Audit Guidelines
Revenue Receipt Audit



Auditor-General of Pakistan

DEPARTMENT OF
THE AUDITOR - GENERAL OF PAKISTAN

GUIDELINES FOR THE AUDIT OF REVENUE RECEIPTS

TO BE USED BY

THE DIRECTORATE GENERAL OF REVENUE RECEIPT AUDIT



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

Table of Contents

PREFACE TO REVISED EDITION i

PREFACE TO FIRST EDITION ii

1. INTRODUCTION TO AUDIT GUIDELINES 1

1.1 Purpose of the Guidelines 1

1.2 Guiding Principles 1

1.3 Auditors' Responsibility 1

1.4 Practical Tools 2

1.5 Continuous Improvement 2

1.6 Using the Standard Audit Working Papers 2

1.7 The Accountability Cycle 3

2. OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT (REVENUE RECEIPTS) 5

2.1. Overview of the Office 5

2.2 Jurisdiction 5

2.3 Organogram of the Directorate 6

3. SCOPE OF AUDIT 9

3.1 Types of Audits 9

3.2 Definition of Government Audit 9

3.3 Certification Audit 10

3.4 Compliance with Authority Audit 11

3.5 Important Audit Components and Audit Focuses of Revenue Receipts (Indirect Taxes) 12

4. PERMANENT FILE OF AUDITEE DEPARTMENTS 15

4.1 Introduction 15

4.2 The Audit Team's Responsibility 16

4.3 Documentation in Permanent File 16

4.4 Update Control Sheet - PF 17

4.5 Status of Entity – Form PF-I. 17

4.6 Background Information – Form PF-II. 17

4.7 List of Auditable Locations – Form PF-III 17

4.8 List of Bank Accounts – Form PF-IV. 18

4.9 List of Authorized Signatories – Form PF-V. 18

4.10 External Factors – Form PF-VI. 18

4.11 Accounting Records and Accounting System - Form PF-VII. 19
4.12 Key Contacts – Form PF-VIII. 19
4.13 Significant Audit Areas – Form PF IX 19
4.14 Significant Accounting Policies – Form PF-X. 20
5. AUDIT PLANNING PHASE 21
5.1 Introduction 21
5.2 The Audit Team's Responsibility in Planning Phase 21
5.3 Documentation in Planning Phase 22
5.4 Audit objectives and scope 23
5.5 Points for attention at next audit (from last year) 23
5.6 Entity communication letter 24
5.7 Audit planning memorandum 24
5.8 Memorandum on post-planning changes 24
5.9 Important dates 24
5.10 Tour programme 24
5.11 Information requested from entity officials 25
5.12 Materiality assessment form 25
5.13 Expected aggregate error and planned precision form 25
5.14 Audit risk assessment form 25
5.15 Inherent risk assessment form 25
5.16 Internal control questionnaire - controls for overall environment 26
5.17 Internal control questionnaire – general computer controls 26
5.18 Internal control questionnaire – application controls 27
5.19 Control risk assessment forms 27
5.20 Analytical procedures assurance form 27
5.21 Source of audit assurance form 27
5.22 List of applicable laws and regulations 28
5.23 Sample selection checklist 28
5.24 High value item selection form 30
5.25 Key item selection form 30
5.26 Sample sizing for tests of internal control 31
5.27 Sample sizing for substantive tests of details 31
5.28 Checklist of accounting estimates to be reviewed 31
5.29 Points for attention at next audit 31

5.30 Audit planning checklist 31
5.31 Centrally Led Audit 32
6. AUDIT EXECUTION PHASE 33
6.1 Introduction 33
6.2 The Audit Team's Responsibility in Execution Phase 33
6.3 Forms and Schedules for Audit Execution Phase 34
6.4 Summary of Analytical Review Procedures Performed 34
6.5 Details of Analytical Review Procedures Performed 35
6.6 Completed Internal Control Questionnaires 35
6.7 Internal Control Deviations Form 35
6.8 Internal Control Deviations Summary 35
6.9 Compliance Summary 35
6.10 Substantive Tests of Accounting Estimates 36
6.11 Errors in Accounting Estimates 36
6.12 Substantive Test Sample Summary for each Audit Programme 36
6.13 Substantive Test of High Value/Key Items – Summary 37
6.14 Details of Errors in Samples, High Value Items and Key Items 37
6.15 Exit Interviews 37
6.16 Audit Programmes 38
6.17 Audit Programme: Sales Tax Assessment 38
6.18 Audit Programme: Sales Tax Refund 41
6.19 Audit Programme: Sales Tax Recovery 43
6.20 Audit Programme: Compilation of Accounts 45
6.21 Audit Programme: Assessment (Customs Duty) 47
6.22 Audit Programme: Refund and Rebate (Customs) 50
6.23 Audit Programme: Royalty on Crude Oil and on Natural Gas & Petroleum Development Levy (PDL) 52
6.24 Audit Programme: Gas Development Surcharge 54
6.25 Audit Programme – Employee Related Expenses 57
6.26 Audit Programme - Goods and Services 63
6.27 Audit Programme - Project Audit 68
6.28 Audit Programme – Fixed Assets 73
7. AUDIT EVALUATION AND REPORTING PHASE 77
7.1 Introduction 77
7.2 The Audit Team's Responsibility 78

7.3 Documentation in Evaluation and Reporting Phase 81
7.4 Internal Control Weaknesses – Impact Analysis 81
7.5 Analytical Procedure Thresholds 81
7.6 Evaluation of Analytical Procedures 82
7.7 Evaluation of Internal Control Deviations 82
7.8 Substantive Tests Evaluation – Projectable Errors from Sample 82
7.9 Substantive Tests Evaluation – Non-Projectable Errors 82
7.10 Substantive Tests Evaluation – Summary 83
7.11 Achieved Level of Assurance Form 83
7.12 Error in Each Component 83
7.13 Overall Error in Financial Statements 83
7.14 Compliance-With-Authority Violations 84
7.15 Checklist of Management Representation Letter 84
7.16 Sample Management Representation Letter 84
7.17 Audit Completion Checklist 84
7.18 Memorandum Supporting Signature 84
7.19 Auditor's Opinion 85
7.20 Follow up Continuity Schedule 85
7.21 Quality Assurance Checklist 86
7.22 Centrally Led Audit 86
8. KEY TASKS AND RESPONSIBILITIES 87
8.1 Introduction 87
8.2 Assigning Roles and Responsibilities 87
8.3 Key Tasks and Responsibilities: Permanent File 88
8.4Key Tasks and Responsibilities: Audit Planning Phase 89
8.5 Key Tasks and Responsibilities: Audit Execution Phase 91
8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase 92
8.7 Key Tasks and Responsibilities: Audit Quality Assurance 93
ANNEXURE - A 96

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 Revenue Receipts. 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 the 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 other major tools acquired under PIFRA are Computer Assisted Audit Techniques (CAATs) and Audit Management Software. If more information about these software tools is required, 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 (APandSS) Wing in the DAGP.

1.6 Using the Standard Audit Working Papers

The audit process generally comprises 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.

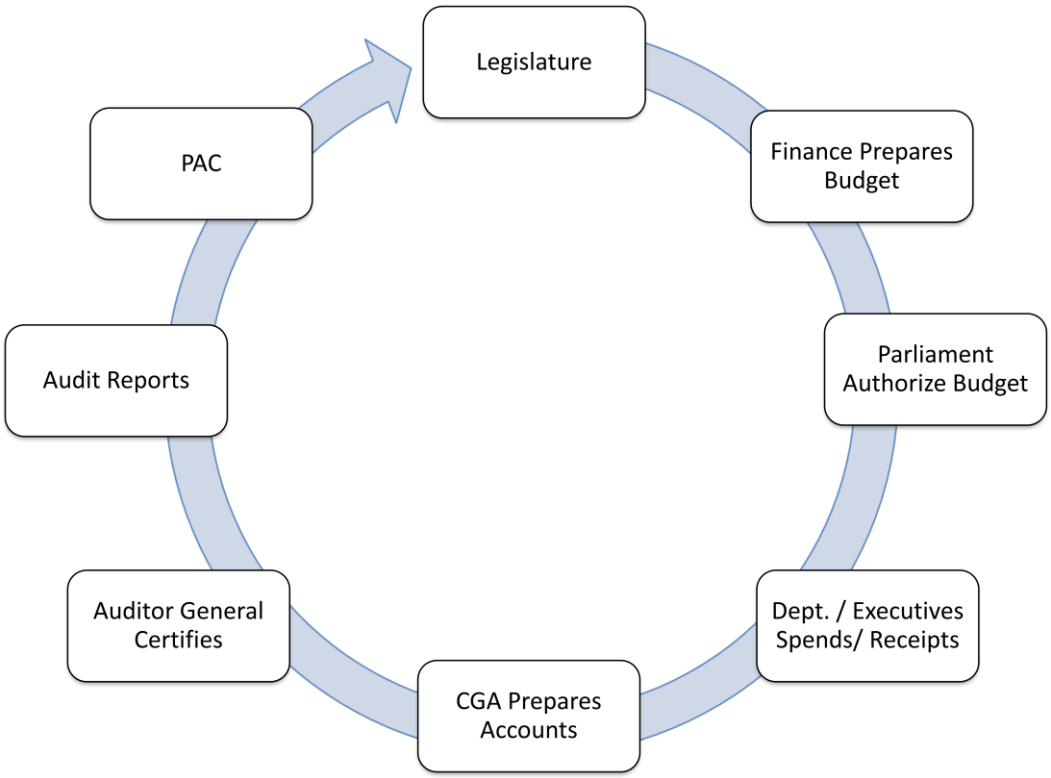
These Guidelines do not repeat the instructions for each form. Their purpose is to provide additional guidance specific to the type of audit being planned or conducted. Forms and schedules given in the Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of these forms, marked with an asterisk(*), can also be used for Compliance with Authority Audit. In both 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 centralized accounting entities. In the case of self-accounting entities, this task is accomplished by the PAOs.
6. Each year, the AUDITOR - GENERAL of Pakistan certifies the financial statements of Federal, Provincial and District governments.
7. Audited Financial Statements and audit reports are laid before the National Assembly/Provincial Assembly. These reports are then discussed in the Public Accounts Committee (PAC) who then reports back to the National Assembly/Provincial Assembly.



Chapter 2

OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT (REVENUE RECEIPTS)

2.1. Overview of the Office

The office of RRA was established in the year 1974 headed by a Director based at Lahore with a sub office at Karachi headed by a Deputy Director. In 1992, the status of Directorate, RRA was upgraded to the level of Director-General and Deputy Director to the level of Director.

In 1997, further changes were made to strengthen the department and its operations. Consequently, the post of Director General, Lahore up-graded to the level of Deputy Auditor - General RRA and post of Director, RRA, Karachi was upgraded to the level of Director General.

In 2008, the Auditor-General of Pakistan segregated Provincial Receipts and Federal Receipts of Revenue Receipts Audit Wing into Provincial Audit and District Audit Wings.

2.2 Jurisdiction

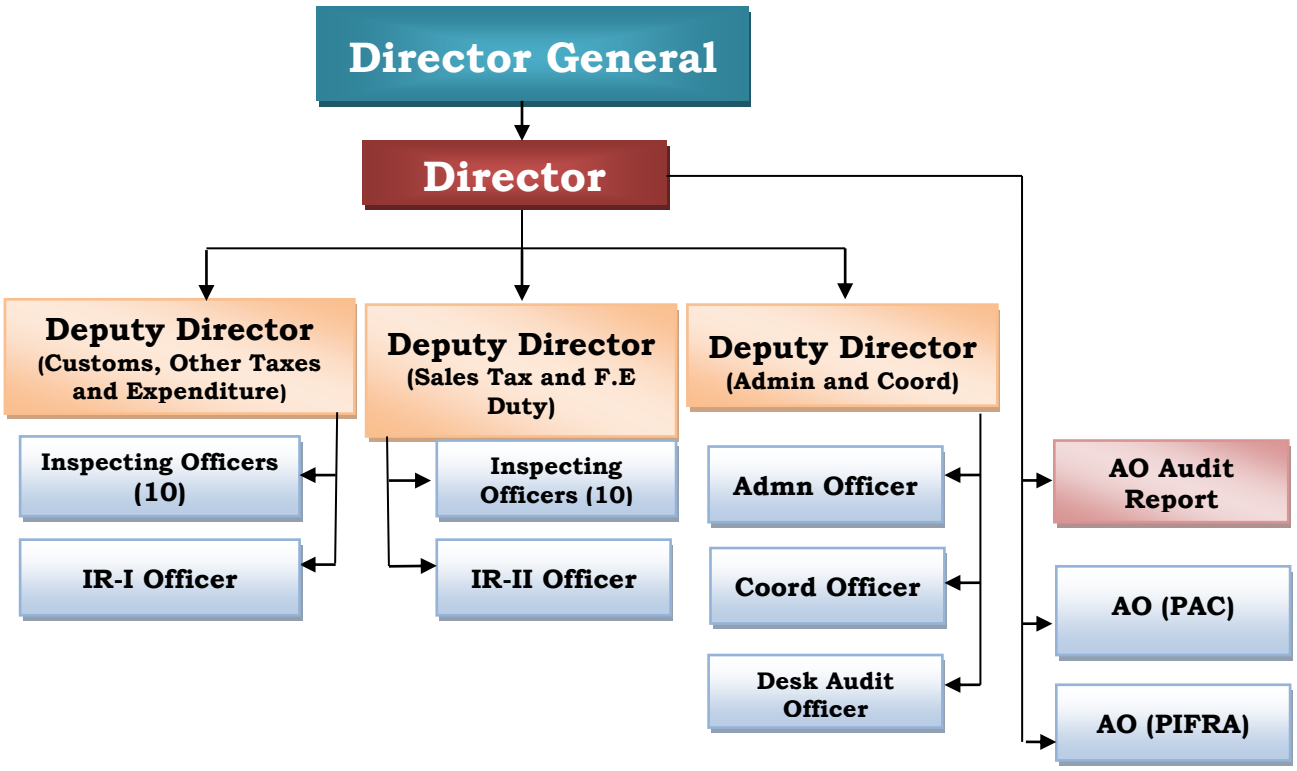
Sr. No.	Principal Accounting Officer (PAO)	Departments	Mandate
1	Secretary Revenue Division/Chairman FBR	Revenue Division/FBR	**Tax Revenue (Indirect Taxes) and Expenditure** • Certification Audit • Compliance with Authority Audit • Performance Audit
2	Secretary Ministry of Petroleum and and Natural Resources	Directorate General Oil Directorate General Gas Directorate General Petroleum Concessions	**Non Tax Receipts** • Certification Audit • Compliance with Authority Audit

Sr. No.	Principal Accounting Officer (PAO)	Departments	Mandate
3	Secretary Ministry of Interior (Islamabad Capital Territory)	Chief Commissionerate ((Islamabad Capital Territory)	**Tax Receipts** • Certification Audit • Compliance with Authority • Compliance with Authority Audit

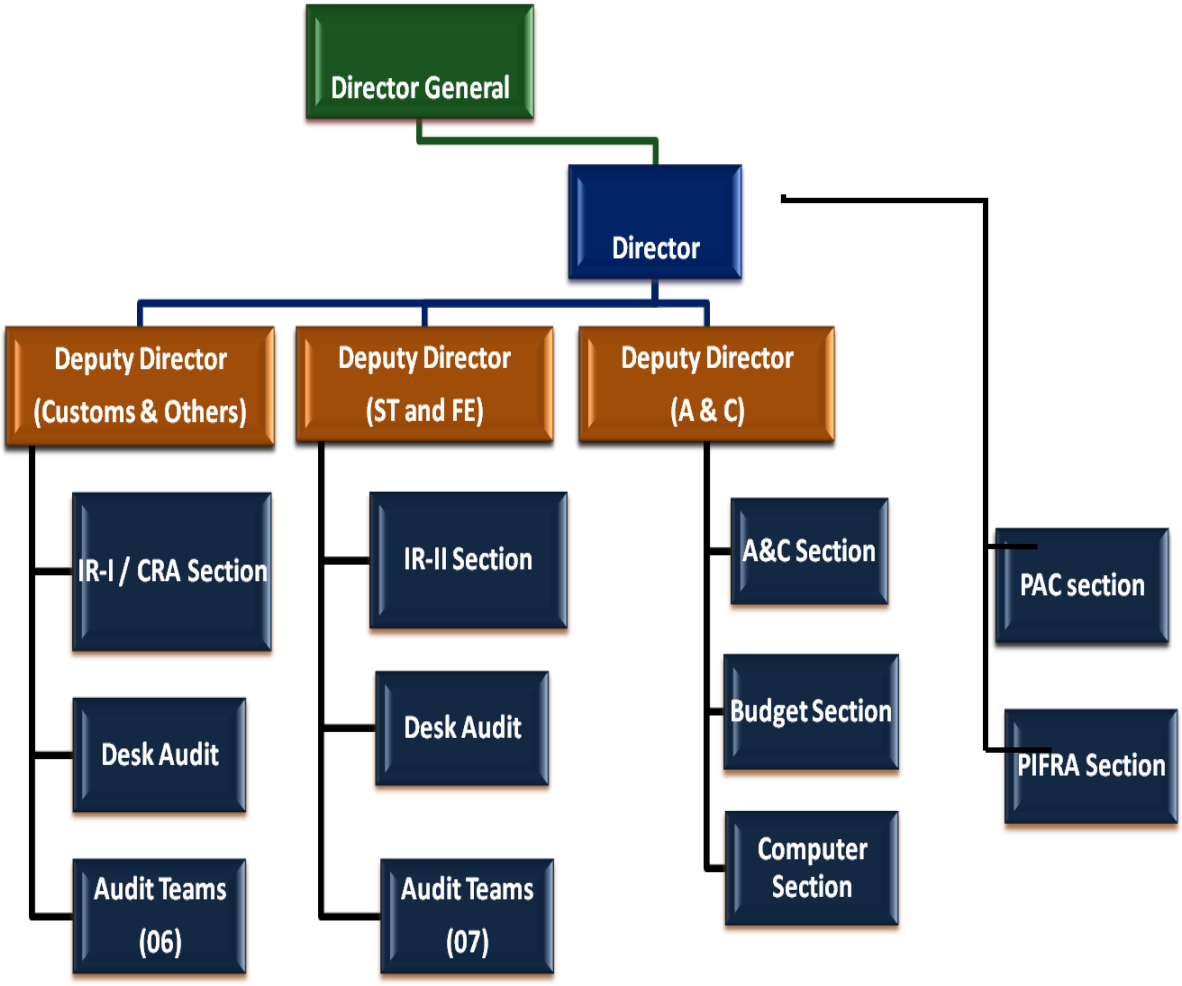
The results of financial attest conducted by DG, RRA (South) are submitted to DG, RRA (North) to form a consolidated opinion on the financial statements (revenue portion) of the Federal Government. Similarly, results of the regularity audit of federal receipts are also sent to the DG, RRA (North) to be incorporated in the Annual Audit Report of the Auditor-General of Pakistan.

2.3 Organogram of the Directorate

2.3.1 DG Audit Revenue Receipts (North)



2.3.2 Organogram of DG, Audit Revenue Receipts (South)



Chapter 3
SCOPE OF AUDIT

3.1 Types of Audits[1]

DG RRA conducts certification, compliance with authority and performance audits of Federal Receipts as detailed below.

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

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

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

3.2 Definition of Government Audit

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

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

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

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

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

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

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

3.3 Certification Audit

Objectives:

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

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

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

- 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 test of detail;
- Conducting substantive tests;
- Evaluating results;
- Reporting; and
- Follow up.

3.4 Compliance with Authority Audit

Objective:

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

Methodology:

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

3.5 Important Audit Components and Audit Focuses of Revenue Receipts (Indirect Taxes)

3.5.1 Federal Board of Revenue/Revenue Division (Indirect Taxes)

Auditable Area	Risks	Audit steps to mitigate the risks
Refund	• Time barred claims • Overpayment	• Ensure claim validity • Ensure validity of condonation granted by the competent authority • Check calculation sheets
Assessment	• Wrong tax calculations • Conditions ignored (Exemptions availed)	• Tax evasion and concealment • Abnormal trends and ratios • Identify conditions of SRO(s)/relevant laws ignored

Auditable Area	Risks	Audit steps to mitigate the risks
	• Inadmissible exemption	• Validity of exemption(s) granted
Recovery	• Non recovery of adjudged amounts • Aging of recoveries in adjudicated cases • Irrecoverable/ write offs	• Ensure entry of adjudged amounts in the recovery register • Ensure enforcement of recovery follow up procedures • Fulfilment of legal formalities for write off process
Customs Imports	• Undervaluation of imported goods • Misclassification of imported goods	• The comparison of valuation advices with assessed value • Examine; i) examination report ii) commercial invoice iii) packing list iv) letter of credit v) bill of lading vi) explanatory note vii) Consult Pakistan Customs Tariff
Duty Drawback and Rebate	• Time barred claims • Overpayment • Duplicate Payments	• Ensure claim validity • Check calculation sheets • Examine original export documents

3.5.2 Ministry of Petroleum and Natural Resources

Auditable Area	Risks	Steps to mitigate the risks
Gas Development Surcharge	• Non/short payments • Non accountal of products • Late payments • Misclassification of receipts	• Scrutiny of financial statements • Scrutiny of inventory record • Scrutiny of challans • Ensure classification

Auditable Area	Risks	Steps to mitigate the risks
		of receipts from Chart of Accounts
Petroleum Development Levy	• Non/short payments • Non accountal of products • Late payments • Misclassification of receipts	• Scrutiny of financial statements • Scrutiny of inventory record • Scrutiny of challans • Check classification of receipts from Chart of Accounts
Royalty on Crude Oil and Natural Gas	• Non/short payments • Non accountal of products • Late payments • Misclassification of receipts	• Scrutiny of financial statements • Scrutiny of inventory record • Scrutiny of challans • Check classification of receipts from Chart of Accounts

3.5.3 Ministry of Interior

Auditable Area	Risks	Steps to mitigate the risks
Stamp Duty, Registration Fee, Token Tax and Route Permit	• Non/short payments • Amount collected but Non/Short deposited into bank • Misclassification of receipts	• Scrutiny of assessment and recovery registers • Scrutiny of reconciliation process with treasury office. • Ensure classification of receipts from Chart of Accounts.

Chapter 4

PERMANENT FILE OF AUDITEE DEPARTMENTS

4.1 Introduction

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

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

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

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

- Copies of relevant Government legislation, applicable financial rules, laws regulations, guidelines and other rules affecting the operations of an entity.
- Organization charts, details of key contacts and locations of operation.
- Role of entity, Vision and Mission Statements and the most recent business plan or charter of the entity.
- Copies of the estimates.
- Copies of long-term contracts.
- Loan agreements, mortgages and debt instruments, schedules of amortization for debts and special assets.
- Previous years' audited financial statements.
- Previous auditors' reports to management and management's responses.
- Extracts of the minutes of meetings.
- Chart of accounts.
- Summary of accounting policies used by the auditee departments.
- Special remuneration, if any, for senior officers.

- Environmental laws and regulations
- Others as appropriate

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

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

4.2 The Audit Team's Responsibility

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

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

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

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

4.3 Documentation in Permanent File

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

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

The following paragraphs contain specific guidance for using the above forms.

4.4 Update Control Sheet - PF

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

4.5 Status of Entity – Form PF-I.

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

4.6 Background Information – Form PF-II.

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

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

S#	PAO	Attached Department/ Departmental Accounting Officer	No. of Formations		
			Receipt	Expenditure	Total
1	Secretary, Revenue Division/ Chairman Federal Board of Revenue	Revenue Division	-	1	1
		FBR (HQ)	-	1	1
		Federal Excise and Sales Tax Large Taxpayers Units	10	2	12
		Director Research and Statistics	-	1	1
		Federal Excise and Sales Tax Regional Tax Offices	45	-	45
		Collector, Sales Tax and Federal Excise	-	5	5
		Director General Training and Research	-	2	2

S#	PAO	Attached Department/ Departmental Accounting Officer	No. of Formations		
			Receipt	Expenditure	Total
		Collector Custom, Federal Excise and Sales Tax	-	1	1
		Chief Collector Customs (North)	-	1	1
		Collector Customs	-	5	5
		Model Customs Collectorate	102	6	106
		Post Clearance Audit	-	1	1
		Customs, Federal Excise and Sales Tax D.G Intelligence and Investigation	5	3	8
		DG Internal Audit	2	2	4
		Collector Appeal	-	4	4
2	Ministry of Petroleum and Natural Resources	Director General (Gas), Islamabad	7	-	7
		Director General (Oil), Islamabad			
		Director General, Petroleum Concessions, Islamabad			
3	Interior Islamabad Capital Territory	Chief Commissioner, Islamabad Capital Territory	6	-	6

4.8 List of Bank Accounts – Form PF-IV.

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

4.9 List of Authorized Signatories – Form PF-V.

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

4.10 External Factors – Form PF-VI.

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

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).

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

The audit team should also map 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 analyze an entity's manuals, applicable rules and regulations. There are two approaches to process mapping namely financial statements approach (a top down approach) and transactions based approach (a bottom up approach).

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

4.12 Key Contacts – Form PF-VIII.

The auditor should list the names and contact information of key personnel at the principal accounting office, and 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. She/He should ensure that it follows the current accounts classifications and the regulations imposed by the CGA (Controller General of Accounts).

The auditor should list critical audit areas/significant 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 her/his audit for specific financial and compliance with authority audit objectives.

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 ensure on the extent of the application of NAM in the auditee entity.

Note: A sample of the permanent file prepared for Federal Board of Revenue has been annexed as Appendix – A.

Chapter 5

AUDIT PLANNING PHASE

5.1 Introduction

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

Individual audits must be planned to ensure that:

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

The planning phase involves the following:

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

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

5.2 The Audit Team's Responsibility in Planning Phase

The activities performed during the preparation of the Planning File are complex and varied. Each member of the audit team should ensure 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 office is responsible for planning the activities and associated resource requirements in conducting audits. 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 ensure that the Planning File is complete and provides evidence of the basis and extent of planning work performed by the audit team.

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

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

5.3 Documentation in Planning Phase

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

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

- Source of audit assurance form
- List of applicable laws and regulations *
- Sample selection checklist
- High value item selection form **
- Key item selection form
- Sample sizing for tests of internal control
- Sample sizing for substantive tests of details
- Checklist of accounting estimates to be reviewed
- Points for attention at next audit *
- Audit planning checklist *

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

The following paragraphs contain specific guidance for using the forms given for the planning phase in the "Audit Working Papers Kit".

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 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 is 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 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 evaluation and reporting.

5.8 Memorandum on post-planning changes

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

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

5.9 Important dates

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

5.10 Tour programme

Tour programme needs to be prepared and approved keeping in view the timelines, resource constraints and audit strategy. The head of office should check that tour

programmes are timely 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 audit assurance.

5.15 Inherent risk assessment form

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

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

5.16 Internal control questionnaire - controls for overall environment

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

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

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

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

5.17 Internal control questionnaire – general computer controls

This form is used to guide the auditor in considering the internal controls operating in the entity's 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 details.

Detailed instructions are provided with the form.

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

5.21 Source of audit assurance form

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

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

5.22 List of applicable laws and regulations

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

5.23 Sample selection checklist

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

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

Sampling:

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

Sampling risk

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

Statistical sampling

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

Non-statistical sampling

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

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

Monetary Unit Sampling (MUS) for substantive tests of details

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

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

Methods of sample selection

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

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

1. Random selection

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

2. Fixed interval (systematic) selection

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

3. Cell (random interval) selection

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

4. Stratified random selection

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

specific expenditure types, or to ensure that at least one sample item is drawn from each expenditure type.

Selecting the sample – statistical sampling

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

Selecting the sample – non-statistical sampling

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

For detailed guidance please refer to Appendix B of FAM.

5.24 High value item selection form

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

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

5.25 Key item selection form

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

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

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

5.26 Sample sizing for tests of internal control

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

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

5.27 Sample sizing for substantive tests of details

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

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

5.28 Checklist of accounting estimates to be reviewed

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

5.29 Points for attention at next audit

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

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

5.30 Audit planning checklist

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

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

5.31 Centrally Led Audit

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

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

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

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

Chapter 6

AUDIT EXECUTION PHASE

6.1 Introduction

This chapter provides guidance for the auditor's work at the execution stage. This stage includes compliance testing (test of controls), substantive testing, and 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.

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 entity management, including:

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

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

It needs to be highlighted that the audit strategy and methodology recommended under FAM provide for continued quality assurance through all the phases of audit. While reviewing the execution phase, the functionaries entrusted with the quality assurance of audit should check that the 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.

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

6.7 Internal Control Deviations Form

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

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

6.8 Internal Control Deviations Summary

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

6.9 Compliance Summary

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

6.10 Substantive Tests of Accounting Estimates

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

6.11 Errors in Accounting Estimates

For the accounting estimates that were identified in the Planning file form called "Checklist of accounting estimates to be reviewed", the auditor will document his / her review of the estimate and the nature and value of any errors that were identified. These errors will be summarized 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 audit given at the end 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, rules and to find any errors or anomalies that may exist. Each Audit Programme provides a basic set of steps for the auditor to follow to perform substantive tests.

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

Audit Objectives:

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

- **Presentation and Disclosure:** the transactions have been appropriately recorded, classified and presented.

[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.

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

The key Audit Programmes for this purpose are given under 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 the nature and value of the errors and cross-reference the procedure to the working paper that provides the details of each test (Details of Errors in Samples, High Value Items and Key Items).

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

The auditor will complete one copy of this form for every single error discovered in any of the substantive tests of details (from sampled transactions, 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 are to be documented on this form.

6.15 Exit Interviews

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

The audit of decentralized sites, remote from the Audit Office (out of which the audit team operates), is complicated by the fact that briefing of the management at the site cannot be done after the senior audit management has reviewed the audit findings. This means that the team should provide feedback to management at the decentralized site prior to conducting a full review of findings. It is a good practice for the audit team leader to determine whether there are any sensitive issues that need to be brought to the attention of senior audit management prior to discussing with entity management at the site. Where

potentially sensitive matters are involved, the audit team leader should obtain instructions from senior audit management before the exit briefing.

6.16 Audit Programmes

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

- Sales Tax Assessment
- Sales Tax Refund
- Sales Tax Recovery
- Certification Audit (CAO)
- Assessment of Custom Duty
- Refund and Rebate (Customs)
- Royalty on Crude Oil and Natural Gas
- Gas Development Surcharge
- Petroleum Development Levy
- Employee Related Expenditure
- Goods & Services
- Project Audit
- Fixed Assets

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: Sales Tax Assessment

NAME OF AUDIT ENTITY: Federal Board of Revenue

Audit Procedure	Done By:	Ref.
Existence and Occurrence • Returns of sampled unit should be matched with CPR and check that the same CPR is appearing in relevant bank scroll. • Check that record of A&P division for a selected period (for particular day / month) corresponds with amount deposited into bank for that period.		

Audit Procedure	Done By:	Ref.
Completeness • Calculate an estimate of the total sales tax due through turnover declared in audited accounts and compare with actual tax deposited by tax payer. • Scanning data, determine whether any examples of unusual changes in tax submitted this year compared to previous years		
The compliance with applicable rules, regulations and policies regarding the occurrence of such receipts. Check: • that deposit is made according to prescribed manner (and on the prescribed return) by specified registered persons. • that Debit and Credit Notes and adjustment of sales tax there against have been made within the stipulated period. • that destruction of goods (on the grounds that the same are not fit for human consumption) is made under supervision of an authorized officer deputed by the Collector. • that all the registered persons have submitted their returns within the due date. • that in case of change in rate of tax during a tax period, a separate return in respect of each portion of tax period is furnished. • that "Summary of Sale and Purchase Invoices" has been submitted by all the registered persons. • that penal action has been taken and tax due recovered in cases where input tax adjustment claimed wrongly on account of incorrect application of formula (apportionment of input tax) irrespective of the fact that the claim was provisional. • that 15% per annum has been deducted by the Collectorate from service charges being paid to NBP on account of receiving of returns of tax collected late deposited in SBP. **Sales Tax Act 1990 section 26 and** **Sales Tax Rules 2006 Rule14,15,18** **Sales Tax Act 1990 section 8** ***To determine if internal controls are adequate.*** • that the financial record is reconciled with the sales tax record. Sale as per financial accounts prepared by the registered persons to be tallied with the sales as per sales tax returns. ***To check the proper assessment of input tax.*** • that input tax claimed on raw material is allowed relating		

Audit Procedure	Done By:	Ref.
wholly to the taxable supplies to the registered persons who make taxable and exempt supplies simultaneously. • that final adjustment of Input Tax has been made at the end of each financial year where apportionment of input is involved. • that no adjustment of input tax is availed against specified item. • that the purchase documents i.e., sales tax invoices, G.D(s) and auction documents are available for claiming input tax. • that except those notified registered persons shall not be allowed to adjust input tax in excess of ninety per cent of the output tax for a tax period. • that the purchase documents are valid and complete in all respects. • that input tax is not claimed on the invoices issued by the blacklisted registered persons. • that all payment for transactions exceeding value of fifty thousand rupees are made through banking instruments. • that the input tax is not claimed on the materials used in exempt supplies and services. • that the accuracy of arithmetic calculation of input tax claimed in sales tax return is according to purchase documents. ***To check the proper assessment of output tax.*** • that the output tax tallies with the sales tax invoices issued during a tax period. • that exempt and zero rated supplies are consistent with relevant provisions of law. • that the accuracy of calculation of output tax claimed in sales tax return is according to sales documents. • that the rates of sales tax have been correctly applied. That the supplies and services have been charged sales tax as per law. ***To check the proper determination of tax due.*** • That the accuracy of arithmetic calculation of tax due. • Check the inclusion of the arrears of the tax due relating to the previous tax period if any. • Check the payment of tax due, default surcharge and penalty, if any. • Check the deposit of tax due in proper head of account in the bank. •		

Audit Procedure	Done By:	Ref.
Correct realisation of default surcharge and penalty. • that penalty has been imposed and recovered (Rupees five thousand or 3% of the amount of tax involved, whichever is higher) against the registered persons who repeat erroneous calculation in the return during a year whereby the amount of tax is less than the tax due . • that penalty has been imposed and recovered in cases where returns are not submitted within the due date. • that penalty has been imposed and recovered (Rupees ten thousand or 5% of the amount of tax involved, whichever is higher) in cases where payment has not been made in the prescribed manner. • Check the accuracy of calculation of default surcharge and penalty in case of late / non filling of return. • Check imposition and payment of default surcharge and penalty in case of non compliance of Act and rules. • Check the admissibility of amnesty for waiver of default surcharge and penalty if any. **Sales Tax Rules 2006 Rule22** **Sales Tax Act 1990 section 11** **Sales Tax Act 1990 section 33 and 34**		

6.18 Audit Programme: Sales Tax Refund

NAME OF AUDIT ENTITY: Federal Board of Revenue

Audit Procedure	Done By:	Ref.
The RPOs match with the Treasury Office Record. • Select a sample of tax refunds from the payment schedule, kept with the Treasury Officer, and trace it to the Refund Payment Orders (RPO) issued by the Collectorate. • Check that the pre-payment Audit is conducted of the above samples selected.		

Audit Procedure	Done By:	Ref.
The refund is determined correctly. • Check that in the selected samples, claims have not been entertained unless the claimant has furnished the claim on the prescribed software (RCPS) along-with the supporting documents within 120 days of the filing of return.(Rule 28(1)) Sales Tax Rules 2006. • Check that the suppliers are not on the list of suspected/blacklisted registered persons. • Check that the refund is sanctioned against original documents and check excess payment or a second claim against the same document is not made. • For the sample, check that the Officer-in-charge does not sanction the validated amount and the RPO without the receipt of Analysis Report from the System. Sales Tax Rules 2006 (Rule 30(1)).		
The refund case is sanctioned after proper verification. For the sample selected check the following: • That the refund is claimed within the period permissible under the law and is confirming the relevant sales tax returns. • That any input tax not claimed within the relevant tax period or any tax paid inadvertently or any refund exceeding on account of any decision is claimed within the permissible period of one year as required under Section 66 of the Sales Tax Act; 1990 • That bills of entry (Goods Declaration) or tax invoices bear name and Sales Tax Registration No. as proof of import\purchase by the claimant • That such purchases\imports are shown in inventory\purchase record. • In case of invoices of more than Rs 50,000, check that proof of payment to the supplier (for domestic purchase) through banking channel is available • That the supplier has shown sales and output tax in relevant tax returns and paid output tax thereon. • That consumption of raw material(s) shown corresponds with goods manufactured\exported as per comparative statement provided by claimant and available in file • That the proof of export i.e. shipping bills showing M.R. No.		

Audit Procedure	Done By:	Ref.
and date is available and is verifiable from the PRAL data • That in case of commercial exporters, bank credit advice is available • Check that all the limitations of Export Policy Order are complied with.		
Refund issued is genuinely paid • For the selected sample of sales tax refund, reconcile the figures reported by CAO with the monthly Reconciliation Statement of SBP.		

6.19 Audit Programme: Sales Tax Recovery

NAME OF AUDIT ENTITY: Federal Board of Revenue

Audit Procedure	Done By:	Ref.
Serving of notice STR-14 (Demand Note) in case of failure of recovery measures • Check that, in case of failure of recovery measures taken by the referring authority under rules 71 and 72 , the referring authority issues a demand note in the form set out in STR-14 to the Recovery Officer specifying the details of Government dues meant for recovery and shall certify that there exists no bar or stay order against the proposed recovery. Sales Tax Rules 2006 Rule-73		
The recovery cases match with the master registers. STR-15 • Select a sample of Sales Tax Recovery transactions from the monthly information exchanged by the Referring Authority (Assessment Officer) and the Recovery Officer		

Audit Procedure	Done By:	Ref.
(Enforcement and Collection Division) and trace it to the Master Registers (Adjudication *now assessment* and Recovery Registers respectively) maintained by the two offices.(Sales Tax Rules 2006 Rule75) Form STR-15		
Documentation is* properly filed and maintained *STR-16 for initiation of recovery action • Check that the following documents are filed in the master register as and if required(Rule 71): ✓ STR-16 (Service of notice to the Sales Tax, Customs, Federal Excise and Income Tax Officers to deduct the Government dues from any money owing to the defaulter) ✓ Notice to any person or organization who holds any money for or on account of the defaulter ✓ Notice to the Customs Officer to stop the clearance of any goods imported by the defaulter		
Proper serving of the notice STR-17 for stoppage of clearance and sealing of business premises • In case of non recovery the referring authority has served STR-17 informing the defaulter that removal of any goods from the business premises shall be stopped with effect from the date specified in the notice till such time the dues are paid or recovered in full. Sales Tax Rules 2006 Rule-72		
Serving of STR-18 for attachment and sale of property • Check that the Recovery Officer, on receipt of the demand note, shall serve upon the defaulter a notice set out in STR-18. Rule-74		
Serving of STR-19 warrant of attachment of property • Check that the warrant in Form STR-19 is furnished to the attachment officer. Rule-88		

Audit Procedure	Done By:	Ref.
Aging Analysis • Prepare and analyse the aging of recovery of outstanding dues.		

6.20 Audit Programme: Compilation of Accounts

Audit Steps	Done by	WP Ref
• Obtain monthly figures of tax receipts prepared by the Processing and Assessment Division / Statistical Branch of the Collectorate /Chief Accounts Officer. • Obtain monthly reconciliation statements of the whole year from the Treasury Office / CAO duly signed and stamped by the CAO and AGPR. • Check that these are reconciled monthly with the Treasury Office, CAO, State Bank and AGPR ✓ In case of any variation in the Treasury Office / CAO figures with the AGPR office figures, check that these are properly reconciled or other remedial actions have been taken by the CAO for proper reconciliation.		
• Obtain monthly figures of the revenue receipts from the NBP Link Branch for last three months of the financial year i.e. April to June and match these with the monthly figures of the Treasury Office / CAO/ DAO. Reconcile the two figures after taking the effect of spill over.		
• Check that the designated branches of NBP transfer their daily receipts to the link branches of NBP on daily basis. • Check that the payment of service charges to NBP is made on the basis of monthly statement submitted by the Manager, NBP, and main branch.		
• By selecting sample of transactions check that the link branch of the NBP has sent the consolidated figures of		

Audit Steps	Done by	WP Ref
revenue collected by the designated branches (along with its own collection) to the CAO on daily basis? • Check the Classification of Accounts ✓ Check that the entries of Bank Scroll, receipts reported by the link branches of NBP have been entered in the daily collection register by the CAO under proper head of account.		
Check the timely deposit and recording of Sales tax • Scrutinise whether these amounts have been refunded in the month of July. • Obtain the instances of sales tax deposited by the tax payers in June, but accounted for by the CAO / Treasury Office in July.		
• By selecting Refund payment orders check that the proper record of refund cases is kept and refund is issued by an authorized officer and entered in the payment register by the Treasury Officer. • Check reconciliation statements of RPOs, refund cheques issued and encashment of refund cheques with reference to advices issued to the SBP. • Check that the accuracy of record of refund cheques cleared and un-cleared from the SBP is kept by the Treasury Officer. • Check that the statement of refund cheques and cleared from SBP during a month is prepared on monthly basis and sent to the AGPR along with monthly accounts.		

6.21 Audit Programme: Assessment (Customs Duty)

NAME OF AUDIT ENTITY: Federal Board of Revenue

Audit Procedure	Done By:	WP Ref.
The duty assessed/ deposited on the goods declaration match with the Treasury Office Record. • To check that the duty/ taxes are deposited under the correct heads of account receipt. • Check that the amount received, signature with stamp of authorized bank officer • Check that the receipted amount tallies with the bank scroll • Check that the receipted amount is accounted for by the Chief Accounts Officer		
Reconciliation of Transshipped goods with the clearance documents • Obtain record of transshipment advices. Select a sample (may be of one month) and compare with GD filed.		
Whether the GDs filed for the clearance have been processed • Obtain the total record of GDs filed and compare with clearance record (cash register/out charged record or computerised data). • In case of any difference obtain justification for non or late processing		
Whether the assessed amounts have been realised and accounted for properly • Select a sample and check the amount assessed deposited in the bank (checking of Bank scrolls).		
The imported goods classified under correct PCT (HSC) heading. • Select a sample of Goods Declaration (Bills of Entry) from		

Audit Procedure	Done By:	WP Ref.
the import section and match it with PCT(HSC) heading available in the Ist schedule of the Customs Act, 1969(Sec. 18 (c) of the Customs Act, 1969) • Check that the selected samples are duly supported with the commercial invoice/ Bill of lading/Packing list/and contents tallies with the entries shown on the face of GD. • Check that the Lab Report if any, matches with the goods classified.		
Correct rate of duty and taxes applied for. • Check that in the selected samples, correct rate i.e customs duty, sales tax, income tax and federal excise duty if any, applied for. ✓ (Sec. 18(c) of the Customs Act, 1969) ✓ (Section 3 of Sales Tax, 1990), ✓ (Section 148 of the Income Tax Ordinance, 2001) ✓ Ist schedule of the Federal Excise Act, 2005.		
Benefit of SRO if claim\ed, correctly applied for. • For the sample selected check the following: ✓ Exemption availed on the support of SRO at the time of release. ✓ Condition imposed in the SROs prior or after release fulfilled ✓ Bank Guarantee/ Indemnity Bond with reference to above released after the fulfillment of conditions laid down		
Correct valuation for customs duty and taxes. • For the above sample of Goods Declaration, check that the duty assessed on the value determined on the basis of LC/ Commercial Invoice. • The assessment is made on the evidential value/ Valuation advice (Section 25 of the Custom Act, 1969) • Correct rate of exchange is applied (Section 30 of the Custom Act, 1969)		

Audit Procedure	Done By:	WP Ref.
• Sales tax is worked out on the duty paid customs value (Section 2(46) of the Sales Tax Act, 1990) • Income tax is worked out on the customs value, customs duty, sales tax and federal excise duty if any. • Calculations are vetted by the authorized Custom's Officer		
Sufficient and adequate customs / excise inspection and controls; • Examine inspection reports and note: ✓ what proportion of declarations are checked with inspection ✓ what proportion of declarations found inaccurate upon detailed inspection • Analyse, using CAATs if possible, where the performance of customs (excise) officers / customs (excise) offices varies within reasonable limits or where some officers / offices were not identifying irregularities and/or not collecting revenues as per targets • Consider, if feasible, arranging inspections of containers (including containers already inspected by customs / excise officers) to estimate the extent of losses under the inspection activities and the performance of the inspection process • Conclude whether there is sufficient inspection effort (for example, by comparing the cost of inspection versus the amount of taxes collected as a result of inspection • For a sample of inspections finding irregularities, determine what actions occurred as a result of the inspection (issuing of rulings / appeal / payment / court action by the government / other) and determine whether actions complied with policies and procedures.		

6.22 Audit Programme: Refund and Rebate (Customs)

NAME OF AUDIT ENTITY: Federal Board of Revenue

Audit Procedure	Done By:	WP Ref.
The RPOs match with the Treasury Office Record. • Select a sample of tax rebate claims from the payment schedule, kept with the Treasury Officer, and trace it to the Rebate Payment Orders issued by the Collectorate. • Check that pre-payment Audit is conducted of the sample selected.		
The rebate is determined correctly. Check that: • the selected samples, claims have not been entertained unless the claimant has furnished the claim within stipulated period. (SRO. 784) • the correct rate of rebate is applied for. • the rebate sanctioned against original documents i.e qua-duplicate copy of shipping bill. • there exists a system to check excess payment or a second claim against the same document. • the relevant bank credit advice (Remittance of foreign exchange) exists.		

Audit Procedure	Done By:	WP Ref.
The rebate case is sanctioned after proper verification. For the sample selected above check that the : • rebate is claimed within the period permissible under the law • shipping bill (Goods Declaration) or commercial invoices bear name and Sales Tax Registration No. as proof of export\supplies by the claimant • claim is not less than Rs: 100. • rebate is calculated on the FOB value. • contents of exported goods as per inspection report match with the goods shown on the shipping bill, commercial invoice, packing list and bill of lading. • the proof of export i.e. shipping bills showing M.R. No. and date is available and is verifiable from the PRAL data • in case of commercial exporters, bank credit advice is available • all the limitations of Export Policy Order are complied with.		
The rebate orders issued are genuinely paid • For the above sample of rebate claim, reconcile the figures reported by CAO with the monthly Reconciliation Statement of SBP.		

6.23 Audit Programme: Royalty on Crude Oil and on Natural Gas & Petroleum Development Levy (PDL)

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence • Select a sample of receipt vouchers and check entries there-against in royalty/ PDL record. • Check supporting documentation to check that all the entries in the accounts are based upon corresponding supporting documents i.e. bank paid challans. • Check that entries/listing in royalty/ PDL record for May and June, corresponds with amount deposited into bank for that period. • Also check that there are no delays between receipt of challans and reporting to Ministry of Finance. • Also check that there are no delays in payment of PDL/royalty by E & P companies in accordance with the rules applicable		
Royalty on Oil and Gas Collected/Due • Select a sample of oil/gas fields to check that all E & P companies have paid royalty/PDL for the complete period (twelve months of the year) for all the oil/gas fields remained in production operated by them or have joint venture. • Check that all E & P companies are sending challans showing payment of royalty/PDL for the whole year (twelve months) in which they remain in production. • Check that all E & P companies have paid their complete share of royalty/PDL actually due in relation to oil/gas production for each and every oil/gas field either solely operated by them or having partnership under a joint venture. **Completeness of reporting of Royalty Receipts to Finance** • Check that all royalty/PDL receipts recorded by the department are correctly reported to Ministry of Finance during the current financial year.		

Audit Procedure	Done By:	WP Ref.
Completeness of Accounting of Royalty Receipts by Accounting Centres • Check by selecting a sample that SBP/NBP collecting royalty/PDL receipts are sending its challans to accounting centres for booking purpose. Check that the accounting centres are correctly booking the royalty/PDL challans under the proper heads of accounts. **Completeness of assignment of Shares from Net Proceeds of Royalty to Provinces by the Ministry of Finance** • Check by selecting a sample that Ministry of Finance is assigning the shares from the net proceeds of royalty/PDL receipts correctly to provinces as reported by the department.		
Measurement • Take a sample of challans pertaining to E & P company to check calculation of amount of royalty/PDL due with the help of production data, value of oil/gas, rate of exchange etc available with the department by comparing with that shown by the company on challan and attached statements.		
Regularity • Check that relevant rules are strictly being complied with by the E & P companies at the time of payment of royalty/PDL.(Pakistan Petroleum Exploration and production Rules 1949, 1986 and 2001)		
Presentation and Disclosure • Check in the sample already taken that royalty payments are correctly identified/ classified in the compilation Sheet/General Ledger under the correct Object and correctly coded according to the Chart of Accounts by the accounting centres. • Check that the royalty payment figures (on monthly basis) are correctly furnished to respective sub-office of AGPR		

Audit Procedure	Done By:	WP Ref.
through Monthly Cash Accounts. • Check whether the manager(s) reconcile (s) the information in the accounting report with the royalty payments received for the period reported/recorded by the department.		

6.24 Audit Programme: Gas Development Surcharge

Audit Entity: Ministry of Petroleum and Natural Resources, Islamabad

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence • Select a sample of receipt vouchers/challans and check entries there-against in the department's record. • Check that all the entries in the accounts are based upon corresponding supporting documents i.e. bank paid challans. • Check that entries/listing in GDS record/register corresponds with amount entered into bank for that period • Check that there is no delay in payment of GDS by companies in accordance with Rules applicable		
Completeness **Completeness of GDS Collected/Due** Select a sample to check that all companies have paid GDS for the complete period (twelve months of the year) for which GDS liability occurred on the supply of natural gas. • Check that all companies are sending challans showing payment of GDS for the whole year (twelve months) in		

Audit Procedure	Done By:	WP Ref.
which they have incurred liability of GDS. **Completeness of Recording of GDS** • Check the completeness of recording of receipt vouchers from point of receipt to the bank and to the accounting centres. **Completeness of Reporting of GDS to Finance** • Check that all GDS receipts recorded by the department are correctly reported to Ministry of Finance during the current financial year. **Completeness of Accounting of GDS Receipts Accounting Centres** • Check that SBP/NBP collecting GDS receipts are sending challans to accounting centres for booking purpose. • Check that the accounting centres are correctly booking the GDS challans under the proper heads of accounts furnishing monthly cash accounts to AGPR for onward compilation/consolidation. **Completeness of Assignment of Shares from Net Proceeds of Royalty to Provinces by the Ministry of Finance** • Check by selecting a sample that Ministry of Finance is assigning the shares from the net proceeds of GDS correctly to provinces as reported by the department.		
Measurement • Take a sample of challans pertaining to any individual Company to check calculation of amount of GDS due with the help of supply/sales data, selling and prescribed		

Audit Procedure	Done By:	WP Ref.
prices of natural gas notified by ORGRA from time to time, available with the department by comparing with that is shown by the company on challan and attached statement.		
Regularity • Take a sample of challans to check that the procedures for collecting GDS comply with relevant legislation.**(Natural Gas Development Surcharge Ordinance 1967)** • Check that relevant rules are strictly complied with by the companies at the time of payment of GDS.**(Natural Gas Development Surcharge Rules 1967)** • ***Over-due Taxes Properly Recorded and Reported*** ✓ Check that all monies due to the government on account of GDS and not collected, are properly recorded as uncollected receipts – on a basis of all transactions or a selected sample. ✓ Note whether a report of total outstanding GDS is produced regularly ✓ Examine these reports and determine what management actions are taken as a result of the reports – decide whether the situation is appropriately handled. ✓ Check that the records of taxes outstanding is adequately protected		
Presentation and Disclosure • Check that GDS payments are correctly identified/classified in the General Ledger /compilation Sheet under the correct Object and correctly coded according to the Chart of Accounts by the accounting centres.		

Audit Procedure	Done By:	WP Ref.
• Check that the GDS payments (on monthly basis) are correctly furnished to respective sub-office of AGPR through Monthly Cash Accounts. And further submission to AGPR main office for consolidation in working sheet/Consolidated Fund Receipts. • Check whether the manager(s) reconcile the information in the accounting report with the GDS payments received for the period reported/recorded by the department.		

6.25Audit Programme – Employee Related Expenses

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. From the sample of transactions check that: employee is identified in Payroll Register; and that payment was made to correct payee. 2. Check attendance records to determine that employees in sample earned the amount due in pay. 3. Check that proper personal files of all the officers with all necessary particulars are being maintained. 4. Check Service Book maintained for Non Gazetted Officer and certified by DDO.		
Completeness 1. Compare list of employees paid against Establishment Register for selected months. 2. Check that proper particulars are entered in Audit Register for Gazetted Officer and in Scale Audit Register (AR) for Non Gazetted Officer.		

Audit Procedure	Done By:	WP Ref.
3. Check that Office order or Establishment order for new appointment is issued by concerned head of department and amount is paid according to said order and entitlement in AR. 4. Select a sample of employees who recently retired / transferred out / otherwise left the office and check whether any received payments after date of leaving (adjusting for timing of last payment). 5. Select a sample of employees recently joining the office and confirm that they were not paid before they commenced. 6. Conduct a reconciliation (and/or check a batch of transactions) between {Direct Credit Advice / Payroll Advice / DDO monthly statement} and Monthly Schedule of Employees' Salaries and General Ledger. 7. Take a sample of employees (from establishment listing / telephone list / or other source) and check that they have received payment out of the payroll system.		
Measurement 1. Check that acknowledgement of payment to employees is received from employees / Drawing and disbursement officer (DDO). 2. Check that DDO certified the payment to Non Gazetted Officer 3. Check that Payroll Officer prepares Monthly Schedule of Employees latest by 26 of each month and Approved by Supervising Payroll Officer. 4. Check that Delegated Officer (other than Payroll/ Supervising Payroll Officer) prepares Payroll Credit Invoice or Cheque and sign by at least 2 officers. 5. Check that relevant officer enters all the cheques payments in to Register and prepares Payroll Advice Note (PAN) for bank in case of Cheque payment and Payroll Credit Advice (PCA) for direct bank transfer. 6. Check for the selected sample of employees recently joining the office that the amount of the first payment was correct according to the start date and according to their Payroll Register. 7. For employees recently joining the office, the amount of the first payment was correct according to the start date and according to their Payroll Register. 8. For employees who recently left the office, the amount of the last payment was correct according to the date of last day of employment in section and according to their Payroll Register – compare pay slips with Last Pay slip Certificate issued. 9. Check that payroll payments are correctly identified in the		

Audit Procedure	Done By:	WP Ref.
Compilation Sheet under Payroll Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the net pay and deductions have been correctly coded according to the Chart of Accounts codes. 10. For a sample of months, check that the total pay (gross, net and deductions) are correctly presented in the Compilation Sheet by making the necessary calculations.		
Regularity **Joiners:** 1. Check that the job was properly requisitioned by the relevant department and all process including advertisement was completed in a transparent manner in accordance with relevant rules and regulations. 2. Check that the salary and grade for the employee has been fixed according to the relevant HR rules and regulations. 3. Check that a Medical Certificate acknowledging the fitness of the employee has been issued by the Medical Officer **(FR-10)** 4. Check that the appointment letter of the employee has been signed by the relevant authority. 5. Check that the personal file of the employee contains the following; o Application and CV of the employee o ID Card o Experience Certificate (if any) o Appointment letter o Joining report o Medical certificate o Interview score sheets o Leave applications (if any) 6. In case the age of appointee is more than 60 years check that the appointment has been made in accordance to finance rules for appointment after superannuation age. **Promotions & Increments:** 1. Check that an Annual Performance Report is maintained by the Administration Department for the employee. 2. Check that the promotion of the employee has been approved by the relevant authority. 3. Check that the employee has received the annual increment as per the increment order, and his salary does not exceed the maximum basic scale limit.		

Audit Procedure	Done By:	WP Ref.
4. Check that the first annual increment of existing employees in basic pay scales, in which their pay is fixed on 01-07-2007 shall accrue on 1st December, 2007. **(Finance Division O.M. No. FD.PC-2-1/2007, dated 23rd July, 2007)** **Contract Renewal & Regularization:** 1. Check that the contract of the employee is renewed after the approval from the relevant authority. 2. Check that the contract employee has been made regular after the approval of the relevant authority. **Resignations& Terminations:** 1. Check that all resignations/terminations have been approved by the relevant authority after complying with all the rules and regulations applicable. 2. Check that the employee after the date of termination/resignation doesn't appears in the monthly salary sheet. **Adhoc Relief (Wage Type: 1831)** 1. Employees whose date of joining was 30-6-2005 should be paid adhoc relief allowance as per revised pay scale 2005. **(Para-6 of Finance Division Letter No. FD.PC.2-1/2005)** 2. Adhoc relief allowance shall continue to be admissible at frozen level on existing conditions. **(Finance Division O.M No. FD.PC-2-1/2007, dated July 23, 2007)** 3. Check that this allowance is also admissible to the appointment of Govt. servants from one post to another taking effect after 01-07-2005 provided they were previously in receipt of such benefits immediately before their appointment and such an allowance would also be made admissible to Govt. servants on extra ordinary leaves as soon as they resume duties, at the frozen level which would have been admissible to them had they not proceeded on EOL. **(Finance Division O.M. No.FD.PC-2-2/99, dated July, 21, 2007)** **Special Additional Allowance** 1. Special additional allowance after its discontinuation w.e.f 01-12-2001 was made admissible at frozen level in case of appointments by promotion/transfer / absorption taking place		

Audit Procedure	Done By:	WP Ref.
after its discontinuation. It was not allowed on or after 01-12-2001. This category of government employees included those who were appointed from one post to another during the said period despite the fact that they were in the receipt of benefit in their previous appointments. 2. Check that this allowance is also admissible to those Govt. servants who were entitled to and were in receipt of the benefits immediately before their appointment on or after 01-12-2001. However it is inadmissible to those fresh appointees who have not been entitled recipients immediately before such appointments. **(Finance Division O.M. No. FD.PC-2-2/99, dated July, 21, 2007)** **Special Allowance (Wage Type: 1550)** 1. Check that this allowance has been discontinued by finance division with effect from December 04, 2001. 2. An increase @ 15 % on initial of the pay shall be allowed to the contractual appointees as special allowance who are in receipt of pay package slightly higher than the standard pay package prescribed under the contract appointment policy dated: 29-12-2004. **(Finance Division O.M No.FD.PC-2-1/2007, dated 23rd July, 2007)** **Special Relief Allowance** 1. Employees whose date of joining was 30-6-2005 should be paid special relief allowance (@ 15 % of basic pay per month to a civil servant in BPS-1 to 22 vide letter # No. FD.PC-2-1/2003) as per revised pay scale 2005. (**Para-6 of Finance Division O.M # FD.PC.2-1/2005)** 2. Special relief allowance shall continue to be admissible at frozen level on existing conditions. **(Finance Division O.M No. FD.PC-2-1/2007, dated July 23, 2007)** 3. Check that this allowance is also admissible to the appointment of Govt. servants from one post to another taking effect after 01-07-2005 provided they were previously in receipt of such benefits immediately before their appointment and such an allowance would also be made admissible to Govt. servants on extra ordinary leaves as soon as they resume duties, at the frozen level which would have been admissible to them had they not proceeded on EOL. **(Finance Division O.M. No. FD.PC-2-2/99, dated July, 21, 2007)**		

Audit Procedure	Done By:	WP Ref.
Superannuation Age 1. Superannuation pension is granted to a Government servant on completion of age. Check those Government officials who have attained the age of superannuation but are still in government job. **Dearness Allowance (Wage type: 1864)** 1. Check that the dearness allowance @ 15 % sanctioned w.e.f. 1.07.2006 shall stand frozen at the level of its admissibility as on 30.06.2007 and the amount shall continue to be admissible to the entitled recipients until further orders but it will not be admissible to new entrants joining Govt. service on or after 01.07.2007. (**Finance Division O.M. No. FD.PC-2-1/2007, dated 23rd July, 2007)** **Entertainment Allowance (Wage type: 1518)** 1. Check that this allowance is admissible to the Grade 19 and above officers.		
Presentation and Disclosure 1. Check that payroll payments are correctly identified in the General Ledger under Payroll Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the net pay and deductions have been correctly coded according to the Chart of Accounts codes. 2. Check whether the payroll section receives timely reports from the General Ledger under the relevant Object Codes and that the information is presented in a way that it can be used by the payroll section. 3. For a sample of months, check that the total pay (gross, net and deductions) are correctly presented in the General Ledger by making the necessary calculations.		

6.26 Audit Programme - Goods and Services

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. Select a sample of transactions (as required for certification requirements / for purposes of testing controls / for additional substantive compliance testing) – if possible, this sample should focus on large transactions and a representative sample of the rest; and include a sample of transactions close to year end. 2. For this sample of transactions, collect all related documentation (purchase order / purchase authorization / invoice / delivery receipt / any receiving documentation / payment) and check entry in Inventory Register and in general ledger. **(Para 148 of GFR- Vol-1)** 3. Check payments for product/service entered into ledger for the financial year. **(Para 66 of GFR- Vol-1)** 2. Confirm that the payment was made to the correct payee by comparing information on cheque register with invoice and delivery information**. (Rule 205 of FTR Vol-1)** 3. Check also whether any "identical" transactions resulted from a practice of "order splitting", i.e. purchase orders split to avoid need for sanction from a higher authority. **(Rule 9 of PPR 2004)** 4. At least for large transactions and transactions close to year end, conduct physical check on existence of goods and services (if these are distant from site where conducting audit, may seek confirmation in writing from DDO or independent party). **(Para 159 of GFR Vol-I)** 5. Review suspense account for un-cleared/unclaimed payments or for inappropriate clearances. **(Rule 635 of FTR Vol-1)**		
Completeness 1. Reconcile total expenditures on goods and services with the amount recorded on the general ledger. **(Para 89 (viii) of GFR Vol-1)** 2. Check that all goods and services recorded as acquired in the year are charged against that year. **(Para 66 of GFR- Vol-1)** 3. Check for recently delivered goods and current service contracts that payments are recorded and/or monies allocated for payment (particularly important if the audit is conducted close to year end).		

Audit Procedure	Done By:	WP Ref.
Measurement 1. For the sample of transactions, check that the documentation (purchase order / purchase authorization / invoice / delivery receipt / any receiving documentation / payment) is consistent in quantity, pricing, product description (particularly checking for substitution of lower quality/grade product). 2. Check whether the individual items add up to the total given on the voucher / purchase order and the appropriate amounts of tax have been supplied. 3. Follow up on any short-fall / substitution / missing items / multiple deliveries to ensure that only what was received was paid for. 4. Check that the invoice and payment have applied proper prices / include any negotiated prices or other arrangements / reflect correct freight charges if applicable. 5. Check also that any payment advances have been properly reflected in the invoice and correspondingly deducted from payment. 6. Check arithmetical accuracy. **(Rule 183 FTR Vol-1)** 7. Check inclusion of applicable guarantees, service support. 8. If any products / services to provide maintenance or spare parts for a product (i.e. an expenditure to service a product previously acquired) are included in the sample of transactions, check that no payments were made for maintenance / replacement parts that should have been covered by warranties. 9. Check in case of late delivery, whether any penalties apply under contract and if so, whether payment was adjusted accordingly.		
Regularity 1. For procurements over Rs. 2,000,000, Advertised on the Public Procurement Authority's (PPRA) website as well as in other print media or newspapers having wide circulation has been made. **(Rule 12(1) of PPR 2004)** 2. For procurements between Rs. 100,000 up to Rs. 2,000,000, Advertised on the PPRA's website in the manner and format specified by regulation by the Authority from time to time and may also be advertised in print media, if deemed necessary by the procuring agency. **(Rule 12(1) of PPR 2004)** 3. For procurements between Rs. 25,000 up to Rs. 100,000 Request for quotations are available. **(42 (b)(i) PPR 2004)** 4. Procurements up to Rs. 25,000 The procurement process should be conducted in a fair and transparent manner. **(42 (a) PPR 2004)**		

Audit Procedure	Done By:	WP Ref.
5. Check that under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice. **(Rule 13(1) of PPR 2004)** 6. Also ensure that NTN and Sales Tax Reg. No. are present on quotations. 7. Ensure that the supplier is amongst the List of Approved Contractors/ Registered Suppliers. **(Rule 15 of PPR 2004)** 8. Ensure that approval of rates of the lowest bidder on Comparative Statement by the Board has been obtained. If purchase is not made from the lowest bidder, ensure reasons are specified. **(Rule 38 of PPR 2004)** 9. Acceptance letter issued to Contractor/ Approval on Quotation for other than contract supplies. 10. Check that the Contract is in the prescribed format and is duly endorsed by both parties. 11. Ensure that LPO (Local Purchase Order) is raised in the name of the selected supplier based on Comparative Statement. 12. Supplier's bill/ invoice in the prescribed format duly signed by the Contractor/ Supplier. Supplier's Bill details matches with the LPO, the Bill is stamped at the receiving unit. 13. Where purchase is not made by the central store/ procuring unit, ensure that "Not Available Certificate" is obtained. 14. Convoy note (in case of Hiring of Mechanical Transport) is acknowledged by the receiving authority. 15. Supply order is in conformity with the Approved Quotation/ Contract. Further ensure that the details of supply order match with the LPO. 16. Ensure that the supply has been made within the delivery date mentioned on the LPO, so that no Liquidation Damages (LD) charges are applicable. 17. Contingent bill duly raised by the respective C.O. and is in line with the supplier's bill. 18. Contract number should be mentioned on the contingent bill, where applicable. 19. Compare rates specified in the bill with Contract/ Approved Quotation/ Comparative Statement, the LPO and the supplier's invoice. 20. Checked rates of Income Tax and Sales Tax and ensure proper withholding & deposit in Government treasury. **(Income tax Ordinance, 2001 & Sales Tax Act, 1990)** 21. Cheque issued as per instructions from the suppliers, the particulars mentioned in the Contract and ensured that the budget limit was available.		

Audit Procedure	Done By:	WP Ref.
22. Check that bill submitted for payment is for the current period and is not paid before. 23. Ensure that cheque is signed by designated officer.		
Transparency in tendering and engagement of consultancy services **<u>Engagement of consultants</u>** Check that: 1. Consultants were selected after advertisement in the press. 2. Criteria for pre-qualification were clearly defined. 3. Both technical and financial proposal were evaluated. 4. Selection was made on merit. 5. Consultant were appointed as per approved policy and guideline issued by the Govt. (**Rules 8, 12 & 15 of** P**PR 2004)** **<u>Engagement of contractor</u>** Check that: 1. Enlistment/renewal of contractors with the department. 2. Notification for pre-qualification of contractors advertised in the press. 3. Criteria for selection of contractors were followed. 4. Sufficient time was given to contractors for submission of documents for pre-qualification. **(Code of the relevant department)** **<u>Tendering</u>** Check that: 1. Tender was advertised in accordance with the policy of the government. 2. Bids were invited/received from pre-qualified bidders. 3. Bids were evaluated and accepted within validity period. 4. Bid security was obtained. 5. Tenders were opened in the presence of bidders. 6. Tender sale and tender open register maintenance. 7. Compare the content of tender with the estimates. 8. Tender documents were prepared clear, accurate and without any ambiguity. 9. Cost of administratively and technically sanctioned was recorded in the tender register. 10. Criteria of pre-bid meetings/amendments. 11. Compare bidding applications and tender register to ensure the accuracy of particulars (e.g rates, quantity etc) quoted by the		

Audit Procedure	Done By:	WP Ref.
applicant and rates quoted by the contractor were provided in figure and words. 12. There were no interpolations and corrections were made to the tender and all the changes should be approved by the competent authority. 13. Comparative statement of all the bidders was prepared in the tender register. 14. The basis on which bidding application were accepted or rejected. 15. The arithmetic accuracy of the calculations made in the tender and estimates. 16. Acceptance letters were issued to the successful bidders within bid validity period. 17. Award of work awarded without open tendering or on the basis of single tender as per codal rules. **(Rule 20 to 27 of PPR-2004)** **(Relevant contract agreements)**		
Presentation and Disclosure 1. Check that purchase payments are correctly identified in the General Ledger under the correct Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes. 2. Check whether the manager(s) responsible for the purchasing function(s) receive(s) timely reports from the General Ledger under the relevant Object Codes and that the information is presented in a way that it can be used by the responsible managers section. 3. Check whether the manager(s) reconcile the information in the accounting report with the purchases for the period reported.		

6.27Audit Programme - Project Audit

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

Audit Procedure	Done By:	WP Ref.
Existence and Occurrence 1. For a sample of projects expenditure transactions, check whether payments of bills/invoices are promptly and correctly entered into accounting records. 2. Trace each payment / deposit to relevant bank account and check that recipient of payment was the party who carried out the work and billed against the project. 3. For a sample of expenditure records in the General Ledger and/or project accounts, check that these were correctly charged to the project.		
Completeness 1. For a sample of projects, reconcile the total payments, during the year of audit, (as determined by inspection of vouchers or from project accounts) with the amount recorded in the General Ledger. 2. Take a sample of vouchers, close to the beginning or end of the year, and check that the work was conducted (or goods delivered) in the year against which the cost was allocated.		
Measurement 1. Where project bills/invoices are based on volume of materials used (and/or contract hours consumed) check for a sample of vouchers that the total cost is correctly calculated on the basis of volume times unit price (and/or number of hours times hourly rate), taking into consideration any discounts / overtime rates. 2. Where payment is based on progress, check a sample of payments to verify that the amount paid does not exceed the technical officer's, or project manager's, estimate of progress achieved - and, where feasible, confirm by observation or reading of project progress reports that the stated progress has actually been achieved.		
Regularity 1. Confirm that for the sample of projects examined, a project manager was appointed for each project, and given delegated		

Audit Procedure	Done By:	WP Ref.
financial powers as laid down in the **"Delegation of Financial Powers" as issued by Ministry of Finance".** 2. Check that project payments have been properly authorised, and there is evidence on file that the work for which the payment is claimed was completed satisfactorily (suitable progress according to contract agreement, satisfactory quality and according to terms and conditions / specifications as laid out in the contract) and approved by technical officer / project manager. 3. Determine whether commitments were recorded, for the sample of projects examined, in accordance with the accounting policies laid down in Section 4.3 of the Accounting Policies and Procedures Manual. 4. Check that no expenditures were made against the project for any indirect costs, such as interest, depreciation, or administrative overheads unless specifically provided for under the project budget (as directed under Para 10.3.3.4 of the Accounting Policies and Procedures Manual. 5. Check the compliance of Govt. Instructions regarding appointment of consultants and consultancy firms have been observed or not.		
Presentation and Disclosure 1. For a sample of projects, and (where there are a large number of payments per project) on a sample of payments, check that all payments are correctly recorded in the General Ledger against the project and no payments are made against the project that are not a valid expense against the project. 2. Review project reports and check on a sample basis that items in the report correspond to the records in the General Ledger (this is more critical if the report is not a computer generated report).		
Appropriate approvals and project controls in place before any commitments, or actions, can be taken on a project 1. Check whether the appropriate project approvals and project controls were in place before any commitments were made to proceed. 2. In particular, ensure that the funds had been allocated to the project before any contractual arrangements were entered into 3. Check that there have been no payments prior to date contract signed.		

Audit Procedure	Done By:	WP Ref.
Design Assessment (PC-I Review) 1. Is the proposed method the best one for the intended objective? 2. Are key assumptions of project design valid? 3. Is the question of sustainability addressed in the PC-1?		
Progress Assessment 1. Is it likely to be completed on scheduled time? Compare sequence of ongoing activities with the sequence and timing of such activities given in the PC-1 and assess the extent, causes and impact on project outcome of such deviations. Also examine opportunity cost of delay in terms of benefits lost. 2. Is it likely to be completed within budget? Examine timing and amounts of releases vis-à-vis budgetary allocation, project management capacity in utilization of releases (% of releases made use of in any given year), and impact of pattern of releases/utilization capacity on project outcome.		
Assessment against the principles of Economy Efficiency and Effectiveness (3Es) ***Economy:*** Procurement of inputs at minimum cost. 1. Has project management avoided waste in procuring inputs? Focus on timing, volume, and requirement of inputs vis-à-vis project implementation requirement. ***Efficiency:*** Conversion of project inputs into outputs. 1. Is conversion of inputs into outputs optimal? Has duplication been avoided? Have potential synergies been exploited in converting inputs into outputs? ***Effectiveness:*** How project outputs contribute toward project outcome and subsequently planned impact in the long run. 1. Assess effectiveness from the angles of adequacy, accessibility, timeliness, and coverage vis-à-vis project design.		
Where required, an appropriate environmental assessment relating to the proposed project 1. For those projects in the sample selected, check whether an environmental assessment is/was required **Section 12 of Environmental Protection Act, 1997.**		

Audit Procedure	Done By:	WP Ref.
2. Where an environmental assessment is required, check whether one was done (or is being done). 3. Conclude whether the environmental assessment was timely (i.e. completed before any significant effort or commitments made on the project) and did not contribute to any serious delays. 4. Note whether actions on the project complied with the conclusions and recommendations of the environmental assessment issued by Pakistan Environmental Protection Agency.		
Decisions to proceed based on appropriate and adequate information 1. For those projects in the sample selected, check whether decisions relating to the project were made with supporting analysis and information available i.e reliable estimates of cost, requirements specified and risks identified and assessed. 2. Where possible, conclude on the adequacy of the analysis {to do this may require expert opinion to guide the auditor} 3. The auditor should note where the decision on the project is inconsistent with the available analysis.		
Contingency plans developed for major risk situations, wherever feasible 1. The auditor should enquire whether there are any policies or directives regarding contingency planning for specific high risk situations (possible labour disputes, availability/cost of particular technologies, environmental constraints, local support for the project). 2. For those projects in the sample selected, check whether there are situations where a contingency plan would be appropriate (or required under policy). 3. Where in the opinion of the auditor, a contingency plan would be appropriate, determine whether one was produced and assess its appropriateness for the risks / requirements identified.		
All prerequisites met before commitments made / or contracts entered into 1. For a sample of projects, check whether the appropriate activities have been successfully completed before entering the next stage of the project. 2. In particular, ensure that commitments to proceed have not been made until all substantial requirements have been		

Audit Procedure	Done By:	WP Ref.
completed at the previous stage. 3. Specifically, no contracts or other written or verbal undertakings have been made before the monies have been allocated to the next stage of the project and all prerequisites have been met.		
Payments not made until all agreed-upon quality and quantity of materials, construction, etc. are met 1. For those projects in the sample, check whether there is documentation on file to demonstrate that all requirements were met, and approvals obtained, before payments were made. 2. In particular, look for evidence relating to (where appropriate): proper inspection carried out, checking that the full amount of materials supplied, existence of quality control over products and services received; proper sign-off procedures followed; etc. 3. Where the terms and conditions of the contract were not met, check whether the necessary approvals, and corresponding contract amendments, were obtained to either: a) waive one or more of these specifications / requirements, and/or b) change the amount of payment prior to payment		
Appropriate monitoring and reporting of progress 1. The auditor should enquire what policies, directives and procedures exist with regard to the monitoring and reporting of projects (particularly large and/or complex projects) 2. Determine whether there are regular project reports (quarter and annual) containing information on the following; a) the progress of the project; b) expenditures against budget; c) forecast of total completion cost and completion date; d) project difficulties and/or delays; e) proposed corrective actions; f) Contingency plans. **(PC-III & PC-V)** 3. Assess the quality of information contained in these reports and conclude whether the entity conducts appropriate monitoring and reporting of progress.		
Corrective actions taken in a timely and effective manner 1. If any of the projects in the sample encountered problems or setbacks, examine what issues had to be resolved.		

Audit Procedure	Done By:	WP Ref.
2. Conduct an analysis of what corrective actions had been identified as necessary. 3. Document what actions were taken and conclude whether: a) these were taken in a timely manner b) at a reasonable additional cost (compared to action plan if available), and c) impacted on the success of the project		
Testing conducted to ensure all components are in operational condition 1. For those projects in the sample that have been completed, check what actions were taken to assure that the facility / equipment / computer system / or other output met the original (or amended) requirements. 2. Was a commissioning report (or report on satisfactory completion of the project) produced **(PC-IV).** 3. Did this report, or other communications indicate examples of deficiencies (or unsatisfactory performance).		

6.28Audit Programme – Fixed Assets

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

Audit Procedure	Done By:	WP Ref.
Existence 1. Check that the department has maintained fixed asset register in accordance with the provision **of APPM (Form 13A).** 2. For a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. 3. For the sample of assets, check that they are correctly identified in the Fixed Assets Register under the correct Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the **Chart of Accounts**. 4. Check that the all the additions (purchase / transfer in) and deletions (sale of fixed assets have been properly incorporated in		

Audit Procedure	Done By:	WP Ref.
Fixed Asset Register. **(Para 154 to 163 of GFR Vol-1)**		
Completeness 1. Check for a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information.**(Rule 159 of GFR Vol-1)** 2. Check from physical inspection of a sample of assets on site that they are entered into the Register and that the information about them is accurate. **(Rule 160 of GFR Vol-1)** 3. Check for a sample of expenditures that they have been recorded correctly in the Fixed Assets Register and that they are on site, according to location and that they are operational and being used. **(Rule 148 of GFR Vol-1)** 4. For any items still in storage, or non-commissioned, determine their reasons for non-functional state. **(Rule 162 of GFR Vol-1)** 5. For any assets not delivered, determine why payment was made before delivery. **(Rule 11 & 12 of GFR Vol-1)**		
Measurement ***<u>Purchases</u>*** Check for a sample of additions that: 1. Budget was approved for the particular purchase. **(Rule 11 & 12 of GFR Vol-1)** 2. Purchase Indent is approved by the competent authority. 3. Tendering process was done in accordance with **(Rule 20 to 27 of PPR 2004).** 4. Purchase Order generated in favor of selected/approved supplier. 5. For the sample of purchased items during period audited, check that the cost listed in the Fixed Assets Register is the same as the purchase price (including cost of installation & commissioning) and check against supporting documentation. ***<u>Transfer in</u>*** 1. For items transferred in, check whether any transfer payments were made and if so whether for an appropriate amount. 2. Ensue that any donation/gift of fixed asset received, met the requirements of the **Accounting Policies and Procedures Manual- APPM [13.4.3 - Donations/gifts of fixed assets].** ***<u>Subsequent Capitalization</u>*** 1. Review any expenditure on improvements to assets and check that these have been identified as capital expenditures.		

Audit Procedure	Done By:	WP Ref.
Disposal Check for a sample of fixed assets disposal that: 1. Whether proper authority was obtained to dispose of the asset. 2. That an appropriate price was obtained (either by a competitive bid process or by benchmarking the value of the asset before determining the price). 3. Where possible, compare prices obtained for similar assets and investigate any assets apparently sold below value. 4. For any revenue, check that this was properly recorded in the General Ledger, or other account. **(Para 166-168 of GFR Vol-1)** ***Transfer out*** 1. For items transferred out, check whether any transfer receipts were obtained and if so whether for an appropriate amount. 2. Check the accumulated depreciation of the assets transferred out has been excluded from the accounts. 3. Check that any income earned on the transfer out of fixed assets was correctly recorded. 4. Confirm that assets were received by the organizations to which they were transferred. **(Para 150 & 166-168 of GFR Vol-1)**		
Land Acquisition 1. Check that acquisition of land was made after proper evaluation and award under the rules. 2. Land acquired was in public interest within the ROW of road / building. 3. Land award announced within one year in ordinary case and within six month in emergency case (U/S 17.4(6) and responsibility fixed for extra cost caused due to delay regarding revised land rate or interest beyond six month as per **Clause 7 of Land Acquisition Rules 1982**. 4. Check that name of land owner, actual acquired area, rates applied for land or other item in land award. 5. Check that mutation of land acquired in the name of Govt. done. 6. Check that proper account of PLA (Assignment Account) is available for advance obtained in each case for land acquisition. Reconciliation made. Vouched account issue to concern besides refund of unspent balance. 7. Check that PLA pass book and voucher slips for each account was available. **(Land Acquisition Act 1894 Chapter-Section-4, 5, 6, 10, 11, 16, 17 & 23)**		

Audit Procedure	Done By:	WP Ref.
Ownership of Fixed Assets 1. For assets examined, check, where appropriate, that the government has clear ownership and title to the asset. {This check is more likely to be important for any used items acquired (equipment, buildings, etc.) or for any construction on lands where the government may not have clear ownership of the land – particularly in the case of new road construction. **(Para 148 of GFR Vol-1)**		
Presentation and Disclosure 1. Through analytical procedures, and by examining changes from previous years audited statements, check that the financial statements are consistent with the information on the Fixed Assets Register and entries in the General Ledger. 2. Check that fixed assets are correctly identified in the Fixed Assets Register under the correct Object and correctly coded according to the Chart of Accounts. 3. Check whether reconciliation is being prepared that reconciles the changes in the Fixed Assets Register with the acquisitions and disposals of assets for the period reported within the General Ledger and that these are correctly presented and disclosed in the Financial Statements.		

Chapter 7

AUDIT EVALUATION AND REPORTING PHASE

7.1 Introduction

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

Evaluation of Audit Findings/Results

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

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

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

Reporting of Audit Conclusion

The auditor normally issues:

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

The audit report is issued by the external auditor as a result of an external audit or evaluation performed on a legal entity or subdivision thereof (called an "auditee"). The

report is subsequently provided to the auditee organisation in order to enable the users to make decisions based on the results of the audit.

Whatever the audit type, the same considerations apply:

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

7.2 The Audit Team's Responsibility

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

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

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

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

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

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

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

A formal process, governing how audit observations are developed, cleared and reported in the most appropriate reporting style, ensures quality. This process helps to ensure that the contents of the report are correct, and that the findings, conclusions and recommendations contained in the report are easily understood and appreciated by the readers of the reports.
Detailed guidance is provided in the following sections of the Financial Audit Manual:

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

To facilitate the auditors' understanding of the reporting process, the Reporting Cycle of the Zakat 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 and Governors*
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 PAO for Departmental Accounts Committee (DAC) meeting.
vii) The paras finalized for Audit Report are retained in the AR section, while those which cannot find a place in the Audit Report are sent back to the concerned IR

sections. These Paras are compiled and issued as MFDAC by the IR sections for further pursuance. The MFDAC is compiled and issued on a yearly basis to respective PAOs.

Departmental Accounts Committee (DAC) meeting

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

Quality assurance review at DAGP

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

Audit report issued to President and Governors

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

Pre-PAC meeting with the AGP or Additional Auditor General

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

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

Public Accounts Committee (PAC) Meeting

i) The Director Zakat Audit, on behalf of the AGP, supports the PAC for appropriate action against the paras included in the Audit Report.

ii) The PAC accordingly disposes of the audit paras by giving necessary directives to the executives/PAOs.

7.3 Documentation in Evaluation and Reporting Phase

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

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

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

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

7.4 Internal Control Weaknesses – Impact Analysis

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

7.5 Analytical Procedure Thresholds

Analytical procedures work by comparing an actual value from the Financial Statements with a baseline value (normally the comparative figures of previous audit year is used as

baseline value). If the difference between the actual value and the baseline value exceeds a certain threshold, then the analytical procedure has not provided the required assurance, and additional audit work may be required.

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

7.6 Evaluation of Analytical Procedures

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

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

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

7.7 Evaluation of Internal Control Deviations

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

7.8 Substantive Tests Evaluation – Projectable Errors from Sample

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

7.9 Substantive Tests Evaluation – Non-Projectable Errors

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

7.10 Substantive Tests Evaluation – Summary

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

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

7.11 Achieved Level of Assurance Form

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

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

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

7.12 Error in Each Component

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

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

7.13 Overall Error in Financial Statements

This form is designed to summarize errors in the Financial Statements – first the errors in receipts/revenues, expenditures and net income, and then the errors in assets, liabilities, equity and opening residual equity. The last table of this form then shows the overall most

likely errors in assets, liabilities, receipts/revenues, expenditures, equity and opening residual equity, culminating with a Summary of Most Likely Errors.

7.14 Compliance-With-Authority Violations

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

7.15 Checklist of Management Representation Letter

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

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

7.16 Sample Management Representation Letter

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

7.17 Audit Completion Checklist

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

7.18 Memorandum Supporting Signature

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

7.19 Auditor's Opinion

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

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

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

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

7.20 Follow up Continuity Schedule

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

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

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

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

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

The errors identified during the financial audit could include:

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

Recommendations made by the auditor can relate to:

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

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

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

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

7.21 Quality Assurance Checklist

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

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

7.22 Centrally Led Audit

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

Chapter 8

KEY TASKS AND RESPONSIBILITIES

8.1 Introduction

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

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

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

8.2 Assigning Roles and Responsibilities

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

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

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

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

8.3 Key Tasks and Responsibilities: Permanent File

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

	Updating determination of components.		**P**	**R**	
4.14	Listing Significant Accounting Policies.		**P**	**R**	
	Update and review of Significant Accounting policies.		**P**	**R**	
	Review and Sign Off of all the forms within the Permanent File.			**R**	**A**

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

8.4Key Tasks and Responsibilities: Audit Planning Phase

Guideline Reference	Tasks	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.4	Determining Audit objectives and scope.				**P**
5.5	Listing/ Updating Points for attention at next audit.	**P**	**S**	**R**	
5.6	Preparing/Issuing Entity communication letter.		**P**	**R**	**A**
5.7	Preparing Audit planning memorandum.		**P**	**R**	
5.8	Revising Memorandum on post-planning changes.		**P**	**R**	
5.9	Scheduling Important dates.	**P**	**R**		
5.10	Preparing Tour Program..	**P**	**S**	**R**	**A**
5.11	Pursuing Information requested from entity officials.	**P**	**S**		
5.12	Preparing Materiality assessment form		**P**	**R**	**A**
5.13	Computing Expected aggregate error and planned precision form.		**P**	**R**	
5.14	Preparing Audit risk assessment form.		**P**	**R**	
5.15	Preparing Inherent risk assessment form.		**P**	**R**	

Guideline Reference	Tasks	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.16	Developing Internal control questionnaire - controls for overall environment.		**P**	**R**	
5.17	Documentation of the internal control questionnaire – general computer controls.		**P**	**R**	
5.18	Documenting Internal control questionnaire – application controls.		**P**	**R**	
5.19	Developing Control risk assessment form.		**P**	**R**	
5.20	Documenting Analytical procedures assurance form.		**P**	**R**	
	Updating optimum combination of procedures.			**P**	**R**
5.21	Documenting Source of audit assurance form.		**P**	**R**	
5.22	Listing all applicable laws and regulations.	**P**	**S**	**R**	
5.23	Documenting and Updating Sample selection checklist.	**P**	**S**	**R**	
5.24	Preparing High value item selection form.		**P**	**R**	
5.25	Preparing Key item selection form.		**P**	**R**	
5.26	Computing Sample sizing for tests of internal control.		**P**	**R**	
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**	

Guideline Reference	Tasks	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
5.30	Documenting Audit planning checklist.		**P**	**R**	**A**

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

8.5 Key Tasks and Responsibilities: Audit Execution Phase

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

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

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

8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
7.4	Documenting Internal Control Weaknesses – Impact Analysis.			**P**	**R**
7.5	Calculating Analytical Procedure Thresholds.		**P**	**R**	**S**
7.6	Documenting Evaluation of Analytical Procedures.			**P**	**R**
7.7	Evaluating Internal Control Deviations.			**P**	**R**
7.8	Conducting Substantive Tests Evaluation – Projectable Errors from Sample.		**P**	**S**	**R**
7.9	Documenting Substantive Tests Evaluation – Non-Projectable Errors.		**P**	**S-R**	
7.10	Calculating Substantive Tests Evaluation – Summary.		**P**	**S-R**	
7.11	Documenting Achieved Level of Assurance Form.			**P**	**R**

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
7.12	Evaluating Error in Each Component.		**P**	**R**	**S**
7.13	Summarizing and preparing Overall Error in Financial Statements.		**P**	**R**	**S**
7.14	Documenting Compliance-With-Authority Violations.	**P**	**P-S**	**R**	
7.15	Drafting Checklist of Management Representation Letter.		**P**	**S**	**R**
7.16	Obtaining Management Representation Letter.		**P**	**R**	
7.17	Documenting Audit Completion Checklist.		**P**	**R-S**	**A**
7.18	Memorandum Supporting Signature.		**P**	**R**	**A**
7.19	Recommending Auditor's Opinion			**P**	**R-A**
7.20	Following up the Continuity Schedule		**P**	**R-S**	
7.21	Reviewing the Quality Assurance Checklist			**P**	**R**

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

8.7 Key Tasks and Responsibilities: Audit Quality Assurance

Guidelines Reference	Tasks	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
Planning					
5.3	Review that Planning has been carried out as per the recommended planning process.			**R**	**S**
FAM 15.3.6	Assigning Appropriate staff, required strength and skill set of the audit team.			**P**	**R**

Guidelines Reference	Tasks	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
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		**P**	**R-S**	**A**

Guidelines Reference	Tasks	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
	Checklist.				
7.21	Reviewing the Quality Assurance Checklist. *		**P**	**R**	**A**

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

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



ANNEXURE - A

AUDITOR - GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

PERMANENT FILE INDEX/CHECKLIST

Main Reference	Supporting Schedules		Done by	Date
PF		Update Control Sheet		
PF-I		Status of the Entity		
PF-II		Background Information		
PF-III		List of Auditable Locations		
PF-IV		List of Bank Accounts		
PF-V		List of Authorised Signatories		
PF-VI		External Factors		
PF-VII		Accounting Records and Accounting System		
PF-VIII		Key Contacts		
PF-IX		Significant Audit Areas		
PF-X		Significant Accounting Policies		

AUDITOR - GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Update Control Sheet

Original file prepared by:	Asghar Mehdi, Audit Officer Central Team (HQ) 10.04.2009

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: _____

AUDITOR - GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- I

Understanding of Entity's Business – Status of Entity

Principal Address:

Revenue Division
Federal Board of Revenue House,
Constitution Avenue, G-5, Islamabad.

Telephone Index Exchange No:9207540
Toll Free Number : 0800-00227
UAN: 111-227-227

helpline@fbr.gov.pk

Background Information:

The Central Board of Revenue (CBR) was created on April 01, 1924 through the Central Board of Revenue Act 1924. In 1944, a full-fledged Revenue Division was created under the Ministry of Finance. After independence, this arrangement was continued upto 31st August, 1966, when on the recommendation of Administrative Re-organization Committee, CBR (Board) was made an attached department of the Ministry of Finance. In 1974, further changes were made to streamline the organization and its function. Consequently, the post of Chairman, CBR was created with the status of ex-officio Additional Secretary and Secretary Finance was relieved of his duties as ex-officio Chairman of the Board.

In order to remove impediments in the exercise of administrative power of a secretary to the government and effective formulation and implementation of fiscal policy measures, the Revenue Division was restored. In January, 1995, Revenue Division was abolished and CBR reverted back to the pre-1991 position. However, from December, 01,1998, Revenue Division was once again re-recreated and it continues to exist as such. The CBR has now been renamed as Federal Board of Revenue (FBR) since July, 2007.

In the existing setup, the Chairman FBR, being the executive head of the Board as well as Secretary of the Revenue Division.

Status of the Entity:

Centralized Accounting System.

The Central Board of Revenue (CBR) was created on April 01, 1924 through enactment of the CBR Act, 1924. In the wake of restructuring of its functions, CBR has adopted new Act under which it has been renamed as Federal Board of Revenue (FBR) since July 2007.

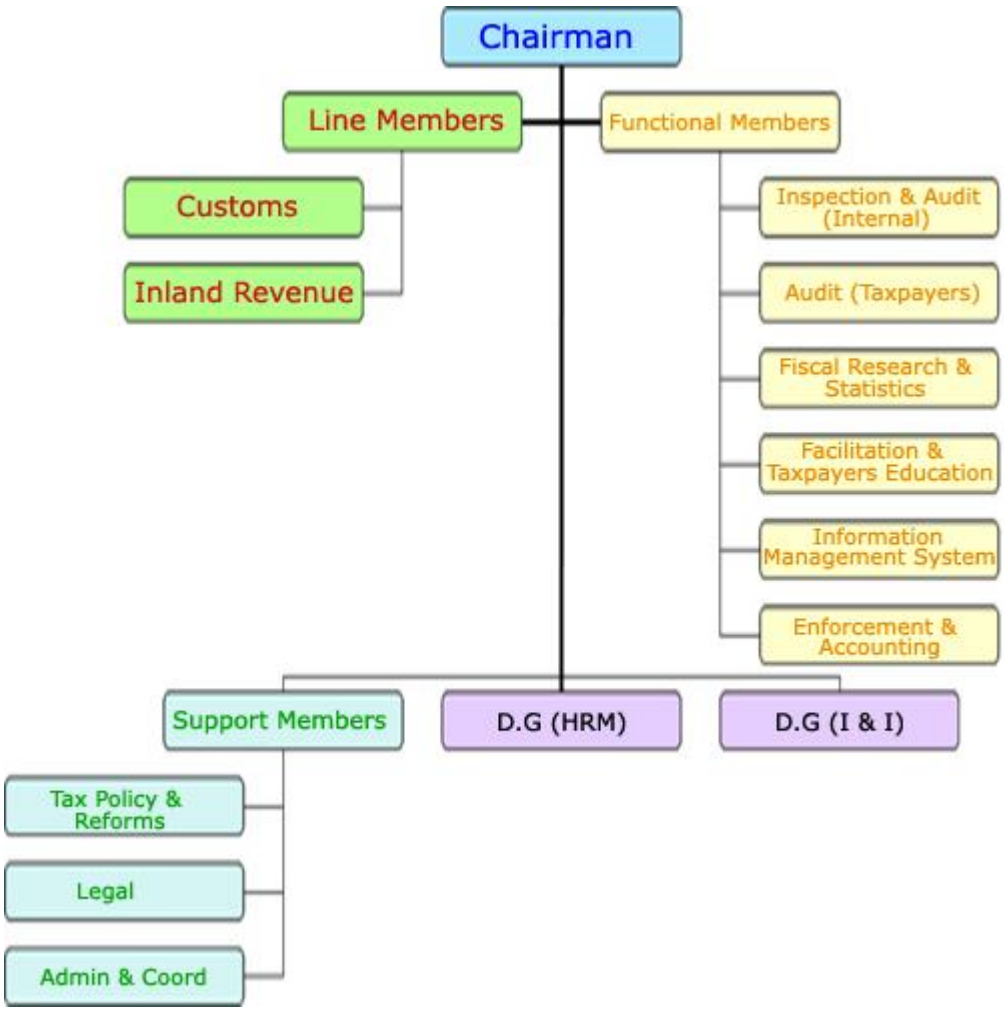
Inter-Governmental Relationship:

Revenue Division under the Ministry of Finance

Organizational Set-up:

The Secretary, Revenue Division/ Chairman, FBR is assisted by the Two Line Members (one each for Inland Revenues (Direct Tax, Sales Tax, and Federal Excise), Customs and Exports), three Support Members (Legal, Tax Policy and Reforms, and Administration and Coordination); and Six Functional Members (IMS, Audit (Taxpayers), Facilitation and Taxpayers Education, Fiscal Research and Statistics, Enforcement and Accounting, inspection and Audit (Internal)).

Organizational Chart of the FBR / Revenue Division



Vision:

To be Modern, Progressive, Effective, Autonomous and Credible Organization for Optimizing Revenue by Providing Quality Service and Promoting Compliance with Tax and Related Laws.

Mission:

Enhance the Capacity of the Tax System to Collect Due Taxes through Application of Modern Techniques, Providing Taxpayer Assistance and by Creating a Motivated, Satisfied Dedicated and Professional Workforce

Values:

- Integrity
- Professionalism
- Teamwork
- Courtesy
- Fairness
- Transparency
- Responsiveness

AUDITOR - GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- II

Understanding of Entity's Business – Background Information

Size of Entity:

Collection vis-à-vis Original and Revised Targets 2007-08

(Rs.in Billions)

Tax Heads	Original Targets	Revised Targets	Collection: 07-08	Difference from Revised Targets	
				Absolute	Percent
Direct Taxes	405.0	385.0	387.5	2.5	0.7
Sales Tax (GST)	382.0	375.0	376.9	1.9	0.5
Federal Excise	98.0	92.0	92.2	0.2	0.2
Customs Duties	140.0	148.0	150.6	2.6	1.7
All Taxes	1025.0	1,000.0	1,007.2	7.2	0.7

Source: Revenue Division Year Book 2007-08

Core Operational activity:
In the existing setup, the Chairman, FBR, being the executive head of the Board as well as Secretary of the Revenue Division has the responsibility for:

(i) formulation and administration of fiscal policies,
(ii) levy and collection of federal taxes and
(iii) quasi-judicial function of hearing of appeals.

His responsibilities also involve interaction with the offices of the President, the Prime Minister, all economic Ministries as well as trade and industry.

Major Services:
Tax Collection Services

Major Beneficiaries:
General Public, Federal Government, all Provincial Governments under NFC Award

Major Cost Centres:

All auditable locations i.e. FBR , DRandS, All RTOs/LTUs/MCCs and All DDOs

Major Revenue Centres:

Direct Taxes:

a) Income Tax
b) Worker's Welfare Tax
c) Capital Value Tax

Indirect Taxes:

a) Custom
b) Sales Tax
c) Federal Excise

Reporting Authority:

Chairman FBR reportable to Ministry of Finance Centralised Accounting System Ministry of Finance

Business Processes

ENTITY: Customs Department

❖ MAIN FUNCTION:

1.1 Clearance of imported goods,

1.1.1 IGM
1.1.2 Filing of GD
1.1.3 Examination
1.1.4 Appraisement
1.1.5 Assessment of duties and taxes
1.1.6 *Collection o f Indirect Taxes*
1.1.7 Out of charge

❖ GOVERNING LEGISLATIONS, RULES AND REGULATIONS ETC:

(names only; Copies to be attached with permanent file)

- Customs Act, 1969
- Pakistan Customs Tariff (Part-I andII)
- Customs General Orders

❖ MAIN BUSINESS PROCESSES

3.1 ***Clearance of imported/exported goods:***
to clear the goods imported/exported from the country in pursuance of provisions of the Customs Act, 1969 read with Pakistan Customs Tarrif (relevant year)

Standard Documents used

- **IGM:** Submitted by the master of the ship showing importer-wise details of imported goods on which the custom department allotted an IGM number (Port-wise). Record of each IGM is maintained on computer/software system.

- **GD (Goods Declaration**): filed by the importer/agent along with supporting documents i.e IGM, Carrier manifest, invoices, packing list, Bill of Lading etc. the customs department allotted a GD number through Computer/PRAL .GD-wise Computerized record is maintained by the PRAL. The customs department furher processed the GD examination, appraisement, assessment of duties and taxes, collection of duties and taxes by the bank on the GD and final clearance of goods (out of charge) etc.

- **Shipping Bill**: submitted by the exporter alongwith supporting documents i.e. invoice, form "E", etc

- **Register** : Manual registers for IGM and GD are prepared apart from computerized record by PRAL

▪ Description of Operational Activities

Clearance of Imported Goods:

- On arrival of imported goods at Ist port (Karachi), the master of ship presents an IGM (which shows information regarding Vessel name, date of arrival etc in IGM header and importer-wise/item-wise details in IGM index)to customs authorities and an IGM number is allotted.

- If the importer wants to get the goods cleared from any upcountry port, then the importer applied for a transshipment with the customs authorities. A Transhipment permit is issued along with a carrier manifest for a destination port.

- On arrival of transshipped goods at destination port, the importer/agent submits IGM documents for allotting a local IGM number. PRAL verifies the particulars of IGM documents with the Information available in the computer system. After which the importer files a GD alongwith documents i.e. IGM, Carrier manifest, invoices, packing list, Bill of Lading etc with PRAL for processing. PRAL verifies

the particulars of GD with the information available in computer system after which a GD number is allotted by computer.

- After this the GD is submitted to customs authorities for examination for which the container is opened after checking the original seals are intact and imported goods are physically checked by the examiner with the particulars of GD (upto certain approved percentage)and results thereof are written on the back of GD which is called examination report. This report is approved by the competent authorities. An automated clearance procedure is also in operation for certain importers wherein certain imported goods are cleared without detailed examination.

- On the basis of this report, the appraisement (valuation in accordance with the provisions of section 25 and 25-B, Classification of imported goods terms of PCT headings) and assessment of duties and taxes was made by the customs authorities.

- The calculation of duties and taxes is checked in cash section and a cash number is allotted. Then the importer deposited assessed duties and taxes in the designated branch of bank on the GD.

- After confirmation of payment of assessed duties and taxes from computer, an out of charge number is allotted after which a gate pass is issued by the Custodian after payment of demurrage and rent charges.

- An out of gate number is issued by the customs staff posted at gate of customs port after checking the particulars of GD and gate pass after which GD is duly stamped with the gate staff and copy of GD is retained. Finally, the imported goods are cleared from the customs port.

Exports :

Shipping Bills showing the declaration and assessment by the customs staff thereon with examination report on the back of thereof along with the following supporting documents:

- Customs Invoice
- Packing List
- Bill of Lading or Air Way Bill in case of air cargo
- Insurance memo and Form "E"

Refund and Rebate :

Refund of Customs Duty

- Refund of customs duty claim along with supporting documents i.e. proof of payment (GD) or copy of additional duty bill or challan

- Refund Payment Order

- Cheque issued by the Customs Treasury

Rebate

- Rebate claim with calculation sheet filed by the exporter
- Shipping Bill
- Customs Invoice
- Packing List
- Bill of Lading or Air Way Bill in case of air cargo
- Insurance memo and Form "E"
- Rebate Payment Order
- Cheque issued by the CAO

Sales Tax and Federal Excise: Accounting System:

- Sales Tax is deposited by the Registered Person in the branches of NBP on Sales Tax Return-Cum-Payment Challan in Quadruplicate and a copy of Computerized Payment Receipt (CPR) is also issued to the registered person.
- One copy of Sales Tax Return-Payment Challan duly signed and stamped thereon by the NBP authorities retained by the NBP staff for record purposes and one is sent to Sales Tax A and P branch RTO/LTU .
- These returns are entered in computerized data base by the Assessing and Processing Section.
- On the basis of this computerized record the head of Sales Tax RTO/LTU concerned reported the revenue figure to FBR for onward communication thereof to Ministry of Finance.
- Debit Authority and Statement showing the remittance of revenue receipts by the link branch of NBP supported with Government Credit Scroll of all collecting branches of NBP is sent to departmental treasury (CAO) on daily basis.
- The Sales Tax Treasury (CAO) also reports revenue figures to FBR on daily basis for onward communication thereof to Ministry of Finance.
- On the basis of these returns, government credit scroll, Debit Authority and statement of remittance of government revenue (NBP Branch-wise) to SBP, the Sales Tax treasury (CAO) maintains initial accounts on a computerized/manual receipt register which also called cash book.
- The Sales Tax Treasury furnished monthly cash accounts to respective sub-office of AGPR.
- The Sales Tax Treasury reconcile the revenue figures with the NBP/SBP and with respective sub-office of AGPR on monthly basis.

- The sub-office of AGPR prepares Detail Books (Source-wise and head-wise) and Civil Accounts on monthly basis. A working sheet (head-wise) is also prepared on monthly basis. All the sub-offices of AGPR submit their Monthly Civil Accounts to AGPR, Islamabad which consolidates and prepares Monthly Civil Accounts of Federal Government for submission to Finance Division.
- The AGPR, Islamabad prepares consolidated Working sheet (Head-wise and Sub-offices-wise and SAEs-wise) on the basis of which Financial Statements i.e. Cash Receipts and Payments statement with explanatory notes prepared according to the requirements of Cash-Basis IPSAS.

The following initial record pertaining to revenue receipts (Sales Tax and Federal Excise) is maintained at the field locations i.e. field RTOs/LTUs, departmental treasury (CAO), collecting branches of NBP, respective accounting office's such as respective AGPR sub-offices and District Accounts Offices.

Accounting Record with LTUs/RTOs

- Copies of monthly sales tax return-cum-payment challans showing payment of tax due duly signed and stamped by the NBP
- Copies of Government Credit Scrolls on daily basis
- Computerization of monthly sales tax returns
- Refund Payment Orders
- Reporting of revenue figure to FBR on the basis of computerized data

Accounting Record with Sales Tax Treasury (CAO)

- Copy of monthly sales tax/federal excise return-cum-payment challan showing the deposit of amount of tax payable duly signed and stamped by the NBP
- Debit Authority and Statement along with Government Credit Scrolls showing the remittance of revenue receipts-Sales Tax and Federal Excise into SBP furnished by link branch supported with Government Credit Scrolls of all collecting branches of NBP
- Computerized/Manual Cash Book/ Receipt Register showing head-wise detail of revenue receipts booked on daily basis
- Monthly Cash Accounts furnished to respective Sub-office of AGPR
- Payment schedule of Refund of Sales Tax
- Refund Payment Orders and cheques issued
- Reconciliation of revenue figures of head-wise receipts with NBP on monthly basis
- Statement of unpaid cheques of Refund

- Copy of government credit scrolls on daily basis
- Reconciliation of revenue figures of head-wise receipts and deduct receipt-customs on account of payment of refund and rebate with SBP and AGPR sub- office on monthly basis
- Revenue Statement showing reporting of revenue figures to FBR on daily basis

Accounting Record with Main Branch and Collecting Branches of National Bank of Pakistan

Link Branch:

- Debit Authority/document showing remittance of revenue receipts into SBP
- Copy of government credit scrolls of collecting braches of NBP on daily basis

Collecting Branches:

- Copy of Monthly Sales Tax Return-Cum-Payment Challan
- Copy of government credit on daily basis

Accounting Record with Respective Branch State Bank of Pakistan

- Copy of debit authority /document showing remittance of government revenue by the link branch of NBP on daily basis
- Revenue receipts figures (Head-wise) on monthly basis

Accounting Record with AGPR Sub-Office

- Monthly Cash Accounts furnished by the Departmental Treasury
- Revenue Receipts Figure of other districts submitted by DAOs/TOs in their monthly cash accounts
- Monthly Reconciliation Statements
- Monthly Detail Book
- Monthly Civil Accounts and Working Sheets furnished to AGPR Main Office
- Transfer Entries
- Journal Entries
- SBP Cash Report

AUDITOR - GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- III

Understanding of Entity's Business – List of Auditable Locations

Main Accounting Office:

Federal Board of Revenue, Islamabad

(for reporting of revenue to Ministry of Finance and reconciliation of total revenue figures with AGPR and State Bank of Pakistan by Directorate of Research and Statistics)

AGPR, Main office, Islamabad

(for preparation of Annual Finance Accounts of the federal government by incorporating consolidated revenue figures (head-wise) furnished by sub-offices of AGPR.)

Other Accounting Locations:

Initial revenue record is maintained for reporting and reconciliation purpose at field locations and revenue figures reported to Federal Board of Revenue, Islamabad for onward communication to Ministry of Finance for ascertainment and distribution of net proceeds of divisible taxes among the federal and all provincial governments according to the NFC Award.

Initial revenue record is maintained for booking purpose by the Departmental Treasuries which also furnished accounts to sub-offices of AGPR on monthly basis.

1. Large Taxpayer Units, Islamabad, Lahore and Karachi
2. RTOs, Islamabad, Rawalpindi, Abbottabad, Peshawar, Sialkot, Gujranwala, Faisalabad, Lahore, Multan, Hyderabad, Quetta and Karachi
3. Collect orates of Customs, Rawalpindi, Peshawar, Sialkot, Faisalabad, Lahore, Multan, Hyderabad, Quetta , Appraisement Karachi and Model Customs Collect orate, Karachi
4. Departmental Treasuries/Chief Accounts Officers working in the above mentioned field locations of FBR.
5. AGPR, sub-office, Lahore, Islamabad, Quetta, Peshawar and Gilgit

6. Provincial Accountant Generals at Lahore, Peshawar, Karachi and Quetta
7. Directorate of Accounts, Pakistan Post Office (for booking of customs duties and taxes on postal parcels)
8. Military Accountant General (MAG) for booking of withholding tax and sales tax
9. Pak PWD for booking of withholding tax and sales tax
10. Other Self-Accounting entities like Pakistan Railways, Pakistan Mint, Geological Survey of Pakistan and Forest etc for booking of withholding tax and sales tax

District Accounting Offices:

Sub-offices of FBR's field locations especially collect orates of customs situated in other districts (other than the main district in which collect orate is situated and AGPR sub-office is also working) maintains revenue record and reports the revenue figures to the respective collect orate.

Respective District Accounts Offices/Treasury Offices maintains initial record for booking purpose and furnished monthly accounts to respective sub-office of AGPR for consolidation and preparation of accounts.

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

- Database of revenue figures at FBR level for reporting and reconciliation purpose
- Computerized record of AGPR for preparation of Accounts
- Assessment of customs duties and taxes is made at field locations of FBR i.e. all customs collectorates: Rawalpindi, Peshawar, Sialkot, Faisalabad, Lahore, Multan, Hyderabad, Quetta, Appraisement Karachi and Model Customs Collectorate, Karachi. Etc.

- Database of Sales Tax record maintained for all the RTOs/ Sales Tax Collectorates at Federal Board of Revenue, Islamabad for certain purposes (Maintenance/up-dation of list of black listed and suspicious units/registered person against whom invoices input tax adjustment is not allowed)
- Database of FBR for registration, showing the present status of refund (sales tax) claim, rebate claim, import/export consignment under PACCS, etc
- Database of Sales Tax record maintained at all the RTOs/ Sales Tax Collectorates for sanctioning o f refund of sales tax purpose
- Record of clearances of imported/exported goods under PACCS maintained at MCC, Karachi

- Record of clearances of imported/exported goods under Non-PACCS by Appraisement Collectorate, Karachi and all up-country customs collectorates through M/s PRAL

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF - IV

Understanding of Entity's Business – List of Bank Accounts

Federal Accounting Level:

FBR being a government department has no account in the banks.

However, there are some Temporary Current Accounts in the name of the Collector of Customs in the National Bank of Pakistan are being used by the Customs Collectorate for subsequent transfer of government revenue in the national exchequer under proper heads of accounts

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- V

Understanding of Entity's Business List of Authorised Signatories

In Federal Board of Revenue, there is no limit of financial powers available to various officers of field offices of FBR as far as assessment of duties and taxes is concerned. However, level of finalization of assessment in various areas is detailed as follows:

S #	Name of Assessment Area	Finalization Level
Customs		
1	Import Under Computerized System (PACCS)	Goods Declaration (GD) is filed by the importer electronically with help of internet which is processed/ scrutinized by the computerized system (PACCS). some imported goods are cleared by the computerized system without any manual examination and assessment of duties and taxes by the customs staff and some of them are selected for examination and assessment accordingly with the help of selectivity criterion (risk management system). These consignments are cleared after proper examination and appraisement /assessment by the customs staff.
1	Import under Manual System (for Home consumption/ warehousing purpose) (Examination and Assessment of Duties and Taxes)	Principal Appraiser Assistant Collector (in case of any dispute)
2	Accompanied/Un-accompanied Baggage	Superintendent Assistant Collector (in case of any dispute)
3	Car Assessment	Assistant/Deputy Collector

S #	Name of Assessment Area	Finalization Level
4	Export	Assistant/Deputy Collector
5	Import General Manifest	Superintendent/Assistant Collector
6	Auction	Principal Appraiser for appraisement Assistant collector for approval of bid
7	State Warehouses	Principal Appraiser Assistant Collector
8	Bank Guarantee/Indemnity Bond/Post Dated Cheques	Assistant Collector
9	Condonation	FBR authorities
10	Waiver of additional duty/penalty	FBR authorities
11	Write- off	Financial powers
12	Abatement, Allowance/Depreciation	AC/DC
Sales Tax and Federal Excise		
	Self- Assessment	No formal assessment is done in sales tax and federal excise. However, self-assessment made by the registered person in the shape of monthly returns is scrutinized by the Processing and Assessment Section under the control of Assistant/Deputy Collector

However, for sanctioning of refund of customs duties, sales tax, rebate of customs duties and sanctioning of reward, there is specific financial limits as detailed below:

Audit Area	Authority	Financial Power/ Sanction limit
Refund of Customs Duties and Sales Tax (import stage)	Assistant/Deputy Collector Additional Collector	Not exceeding Rs 125,000 Not exceeding Rs 500,000

Audit Area	Authority	Financial Power/ Sanction limit
	Collector	No limit
Rebate of customs duty on export	Superintendent of Customs Assistant/Deputy Collector Deputy Collector Additional Collector Collector	Not exceeding Rs 25000 Not exceeding Rs 200,000 Not exceeding Rs 300,000 Not exceeding Rs 1,000,000 No limit
Refund of Sales Tax	Deputy Collector	No limit
Reward (on Customs)	All collectors of Customs All Director Generals/ Directors of detecting authorities under FBR Administrative Ministries/ Divisions	Upto Grade 19 or equivalent rank Officers of Grade 20 and above
Reward (on Federal Excise and Sales Tax	All collectors of Sales Tax and Federal Excise All Directors Generals/ Directors of detecting agencies under FBR Federal Board of Revenue	Upto Grade 18 or equivalent Grade 19 and above

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- VI

Understanding of Entity's Business – External Factors

Customs:

- WTO implications/cascade customs tariff
- Smuggling
- Socio-economic factors
- Natural Calamities i.e. sea storms/ hurricane, unfavourable sea weather, air accidents, disturbances at sea port terminals and on other upcountry ports etc
- Import/Export ban/restrictions imposed in Import/Export Policy Orders

Sales Tax and Federal Excise:

- Higher input prices due to hike in fuel prices
- Power crisis or Shortage of Power (Electricity) and expensive acquisition of Power
- Economic Slump
- Taxpayer's Attitude towards the taxation
- Decrease in purchasing power of the consumers
- Political Instability

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- VII

Accounting Records and Accounting System

Customs: Accounting System

- One copy of Goods Declaration (GD) along with computerized payment receipts duly signed and stamped thereon by the NBP authorities retained by the customs staff for record purposes.
- On the basis of these GDs, the customs staff reports the revenue figure to the head of customs collectorates concerned for onward communication thereof to FBR.
- One copy of Goods Declaration (GD) duly signed and stamped thereon and Government Credit Scroll is sent to its Chest/Main Branch by each of the collecting branch of NBP on daily basis.
- In case of imports under PACCS, Computerized Payment Receipt (CPR) issued by the NBP and a computerized/system-generated bank scroll is furnished by PACCS both to Customs Treasury/CAO or AGPR sub-office for accounting purpose
- Main Branch of NBP sent pay order of the total amount of revenue receipts collected/remitted by all NBP branches to departmental treasury (CAO) on daily basis. A statement of bifurcation showing head-wise detail of the duties and taxes is also sent along with the pay order.
- The Departmental Treasury (CAO) deposited the said pay order in the respective branch of SBP also on daily basis.
- The Customs Treasury (CAO) and Statistical Officer both reports revenue figures to FBR on daily basis for onward communication thereof to Ministry of Finance.
- On the basis of these GDs, government credit scroll and pay order and its statement of bifurcation, the customs treasury (CAO) maintains initial accounts on a daily receipt register which also called cash book. The Customs Treasury furnishes monthly cash accounts to respective sub-office of AGPR.
- The Customs Treasury reconcile the revenue figures with the NBP/SBP and respective sub-office of AGPR on monthly basis.

  The sub-office of AGPR prepares Detail Books (Source-wise and head-wise) and Civil Accounts on monthly basis. A working sheet (head-wise) is also prepared on monthly basis. All the sub-offices of AGPR submits their Monthly Civil Accounts to AGPR, Islamabad which consolidates and prepares Monthly Civil Accounts of Federal Government for submission to Finance Division.

- The AGPR, Islamabad prepares consolidated Working sheet (Head-wise and Sub-offices-wise and SAEs-wise) on the basis of which Financial Statements i.e. Cash Receipts and Payments statement with explanatory notes prepared according to the requirements of Cash-Basis IPSAS.

The following initial record pertaining to revenue receipts (Customs) is maintained at the field locations i.e. field customs collectorates, departmental treasuries, collecting branches of NBP, respective accounting office's such as respective AGPR sub-offices and District Accounts Offices.

Accounting Record with each location of Customs Collectorate

- Copy of GD showing payment of assessed amount of duties and taxes and a copy of Computerized Payment Receipt (CPR) duly signed and stamped by NBP
- Statement of revenue receipts figure (Head-wise) collected on daily basis. The same is used for reporting to the head of the customs collectorate for onward communication to FBR
- Copy of Government Credit Scroll on daily basis
- Reconciliation of revenue figure on daily basis with the respective branch of NBP
- Refund and Rebate Payment Orders

Accounting Record with Customs Treasury (CAO)

- Copy of Treasury Challan on which pay order is deposited by the Customs Treasury (CAO) on daily basis.
- Cash Book/ Receipt Register showing head-wise detail of revenue receipts booked on daily basis
- Revenue Statement showing reporting of revenue figures to FBR on daily basis
- Monthly Cash Accounts furnished to respective Sub-office of AGPR
- Payment schedule of Refund and Rebate
- Rebate Payment Orders and cheques issued
- Cash Book/ Receipt Register showing details of deduct receipts-Customs on account of Rebate
- Reconciliation of revenue figures of head-wise receipts with NBP on monthly basis
- Statement of unpaid cheques
- Reconciliation of revenue figures of head-wise receipts and deduct receipt-customs on account of payment of refund and rebate with SBP and AGPR sub-office on monthly basis

Accounting Record with Main Branch and Collecting Branches of National Bank of Pakistan

Chest/Main Branch:

- Copy of pay orders furnished to Customs Treasury for onward remittance to SBP supported with government credit scrolls of collecting braches of NBP on daily basis

Collecting Branches:

- Copy of GDs and a copy of Computerized Payment Receipt (CPR)
- Copy of government credit scrolls on daily basis

Accounting Record with Respective Branch State Bank of Pakistan

- Copy of Pay Orders submitted by the Customs Treasury on daily basis
- Revenue receipts figures (Head-wise) on monthly basis

Accounting Record with Respective Branch of SBP

- Copy of Pay Orders submitted by the Customs Treasury on daily basis
- Revenue receipts figures (Head-wise) on monthly basis and reconciliation with respective Field Locations of FBR and sub-office of AGPR

Customs: (Assessment Record Maintained by MCCs)

Accounting systems and procedures relating to assessment of government dues in various areas/sections of customs department are documented in detail in process mapping.

However, accounting record pertaining to some important areas under Customs are detailed below:

Imports under PACCS: (Pakistan Customs Computerized System)

- Goods Declaration is filed electronically by the importer under self-assessment scheme which is processed/scrutinized by the computerized system (PACCS).
- Amount of assessed duties and taxes as calculated by the system are deposited by the importer prior to clearance of imported consignment.
- Some consignments are cleared by the computerized system without any manual examination and assessment of duties and taxes by the customs staff.
- Some of them are selected for examination and assessment accordingly with the help of selectivity criterion (risk management system). These consignments are cleared after proper examination and appraisement /assessment by the customs staff.

- Computerized record pertaining to imports is maintained on the database of PACCS of all the consignments whether cleared by system or cleared after physical examination. No record is kept on paper.
- GD with examination report supported with photographs of imported items and supporting documents i.e. invoice, packing list, Bill of Lading etc remains with the importer.

Imports under Manual System of Clearance of imported consignments (Non-PACCS) :

Goods Declaration showing the declaration and assessment of duties and taxes by the customs staff thereon with examination report on the back of the GD along with the following supporting documents:

- Customs Invoice
- Packing List
- Bill of Lading or Air Way Bill in case of air cargo
- Insurance memo

Other required documents :

- income tax exemption certificates in case of income tax exemption
- Import Authorization certificate in case of import under concessionary regime under SRO 565(I)/2006,
- Deletion Programme duly approved by EDB in case of import under concessionary regime SRO 655 and 656 (Vehicles in CBU/CKD condition),
- Annexure A containing certificate issued by the regulatory authorities in case of import under concessionary regime SRO 567(I) 2006 and 575(I)/2006
- Quarantine Certificate issued by Food Department in case of import of certain items
- Fitness Certificate issued by the exporter in case of import of waste
- Inspection Certificate issued by Inspection Companies notified in Import Policy Order in case of import of second hand Boilers and other plant and Machinery

Bonds: (Public Bond, Private Bond, Manufacturing Bond and Diplomatic Bonds)

- Copy of GD into-bond and ex-bond with supporting documents
- Bond register maintained both by the Customs staff and Bonder/importer
- Statements furnished by the Customs staff to the respective MCC.
- Prescribed record i.e. Registers of input goods (imported), output goods/production, wastage, goods exported and local sales are maintained under Manufacturing Bonds.

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- VIII

Understanding of Entity's Business – Key Contacts

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

Key management Personnel FBR Islamabad

Title	Name	Telephone	Fax	E-mail
Chairman/ Secretary General Revenue Division	Mr. Ahmed Waqar	051-9201938 051-9209723	051-9205308	Chairman@fbr.gov.pk
Member Legal	Mr. Mumtaz Ahmad	051-9202018	051-9203499	
Member HRM	Mr. Muhammad Talha	051-9201262	051-9215310	
Member Admn.	Maj. Gen (R) Muhammad Yasin	051-9201353	051-9209446	
Member Direct Taxes	Mr. Usman Khalid Mirza	051-9201561	051-9204040	
Member Tax Policy and Reforms	Mr. Habib Fakhruddin	051-9203399	051-9208864	
Member Audit	Mr. Abdur Razzaq	051-9202075	051-9202282	
Member (IMS)	Aamir Z. Ch.	051-9201600	051-9219212	

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- IX

Understanding of Entity's Business – Significant Audit Areas

AUDITOR-GENERAL OF PAKISTAN **Form PF- IX**

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Understanding of Entity's Business – Significant Audit Areas

Significant Financial Statement Components	Main Heads	Critical Area
Revenue	**Customs**	• Imports under Computerized System (PACCS)and Imports under Non-PACCS • Imports under Concessionary/exemption regime • Imports of certain items for which valuation advices issued by the FBR • Imports of restricted items under Import Policy Order subject to fulfilment of certain conditions • Reconciliation of Containers showing total containers discharged from the ships and total containers cleared from all ports of the country • Bonded Warehouses and safe transportation scheme • Car Assessment • Bank Guarantee/ Indemnity Bond./Post

Significant Financial Statement Components	Main Heads	Critical Area
		Dated Cheques • Refund and Rebate • Misclassification of receipts in incorrect heads of accounts by NBP and followed by departmental treasury/CAO/AGPR • Reconciliation of revenue receipts figures among the Customs, CAO, NBP, SBP and AGPR • Spill over of the revenue in next year in accounting records of CAO, SBP, and AGPR • Delayed submission of pay orders by NBP to CAO and by CAO to SBP • Reconciliation of rebate paid amount with rebate sanction amount • Non-reconciliation of unpaid cheques of rebate • Double/short/excess/non-booking of revenue receipts in accounting offices i.e. DAOs, Treasury Office, sub-treasury office and CAO • Non-functioning of departmental treasury
Revenue	Federal Excise Duty	• Advertisement on TV and Cable by the Cable Operators and on Buses/Coaches/railway station/airports • Telecommunication Services • Shipping Agencies • Different Commodities • Cigarettes, cement and beverage • FE on Natural Gas

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE

NAME OF ENTITY/ORGANIZATION: FEDERAL BOARD OF REVENUE

Form PF- X

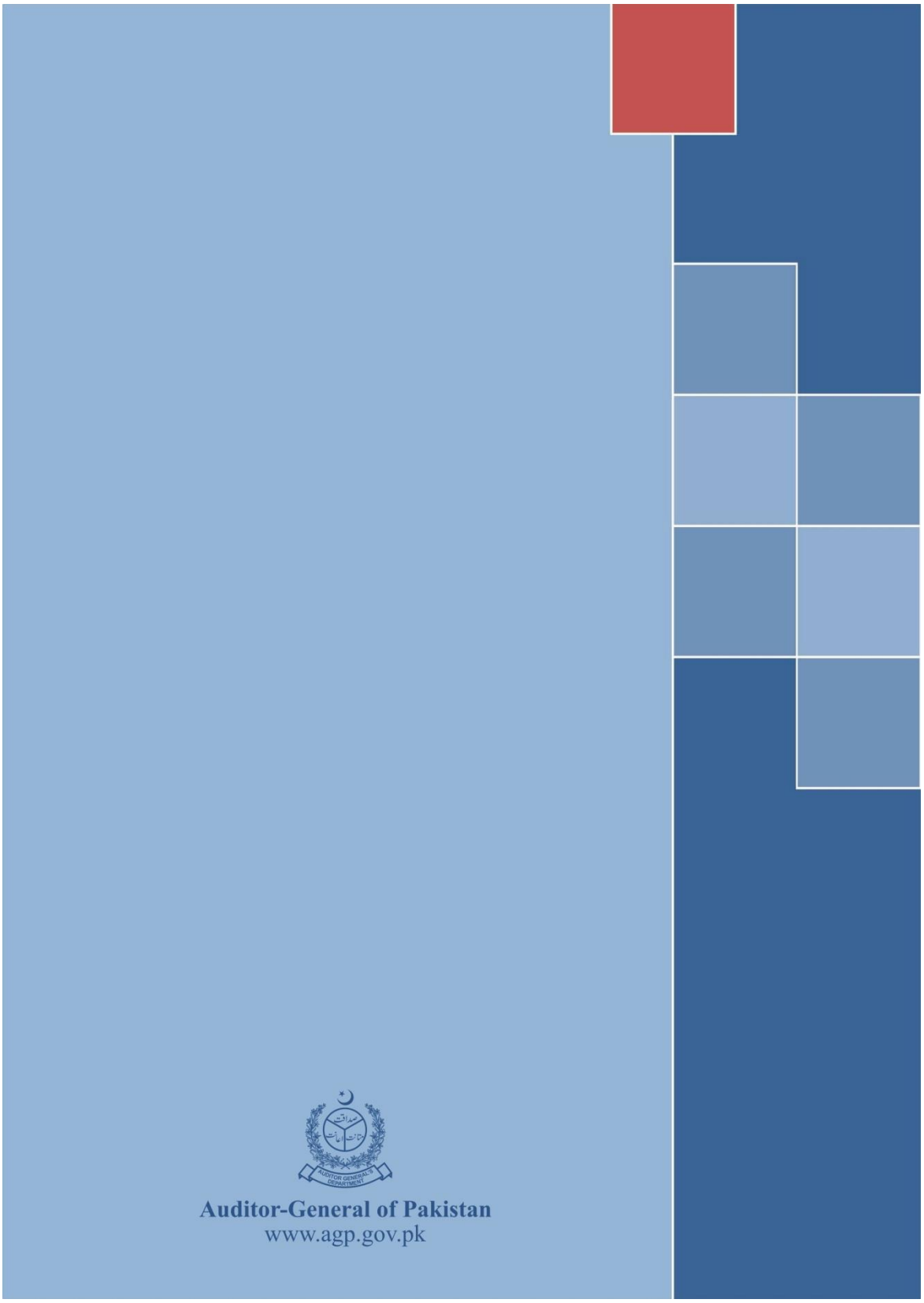
Significant Accounting Policies

Revenue Recognition:

Revenue is recognized on cash-basis of accounting and booked according to single entry system in the Finance Accounts of Federal Government by the AGPR.

Federal Treasury Rules, Customs Treasury Rules and Sales Tax Treasury Rules are also followed by the departmental treasuries for booking of revenue receipts

Significant Financial Statement Components	Main Heads	Critical Area
Revenue	Sales Tax	• Evaluation of Controls in self-assessment scheme of sales tax • Authenticity and validity of computerized data on the basis of which refund is sanctioned • Duty and Taxes Remission on Exports • Refund of sales tax and federal excise (VAT Mode) • Reconciliation of Sales Tax Record of Public Ltd Companies/Private Ltd Companies with Financial Statements • Evaluation of self-assessment of sales tax of registered persons • Up-dating or addition or deletion in the List of Black-listed and suspicious units


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