function etc).; or
- by revenue streams (sale of postage, billing, spectrum auction etc.); or
- Object element [civil works (A012), repair & maintenance (A013) etc].

Where the selected components have separate locations with decentralised management, each location should be considered separately. On the other hand, if the activity operates under a centrally controlled accounting system, the auditor should consider all locations together.

For 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
    - Appropriations (grants)
    - Rentals (self-generating income)
    - Inter-governmental or inter-departmental transfers
2. Expenditures/Costs
    - Major capital projects
    - Equipment (vehicles / heavy construction)
    - Goods and services
    - Utilization of inventory
    - Depreciation
    - Payroll
    - Personnel benefits such as Pensions and Provident Funds
3. Assets
    - Fixed assets (land / buildings / infrastructure – roads, bridges)
    - Capital work in progress (civil works, etc.)
    - Major equipment
    - Current assets (stores)
    - Cash
4. Liabilities
    - Long-term loans
    - Provision for retirement benefits
    - Security deposits
    - Current liabilities (creditors, etc.)

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

AUDIT AREAS

Audit Area	Critical Area
Expenditure	• Civil works; • Operations, maintenance and repair work; • Procurement.
Revenue	• Sale of postage stamps • Sale of revenue stamps • Commission on money orders • Receipts from agency functions (Collection of utility

Audit Area	Critical Area
	bills, Saving schemes, Postal Life Insurance and collection of provincial taxes etc) • Commission charged on agency functions. • Initial License fee • Spectrum auction fee • Annual license fee • Fines and penalties • Telephone revenue • MSDN revenue • Co-location rent • Revenue from other services • Sales of radio equipment • Export sales radio equipment • Fixed line revenue • Revenue from cellular services

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:

- Accounting for Revenues (Revenue Recognition)
- Treatment of inventory of raw materials and other inputs to projects and operations
- Fixed assets valuation and depreciation
- Accounting for foreign currency transactions and interest payments
- Accounting for staff retirement benefits
- Valuing work in progress
- Accounting for liabilities and commitments
- Accruing for expenses incurred but not recorded

A sample of the permanent file prepared for the National Radio Telecommunication Corporation 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 check that:

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

The planning phase involves the following:

- Determining the overall objectives and scope of audit; *
- Understand the entity's business; *
- Assessing materiality, planned precision and audit risk.
- Assessing the entity's system of internal controls.
- Determining the components by which the audit will be conducted.*
- Determining Financial Audit and Compliance with Authority 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 detail**.**

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

5.2 The Audit Team's Responsibility in Planning Phase

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

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

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

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

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

5.3 Documentation in Planning Phase

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

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

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 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 detail

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 CAAT 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 detail

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. An example of such an audit is the Pakistan post office department. The central team is responsible for the overall planning of the audit and the audit compilation of Financial Statements at the Director Accounts PPOD level whereas the field audit teams conduct the audit of expenditure incurred, revenue earned and receipts and payments made at the individual GPO level. The execution data is then consolidated by the central team to form a basis for the opinion on the Financial Statements.

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

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

The auditors from each of the field audit teams 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.

The Directorate General of Audit PT&T is solely responsible for the Certification Audit of the Pakistan Post Office Department with the involvement of its branch office and Field Audit Teams.

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. Financial review
c. Trial balance
d. Expenditure statement
e. Cash accounts (Daily/Monthly)
f. Any inter-Governmental accounts for elimination.

g. Supporting documents (important agreements, bills, vouchers other documents that are important for the audit record).
h. 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 summarise 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 PT&T audit are as follows:

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

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

6.7 Internal Control Deviations Form

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

Where the operations of the auditee organisation are decentralised, 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 decentralised sites being audited.

6.8 Internal Control Deviations Summary

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

6.9 Compliance Summary

The auditor will use this form to identify the legal or regulatory provisions that the entity should comply with, to document the control that is in place to check compliance, to

document whether the auditor considers the control to be satisfactory, and whether compliance was evident.

6.10 Substantive Tests of Accounting Estimates

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

6.11 Errors in Accounting Estimates

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

6.12 Substantive Test Sample Summary for each Audit Programme

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

Substantive testing examines a sample of individual transactions to determine whether the transactions selected comply with all applicable laws, regulations and rules 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 comply with the following assertions[3]:

- **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.

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

- **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 detail (from sampled transactions and High Value Items and Key Items). Details of the voucher on which the error occurred, the nature and cause of the error and its value should be documented on this form.

6.15 Exit Interviews

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

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

6.16 Audit Programmes

The remaining part of this section contains the detailed audit programmes for the following audit areas. Where applicable alternative audit steps have been included in the audit programmes of the relevant entities:

General Audit Programmes

- Employee Related Expenses
- Procurement
- Planning and Contract Awarding
- Contract Implementation/Execution
- Contract Completion
- Asset Management
- Accounting and Financial Management
- Investment

Entity Specific Audit Programmes

- Pakistan Post Office Department
- Pakistan Telecommunication Authority & Frequency Allocation Board
- National Telecommunication Corporation
- National Radio Telecommunication & Telephone Industries of Pakistan
- Special Communications Organisation

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
• Check that proper particulars are entered in Scale Audit Register for Gazetted Officers and in Establishment Register for Non Gazetted Staff. • Check that DDO certified the payment to Non Gazetted Staff. • Check that Payroll Officer prepares Monthly Schedule of Employees latest by 26 of each month and is verified by Supervising Officer. • Check that Delegated Officer (other than Payroll/ Supervising Payroll Officer) prepares Payroll Credit Invoice or Cheque and sign by at least 2 officers. • Check that payment to employees is reconciled with DA PPO. • From a sample of transactions check that: employee is identified in Audit/Scale Audit Register; and that payment was made to correct payee. • Check that proper personal files of all the officers with all necessary particulars are maintained. • Check Service Book maintained for Non Gazetted Staff and certified by DDO. • 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 Compilation Sheet • Check that the deductions are correct (according to the GP Fund / the income Tax Ordinance, 2001 and as modified from time to time / other deductions in accordance with rules and regulations governing deductions such as rent deductions, loans and advances / etc.) • For employees recently joining the office 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 Service Book and the amount of the first payment was correct according to the start date and according to Scale entitlement.		

Audit Procedure	Done By	WP Ref
• 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. • Check that pay and allowances of staff on leave have been classified under head leave salary. • 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. • 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. • Check that payment of allowances to gazetted/non-gazetted employees has been authorised by the Finance Division. • Check that additional/current charge pay is authorised under rules. • Check that payment of arrears of pay & allowances are legitimate. • Check that all time barred claims (beyond six month) have been approved by the respective Accounts Office. • Check that pay and allowances are being made to the sanctioned/available strength. • Check that the appointments are made as per procedure. • Check the appointments of daily wages/contingent paid staff, budget provision and proper head of account and the appointments are made as per rule. • Check that HRA is not paid to the officers/officials to whom designated residences are provided. • Check that ceased allowances have not been paid to the staff. • Check that double conveyance allowed to the entitled staff (as per rule) approval by the competent authority. • Check that TA/DA claims are duly authorised and are according to rates entitled for each category by the Finance		

Audit Procedure	Done By	WP Ref
Division. • Check that journey was actually performed and was authorised by general or special order by the competent authority. **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 (Wage type:)** 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. 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, Special Allowance (Wage Type: 1550)** 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		

Audit Procedure	Done By	WP Ref
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)** 1. **Special Relief Allowance**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. **Annual Increments** Check that annual increments accrue on 1st of December. As per letter# FD.PC-2-1/2007 Dated: 23rd July, 2007 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, 2007. **Dearness Allowance (Wage type: 1864)** 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 01.07.2007. (**Finance Division O.M. No. FD.PC-2-1/2007, dated 23rd July, 2007)**		

Audit Procedure	Done By	WP Ref
Entertainment Allowance, Orderly and Senior Post Allowances (Wage type 1518) • Check that these allowances have been paid to entitled officers only. **Honorarium and Incentives** • Check that Extra Duty Allowance (EDA)/Overtime is paid to the entitled staff and on the prescribed rates. • Check that honorarium has been paid for performing the arduous nature of job and approved by the competent authority and payment is as per stipulated rules. • Check that the incentives are paid to the staff entitled and on the rates prescribed by the Finance Division. **Medical Charges** • Check that re-imbursement of medical charges to non-gazetted is made only in case of indoor treatment as per rules. • Check that claim has been authorised by the medical officer/civil surgeon. • Check that re-imbursement has been allowed on original prescription and invoices of the chemist duly signed by the medical officer. • Check that in case of re-imbursement to non-gazetted staff the original discharged certificate from the authorised hospital has been attached with the claim. • Check that payment has been made to the family members as per medical rules 1990. • Check that invoice number and license number of the chemist have been printed on the payment voucher.		

6.18 Audit Programme - Procurement

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

Audit Procedure	Done By	WP Ref
I. Existence and occurrence Check the: • Documentation (purchase order/purchase authorization/invoice/delivery receipt and receiving documentations) • Entry in inventory register. • Payments for product/material enter into ledger for current year. • Payment was made to the correct payee. **[CPWA Code Para 105 to 110]**		
II. Completeness • Reconcile total expenditures on product/material with the amount recorded in the ledger. • Check that all material recorded as acquired in the year are charged against that year. **[Rule 26 of G.F.R. Volume-I]**		
III. Measurements • Check that the measurements were made in proper document/measurement books. • Check that goods were received as per order and paid for what was received. Identify any short fall by comparing purchase order and good received note. • Check that the invoices and payments have applied proper prices and include correct freight charges if applicable. • Check that advance payments have been reflected in the invoice and correspondingly deducted from payment. • Check arithmetical accuracy • Check applicable guarantees, service support. • Check that no payments were made for maintenance/replacement parts that were covered by warranties. • Check in case of late delivery, whether any penalties apply under contract and if so, whether payment was adjusted accordingly. **[CPWA Code Para No. 209]**		
IV. Regularity • Check that the acquisition process and the size of purchase		

Audit Procedure	Done By	WP Ref
is within the authority limit of the authorizing officer. • Check that the supporting documents contained the justification for large purchases. • Check the expenditure was consistent with the nature of the appropriation to which it was charged. • Check that the supplier's name is on the list of approved vendors. • Check that in all major respects, the laws, regulations, rules and policies to the acquisition are complied with: o Procurement Process and Methodology o Economy and effectiveness o Storage issues o Indent to supply o Storage o Issue policy o Arranging of stores o Limits of storage **[PPR-2004: Rule 15 to 22]** **[CPWA Code Para 105 to 110]**		
V. Monitoring and Maintenance • Examine the facilities for handling of equipments and check that: a. the equipments placed in suitable places b. the storage is free of hazards in dangerous situation c. the handling equipment is in good handling order d. there were adequate periodic checks over the usage of equipments e. there are adequate physical control over the equipments to check that the equipment were properly safeguarded • Check whether the maintenance of equipments records are sufficient to safeguard the inventory a. records are maintained up to date b. access to record is limited to make it difficult to alter to cover up theft regular reconciliation of actual equipments with inventory records and accounting records thereof **[CPWA Code Para 105 to 110]**		

6.19 Audit Programme - Planning and Contract Awarding

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

Audit Procedure	Done By	WP Ref
I. Planning & Estimation of works. Check that : • Feasibility study was prepared in case of Mega Projects. • Drawings, work specifications were prepared on the basis of data of survey reports. • Was the project economically viable on the basis of feasibility study. • If the project was not economically viable, what were the reasons for its selection • Design was prepared through design consultants/design wing and approved by the competent authority. • Rates used in the estimates were in accordance with the rates specified in composite Schedule of Rates. • Estimates were based upon prevailing market rates in case of Non Schedule Rates. • Rates of Non Schedules Items were properly analysed and analysis was available with estimate. • PC-I/Engineer's estimate was approved by the competent forum/authority. • Estimate covers all the components of the project objectives. **[Chapter 11, Para 1 of 'Guidelines for Project Management']** **[C.S.R. of the relevant department]**		
II. Transparency in tendering of works and engagement of consultancy services **<u>Engagement of consultants</u>** Check that: • Consultants were selected after advertisement in the press • Criteria for pre-qualification was clearly defined • Both technical and financial proposals were evaluated • Selection was made on merit • Consultants were appointed as per approved policy and guidelines issued by the Govt. **[PPR-2004 : Rules 8, 12 & 15]**		

Audit Procedure	Done By	WP Ref
Engagement of contractor • Check the enlistment/renewal of contractors with the department • Check the notification for pre-qualification of contractors advertised in the press. • Check that the criteria for selection of contractors were followed. • Check that the sufficient time was given to contractors for submission of documents for pre-qualification **[Code of the relevant department]** **Tendering:** • Check that tender was advertised in accordance with the policy of the government. • Check that bids were invited/received from pre-qualified bidders • Check that bids were evaluated and accepted within validity period. • Check that bid security was obtained. • Check that tenders were opened in the presence of bidders. • Check that the tender sale and tender open register maintenance. • Check the provisions of PPRA -2004 were followed. • Compare the content of tender with the estimates. • Check that the tender documents were prepared clearly & accurately, without any ambiguity. • Check that the costs of administrative and technical sanctions were recorded in the tender register. • Check the criteria of pre-bid meetings/amendments. • 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. • Check that there were no interpolations and corrections made in the tender and ensure that all the changes were approved by the competent authority. • Check that a comparative statement of all the bidders was prepared in the tender register. • Check the basis on which bidding applications were accepted or rejected. • Check the arithmetic accuracy of the calculations in the tender and estimates. • Check that acceptance letters were issued to the successful bidders within bid validity period. • Check that work was not awarded without open tendering.		

Audit Procedure	Done By	WP Ref
[PPR-2004: Rule 20 to 27] **[Relevant contract agreements]**		
III. Post bid contract amendments • Check that the post bid amendments were made in accordance with the rules and regulations. • Check the contract agreement to see the amendments included therein.		

6.20 Audit Programme - Contract Implementation/Execution

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

Audit Procedure	Done By	WP Ref
I. Variation /change orders in original contract/work orders • Check that the variations/deviation from approved scope was made as per requirements. • Check variation was recommended by the engineer (nominated consultant) of the contract • Check that the variation order is approved by the competent authority. • Check that the cost of variation order was prepared in accordance with the terms and conditions of the contract agreement or prevailing market rates.		
II. Measurement of works • Check the measurement book (MB) and ensure that the measurements were recorded in chronological order. • Check the arithmetic accuracy of the calculations booked in the MB and ensure the aggregate measurements do not exceed estimated quantities as mentioned in the Bill of Quantities (BOQ). • Identify the cases of excess measurement from the MB and ensure proper action has been taken against the responsible officers/officials. • Check that detail measurements were recorded in the M.B. • Check that material tested in authorized/approved laboratory. **[C.P.W.A Code: Para 209]**		

Audit Procedure	Done By	WP Ref
III. Extra financial assistance to the contractors • Check contract agreement and compare it with measurements recorded in the MB and payment vouchers through which payment was made to the contractors. • In case of any deviation from the contract agreement, record the instances and probe into the matter. **[C.P.W.A Code: Para 209]**		
IV. Escalation claim of the contractors • Check escalation provisions of the contract agreement and compare with the payment voucher. • Check that the Factor "C" was provided in the agreement. In case of change of Factor "C" record the instances and probe into the matter. • Check the current rate/base rates of materials is provided in the agreement for escalation purpose. • Check the source of material is mentioned in the agreement. If there is a change in source of material, probe into the matter. **[Contract Clause – 70, Appendix -C]**		
V. Payments • Check vouchers passed/payment made by SDO was pre-audited by DAO • Check that necessary deductions were made from the contractor's payments. • Check that paid voucher amount or its part, in case placed in suspense head Misc. P.W. advances as recoverable from departmental officials was as per rules and its adjustment/recovery made within financial years as per budget manual. • Check that paid voucher for release of security deposit was prepared after the maturity period or amount released against bank guarantee as per agreement clause. Equal amount in deposit was available in P.W. Deposit. • Check that expenditure was within the budgetary allocations/ funds released. • Check that paid vouchers entered in the cash book • Payments made were acknowledged by the contractors. • Check that price variation was worked out correctly and arithmetical calculations were correct. • Check that paid vouchers for mobilization advances were against irrevocable bank guarantees issued by local scheduled banks and forfeited in case of defaulter contractors. • Check secured advance payment against indenture bond, on the certificate of SDO and recovered with interest in case of		

Audit Procedure	Done By	WP Ref
contractors default. • Check voucher for advance payment of work done but not measured as per laid down instructions • Check rates / quantity in vouchers correctly paid i.e. as per contract/ Market Rate System / Schedule of Rates. • Check muster roll/Casual labour rolls against proper appointment and against provision in Technical Sanction Estimate (TSE). • Check that Financial Statements on Revised Technical Estimates RTSE/Final or last bill prepared and recovery of imbalance rates made. • Check recovery of minus final/running bill made. • Check that payment charged to proper head of account. • Check that entries of temporary advance/imprest and their adjustment were correctly made. **[C.P.W.A Code: Para 221]** **[C.P.W.A Code: Para 228 & 229]**		
VI. Violation of contract specification/design • Check the provision of contract specification/design and actual execution of work. • Identify the instances of violation, probe into the matter and worked out the financial impact of the violation. **[Relevant specification as per contract agreement]**		
VII. Non imposition of liquidated damages due to delay in completion of works • Check the work schedule with actual progress of work. • In case of delay in execution of contract, ensure liquidated damages (LD) have been imposed/recovered in accordance with the provisions of applicable procedures and book of financial power.		
VIII. Failure and termination of contracts • Check the civil works execution in accordance with the contractual provisions • In case of non compliance with the terms and condition of the contract ensure the contractor was penalized in accordance with the provisions of the contract.		
IX. Payment of advances, Mobilization advance, Secured advance • Check the contractual provisions towards the payment of advances, Mobilization advance and Secured advance.		

Audit Procedure	Done By	WP Ref
• Check the authenticity of bank guarantees/debenture bonds submitted by the contractors/suppliers against Mobilization advance /Secured advance was paid. • Check the material brought at site against which Secured advance was paid **[C.P.W.A Code: Para 238]** **[Relevant Contract Agreement Clauses]**		
X. Non recovery/adjustment of loans and advances to contractors/suppliers/departments • Check loans and advances issued to the contractors /suppliers were in accordance with the terms & conditions of the contract • Check the loans and advances given were approved by the competent authority. • .Check accurate booking of all loans and advances in the financial statements. • Check the progress report contracts and ensure the loans and advances were recovered in accordance with the terms and conditions of the agreement. **[C.P.W.A Code: Para 238]** **[Relevant Contract Agreement Clauses]**		
XI. Non encashment of performance bounds/bank guarantee • Check that the performance bonds/bank guarantee received from the contractor/supplier in accordance with the terms and conditions of the contract. • Check the authenticity of the performance bonds /bank guarantees being submitted by the contractors/suppliers. • Check the guarantee register and ensure the completeness and safe custody of the bonds/grantees. • Check the bonds /guarantees were encahsed in accordance with the provisions of the contract. **[Relevant Contract Agreement Clauses]**		
XII. Security deposits • Check the provisions the contract agreement • Check the maintenance of security deposits registers/allied records. • Check the refunds of security deposits on satisfactory completion of defect liability period.		

Audit Procedure	Done By	WP Ref
[C.P.W.A Code: Para 388 & 390]		
XIII. Deduction of income tax • Check the provisions of the contract agreement towards deduction of income tax. • Check the actual deduction of income tax, if deviation, probe into the matter. **[Income Tax Ordinance 2001]**		

6.21 Audit Programme - Contract Completion

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

Audit Procedure	Done By	WP Ref
I. Major Work (Development Work) • Check that PC –IV prepared and submitted to the competent authority • Check that the Defect Liability Period has been successfully completed. • Check that the performance security and security deposit are released after the expiry of Defect Liability Period. • Check that the compliance of objectives set in PC-I have been started. • Check that no claim of the contractor / department is pending against the project. • Check that the accounts of the project has been finalised and not kept open. • To check that no work charges have been charged after the completion of the work/project **[Guidelines for Project Management: Annexure – XX]**		
II. Minor Work (Repair & Maintenance) • Check that completion certificate is issued by the concerned department. • Check that the Defect Liability Period has been successfully completed.		

Audit Procedure	Done By	WP Ref
• Check that the security deposit is released after the expiry of Defect Liability Period. • Check that no claim of the contractor / department is pending against the work. • Check that allottee of house acknowledge the execution of work in his house/quarter • Check the TSE is according to yard stick of annual M&R for Road/Building and without provision of contingencies. Check and report if any item pertaining to original work is incorporated in the M&R. • Check the issuance of AA of the M&R exceeding Rs. 50,000. • Check that the cushion of 10% has not been used in TS estimate. • Check that the work plan for M&R of road/buildings has been approved by the competent authority. • Check that the general repair and maintenance work has been completed within the financial year, as the sanction of estimate lapses on the last day of the working year. **[C.P.W.A Code: Para 260 to 262]**		

6.22 Audit Programme - Assets Management

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

Audit Procedure	Done By:	WP Ref.
Fixed Asset Register • Check that the department has maintained fixed asset register in accordance with the provision of APPM (Form 13A). • 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. • For the sample of assets, check that they are correctly identified in the Fixed Assets Register under the correct		

Audit Procedure	Done By:	WP Ref.
Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes. • Check that all the additions (purchase / transfer in) and deletions (sale/of fixed assets have been properly incorporated in Fixed Asset Register. • Check whether the manager(s) responsible for asset management receive(s) regular reports from the Fixed Assets Register under the relevant Object Codes and that the information is presented in a way that it can be used by the responsible managers section. **{DFR Chapter-6, Rule 6.46}**		
Physical Verification • Check for a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. • Check from physical inspection of a sample of assets on site that they are entered into the Register and that the information about them is accurate. • Check for a sample of expenditures (identified in General Ledger) that they have been recorded correctly in the Fixed Assets Ledger and that they are on site, according to location information in Ledger, and that they are operational and being used. • For any items still in storage, or non-commissioned, determine reasons for non-functional state. • For any assets not delivered, determine why payment was made before delivery. (May need to follow-up on contract arrangements.) **{DFR Chapter-6, Rule 6.17, 6.28 & 6.30}**		
Fixed Assets Addition (Purchases) Check for a sample of additions that: • Budget was approved for the particular purchase.		

Audit Procedure	Done By:	WP Ref.
• Purchase Indent is approved by the competent authority. • Tendering process was done in accordance with Punjab Procurement Rules 2009 (PPR-2009). • Purchase Order generated in favour of selected/approved supplier. • For the sample of purchased items during period audited, check that the cost listed in the Fixed Assets Register is the same as the purchase price (including cost of installation & commissioning) and check against supporting documentation. **{Chapter-V, VI & VII of PPR 2009}** **Transfer in** • For items transferred in, check whether any transfer payments were made and if so whether for an appropriate amount. • Check that any donation/gift of fixed asset received, met the requirements of the Accounting Policies and Procedures Manual- APPM **{Para-13.4.3- Donations/gifts of fixed assets}.** **Subsequent Capitalization** • Review any expenditure on improvements to assets and check that these have been identified as capital expenditures.		
Fixed Assets Deletion (Disposal) Check for a sample of fixed assets disposal that: • Whether proper authority was obtained to dispose of the asset • an appropriate price was obtained (either by a competitive bid process or by benchmarking the value of the asset before determining the price) • Where possible, compare prices obtained for similar assets and investigate any assets apparently sold below value • For any revenue, check that this was properly recorded in the General Ledger, or other account		

Audit Procedure	Done By:	WP Ref.
Transfer out • For items transferred in, check whether any transfer receipts were obtained and if so whether for an appropriate amount. • Check the accumulated depreciation of the assets transferred out has been excluded from the accounts. • Check that any income earned on the transfer out of fixed assets was correctly recorded. • Check that assets were received by the organisations to which they were transferred.		
Depreciation of Fixed Assets • Checked on sample basis that the depreciation is accounted for accurately.		
Revaluation of Fixed Assets • If during the period fixed assets were revalued, check that revaluation process in accordance with rules/policies adopted by the department. • Check that any gain/loss on revaluation of fixed assets had been accounted for in accordance with rules/policies adopted by the department. • Where assets have been revalued, determine reason for revaluation and if necessary obtain an opinion whether they are fairly valued. (This could be an issue where operations to be privatized.)		
Ownership of Fixed Assets • For assets examined, check, where appropriate, that the Government 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.}		
Land Acquisition. • Check that acquisition of land was made after proper		

Audit Procedure	Done By:	WP Ref.
evaluation and award under the rules. • Land acquired was in public interest within the ROW of road / building. • 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**. • Check that name of land owner, actual acquired area, rates applied for land or other item in land award. • Check that recovery of cost of old structure made from the affectees payment or material properly accounted for and auctioned. • Check that trees are accounted for and auctioned. • Check that mutation of land acquired in the name of Government done. • Check that proper account of PLA is available for advance obtained in each case for land acquisition. Reconciliation made. Vouched account issue to concern besides refund of unspent balance. • 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}**		
Reporting • Check that the quarterly report on Fixed Assets Register as required by **2.2.7 of the FRM** is produced in a timely manner.		

6.23 Audit Programme - Accounting and Financial Management

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

Audit procedure	Done by	WP Ref
I. Preparation of Budget and its approval • Check the budget preparation is in accordance with codal provision and approved by the competent authority. • Check the actual budget allocation towards the expenditures / revenues • Check the budget appropriations and re-appropriations towards the actual expenditures.		
II. Embezzlement, overpayments, miss-appropriation and miss-use of funds • Check the vouchers, approval and supporting documents to ensure that proper controls are in place over the disbursement of cash • Check that the cash books were properly maintained **III. Preparation of Financial Statements** • Check that the components of Financial Statements were prepared in accordance with the applicable laws and accounting standards. • Check the existence of assets/liabilities in the accounts. • Check the aging of accounts receivable and identify any major outstanding balances • Check that appropriate action has been taken to recover long outstanding balances • Check that bad debts have been recorded for long outstanding balances. • Check that the Financial Statements were audited by the commercial auditors **IV. Operation of bank accounts** • Check the Government policies towards operation of bank accounts.		

Audit procedure	Done by	WP Ref
• Check the agreement with banks and ensure that the authority has selected banks offering highest interest rates for making deposits. ▪ Calculate the financial impact of non-compliance with the Government polices and ensure that appropriate action has been taken against the responsible persons. ▪ Check that monthly bank reconciliation statement was prepared and differences were identified.		
V. Accounting for foreign currency transactions and interest payments • Check that the payments of foreign currency are in accordance with the provisions of loan agreement. • Check that the foreign currency transactions are recorded in accordance with the applicable accounting policies • Check that the interest calculation and payment are according to the terms and conditions of loan agreement.		

6.24 Audit Programme - Investment

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

Audit Procedure	Done By	WP Ref.
I. Approval of investment decision • Acquire the investment agreement and minutes of meetings of investment committee (investment targets are fixed). • Check that risk factors are kept in view while making investment (assess through professional judgment). • Check that investments are made according to the terms and conditions of the agreement and under the approval of investment committee or board of directors where applicable.		
II. Implementation of Government instructions • Check that the bank/financial institution where money is deposited is holding a minimum ranking of "A" according to		

Audit Procedure	Done By	WP Ref.
the rating awarded by the standard rating agencies on the panel of State Bank of Pakistan (Pakistan Credit Rating Agency, JCR-VIS credit rating company, Moody's Fitch's and standard and Poor's rating). • Prior to placing deposits with bank and in case of working balance exceeding 10 million, check that the bank selection has been made on the basis of competitive bids from at least three independent banks. • In case of working balance exceeding 10 million, check that not more than 50 % of such balance has been deposited with one bank. • In case, bank rating drops below "A" check that the new deposits and old deposits have been shifted to a bank with at least "A" rating with in one month and two month respectively. • Check that the working balance limit of each organisation has been determined with the approval of the administrative ministry in consultation with finance division. • For Investment in Non Government securities, check that the investment of surplus funds in the non Government securities/TFCs/Shares does not exceed 20% of the total funds under management. *Note:- The above condition is not applicable on public sector enterprises/autonomous bodies that have statutory restrictions on their investing in non-Government securities. Corporate entities which receive support from the current budget are holding trust funds such as pension fund, benevolent fund or insurance fund. These enterprises will devise their investment policies through their own board.* • Check the non-Government investment instruments meet the eligibility criteria* as annexed. • Check the annual certificate is issued by the Chairman regarding the implementation of instructions in respect of the working balance and surplus fund.		
III. Physical verification of investment instruments • Ensure that the physical verification of investment instruments is carried out.		

Audit Procedure	Done By	WP Ref.
• Check that all investment instruments are serially numbered.		
IV. Recording investments in the accounting record • Check that all investments have been properly recorded in the books of accounts. Compare the investment schedule with the ledger and bank records. • Explain movements and investigate any unexpected or unusual relationship between current period and prior period accounts. • Compare investment held at year end with prior year and budgeted amounts and enquire the variances. • Check that income from investment has been accounted for correctly. Perform recalculation of income on investment. • Check that the investment has been properly classified.		
V. Approval of disinvestment decision • Check that the encashment of investment instruments is made on favourable rates under the approval of proper authority and in accordance with the withdrawal policy. See the minutes of meeting in which disinvestment decision was taken. • Verify receipt of principal and interest income on the investments matured during the period.		

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

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

6.25 Audit Programme – Pakistan Post Office Department

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

Audit procedure	Done By	WP Ref
Accounting and Financial Management		
Preparation of Budget and its approval • Check the budget is prepared in accordance with codal provisions and approved by the competent authority. • Check the actual budget allocation towards the expenditures/revenues. • Check that budget appropriations and re-appropriations have been made in accordance with System of Financial Control and Budgeting 2006. • Check that expenditure in excess of the approved budget stands regularised through supplementary grant. • Check expenditure in respect of replacement of assets through R&R Fund has not been classified under expenditure met from budget appropriation. • Check sanction of competent authority is available for charging this expenditure to renewal reserve fund. **(Chapter-V regarding Budget, Grants and Appropriations of General Financial Rules Vol-I)**		
Cash management and payment vouchers • Check that the treasurer's cash book /pass book has been properly maintained and signed by the authorising officer on daily basis. • Check that closing balance has been carried forward to next day as opening balance in treasurer's cash book and head office summary. • Check that closing balances mentioned in the head office summary at the end of the month agree with that of cash account. • Check that the payment/receipt vouchers were prepared and signed by the authorised officer and were accompanied by specific approval of the competent authority and supported by		

Audit procedure	Done By	WP Ref
the relevant documents. • Check that all the payment/receipt vouchers were entered in the relevant registers/ledgers. • Check that all cheques received stand entered in the check register and cleared in a timely manner. • Check that the receipts realised through cheques have been entered in the Saving Bank Ledgers after clearance from bank. • Check that all payments to contractors/suppliers have been made through cheques. • Check that the cash has been retained within the authorised limit. In case of excess cash proper justification has been given in the head office summary. • Check that un-authorised payment has not been made on paper chits. • Check that stamps balance has been made part of the cash balance at the end of the day. **(Article 90 to 94, 174 to 176, 345 of PT&T IAC Vol-I)** **Remittances** • Check that remittance of cash/stamps is prepared by Post Master of a GPO against another GPO. • Check that complete detail and amount is given in the remittance advice. • Check that copy of remittance advice is sent to DA PPO with monthly cash account. • Check that remittance advice is accepted by the receiving officer and signed with office seal. • Check that information regarding accepted remittances is sent to DA PPO with monthly cash account. • Check that remittance acknowledged is checked and pasted with the counter foil in the remitting office. • Check that acknowledged remittance is duly signed by the PM after verification and amount acknowledged is the source of debit raised. • Check that no remittance advice is prepared for contingent		

Audit procedure	Done By	WP Ref
expenditure or other than cash, stamps and pay & allowances. • Check that all the remittance advices are acknowledged before the closure of account on 30th June. • Obtain justification of unacknowledged remittances after the year end. • Check that remittances made/received (acknowledged) are properly shown in cash account concerned. **(Article 91, 102 to 104 of PT&T IAC Vol-I)** **Compilation of Accounts** • Check that all the compilation was in accordance with Chart of Accounts (COA) adapted from NAM & Financial Statements were prepared in accordance with the applicable laws and accounting standards. • Check that all the postal receipts (postage, commission & others) are compiled in AB&Z statement. • Check that Form A is maintained in respect of all the attached units/sub offices in the GPO. • Check that Form B is maintained by every unit to which the budget is allocated. • Check that the Forms A&B are submitted to the circle/region office and DAPPO. • Check that the receipt and budgeted expenditure are preaudited by the Accounts Wing of PPO **(Article 360 to 362 of PT&T IAC Vol-I)** **Operation of bank accounts** • Check that the Government policies towards operation of bank accounts are complied with. • Check that all the CPRS/CTRS are withdrawn/deposited in Government Treasury at each day end. • Check that the account is opened only with State Bank of Pakistan/ National Bank of Pakistan. • Check that account with other bank is opened only where the Government Treasury is not available.		

Audit procedure	Done By	WP Ref
• Check that the monthly bank reconciliation statement was prepared and differences were identified. **(Article 96-97,102 to104 of PT&T IAC Vol-I)**		
Embezzlement, overpayments, misappropriation and misuse of funds • Check that loss and fraud cases reported have been maintained in a separate register. • Check that statement of loss & fraud cases has been submitted to the circle office and the DA PPO periodically. • Check that FIRs have been registered in cases where recoveries have not been made.Check that any fraud/loss occurred during the period has been immediately reported to the DG Audit/DA PPO and circle office. • Check that requisite inquiries have been initiated against the accused and reports have been submitted to the concerned authorities. • Check that all losses and frauds have been posted in the objection book to watch recoveries. • Check that recoveries made in this regard have been posted and the register has been updated accordingly. • Check that sub-judice matters are being perused vigorously in the courts of law. **(Para 20 of GFR Vol-1 & Article 24 of PT&T, IAC Vol-1)**		
Working/Operating Expenses • Check Budget allotment and observe that no excess expenditure was incurred without allotment. • Check sanction of unit officer as per delegation of powers. • Check that the expenditure is properly classified. • Check payment made to correct payee and acknowledgment by payee. • Check Hot and cold water charges for a sample of 2 or 3 months are as per rules. • Check contingent charges are paid from the budget grant of		

Audit procedure	Done By	WP Ref
the same year. • Check expenditure beyond the power is sanctioned by a higher authority. • Check recording in contingent register with all particulars of bill, sanction authority & amount date Sl.No. name of officer. • Check progressive total of each entry of sanctioned expenditure. • Check if expenditure is met from an advance. If so the advance is adjusted with parallel entry in advance register. • Check the sanction of the PMG is obtained for payment of rent of buildings. • Check payments have been duly entered in the treasurer cash book. • Check expenditure is reconciled with the monthly schedule of expenditure ('A' Form). • Check invoice/bill is available in the sanction/payment file. • Check three quotations from different parties for expenditure on supply more than Rs 40,000 are obtained. • Check that invoices/bills have been defaced properly to prevent double/fraudulent payment. • Check that rejected claims/payments have been highlighted in the contingent registers and are duly recovered. • Check that number of daily wagers employed are mentioned along with the rate of wages. **(Para 5 of System of Financial Control and budgeting 2006 & Chapter 2 of GFR Vol-I)**		
Advances		
TA/DA advance • Check that proper sanction for the grant of advance has been given as per rules. • Check that copy of tour programme approved by competent		

Audit procedure	Done By	WP Ref
authority is available in the record. • Check that adjustment was made against TA bills submitted by the officers/officials concerned on completion of journey. • Check that no previous TA/DA advance is outstanding against the officers/officials. • Check that TA advance is shown in the LPC in case of transfer of the officers/officials. • Check that TA advances are adjusted/recovered before the close of the financial year. • Check that the amount of advance was entered in the TA/DA advance register and in case of adjustment/ recovery full particulars are recorded. • Check that every adjustment/recovery verified by the authorised officer. **(Article 337 of PT&T, IAC Vol-1)** **Emergent Advance** • Check that the advance is sanctioned by the head of the circle. • Check that the advance is sanctioned for the specific work allowed in rules. • Check that the adjustment is made before the close of the financial year. • Check that no previous advance is outstanding against the officer. • Check that advance is issued against the head of the unit. • Check that advance is adjusted against the bill. • Check that the amount of advance was entered in the emergent advance register and in case of adjustment/ recovery full particulars are recorded. • Check that every adjustment/recovery is verified by authorised officer. **(Article 306 & 482 of PT&T, IAC Vol-1)**		

Audit procedure	Done By	WP Ref
GPF advance • Check that the application for the grant of advance is available in the file. • Check that balance slip was issued by the DA PPO Lahore. • Check that the balance slip of the class IV was properly maintained by the head of the office. • Check that the payment is not made beyond 80% of the available balance under the age limit of 50. • Check that advance was sanctioned by the competent authority. • Check that payment was made to the concerned officer/ official. • Check that proper receipt is obtained at the time of payment. • Check that in case of GPF advance refundable a control record is maintained to watch the recovery as per sanctioned authority. • Check that in case of non-refundable advance zakat was deducted at the prescribed rate and in case of exemption of Zakat, declaration to this effect is available. • Check that interest on the refundable advance was calculated and deducted. **(Article 499 of PT&T, IAC Vol-1)** **House Building/Motorcar/Motorcycle advance** • Check that the application for the grant of advance is available in the file and seniority register is maintained. • Check that sufficient budget is available in the proper head of account. • Check that the advance is given after the completion of prescribed length of service. • Check that the advance is adjusted before the retirement. • Check that the full amount of advance is granted at one time instead of pieces.		

Audit procedure	Done By	WP Ref
• Check that the mortgage deed has been executed. • Check that the 2nd advance is not admissible before the clearance of 1st advance. • Check that the advance is not sanctioned beyond the prescribed limit. • Check that advance was sanctioned by the competent authority. • Check that payment was made to the concerned officer/ official. • Check that proper receipt is obtained at the time of payment. • Check that the recovery and retrenchment registers are maintained to watch the recovery as per sanctioned authority. • Check that the interest is calculated at the prescribed rate on completion of the recovery. • Check that the interest is recovered regularly. • Check that interest recovery is classified under proper Head of Account. • Check that in case of transfer, the outstanding amount recorded in the LPC and copy endorsed to DA PPO, Lahore. **(Article 333 to 335 of PT&T, IAC Vol-1 & Para 253 to 263 of GFR Vol-I)**		
Postal Receipts		
Sale of Postage Stamps • Check that sufficient balance of Postage Stamps of all kind of denominations is available in stock. • Check that the indent for supply of stamps is sent in time. • Check that the stamps received are according to requisition and nominations from the zonal offices are entered in stock register as well as balance enhanced in head office summary. • Check that the sale of stamps is properly recorded in the stock register and balance is reduced accordingly. • Check that the balance of stamps is available within the		

Audit procedure	Done By	WP Ref
stipulated minimum and maximum limits. • Check that the daily balance is verified by the authorised officer. • Check that Franking machines receipts are entered under head of PRC. • Observe that Franking machines issued are properly recorded and log books of all franking machines are maintained by the GPO and the firm. Balances are to be compared periodically and updated regularly. • Observe that franking machines are inspected from time to time. • Check that the franking machines are filled on the demand of firm after receipt of the cash. • Check that the inspection of the franking machines which issued to firms is made properly. • Check that stamps sent to sub offices are properly noted in the respective register. • Check that daily sale of sub office included in daily cash account and head office summary/sub office summary. • Stamps received from other offices are included in stock register. • Check that stamps demanded from other offices are properly justified. • Check that the booking receipt issued against postage realised in cash on account of postage, parcel, airex, LES etc. is in accordance with the article booked. • Check that PRC on account of bulk post of other departments/ banks /PTCL etc. is deposited in treasury and entered in the cash book/head office summary/SO summary. • Check that PRC on account of parcel fee, airex fee LES charges etc. are deposited into treasury and entered in the cash book/head office summary /SO summary. • Check that cheques received against PRC are entered in the cheque register/cashbook/HO summary/SO summary. • Check that dishonored cheques of PRC have been reversed in		

Audit procedure	Done By	WP Ref
the receipts and returned to the authority for claim of credit. **Money orders** • Check that the record of booking of money orders is properly maintained. • Check that commission on booking of money orders is charged as per prescribed rates. • Check that the booked money orders are issued to the concerned quarters well in time. • Check that the value and commission of money orders is correctly shown in the daily schedules and taken into daily account. • Check that the sufficient balance of money order forms is available in stock. • Check that the charges of urgent money orders are properly calculated. • Check that urgent money orders are issued immediately. • Check that the staff for booking of money orders is available on the counters. • Check that the commission and fee are properly recorded in the accounts. • Check that the facility of fax money orders is available and working properly. • Check that the fax money orders are issued in the same day. • Check that the commission on fax money orders is calculated at prescribed rates. **(Article 189 of PT&T, IAC Vol-1& Part II & III of Chapter 7 of Post Office manual Vol-VI)** **Other receipts** • Check that the record of other receipts is properly maintained. • Check that the recoveries are properly shown in the recovery registers and schedules.		

Audit procedure	Done By	WP Ref
• Check that all receipts shown in AB&Z statement are properly documented. **(Article 370 & 377 of PT&T, IAC Vol-1)**		
Pakistan Postal Order/Postal Draft Service **Sale** • Check all the postal orders are in serial and books are in series. • Check stock register on form MO60 be maintained for receipt & issuance of PPO. • Stock register of PPO is checked by the PM daily. • A clear impression of stamp for date and year be ensured. • Check that the face value and commission be recovered from the purchaser of PPO. • List of sold PPO bearing total number, value and commission of each denomination be entered and supplied to DA PPO. • In case of lost/theft the value and commission be recovered from the person held responsible under intimation to DA PPO. **Payment** • PPO should be presented for payment along with its counter foil. • PPO is made payable at the office at which it is presented. • Payee or agent should be known to PM/PO staff and certify it on PPO. • Check that PPO is genuine and here is no alternative of date/amount or defaced/cut by any mean. • Check that PPO was bearing round MO stamp and sign of PM of issuing post office. • Check that PPO is presented for payment within six months of issue date. • Check that second commission is charged on PPO remitted after six months before due year of issue date.		

Audit procedure	Done By	WP Ref
• Check that PPO is forfeited after issuance of one year and PPO of Defence Services after two years. • Check that a journal is prepared for paid PPOs bearing value of PPO, Nos of AASS duly verified/signed by PM and submitted to DA PPO Lahore. **(Part IV of Chapter 7 of Post Office Manual Vol-VI & Clause 350 of Post Office Guide)** **Refund Of Miscellaneous Charges** • Check refund of receipts/postage/compensation for losses fires, insured articles etc. • Check that refund be on demand and to the authorised claimant. • Note against the relevant/original credit. • Check that proper sanction is obtained from the office authorised. • Check that amount refunded after lapse of the financial year be authorised by the audit office. • Check that the amount refunded was actually received and deposited in the accounts. • Check that every claim/applicant for refund is affixed with a stamp of Rs 5. **(Article 310 to 312, 315, 318, 319, 327 & 330 of PT&T, IAC Vol-1)**		
Consolidated postal receipts/Consolidated treasury receipts		
• Check that Form ACG 9 and 10 have been prepared and made available. • Check that CPR of each month is within the limit of Letter of Credit (LOC) issued by the DA PPO. • Check that proper justification is available in case of supplementary LOC. • Check that all cheques/cash deposited in treasury are entered in CTR Form ACG 9. • Check that cash drawn from Treasury (CPR) is recorded in		

Audit procedure	Done By	WP Ref
Form ACG 10. • Check that CPR/CTR is submitted to treasury officer by the 4th of the each month for verification. • Check that treasury officer has returned CPR/CTR after verification by the 10th of each month. • Check that verified CPR/CTR is submitted to DA PPO Lahore for each month. • Check that DA PPO Lahore receives verified CPR/CTR from GPOs and match the same with inward account received through civil account offices (6 AGPRs). • Observe that outstanding amounts in the CTR/CPR not verified in a certain month are verified in the next month. • Check that figures of CPR/CTR are agreed with figures of cash account of that month. • Check that treasury pass book is maintained properly and figures of CPR/CTR forms agreed with the treasury pass book figures. **(Article 96 & 97 of PT&T, IAC Vol-1)**		
Agency Functions		
Saving bank accounts • Check that the saving bank account of each person is opened separately. • Check that the saving bank ledgers are maintained properly. • Check that the account number, name of the account holder, address and CNIC number are recorded in the saving bank ledgers. • Check that the form for opening of saving bank accounts is filled and placed properly. • Check that the deposit and withdrawal are properly recorded in the S.B ledgers. • Check that the entries of deposits and withdrawals of saving bank ledgers are signed by the authorised postmaster.		

Audit procedure	Done By	WP Ref
• Check that the deposit and withdrawal slips are sent to the DA PPO, Lahore. • Check that the profit statement of ordinary saving bank accounts is received from DA PPO, Lahore and profit is posted properly in the S.B ledgers. • Check that the difference in S.B ledgers and profit statement is reconciled regularly with DA PPO, Lahore. • Check that the minus balances shown in the profit statement of ordinary saving accounts are reconciled with the DA PPO, Lahore. • Check that the withholding tax is deducted on the profit of the S.B accounts. • Check that the Zakat is deducted on 1st Ramzan-ul-Mubarak from the balance admissible S.B accounts and transferred to the concerned department. • Check that the declaration regarding non deduction of Zakat are obtained well in time and placed in proper custody. • Check that the profit on the special saving bank accounts are calculated on six monthly basis and profit posted properly in the S.B ledgers. • Check that dead saving accounts are revived with the approval of DA PPO, Lahore. • Check that the saving bank accounts transferred to the other offices are acknowledged. **Saving certificates** • Check that the sufficient balance of blank certificates of all kinds is available in stock. • Check that the saving certificates were sold on demand of the account holders. • Check that the proper identification is obtained at the time of sale of certificate. • Check that registration number is allocated to every issued/ saving certificate. • Check that profit is paid to the certificate holder at the		

Audit procedure	Done By	WP Ref
prescribed rate. • Check that zakat/withholding tax is deducted at the time of discharge/payment. • Check that in case of death of certificate holder the payment is made after fulfilling the codal formalities. • Check that in case of loss of certificate, the case is forwarded to DA PPO for issuance of declaration in lieu of lost/destroyed certificate. • Check that principal amount and profit is mentioned in the payment schedule separately. • Check that the profit is paid on regular income certificate on monthly basis at the prescribed rates. • Check that the deduction of service charges on premature encashment of regular income certificate is separately accounted for transfer to the Finance Division through DA PPO. • Check that the reconciliation of the blank certificates is made with CDNS. • Check that certificates are available according to the stock register. **(Chapter 8 of Post Office Manual Vol-VI)** **Pensions** (*Military, PTCL, CDA and Postal*) • Check that the file of each pensioner is maintained separately. • Check that Pension Payment Order (PPO) is issued by the competent authority. • Check that the PPO is verified from the issuing authority • Check that increases are allowed according to the notification of Finance Division. • Check that the increases are verified by the authorised officers/officials. • Check that the increases are not allowed to the re-employed pensioners. • Check that in case of death, family pension cases are		

Audit procedure	Done By	WP Ref
approved by the competent authority. • Check that re-marriage certificate, life certificate and non-re-employment certificate are obtained. • Check that in case of overpayment the recovery is made properly. • Check that the record of the sub office accounts is maintained in head office and date noting is up to date. • Check that the advance payments are received from the PTCL and CDA. • Check that the adjustment of Military Pensions is made through exchange account at DA PPO level. • Check that in case of military pension payment, paid vouchers are sent to CMP, Lahore Cantt through DA PPO, Lahore. • Check that the saving bank ledgers of military pensions are maintained properly as per rules of saving bank accounts and deposit and withdrawal slips are sent to the DA PPO, Lahore. • Check that the accounts of payment of PTCL and CDA are sent to GPO Lahore and Islamabad respectively within the prescribed time. • Check that pensioners saving bank accounts are transferred after proper approval and acknowledgment thereof obtained. **(Article 323 of PT&T, IAC Vol-1 & procedures and agreements for the payment of Military, PTCL, CDA and Postal Pension)** **Provincial taxes** *(Driving and Arms licenses, motor vehicle registration, motor vehicle fitness certificates and route permit stamps)* • Check that licenses are renewed on prescribed basis. • Check that a defaulter list is prepared and sent to the concerned quarters. • Check that fee/tax collected is levied according to the prescribed rates. • Check that income tax is deducted and remitted to concerned authorities. • Check that PT stamps are exchanged properly at the close of		

Audit procedure	Done By	WP Ref
calendar year. • Check that the service charges are not deducted on the remittances to FBR. • Check that in case of collection of token tax, fee and income tax of the motor vehicles, the receipt in proper form is issued to the owner of the vehicle and recorded in the ledgers. • Check that the ledgers are maintained properly. • Check that the penalty in case of late renewal is recovered. • Check that the collected amount is transferred to concerned provincial departments after deduction of service charges. • Check that the PT stamps are purchased according to the requirement. • Check that the renewal is made in prescribed period, in case of late the proper approval of competent authority is obtained. • Check that the service charges are deducted and shown in the schedules. • Check that the proper internal control is effectively applied at the time of issuance of PT stamps to sub offices. • Check that the daily balance is shown in the head office summary. **(Procedures and agreements for the receipt of registration/ renewal fee Driving and Arms licenses, motor vehicle registration, motor vehicle fitness certificates and route permit stamps)** **Collection of utility bills** • Check that the amount and due date is checked by the collecting clerk. • Check collection is in the form of cash only. • Check that utility bill is date stamped with cash receipt. • Check B & C stubs are detached from the bill and duly stamped stub A is returned to the depositor. • Check daily scroll is prepared for collection of utility bills. • Check dispatch of daily scroll to controlling		

Audit procedure	Done By	WP Ref
GPO/DAPPO/Area revenue office of utility agency in respect of collection of each kind of utility bill. • Check daily collection is entered in treasurer cash book, HO/SO summary and cash receipt journal. • Check commercial/industrial utility bills are not accepted after due date. • Check collection of utility bills of electricity, telephone, sui gas and wasa are classified correctly. • Commission calculated be compared in the monthly returns submitted to the DAPPO and controlling GPO. **(Procedures and agreements for the receipt of utility bills)** **Chief Controller of Stamps** • Check that the establishment of Chief Controller of Stamps is approved by the competent authority. • Check that the working strength is according to the sanctioned strength. • Check that the indents for printing of non postal stamps and judicial papers are received from the Federal/Provincial departments in time and printing is made according to the requirements. • Check that the printing is made from the Pakistan Security Printing Press, Karachi. • Check that the debit bills are raised to all the departments after the close of financial year. • Check that the service/printing charges are recovered from the concerned departments. • Check that non postal stamps are deposited in the treasury. • Check that the postal stamps are printed according to the requirements of PPO Department and transferred to the zonal offices. • Check that the receipt of stamps is acknowledged by the zonal offices. • Check that the stock register for all kinds of stamps is maintained properly.		

Audit procedure	Done By	WP Ref
• Check that the proper security is available. • Check that the stock of postage and other valuables is maintained properly to save from loss. • Check that the postal and non postal stamps are not printed other than by PSPC. • Check that the printing charges are paid to PSPC on actual basis as per rate fixed by the Finance Division. **(Article 531 to 534 and appendix 5 of PT&T IAC Vol- I)**		
POSTAL LIFE INSURANCE		
Issuance of policies • Check that policies have been issued not below the age of 18 and above 60 years. Further means of regular income have been ensured as per rule 3 of POIF Rules. • Check that policies have been issued on production of valid age proof i.e CNIC, matriculation certificate, birth certificate and service certificate etc. • Check that requisite certificates on the prescribed form have been obtained from the proposer. • Check that certificate has been obtained from the proposer that he is not suffering from disease if the value of policy is not above Rs 200,000. • Check that policy has been issued on receipt of due amount of first installment of premium in the treasury. • Check that policy has been issued after necessary scrutiny in the GM office as per rule 8 of POIF Rules. **Medical examination** • Check that proposer has been medically examined by the authorised medical officer if the value of policy is over Rs 200,000 as per rule 28 of POIF Rules. • Check that medical fee has been paid as per approved rate and laboratories tests have been carried out from the authorised laboratories. Further, the cost of similar nature of test has not been reimbursed at different rates.		

Audit procedure	Done By	WP Ref
Conversion of Policies • Check that policy has not been converted or type of policy has been changed before two years by the GM as per rule 23 of POIF Rules 2001. • Check that in case of conversion from high value into lower value, the excess amount paid to the canvassing has been recovered as per standing orders. • Check that converted/paid up policy is not allowed to surrender till completion of further two years after its conversion/ paid up. **Rebate to the policy holders** • Check that rebate to policy holders on advance payment has been allowed at approved rates vide rule 10(7) of POIF Rules.		
PLI Receipts		
Realization against fresh business targets • Check that monthly and annually fresh business target in respect of each field office has been fixed by the respective GM. • Check that monthly fresh business target has been achieved by each Assistant Director and Assistant Superintendent (field) and in case of short-fall, the recovery has been made @ 35% from the concerned officers/ officials as per standing orders of DG Pakistan Post. • Check that monthly fresh business target in respect of Canvassing Agents has been achieved. In case of shortfall of prescribe quota, the deduction from the monthly TA/DA of the official has been made. • Check that Fresh Business Register and monthly& annual reports have been completed in all respects. **Premium receipts against on going policies** • Check that ledgers have been completed and realization of premium is upto date. • Check that rebate has been allowed on account of advance payment of premium vide 10(7) of POIF Rules, 2001. • Check that in case of default of premium payment, the notices have been issued as per standing orders of the DG Pakistan		

Audit procedure	Done By	WP Ref
Post. Further, annual intimations have been issued to all the policy holders. **Premium receipts against death of policy holders** • Check that in case of death of the policy holder, the premium has been recovered at the month of death. • Check that advance premium realised from the deceased policy holders has been adjusted/ refunded. **Examination of receipts accounts** • Check that monthly fresh business reports have been prepared on the approved format and figures reported in the report tally with the figures of monthly cash accounts. • Check that ledger cards in respect of each policy have been prepared and premium amount has been depicted therein. • Check that fresh business register has been prepared and total of monthly premium tally with the monthly report. • Check that monthly receipts reported by the field offices have been taken in account by the respective GM office and reconciled with the Director of Accounts PPO. • Check that total receipts of the year in respect of each GM/ regional office has been taken into account by PPO Directorate General and depicted PLI Fund in the Appropriation Accounts of the department. • Check that recovery of loan has been classified under head repayment of loan and not included under PLI premium receipts. **Examination of Management Cost Summary** • Check that management cost to PLI Fund has been calculated as per Article 291,298 & 299 of PT&T Account Code. • Check that management cost tally the figures reported in the Appropriation Accounts of the department.		
Payments to Canvassing Agents		
Payment of honorarium against fresh policies • Check that honorarium @35% of the premium realised in the first year has been paid to the canvassing agents as per DG		

Audit procedure	Done By	WP Ref
PPO letters No.PLI.1-5/92 dated 27-3-1994. • Check that honorarium @37.50% of the advance premium realised in the first year has been paid to the canvassing agents as per DG PPO letters No. PLI.1-5/92 dated 6-7-1994. • Check that honorarium has been paid on verification of receipt of premium in the GPO treasury and recording in the ledger cards of the policy holders. • Check that payment has been made against acceptance memos of policies issued by the GM/Regional office. • Check that 10% withholding tax has been deducted from the payment. **Payment of commission against on going policies** • Check that commission @10% to 12.50% of the premium realised in the 2nd year has been paid to the canvassing agents as per DG PPO letters No. PLI.1-5/92 dated 27-3-1994 and 6-7-1994. • Check that commission @5% to 7.50% of the premium realised in the 3rd year has been paid to the canvassing agents as per DG PPO letters No.PLI.1-5/92 dated 27-3-1994 and 6-7-1994. • Check that commission has been paid on the basis of Credit Certificates of the policies duly signed by Ledger clerk, approved by Assistant Superintendent and countersigned by AD (field). • Check that 10% withholding tax has been deducted from the payment. **Payment against Postal policies** • Check that in case of Life insurance of postal employees by Postal Life, the premium will be reduced by the amount equal to commission payable to the canvassers and no commission has been paid to the canvassers. **Examination of record maintained for payment of honorarium / commission.** • Check that sanction registers for payment of honorarium and commission to canvassing agents have been maintained. • Check that monthly report for payment of honorarium and		

Audit procedure	Done By	WP Ref
commission to canvassing agents have been maintained on the approved format and there is no difference between the reports prepared by field office and complied by GM office. • Check that Canvassers have been approved and proper record has been maintained. • Check that with- holding tax has been transferred to the Income Tax department in the same month. • Check that no honorarium/ commission had been paid to the canvassing agents if policy had not been continued for two years		
Payments to policy holders		
Payment against forfeited /lapsed policies • Check that policies lapsed and forfeited as per rule 13 & 14 of POIF Rules have been revived by the GM after receipt of arrear along-with interest @ 12%. • Check that policies lapsed and forfeited upto 5 years as per rule 13 & 14 of POIF Rules have been revived by the GM • Check that no honorarium/ commission had been paid to the canvassing agents without revival of policies. **Payment on account of surrender value** • Check that no payment has been made on account of surrender value of policy if the premium had not been paid for 24 months. • Check that surrender value of the policy has been paid on the request of the policy holder supporting with original policy document and Premium Receipt book • Check that amount of surrender value has been calculated as prescribed rates and payment claim has been duly audited by Internal Audit cell of PLI. • Check that Zakat has been deducted @ 2.5% or Zakat Declaration has been obtained before one month from the valuation date as per Zakat rules. **Payment on maturity** • Check that original Premium Receipt books and policy documents have been deposited by the claimant		

Audit procedure	Done By	WP Ref
• Check that payment claim has been pre-audited and payable amount including bonus has been calculated at prescribed rates. • Check that on maturity of policy the payment has been made to the actual policy holder or his/her nominee as per policy document. • Check that no amount of premium or loan is outstanding against and recoverable amount has been deducted before making payment. • Check that Zakat has been deducted @ 2.5% or Zakat Declaration has been obtained before one month from the valuation date as per Zakat rules. **Payment against death claim** • Check that application in the prescribed form along-with original death certificate, policy documents and Premium Receipt books have been submitted by the widow or his/her legal heir. • Check that in case of less than three years, the confidential inquiry has been conducted by departmental officers. • Check that payment claim has been pre-audited and payable amount including bonus has been calculated at prescribed rates • Check that no payment has been made to the claimant violating the recommendations of the inquiry officer. • Check that payment vouchers duly signed by the claimant and concerned postmaster have been retained in the record as per rule.		
Grant of loans to policy holders		
• Check that loans have been granted on the request of policy holder along- with production of original policy and premium receipt book. • Check that 2nd loan has not been granted until the previous loan together with interest has been fully repaid. • Check that approved loan is not over 80% of the surrender value of the policy. • Check that on grant of loan, the original policy has been		

Audit procedure	Done By	WP Ref
pledged and not returned till the repayment of loan along with interest. • Check that loans have been granted by the GM PLI against active policies exceeding Rs 200,000 as per rule 21 of POIF Rules 2001. • Check that principal amount of loans along with interest accrued thereon has been repaid before the maturity. • Check that interest has been charged as such rate laid down from time to time on monthly balance of the outstanding amount on the first day of the month. • Check that Loan Ledgers have been maintained. The amount deposited on account of repayment of loans through monthly cash accounts has duly accounted for in the ledgers. • Check that loans have pre-audited by Internal Audit cell of the PLI and original Premium Receipt book has been returned to the policy holder. **(Postal Life Insurance Fund Rules and PLI Manual)**		

6.26 Audit Program – Pakistan Telecommunication Authority & Frequency Allocation Board

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

Audit Procedure	Done By	WP Ref.
Revenue & Receivables		
• Obtain files of individual telecom and mobile operators from licensing wing, commercial affairs wing and finance wing. • Check that the demand notices are issued well in time and as per the specified licensing conditions. • In case of any delay in issuance proper justification has been given for the delay and is duly vetted by the supervising officers. • Check whether the fee levied on the mobile and telecom operators are ascertained in accordance with		

Audit Procedure	Done By	WP Ref.
the Telecommunication Rules. • Obtain ledgers of finance wing, check outstanding dues and find out the reasons for non-recovery. • Check that following fees are recovered in time: (i) Spectrum Auction fee. (ii) Initial License Fee. (iii) Annual License Fee. (iv) Annual Renewal Fee. (v) Annual Spectrum Fee. (vi) Spectrum Administrative Fee. (vii) Numbering Charges. (viii) Other Miscellaneous Fees. • In case of delayed payments by the operators check that late payment charges are levied as per schedule of charges. • Obtain detail of operators along with Call Data Recording (CDRs), traffic monitoring reports and Annual Accounts of the operators and check that the following levies have been correctly accounted for: (i) Access Promotion Contribution (APC). (ii) APC for USF. (iii) Research & Development (R&D). (iv) Universal Service Fund (USF). • Check whether the operators are depositing the above fees to the PTA regularly. • In case of delay/non-recovery the penalty at the prescribed rates has been imposed on the defaulting operators. • Obtain listing of operators depositing the above fees directly to the USF Company under MoIT. • Check the mechanism adopted by the PTA for reconciliation of these outstanding dues. • Check whether the instructions issued by the Finance Division in respect of revenue and receivables are being followed by the PTA management as well as MoIT. • Check whether the assignment account has been opened by the MoIT with National Bank of Pakistan		

Audit Procedure	Done By	WP Ref.
as required by the Finance Division or not. • Check whether MoIT has devised the accounting procedures with the consultation of the Auditor-General of Pakistan and the Controller General of Accounts and get it approved from the Ministry of Finance. • Check whether the Authority has deposited all the above sums to Public Account with Ministry of Finance regularly. • Check party wise receivable ledgers and reconcile the same with billing during the period. • Check timely recovery of outstanding amounts. • Obtain ageing of receivables in all categories and check that long outstanding amounts are being followed up properly.		
Licensing and enforcement		
• Check whether all the formalities regarding awarding of license have been met. • Check whether the mobile and telecom operators are complying with the conditions of licenses issued to them. • The operators are submitting their annual accounts to the Authority well in time in accordance with license conditions or otherwise. • Check that in case of non-compliance of the license conditions actions have been taken by the enforcement wing. • Check whether the show cause notices were issued timely to the operators or otherwise. • Check whether the billing is regularly issued according to the tariff rates by the commercial affair wing. • Check that the demand notices issued by the commercial affair wing had been properly entered in the ledgers of receivables of Finance Wing. • Check the Reconciliation of billing and receivable ledger and ensure that in case of any difference the reconciliations have been prepared or not. • Check that the cases of raids have been conducted in		

Audit Procedure	Done By	WP Ref.
collaboration with FIA and other agencies and pursued regularly or not and what action has been taken against the defaulters. • Check the recovery process on account of loss found due to grey traffic and review the progress reports of grey traffic monitoring equipment. • Check whether that the tariff introduced by the mobile and telecom operators was approved by the Authority or otherwise.		
Service regulations and human resource management • Check that the service regulations have been approved by the competent forums i.e Establishment Division for service matters and Finance Division for financial matters. • Check that the changes made in the regulations by the Authority was after approval of the competent forums. • The appointments / promotions are made in accordance with the approved regulations or otherwise.		
Civil Works		
General • Check whether budget allocations for the sanctioned works are available. • Obtain annual development plan / maintenance programme. • Select sample from the plan focusing on high value items. • Obtain complete files of the estimates of the selected sample. • Check administrative and technical approvals. • Check that in case of works requiring sanction from planning division obtain approved PC I for work. • Check advertisement were given in newspapers for the execution of works and selection of firms. • Check comparative statement was prepared for all bidders. • Check issuance of work order inn accordance with the advertisement and development plan.		

Audit Procedure	Done By	WP Ref.
Contracts agreements and escalation • Check the provision of contract agreements made with reference to safeguard the public money. • Check that the variations/deviations from approved scope were made on account of valid requirements. • Check that the variation order is approved by the competent authority and recommended by the engineer (consultant). • Check that the cost of variation order was prepared in accordance with the terms and conditions of the contract agreement or prevailing market rates. • In case of any deviation from the contract agreement, record the instances and obtain justification. • Check escalation provisions of the contract agreement and compare with the payment voucher. • Check the current rate / base rates of materials provided in the agreement for escalation purpose. **Measurement of works** • Check the measurement book and ensure that the measurements were recorded in chronological order. • Check the arithmetic accuracy of the calculations booked in the measurement book. • Check that the aggregate measurements do no exceed estimated quantities as mentioned in the bill of quantities (BOQ). • Identify the cases of excess measurement from the measurement book and obtain justifications. • Check that detail measurements were recorded in the M.B. **Payments** • Check that necessary deductions were made from the contractor's payments. • Check that security deposit was released after the maturity period. • Check amount released against bank guarantee is as per agreement clause.		

Audit Procedure	Done By	WP Ref.
• Check that paid vouchers for mobilisation advances were against irrevocable bank guarantees issued by the scheduled banks. • Check recovery of minus amounts was made from final / running bill. • Check entries of temporary advance / imprest and observe that their adjustment was correctly made. • In case of delay execution of contract, ensure liquidated damages (LD) have been imposed / recovered in accordance with the provisions of contract agreement. • Ensure the material brought at site against which secured advance was granted. • Check the maintenance of security deposits registers / allied records. • Check the refunds of security deposits on satisfactory completion of defect liability period. • Check the provisions of the contract agreement towards deduction of income tax. • Check that actual deduction of income tax was as per rules and obtain justification and check approval of the approving authority in case of deviations.		

6.27 Audit Programme - National Telecommunication Corporation

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

Audit procedure	Done by	WP Ref.
Revenue		
• Obtain the tariff regime regarding telephone dues, DSL, PABXs, co-location charges and space tower rent. • Check that bills were issued to designated subscribers in accordance with the tariff regime. • Check billing system of DSL in the light of tariff		

Audit procedure	Done by	WP Ref.
regime and subsequent adjustments. • Check DSL charges are separately disclosed in the bills issued. • Check issuance of royalty bills to the PABX subscribers. • Check whether co-location charges and space tower rent were identified in accordance with the interconnect agreements. • Obtain bill register, recovery posting register, defaulter ledger, register of other charges, casual telephone connection register and recovery resolution policy. • Check that the dues are recovered within the prescribed time frame as per the policy. • In case of any delayed payments check that late payment charges have been levied as per policy. • Check "other charges" have been properly identified and posted in the ledger/bill register. • Obtain the "recovery statements deferred through bill" and check that the recovery has been realised by the revenue officer in the succeeding month's bill. • Check court cases appearing in the defaulter register and observe pursuance for recovery. • Obtain Call Data Recordings (CDR) and traffic monitoring reports. • Carry out reconciliations of traffic in the light of interconnect agreements made with the telecom operators. • Check monthly reconciliations regarding amounts payable to and receivable from other telecom operators as per the interconnect agreement.		
• Reconcile record of demand notes raised, revenue received entered into ledger and subsequent clearance in bank statements. • Check a sample of receipts from point of receipt to the bank account and to General Ledger/Cash Account • Check on a sample of goods or services provided that these		

Audit procedure	Done by	WP Ref.
resulted in an invoice/claim/payment and that all invoices/claims resulted in either a payment or an entry onto a list of accounts receivable.		
• Check that receipts are correctly identified in the General Ledger/Cash Account under the correct head of account and correctly coded according to the Chart of Accounts by checking a sample of transactions. • Check whether the manager(s) reconcile the information in the accounting report with the receipts for the period reported.		
Receivable management • Obtain aging of receivables of all revenue categories. • Check long outstanding receivables and observe the steps being taken for their recovery. • Obtain details of receivables pending on account of court cases and check the follow up of recovery. • Obtain the opening closing statement (OCS) and check the disconnections and their outstanding dues. • Check the non-recoverable dues against permanently closed connections		
Write-Off of Non-Collectables • Examine what policies exist for the management of overdue accounts of monies owing the Government • Check if there is a regular report of write-offs of uncollectible monies owing the Government during the period. • Take a sample of accounts written-off and determine whether the actions were consistent with the policies on write-offs and whether the proper authorisations were made by officers and whether these actions were within their delegated authority. • In particular, determine whether any write-offs of monies owing (especially large ones), were inconsistent with policies or appeared to favour certain debtors. • Select a sample of aged accounts (individual cases of monies which have been owed the Government for a long time) and determine what has been done with them (ideally the files will have a history of collection efforts) and compare actions taken against the relevant policies.		

Audit procedure	Done by	WP Ref.
• Where appropriate, conduct an analysis of the level of write-offs compared to the amount of total income, and compare different locations to determine if any particular locations have a significantly higher level of write offs.		
Service regulations and human resource management • Check that the service regulations have got approved from the competent forums i.e Establishment Division for service matters and Finance Division for financial matters. • Check that the changes made in the regulations by the Corporation were made after approval of the competent forums. • The appointments / promotions are made in accordance with the approved regulations.		
Inventory Stores spares and loose tools • Check store/stock register (ACE-8) has been maintained properly in accordance with the prescribed rules. • Check whether necessary invoices of store / stock procured have been obtained and stock taking was made accordingly. • Check that entries of inventory / stock registers have been attested / authenticated by the in charge concerned. • Obtain the requisitions and check that stores were issued according to the indents / requisitions. • Check that necessary orders / approval of the competent authority to issue stores to the indenters have been obtained. • Inventory / stock registers are being regularly reviewed by the officer in-charge on periodical basis. • Check that proper Store / Stock declared unserviceable has been disposed off through auction and sale proceed thereof have been credited to proper head of account. • Check that Stores/stock were not purchased/procured in excess of actual/rational estimated demand/utilization.		

6.28 Audit Program – National Radio Telecommunication Corporation & Telephone Industries of Pakistan

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

Audit Procedure	Done By	WP Ref.
Revenue & Receivables		
• Obtain local and export sales ledgers to ascertain the sales figure reported in the Financial Statements. • Obtain work order register and files of individual work orders. • Check proper agreement/MOU has been entered into with the customer. • Check work order is as per agreement/MOU. • Check a sample of work orders and observe that details entered into the work order register is as per the specifications in the work order. • Check supply of Goods has been made according to the specification and within the time frame prescribed in the work order. • Check whether any liquidated damage charges have been levied by the customer on account of delay in supply. • If so, check the reasons for delay were justified and have been duly verified by the Management Board. • Obtain cheque register and observe that the amount of cheques received is as per the percentage specified in the Work Order. • In case of export sales obtain files of export work orders. • Check that the terms and conditions of exchange rate fluctuation of foreign currency have been included in the agreement/work order. • Check that terms and conditions as mentioned in the work order have been complied with in all respects.		

Audit Procedure	Done By	WP Ref.
• Obtain party wise ledgers of receivables. • Check recovery from the parties is being made in a timely manner as per the agreement. • Obtain aging of receivables in all categories and check recoveries. • In case of delay check that recovery is being pursued rigorously.		
Stock/Stores and spares		
• Check that store / stock register have been maintained in accordance with the prescribed rules. • Check whether necessary invoices of store / stock procured have been obtained and stock taking was made accordingly. • Check that entries of inventory / stock registers have been attested / authenticated by the in charge concerned. • Check whether store / stores were issued after obtaining proper indents / requisitions. • Check that necessary orders / approval of the competent authority to issue stores to the indenters have been obtained. • Inventory / stock registers are being reviewed by the officer incharge on periodical basis. • Check that proper Store / Stock declared unserviceable has been disposed off through auction and sale proceeds thereof have been credited to proper head of account.		

6.29 Audit Program – Special Communications Organisation

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

Audit Procedure	Done By	WP Ref.
Examination of subsidiary record of receipts • Check that monthly telephones bills are being issued regularly and delivered to the subscribers in a timely manner. • Check that monthly summary of the billings has been		

Audit Procedure	Done By	WP Ref.
maintained. • Check for abnormal arrears in the billing summary. • Check that record of new connections (installation charges), arrear payments and departmental /extra departmental PCOs has been maintained. • Check that monthly report for each category of receipts has been prepared. **Receipts through GPOs** • Check that amount realised through GPOs as per para 34 of FBA&A procedure has been depicted in the monthly cash account of the GPO. • Check that there is no difference between the reported figures and collected amount shown in the monthly report of the Accounts Officer telephone Revenue. • Check that daily statement of collected amount on account of paid telephone bills has been prepared .The counterfoils of the paid bills have been received from the concerned GPO and duly compared by the concerned branch. **Receipts through scheduled banks** • Check that contract agreements for collection of telephone bills have been executed with the banks duly approved by the SCO Management Board. • Check that agreements have been executed to safeguard the interests of the organisation and adequate provisions have been included for timely transfer of collected amount to GPOs/designated account/ Government treasury. • Check that monthly bank statements are being received regularly. • Check that amounts realised on account of telephone bills collected by different banks during a month as per bank statements have been transferred to the respective GPO as per provisions of the contract agreements. Any delay in transfer of collected amounts needs to be pointed out. • Check that there is nil closing balance of cash as on 30th June of each financial year. • Obtain justification for amounts retained beyond this date.		

Audit Procedure	Done By	WP Ref.
• Check that quarterly reconciliation was made with DA PPO, Lahore • Check that all collections were transferred to DA PPO, Lahore through GPOs • Check that revenue collected in SCO Headquarter was transferred to DA PPO, Lahore by cheque • Check that SCO Headquarter received its share from PTCL and other Telecom operators • Check that proper reconciliation was made with PTCL and other Telecom operators • Check that GST & WHT deducted was transferred to Government of AJK in a timely manner		
Establishment Charges		
Pay and allowances of regular establishment • Check that pay bill has been prepared as per approved sanctioned strength (TO&E) and pre-audited by the Unit Accountant CMA (FWO) before payment. No amount has been drawn in excess over the approved strength. • Check that amount drawn is according to the entitlement of relevant scale and allowances have been duly approved by the SCO Board/ Finance Division. • Check that necessary deductions have been made. • Check that pay & allowances of the transferred employees have been drawn according to their LPC. • Check that in case of new appointments, the medical certificate from the authorised medical officer has been obtained. • Check that deduction from conveyance allowance has been made in respect of the official/officer who has been granted leave. • Check that staff of CMA (FWO) entrusted with the accounting work of SCO has been duly authorised from the SCO Project Board. **Pay and allowances of temporary establishment** • Check that appointments of temporary establishment (work charged) BPS-1 to BPS-16 against approved projects has been		

Audit Procedure	Done By	WP Ref.
approved by the DG SCO as per Sl No.10 to Annex.A of FBA&A procedure. • Check that no official has been retained after completion of the project. • Check that expenditure incurred against work charged establishment does not exceed the amount approved in the project. • Check that expenditure has been debited to the project against which appointments had been made. **Pay and allowances of contract staff** • Check that contract appointments have been made in accordance with the standing orders of the Establishment Division. • Check that posts exist against which appointment on contract has been made. • Check that no contract official/officer has been retained after expiry of the contract period.		
Procurement of stores • Check that provision of Public Procurement Rules 2004 and para 42 & 53 to 64 of FBA&A Procedure for procurement of project store, equipments, vehicles and other store have been followed • Check that procurements have been made against approved projects and in accordance with the provisions of the PC-1. • Check that store ledgers have been properly maintained. • Expense & issue vouchers have been maintained in the relevant files. • Check that provisions of para 43 to 47 of FBA&A Procedure for procurement of Medical, ASC supplies, Ordnance and T&T store regarding indenting, receipt, issue and accounting have been followed. • Check that demands for procurement of equipment/ vehicles and store etc have been made as per para 53& 54 to FBA&A procedure. • Check that procurements have been made in accordance with the financial powers vide Annexure A&B to FBA&A		

Audit Procedure	Done By	WP Ref.
Procedure for procurement of different types of store. • Check that stores procured were used in the same financial year **Local purchase of store** • Check that procedure of limited tenders for local purchase of store has been adopted only if fulfils the requirements of para 48 to FBA&A Procedure. • Check that procedure for local purchases as per para 49 to FBA&A has been adopted if monetary limit does not exceed Rs 100,000. • Check that expenditure has been sanctioned as per delegated powers. • Check that expenditure does not exceed the budget provisions and cannons of financial propriety have been observed. • Check that propriety certificate has been obtained if competitive rates have not been obtained through tendering procedure or through sealed quotations.		
Expenditure against project works • Check that work has been got approved as per financial powers delegated vide Annexures A&B to FBA&A Procedure. • Check that Public Procurement Rules 2004 have been followed while awarding the works. • Check that procurements have been made against approved projects and in accordance with the provisions of the PC-1. • Check that provisions of para 43 to 47 of FBA&A Procedure for procurement of Medical, ASC supplies, Ordinance and T&T store regarding indenting, receipt, issue and accounting have been followed. • Check that procurements have been made in accordance with the financial powers vide Annexure A&B to FBA&A Procedure for procurement of different types of store. • Check that demands for procurement of equipment/ vehicles and store etc have been made as per para 53& 54 to FBA&A procedure.		

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 on 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 Audit 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 Conclusions

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 Paper kit have been completely followed in all respects.

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

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

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

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

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

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

To facilitate the auditors' understanding of the reporting process, the Reporting Cycle of PT&T Audit 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 finalised for Audit Report are retained in the AR section, while those which cannot find a place in the Audit Report are sent back to the concerned IR sections. These Paras are compiled and issued as MFDAC by the IR sections for further pursuance. The MFDAC is compiled and issued on a yearly basis to respective PAOs.

Departmental Accounts Committee (DAC) meeting

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

Quality assurance review at DAGP

i) Quality assurance is carried out using DAGP'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 the President

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

Pre- PAC meeting with AGP

i) Pre PAC meeting is held with Auditor-General or the Additional Auditor-General. The audit paras are discussed thoroughly before being presented at the PAC meeting.
ii) During the Pre – PAC meeting, the audit paras are categorised according to their significance and strategy for discussion is considered accordingly.

Public Accounts Committee (PAC) Meeting

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

7.3 Documentation in Evaluation and Reporting Phase

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

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

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

The following paragraphs contain specific guidance for using the forms given for the Evaluation Phase in the Audit Working Papers Kit.

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 detail, 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 detail. The auditor's decision is recorded on this form.

7.8 Substantive Tests Evaluation – Projectable Errors from Sample

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

7.9 Substantive Tests Evaluation – Non-Projectable Errors

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

7.10 Substantive Tests Evaluation – Summary

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

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

7.11 Achieved Level of Assurance Form

The Audit Plan was based on the audit team's estimation of the audit assurance that could be achieved with respect to Inherent Risk, Control Risk, Analytical Review and Substantive tests 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 a compliance requirement. For example, an entity may have reported under-spending a particular grant, whereas the auditor has concluded that expenditures have not all been properly charged to that grant. This type of error, and other compliance violations, would be evaluated using this form.

7.15 Checklist of Management Representation Letter

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

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

7.16 Sample Management Representation Letter

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

7.17 Audit Completion Checklist

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

7.18 Memorandum Supporting Signature

The Audit Completion Checklist provides the official signing the audit with assurance about the audit procedure but not about the Financial Statements or audit findings. This

Memorandum provides the signing official with this additional information and will provide the basis for a briefing on the conduct and conclusions of the audit.

7.19 Auditor's Opinion

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

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

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

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

7.20 Follow up Continuity Schedule

Follow up is an integral part of the audit function. The auditor's objective is not fulfilled unless any errors or deficiencies identified during the audit have been 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 are complete and accurate, 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 Financial 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 criticise 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 contributing to the centrally led audit.

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/AD	DD	D	DG
4.4	Developing and Updating the control sheet-PF	**P**	**S**	**R**	
4.5	Updating Status of Entity Form/information.	**P**	**R**		
4.6	Gathering and updating financial & Operational background Information.	**P**	**S**	**R**	
	Documenting the Background Information.	**P**	**S-R**		
4.7	Listing all the possible Auditable Locations.	**P**	**R**		
4.8	Listings of names address and account no of all Bank Accounts in the name of Entity.	**P**	**R**		
4.9	Documentation and Listing Authorized Signatories.	**P**	**R**		
4.10	Listing External Factors related to performance of the operational activities of an auditee.			**P**	**R**
4.11	Listing the accounting records maintained by the auditee.	**P**	**R**		
	Development of a brief description of the accounting system used by the auditee.		**P**	**R**	
4.12	Listing Key Contacts.	**P**	**S-R**		
4.13	Listing Significant Audit Areas.		**P**	**S-R**	**A**
	Updating determination of components.		**P**	**R**	
4.14	Listing Significant Accounting Policies.		**P**	**R**	
	Update and review of Significant Accounting policies.		**P**	**R**	
	Review and Sign Off of all the forms within the Permanent File.			**R**	**A**

8.4 Key Tasks and Responsibilities: Audit Planning Phase

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

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/AD	DD	D	DG
5.24	Preparing High value item selection form.		**P**	**R**	
5.25	Preparing Key item selection form.		**P**	**R**	
5.26	Computing Sample sizing for tests of internal control.		**P**	**R**	
5.27	Calculating Sample size for substantive tests of details.		**P**	**R**	
5.28	Documenting Checklist of accounting estimates to be reviewed.		**P**	**R**	
5.29	Recording Points for attention at next audit.	**P**	**S**	**R**	
5.30	Documenting Audit planning checklist.		**P**	**R**	**A**

8.5 Key Tasks and Responsibilities: Audit Execution Phase

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/AD	DD	D	DG
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**

8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

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

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/AD	DD	D	DG
7.20	Following up the Continuity Schedule		**P**	**R-S**	
7.21	Reviewing the Quality Assurance Checklist			**P**	**R**

8.7 Key Tasks and Responsibilities: Audit Quality Assurance

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/AD	DD	D	DG
Planning					
5.3	Review that Planning has been carried out as per the recommended planning process.			**R**	**S**
FAM 15.3.6	Assigning Appropriate staff, required strength and skill set of the audit team.			**P**	**R**
FAM 15.3.7	Preparation, revision and approval of the Audit Budget.		**P**	**R**	**A**
5.30	Ensuring that audit programs are in place as required in Audit Policy Checklist.		**P**	**R**	
Execution					
5.8	Ensuring revision of the planning decisions, if required.		**P**	**R**	**A**
	Supervision of all phases of execution as per the tasks assigned in "key tasks related to execution phase" list.		**P**	**R-S**	
	To ensure review of audit working paper files.		**P**	**R**	**S**
6.16	To ensure executing audit steps as per the Audit Programs.		**P**	**R**	**S**
	Ensuring reporting and monitoring of audit activities with reference to "execution task list."		**P**	**R-S**	
Evaluation & Reporting					
7.3	To ensure detailed review and approval of monetary errors, compliance with authority Violations and internal control deviations found.		**P**	**R-S**	**A**
7.15,7.16,7.18	Ensuring tools for the auditor's opinions and statements are used.		**P**	**S**	**R**
7.17	Ensuring Documentation of Audit Completion Checklist.		**P**	**R-S**	**A**
7.21	Reviewing the Quality Assurance Checklist. *		**P**	**R**	**A**

*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

PERMANENT FILE

Ministry of Defence Production

National Radio Telecommunication Corporation

PERMANENT FILE

Major function of National Radio Telecommunication Corporation (NRTC) is to assemble and manufacture the telecommunication equipments for Armed forces of Pakistan. Its designated customers include Armed forces of Pakistan, Federal Government departments, Provincial departments and such other Government agencies / institutions as the Federal Government may determine. NRTC also supplies such equipments to other countries with the prior approval of Government of Pakistan.

AUDITOR-GENERAL OF PAKISTAN

AUDIT PERMANENT FILE

Update Control Sheet

Name of Entity/Organisation: National Radio Telecommunication Corporation

Original file prepared by: Mr. Zulfiqar Ahmed Audit Officer

Date: 10.08.2008

File updated by: Mr. Muhammad Bilal Ahmed Date: 28.12.2009

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

AUDIT PLANNING-PRMANENT FILE

Understanding of Entity's Business

Form PF- I

Understanding of Entity's Business – Status of Entity
Name of Entity/Organisation:

Principal Address: Secretary,
Ministry of Defense,
Pak. Secretariat – II,
Rawalpindi

Managing Director,
NRTC Haripur, NWFP

Status of the Entity:
(Government/autonomous/centralised/self-accounting/exempt/other)

Corporation

Inter-Governmental Relationship:
(Attached department, branch office, etc.)

Working under the Ministry of Defense

OFFICE OF THE DIRECTOR GENERAL PT&T AUDIT, LAHORE

PERMANENT FILE

Form PF- II

Understanding of Entity's Business – Background Information

Name of Entity/Organisation: **National Radio Telecommunication Corporation**

INITIAL INVESTMENT

Initial investment of establish the factory was made as under

a. Ministry of Defense Rs.10.00 Million
b. Ministry of Communication (T&T Dept) Rs.5.00 Million

The funds contributed at the establishment stage were utilised to:

a. Purchase Plant and Machinery
b. Construction of the Factory Buildings

The initial investment made back to the concerned Ministries as per following details:

		Ministry of Defence	Ministry of IT	
a.	Dividend	Rs.10.00 Mn	Rs.5.00 Mn	Paid in cash
b.	Bonus Shares	R.20.00 Mn	Rs.10.00 Mn	Converted into paid up capital
	Total	***Rs.30.00 Mn***	***Rs.15.00 Mn***	

Present position of authorised and paid-up capital of the company is as under:

a. Ministry of Defence Rs.40.00 Mn
b. Ministry of IT (IT &TD) Rs.20.00 Mn

Core Operational Activities / Corporate Plan

Major function of National Radio Telecommunication Corporation (NRTC) is to assemble and manufacture the telecommunication equipments for Armed forces of Pakistan. Its designated customers include Armed forces of Pakistan, Federal Government departments, Provincial departments and such other Government agencies / institutions as the Federal Government may determine. NRTC also supplies such equipments to other countries with the prior approval of Government of Pakistan.

Corporate Plan

By virtue of long experience in the field of telecommunication, NRTC has attained excellent technical backed-up knowledge and support with a modern infrastructure and standard expertise for producing telecommunication equipment to the entire satisfaction of end users. We are ISO-9001:2000 certified which is the highest degree of quality management and quality assurance of products. Moreover company has planned to increase its production capacity and achieve global recognition by coping with the foreign targets to strengthen, by meeting its foreign and local customer requirements.

Major Beneficiaries

1. Federal Government Departments
2. Provincial Government Departments
3. Defense Services
4. Other Government agencies / institutions as the Federal Government may determine.

Major Cost Centers

1. Managing Director, NRTC Haripur, NWFP

Function/Object classification

Functions	**Objectives**
Policy formation	Payroll, Physical Assets, Operating Expenses, machinery Apparatus and Plants, Machinery and Equipment, Procurement, and Repair and maintenance of fixed Assets,
Receipts	1. Receipts proceeds from sale of telecom equipments. 2. (Investments, and profit from bank accounts)
Reporting Authority	Ministry of Defense

Business Process:

National Radio Telecommunication Corporation (NRTC) assembles and manufactures telecommunication equipment mainly for the Armed Forces, other agencies and foreign countries. This equipment is manufactured based on orders received from local and foreign customers. The key function at NRTC is procurement of required supplies to fulfil the orders received. This involves procurement of the requisite materials from both local and foreign sources and maintenance of stores thereof. The purchase process is as follows:

Purchase requisition

- Sales orders are reconceived from various customers both Domestic and International;
- Based on the requirements purchase requisitions are raised by manufacturing department and a written copy sent to the stores department;
- In case the requisite items are available with stores, they are issued accordingly and the remaining requisition is forwarded to the purchase department for processing;

Tendering

- The ordering department identifies whether the required items are available locally or are required to be imported from abroad;
- Certain classified equipment required is obtained only from designated suppliers, a propriety certificate is issued for these purposes and orders are placed directly to the identified vendor;
- In case of local purchase the ordering department invites suppliers to raise quotations and tenders through press or by official letter;
- In case of pre-qualification quotations are called for from pre-qualified contractors;
- In case of defense related procurements orders are directly placed with the concerned organisations through official letters;
- Rates offered by the suppliers are srutinised and comparative statements are prepared;

Order placement

- Ordering department places an order with the relevant supplier and records the details of the order on a sequentially numbered multi-part order form;
- One copy of purchase order stays in ordering, one goes to the supplier and one to the warehouse.
- When the goods arrive from the supplier, sequentially numbered multipart goods received note (GRN) is raised.
- One copy of GRN stays in the warehouse and is matched and stapled to the purchase order, one returns to the ordering department to match to their copy of the purchase order and one goes to the purchase daybook clerk to update the records.
- The details of the goods received note are entered into the purchase daybook and the GRN's are filed in numerical order.
- At the end of the day, the total of the purchase daybook is transferred to the general ledger.

Payments

- Once the invoice is received it is matched to the detail on the ledger and is updated to reflect this;
- In case of any discrepancies the invoice is returned to the supplier for necessary correction and updation;
- Cheque is prepared in the name of the supplier;
- The invoice is then stamped as paid after getting it authorised by the finance manager.

Cash purchase

- Besides the above, cash purchases were also made through temporary advances on requirement basis;
- The temporary advance is granted to the incharge procurement branch who received demand from the concerned departments and subsequently purchases are made through purchase committee;
- The goods were entered in the store ledger as and when received and handed over to the concerned departments;
- The invoices are collected and an adjustment account is submitted to the Finance Department.

Import purchase

- Incase of import purchases orders are invited from designated suppliers through email;
- Memorandum of understanding (MOU) is then signed with the suppliers stating the terms and conditions of supply of material and payment and order is placed accordingly;
- Letter of credit is then opened in the name of the selected supplier;
- Goods are shipped by the supplier and a copy of bill of lading and details of shipment is sent to the ordering department;
- Delivery of the shipment is received at the port and goods are inspected for quality and quantity;
- Triplicate GRN is prepared and the material is handed over to the stores/warehouse for issuance to concerned departments;
- Entry is made in stores ledgers and record is updated;
- The procurement department monitors the overall process and incase of any lapse on part the supplier penalties/liquidated damages are imposed where applicable.

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- III

Understanding of Entity's Business – List of Auditable Locations

Name of Entity/Organisation:

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

Main Accounting Office

1. NRTC Haripur, NWFP

District Accounting Offices

NIL

Other Accounting Locations

NIL

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF - IV

Understanding of Entity's Business – List of Bank Accounts

Name of Entity/Organisation:

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

S.NO	PARTICULARS
1.	Current account with NBP
2.	Account No. SSD with HBL
3.	Standard Chartered Bank Rawalpindi
4.	Account with ABL Haripur
5.	Unisaver with UBL Haripur
6.	Cash account with I/C Mess
7.	Account with MCB 365 Gold
8.	Account No. Nida – III with NBP
9.	Premium Plus Account with ABL Haripur
10.	Foreign currency account with KASB Rawalpindi
11.	Local currency account with KASB Rawalpindi
12.	STD with NBP TIP Branch Haripur
13.	Bank Alfalah Haripur
14.	TDR Bank Alfalah Haripur
15.	DSC with NSC – III Haripur

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- V

Understanding of Entity's Business – List of Authorised Signatories

Name of Entity/Organisation:

The auditor should list names of personnel who are authorised to approve, certify and authorise collection, recording, processing and reporting of financial information of the entity.

Administrative and Financial Powers

1. Managing Director NRTC Haripur, NWFP

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERAMNENT FILE

Form PF- VI

Understanding of Entity's Business – External Factors

Name of Entity/Organisation:

The auditor's objective is to obtain sufficient appropriate audit evidence to provide reasonable assurance that financial statement items affected by external matters outside control of management such as the economy that can affect the business are fairly presented within the context of the financial statement taken as a whole. To do so, the auditor will need to understand the external factors that could affect the audited entity's financial position.

The auditor should list below entity's assets and liabilities that are affected by the external factors to ensure that costs, contingent liabilities, commitments and assets have been properly recognised, valued and reported in accordance with the Government's accounting principles.

External Factors

Government policies on the purchase of raw material for telecommunication equipment.

Strict legal laws and regulations over the quality of product and health and safety requirements of employees.

Significant variation in the foreign exchange rates.

Inflation rates are changing at high speed.

Disturbed economical condition of the local customers in the form of lesser purchasing power.

Rapid changes in the technological environment of telecommunication equipment puts pressure on the company to adapt with the changes of the industry and meet the customer requirements.

Account head being affected by the above mentioned external factors.

Raw material

Revenue

Contingencies and commitments

Debtors and creditors

Long term debts

ADITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- VII

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

Name of Entity/Organisation:

The auditor should list the accounting records maintained by the entity for the collection, recording, processing and reporting of accounting information.

Headquarter

- Accounting record involves ledgers, cash books, journals
- NRTC prepares its own annual budget and submit to Federal Government for approval
- Annual accounts are prepared by NRTC which are certified by the Chartered Accountants

Accounting System

Self Accounting Entity

Commercial Accounting (Double Entry System, on accrual basis)

Supporting Documents

Audited Accounts

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- VIII

Understanding of Entity's Business – Key Contacts

Name of Entity/Organisation:

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

Key Management Personnel	Name	Title	Tel.	Fax	Email
Entity/ Department/ Unit	Managing Director		0995-611728	0995-610933	
District/ Local Office/ Formation	Manager operations		0995-612578	-do-	

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- IX

Understanding of Entity's Business – Significant Audit Areas

Name of Entity/Organisation

Significant Audit Areas

1. Receipts
2. Stocks
3. Production process
4. Procurements and Installation of Apparatus and Plants
5. Construction and maintenance of buildings
6. Maintenance of Apparatus and Plants
7. Employees related expenses payments
8. Annual Audited Accounts

AUDITOR-GENERAL OF PAKISTAN

AUDIT PLANNING-PERMANENT FILE

Form PF- X

Understanding of Entity's Business – Significant Accounting Policies

Name of Entity/Organisation:

Significant Accounting Policies

Revenue recognition

Sales are recorded on dispatch/ delivery of goods to the customers and when significant risk and rewards are transferred to the customer. Profit on bank accounts, interest on general reserve fund investment, short term investment and interest on loans to employees is accounted for on a time proportion basis using applicable rate of interest.

Fixed Assets

All fixed assets are stated at cost less accumulated depreciation and impairment loss, if any except for capital work in progress and land which is stated at cost less impairment loss, if any. The cost of fixed assets comprise its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on fixed assets is charged on reducing balance method, so as to write off the cost of these assets over their estimated useful lives at the rates specified in note 11.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and assets so replaced, if any are retired. Gains and losses on disposal of fixed assets. If any, are included in income currently.

Inventories

Stores, spares and loose tools are valued at lower of weighted average cost and net realizable value less impairment. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made of obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools. Impairment is also made for slow moving and/ or items identified as surplus to the Company's requirement.

Stock in trade is valued at lower of cost and net realisable value. Cost in relation to raw and packing materials is determined on moving average basis and in relation to work in process and finished goods represents average cost comprising direct material, labour and appropriate manufacturing overheads. Cost comprises invoice value and other cost incurred for bringing the stock at their present location and condition for intended use. Net realizable value represents the estimated selling price less estimated cost of completion and estimated cost necessarily to be incurred for such sale.

Staff benefits

Defined contribution plan

The Company operates a recognised contributory provident fund for its permanent employees. Equal monthly contributions are made, both by the Company and the employees to the fund at the rate of 10% of basic salary. The Company's obligation is charged to income currently.

Defined benefit plan

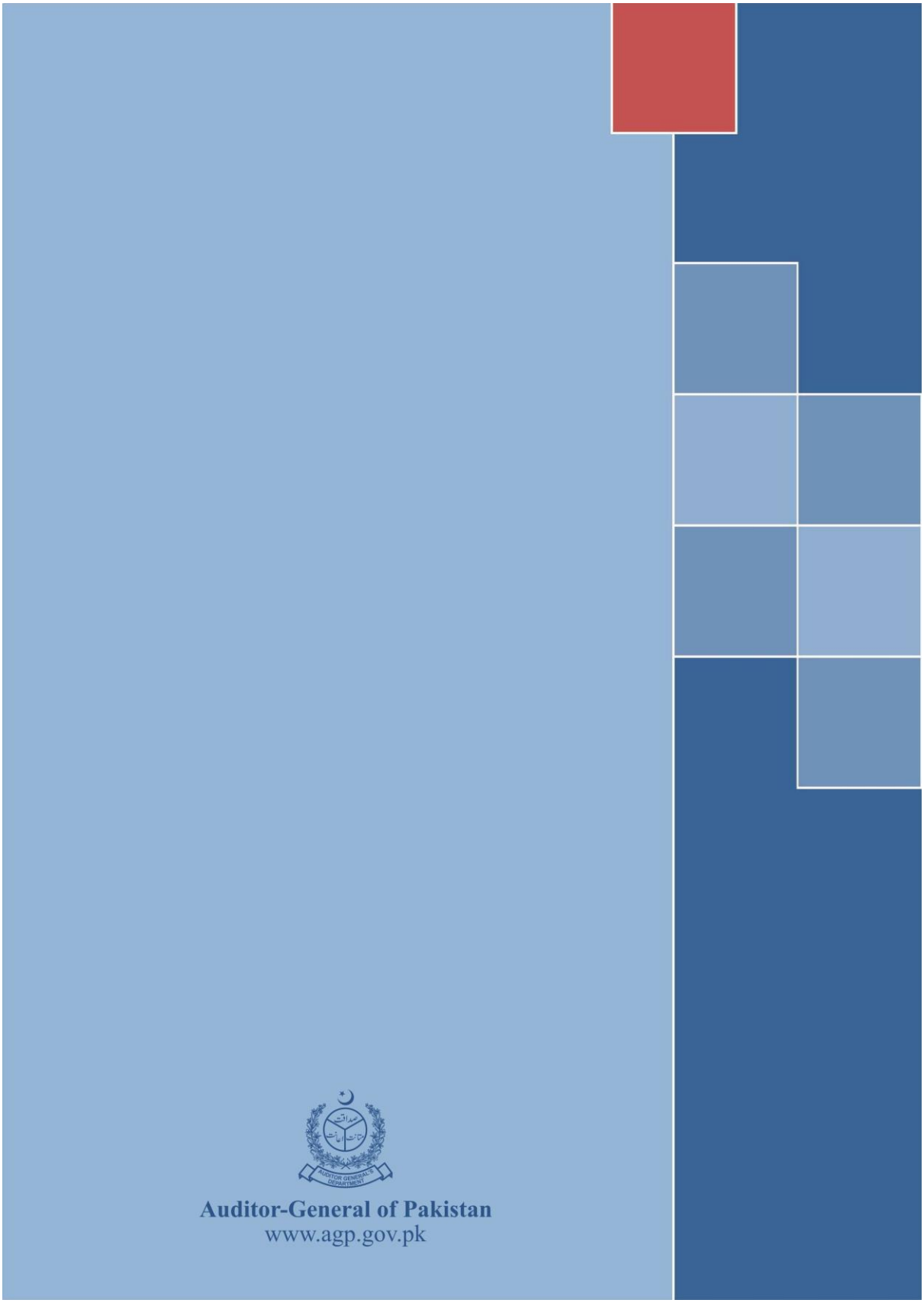
The Company operates a defined benefits plan comprising a superannuation fund for its permanent employees. Superannuation fund is administered by fund's trustees. Annual contributions to the fund are made on actuarial recommendation using Projected Unit Credit Method, related details of which are given in not 9.3 to the Financial Statements. All contributions are charged to profit and loss account fore the year Actuarial gains/ losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees. The most recent valuation was carried out as of 30 June 2009.

Foreign currency transactions

Transactions in foreign currencies are recorded into local currency at the rates of exchange prevailing at the date of the transaction. All monetary assets and liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Any resultant exchange difference is recognised in the profit and loss account except in case of MoD where contracts specifically allowed the Company to create receivable from MoD in respect of exchange differences.

Trade debts and other receivables

These are stated at invoice value less provision for impairment, if any. Known impaired receivables are written off, while debts considered doubtful of recovery are fully provided for.


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