"VOUCH"

DAGP NEWS BULLETIN

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Department of the
Auditor General of Pakistan, Constitution Avenue, Islamabad

AGP message

It is an honor to serve the Legislature and the citizens of Pakistan as Auditor General and I consider it a tremendous privilege to lead our staff of highly dedicated and qualified professionals. As Supreme Audit Institution of Country, our mission is to provide unbiased, timely, and relevant information that the Legislature, citizens, and other stakeholders can use to promote government accountability and improve government operations. We are dedicated to our core values of integrity, accountability, independence, and objectivity and perform audits and other engagements in accordance with Auditor-General Ordinance 2001. It is our duty to ensure that public resources are utilized in an economic, efficient and effective manner to improve the lives of citizens. Audits are the foundation of government integrity and are crucial in upholding investors' confidence. Current economic times require the government to deliver more with fewer resources, and this continues to be a challenge for the public sector. Under these pressures, state entities may decide to reduce resources that support internal control and accountability mechanisms, leading to less internal scrutiny of financial management and performance. This increases the importance of the role that audit plays in holding the government to account for its performance. It is thus essential that auditors continue in their efforts to improve audit quality. For audit professionals being alive to the external environment means keeping up with the latest developments in regulatory environment and anything that would impact it. This is a tall order as there are many things that are not within our control. I encourage officers to build a good base of knowledge and competencies and strengthening their professional foundation so that when challenges arise, they are well prepared to face them. In this respect it is crucial to develop new skills that fulfill the requirements of tomorrow; this is how we remain relevant and talent can be maximized, and I urge officers to participate in professional development courses and other value-adding seminars and workshops. Strengthen your core competencies; help build a solid foundation for the profession. With your support, we can achieve our strategic goals. I express my appreciation to everyone at DAGP for their dedication and professionalism and wish them all success in their future endeavors as they move forward in their career.

AUDITOR-GENERAL'S DEPARTMENT

The Department of Auditor General of Pakistan is the supreme audit institution of Pakistan for ensuring public accountability and to bring about improvements in the financial discipline and internal control environment in the executive departments for minimizing the possibility of waste and fraud. At the apex of the Department is the Auditor General who has a fixed term of four years, which is non-extendable. The AGP is assisted by two Additional Auditors Generals who oversee the work of Audit and other Wings. There are 30 Field Audit Offices (FAOs) with clearly delineated audit jurisdiction. These FAOs are organized under six Audit Wings. Each of the Audit and other Wings are headed by a Deputy Auditor-General who reports to the one of the two Additional Auditor-Generals. The Deputy Auditor General directs, controls and coordinates the work of the field offices under his/her Wing. The exception to this principle is the Deputy Auditor General (Inspection and Regulations), whose Wing carries out the inspection of all FAOs and Wings on behalf of the Auditor-General of Pakistan. The Department of Auditor General of Pakistan maintains strategic and professional liaison with recognized domestic and international accounting and auditing bodies.

The AGP is;

1. On the Council of the Institute of Chartered Accountants of Pakistan.
2. Member of the Constituent Body of the Pakistan Institute of Public Finance Accountants, which is an associate member of the IFAC.
3. The Director of the International Consortium on Governmental Financial Management (ICGFM).
4. The current Chairman of the Asian Organization of Supreme Audit Institutions (ASOSAI)
5. The permanent Secretary General of the Economic Co-operation Organization's Supreme Audit Institutions (ECOSAI).

The Auditor General of Pakistan conducts three types of audit:

1. Financial attest focuses on audit opinion on the financial statements and the state of internal controls in the audited entities
2. Compliance with authority audit encompasses observance of laws, rules, regulations, and prescribed procedures by the audited entities and leads to reports on their non-compliance
3. Value for money or Performance audit reports on the economy, efficiency and effectiveness in the management of public funds

In addition to the above, special audits are conducted on the directives of the Auditor General, the PAC and on the requests of the heads of executive departments. Instances of grave financial indiscipline highlighted by media or public complaints also become a basis for initiating a special audit.

LOCAL NEWS

Finance Minister Senator Mohammad Ishaq Dar chaired a meeting on February 02, 2017 to discuss various reforms being undertaken to enhance the quality of audit and capacity of the Audit Department.

Finance Minister said that Audit is an important function for good governance as it plays a major role in enhancing transparency and ensuring accountability. He said that effective audit strengthens government efforts to eradicate financial irregularities and financial misappropriation.

Auditor-General of Pakistan, Rana Assad Amin, apprised the Finance Minister of the performance of the department and the various initiatives that have been taken in recent years to enhance the output as well as effectiveness of the audit function.

The Auditor-General elaborated that output of the Department included 596 audit reports including 101 financial attests, 151 special audits, 133 foreign aided audits and 211 regularity audit reports. During 2015-16, 11,000 formations were audited involving an audited amount of Rs.9, 477 billion. He highlighted that the reforms, based on the Department's first ever Strategic Plan included improving financial and organizational independence, capacity building, development of communication and cooperation with stakeholders, use of modern audit techniques and technologies and improving internal governance. Operational reforms also include a paradigm shift involving re-introduction of risk-based auditing, focused on systemic issues.

Finance Minister was also briefed on the salient points of the legislation for Auditor-General's Act, leading to greater financial and operational independence of the department.

The Finance Minister appreciated overall performance of the Auditor-General's Department and its agenda on systemic reforms, restoration of soft image of the Department. The 100% increase in recoveries effected by audit, from Rs.40 billion in 2014-15 to Rs. 81 billion in 2015-16 were specifically appreciated.

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HIGH LEVEL DELEGATION OF TURKISH COURT OF ACCOUNTS (TCA) VISITED OFFICE OF THE AUDITOR GENERAL OF PAKISTAN ON FEBRUARY 20, 2017

A high level delegation of Turkish Court of Accounts (TCA) visited Office of the Auditor General of Pakistan on February 20, 2017. The study visit of the TCA delegation was arranged under the Memorandum of Understanding between the two SAIs signed in October 2016 at Ankara. The delegation also called on the Finance Minister and attended a briefing at the Public Accounts Committee.

Auditor General of Pakistan on this occasion said that Department of Auditor General of Pakistan recognizes the importance of bilateral cooperation with other Supreme Audit Institutions (SAIs) and in this regard, the department has started negotiations with a number of SAIs for signing Memorandum of Understanding (MoUs) for cooperation in public sector auditing as a result of which the SAIs will benefit from each other's experience.

Mr. Fikret COKER Deputy President of TCA while lauding the efforts of Department of Auditor General of Pakistan said that both SAIs may benefit from study visit of senior and middle level management and may also explore areas of mutual cooperation for capacity building and training of officers under the MoU. He further said that there is also need to identify areas where SAI Pakistan can offer trainings to SAI Turkey. He said that SAI Turkey looks forward to Working with SAI Pakistan to strengthen and promote cooperation and benefit from mutual experiences and knowledge.

AUDITOR GENERAL OF PAKISTAN PLANTED SAPLING IN AGP OFFICE ON MARCH, 13, 2017 AS PART OF TREE PLANTATION CAMPAIGN LAUNCHED BY GOVERNMENT

Trees play critical role in maintaining ecological balance & clean environment, said Auditor General of Pakistan Rana Assad Amin while planting a sapling in the AGP Office on March 13, 2017. AGP further said that we must protect trees at any cost because these are our national asset. Appreciating tree plantation campaign AGP urged the people to plant maximum trees to make the drive a success. Trees have also important role in country's economy, AGP added.



With the promotion of green economy, losses caused by the natural and anthropological disasters can be avoided, AGP added. He urged

the officers and people to plant more and more trees in their surroundings to keep the environment neat and clean. Additional Auditor Generals Mr. Imran Iqbal and Mr. Haq Nawaz also planted trees on this occasion.

ADDITIONAL AUDITOR GENERAL, IMRAN IQBAL, DISTRIBUTED SHIELDS AMONG THE PARTICIPANTS OF 98TH INTENSIVE TRAINING PROGRAM IN PERFORMANCE AUDITING ON MARCH 17, 2017

Department of the Auditor General of Pakistan being the Supreme Audit Institution of Pakistan is bent on curbing corruption and checking misuse of public resources. Through implementation of international best practices in auditing, the department is keen to ensure good governance in public sector. As part of these efforts the Department of Auditor General of Pakistan heldfive weeks Intensive Training Programme (ITP-98th) at Performance Audit Wing, Lahore. The programme was offered to Audit Managers of SAIs from different countries. A nice social programme was also blended into the international programme to show the foreign participants around various parts of the country as also the life and colours of our society. The participants equally enjoyed the training and social programme and left for their respective countries with fond memories of Pakistan.



Participants of course also visited AGP Office before the end of their course where they were briefed on the organizational structure, functions, and strategic initiatives taken by the office of Auditor General of Pakistan.Mr. Imran Iqbal, Additional Auditor General, distributed shields among the participants of ITP at the conclusion of course.

MRS SHAGUFTA KHANUM APPOINTED AS NEW CONTROLLER GENERAL OF ACCOUNTS

Mrs. Shagufta Khanum, Additional Auditor General-II at DAGP, was appointed as new Controller General of Accounts.

The Controller General of Accounts (CGA) is the premier accounting office of the Government of Pakistan. The Office is entrusted with the task of producing accurate and timely financial statements for the federation. It was formed under an ordinance issued in 2001. The Office achieves task through dedicated human



resources, immense investment in infrastructure and strict quality control checks by the Senior Officers. It is also responsible for disbursing government money in form of payments of salaries and allowances to government servants and payments to contractors. All these transactions and any other transactions by Government of Pakistan are captured in the SAP ERP and then the information is used to generate monthly, quarterly and yearly financials. The President from amongst BS-22 officers of the Pakistan Audit and Accounts Service appoints the Controller General of Accounts.

CONTROLLER GENERAL OF ACCOUNTS ORGANIZED ACCOUNTANT GENERALS CONFERENCE AT CGA OFFICE FROM 13-15 MARCH, 2017

Controller General of Accounts, Mrs. Shagufta Khanum, organized Accountant Generals Conference from March 13-15, 2017 at CGA Office.Addressing the participants of Conference Controller General of Accountssaid that aim of the AG's conference is to make policy decisions regarding accounting and payment functions of the organization. In this regard two special committees are formulated. One committee is on Accounting Policy & Procedures Manual (APPM), which would bring accounts on the format with accuracy and timeliness. The other committee is on formulation of MSO, which would demarcate the format of administering the business of CGA office with the motto of improved service delivery, CGA added.



CGA said that under the improvised management information system (MIS) we would supply connectivity with 30 years backup capacity at CGA headquarters for every field accounting office with fullest control and rationalization to access the system. This would cater for transparency, speed, and quality, reporting framework, business operation overview and credibility of financial data. Content and presentation of financial statements with real time monitoring by this headquarter would improve delivery to public by establishing high quality SAP Centre initially in every AG office and then in every FAO of this office.

AGP addressed closing session of AG's Conference. He informed the participants about highlights of the Auditor-General's reforms and initiatives and emphasized on the need to maintain harmony in administrative and professional

relationship between the two departments. He also stressed upon need to initiate reform of CFAOs organization for strengthening of these important positions in ministries/divisions so that they could contribute in value addition of government expenditure besides implementing the System of Financial Control & Budgeting.

AUDITOR GENERAL OF PAKISTAN, RANA ASSAD AMIN, ADDRESSED THE PARTICIPANTS OF PASSING OUT CEREMONY OF 43RD SPECIALIZED TRAINING PROGRAMME FOR PAKISTAN AUDIT & ACCOUNTS SERVICE PROBATIONERS AT PAKISTAN AUDIT AND ACCOUNTS ACADEMY, LAHORE

Auditor General of Pakistan, while addressing the probationary officers of 43rd Specialized Training Programme, said that there is dire need to enhance the quality of training imparted to PAAS Officers and for this purpose the training curricula of Audit and Accounts Academy was revised and the post of Rector is also upgraded. As part of these reforms, Video Conferencing System has also been installed in the office of Auditor General of Pakistan, Pakistan Audit and Accounts Academy, Lahore and its regional offices in Karachi, Peshawar and Quetta. The purpose of video conferencing facility is not only to interact with faculty and probationers of academy but also to enable probationers to attend lectures delivered by faculty members of national and international universities virtually.

AGP further said that professional capacity building of PAAS Officers is of utmost importance and for this purpose the Department is actively engaged in collaborating with development partners like JICA, ADB and the World Bank. In collaboration with USAID, officers of PAAS and faculty members of Pakistan Audit and Accounts Academy will benefit from foreign & local trainings facilities in areas including risk-based auditing and forensic auditing. The nomination of officers for these courses will be purely merit based.



INTERNATIONAL NEWS

VISIT OF THE AUDITOR-GENERAL OF PAKISTAN TO PARTICIPATE IN 21ST ECOSAI GOVERNING BOARD MEETING, 7TH ECOSAI ASSEMBLY, 16TH ECOSAI TRAINING COMMITTEE MEETING AND 7TH SYMPOSIUM FROM 17-19 OCTOBER, 2016 AT ANKARA, TURKEY

Auditor General of Pakistan accompanied by Mr. Khurram Raza Qureshi, DG and Ms. BismahFarrukh Khan, Dy. Director attended 21st ECOSAI Governing Board Meeting, 7th ECOSAI Assembly, 16th ECOSAI Training Committee Meeting and 7th Symposium from 17-19 October 2016 at Ankara, Turkey. Besides participation in the events, Auditor General of Pakistan signed a Memorandum of understanding with Turkish Court of Accounts (TCA) on the sideline meetings. The Auditor General of Pakistan also discussed the capacity building issues with other ECOSAI member SAIs.



DR. TALAT IMTIAZ, DAG (POLICY) ATTENDED SAFA CONFERENCE SRILANKA FROM 3-5 NOVEMBER, 2016

The South Asian Federation of Accountants (SAFA) in collaboration with Institute of Chartered Accountants of Sri lanka, ADB and World Bank organized a Conference on 3-5 November, 2016 in Colombo. The main theme in the Conference was implementation of IPSAS and the path to Accrual Accounting. The Conference was attended by South Asian Auditor Generals, Chartered Accountants from this region, Private Sector stakeholders besides representatives of Asian Development Bank and World Bank.



Dr. Talat Imtiaz, DAG (Policy) in the capacity of national member of ICMAP and also as representative of Auditor General of Pakistan attended the Conference. During the fourth session of the Conference, she introduced the department of Auditor General (DAGP) and briefed about Public Sector Auditing, the independence of DAGP and its skill base, besides the latest initiative in Public Sector Auditing in terms of new techniques and areas. She also spoke about the department's efforts for greater independence in auditing so as to generate greater transparency in government

expenditures. Being a forward looking SAI, its adoption of Accrual based accounting was imminent especially after successful completion of Project for Financial Reporting and Auditing (PIFRA). The members appreciated SAI Pakistan's endeavors in promoting transparency in the Public Sector.

VISIT OF THE AUDITOR-GENERAL OF PAKISTAN TO PARTICIPATE IN XXII INCOSAI CONGRESS AND 68TH AND 69TH MEETINGS OF INTOSAI GOVERNING BOARD FROM 5TH TO 12TH DECEMBER 2016 IN ABU DHABI, UAE

68th Governing Board Meeting (GBM) and XXII INTOSAI 2016 were held from 5-12 December 2016 at Abu Dhabi, UAE. Auditor General of Pakistan accompanied by Mr. Muhammad Raza Shah, Director (INTOSAI) attended the events. The Auditor General of Pakistan attended bilateral meetings with different heads of SAIs and a Memorandum of Understanding (MoU) with State Audit Office of Vietnam was also signed on 8th December 2016 in the side event of the INCOSAI 2016.



SIGNING OF MOU BETWEEN THE OFFICE OF THE AUDITOR GENERAL OF PAKISTAN AND THE STATE AUDIT OFFICE OF THE SOCIALIST REPUBLIC OF VIETNAM

In the side event of XXII International Congress of Supreme Audit Institutions at Abu Dhabi, UAE, aMoU signing ceremony was held on 08.12.2016 where Rana Assad Amin Auditor General of Pakistan and Dr. Ho DucPhoc, Auditor General of the State Audit Office of Vietnam signed a Memorandum of Understanding between the two Supreme Audit Institutions. The MoU signed between the Office of the Auditor General of Pakistan and the State Audit Office of Vietnam pertains to cooperation in public sector auditing. The heads of the two SAIs agreed to benefit from each other's experience through mutual study visits, cooperative audits, peer reviews and capacity building programmes etc. The Auditor General of Pakistan Rana Assad Amin expressed on the occasion that the signing of the formal MoU will further enhance the existing relations with the State Audit Office of Vietnam and will open new areas of co-operation between the two SAIs.



AUDITOR-GENERAL OF PAKISTAN VISITED UK AUDITOR-GENERAL & COMPTROLLER-GENERAL OFFICE

The Auditor-General of Pakistan visited National Audit Office of UK and met

the Auditor & Comptroller General of UK, Sir Amyas Morse KCB. Heads of both the Supreme Audit Institutions (SAIs) explored the areas of mutual interest in the field of public sector auditing and the role of their SAIs in promoting parliamentary accountability. They discussed the prospects for cooperatives audits in the shape of parallel audit in areas like disaster management, health reforms and environmental issues; SAIs' peer review and audit quality management; mutual learning and exchange of expertise; and exchange of study visits of senior management by both the SAIs.



The two dignitaries also discussed various aspects of the use of technological tools in audit of public sector organizations. The visit was very beneficial in promoting cooperation between the two SAIs.

The Auditor-General of Pakistan also met the Chief Executive Officer of the Association of Chartered Certified Accountants (ACCA), Ms. Helen Brand OBE, in London to discuss the areas of interest in professional cooperation and human resource development.

ADDITIONAL AUDITOR GENERAL, IMRAN IQBAL, ATTENDED CONFERENCE THEMED "50 DRIVERS OF CHANGE IN PUBLIC SECTOR" ARRANGED BY ACCA GLOBAL IN JANUARY 2017 AT JOHANNESBURG, SOUTH AFRICA

To help professional accountants and leaders in the public sector prepare for an uncertain tomorrow, ACCA arranged conference themed "50 Drivers of Change in Public Sector" in January 2017 at Johannesburg, South Africa. The aim of conference was to explore emerging drivers of change that could have the biggest impact and to highlight the skills that will be required over the period to 2026. Additional Auditor General, Imran Iqbal, represented Pakistan in the conference.



For the purpose of study on 50 drivers of change, ACCA surveyed over 1,000 senior executives, ACCA members and members of other professional accountancy bodies working in public sector organizations and carried out 12 in-depth roundtable discussions across 11 countries (around 300 participants) to inform the report.

The report is structured in two sections, the first introduces the ranking of 50 drivers of change (split into eight domains of relevance) that are expected to impact the public sector in the next five years and beyond, the second section assess the impact of the drivers on the future public sector landscape. Report could be accessed through the following link:

http://www.accaglobal.com/content/dam/ACCA_Global/Technical/Future/drivers-of-change-in-the-public-sector.pdf

AGP AND DIRECTOR (IR&C) ATTENDED 51ST GOVERNING BOARD MEETING OF ASOSAI HELD FROM 12-15, FEBRUARY, 2017 AT INDONESIA BALI

Auditor General of Pakistan and Director (IR&C) Mr. Raza Shah participated in 51st Governing Board Meeting of ASOSAI held from 12-15, February 2017 at Indonesia Bali. As member of the Governing Board of ASOSAI, Auditor General of Pakistan accorded approval to all important decisions taken during the Governing Board Meeting which included approval of budget plan 2018-2020, nomination of candidate SAI to host 15th ASOSAI Assembly and ASOSAI Secretary General for the period 2018-2021 etc. During the Governing Board Meeting, the Auditor General of Pakistan in the capacity of Secretary General of ECOSAI presented the case for formal recognition of Economic Cooperation Organization of Supreme Audit Institutions (ECOSAI) as a regional sub-group of ASOSAI.



MEMORANDUM OF UNDERSTANDING ON COOPERATION IN PUBLIC SECTOR AUDITING SIGNED BETWEEN THE AUDITOR GENERAL OF PAKISTAN AND THE AUDITOR GENERAL OF CHINA

Memorandum of Understanding on cooperation in public sector auditing was signed between the Auditor General of Pakistan and the Auditor General of China on February 28, 2017. Bilateral relations with SAI China are of immense significance for DAGP in terms of getting increased opportunities of sharing of expertise and knowledge. With the



formal MoU in place, the IR&C Wing will be able to identify and materialize new areas of cooperation between the two friendly SAIs and implement the MoU in its true spirit.

AUDITOR GENERAL OF PAKISTAN ATTENDED THE COMMONWEALTH AUDITOR GENERAL'S CONFERENCE FROM 21-23, MARCH 2017 AT NEW DELHI, INDIA

The Auditor General of Pakistan, Rana Assad Amin, and Director (IR&C) Mr. Raza Shah attended 23rd Commonwealth and nine British overseas territories Auditor Generals Conference on the theme 'Fostering Partnerships for Capacity Development in Public Audit' at Hotel Taj Palace, New Delhi from March 21-23, 2017.

The conference was inaugurated by Mr. Shashi Kant Sharma, Comptroller and Auditor General of India and was attended by 74 participants from 36 countries. Commonwealth Conference is one of the oldest multilateral conferences of public sector audit community and was started more than six decades ago.

Since 1951, the Auditors General of the Commonwealth have met every three years to discuss matters of mutual professional interest and concern and to share and exchange work experiences. The last XXII Commonwealth Auditors General Conference, which had as its main theme 'Securing independence of SAIs to improve the effectiveness of reporting and communication of audit findings', was held in Malta from 24th to 27th March 2014



DAGP ACHIEVEMENTS

DEPARTMENT OF AUDITOR GENERAL OF PAKISTAN SUBMITTED AUDIT REPORTS FOR THE AUDIT YEAR 2016-17 TO THE PRESIDENT OF PAKISTAN AND ALL PROVINCIAL GOVERNORS ON TIME

Department of Auditor General of Pakistan submitted reports of Auditor General of Pakistan relating to the accounts of the federation for the audit year 2016-17 to the President of Pakistan and all Provincial Governors on time.

Reports were submitted in accordance with Article 171 (Annex-I) of the Constitution of Islamic Republic of Pakistan which lays down that that the reports of the Auditor General relating to the accounts of Federation shall be submitted to the President of Pakistan who shall cause them to be laid before both the houses of Majlis-e-Shoora (Parliament).

The reports submitted included 14 annual regulatory audit reports, 13 reports pertaining to special audit and performance audit and 10 reports pertaining to financial statements of the federal government for the financial year 2015-16 and appropriation accounts of the federal government for the financial year 2015-16.

The reports also included 102 annual regulatory audit reports, 34 reports pertaining to special and performance audit and 141 reports pertaining to financial statements of the provincial and district government for the financial year 2015-16 and appropriation accounts of the provincial and district government for the financial year 2015-16.

The audit reports have been prepared on a test check basis according to international standards, using modern audit techniques and methodologies. Efforts were made to discuss audit findings with the concerned Principal Accounting Officers to incorporate their views.The reports mainly focus on compliance with relevant laws, regulations and procedures, economy, efficiency and effectiveness of public expenditure, overpayments and short recoveries, systemic and internal control issues and accuracy of various financial statements and have been completed within eight months after the close of financial year.

LAUNCHING OF VIDEO-CONFERENCING SYSTEM

The Department of Auditor General of Pakistan is privileged to support parliamentary oversight of public sector operations aimed at promoting transparency, accountability and good financial governance through the Public Accounts Committee. DAGP is undergoing a reform process and a number of initiatives are taken by AGP to improve operational efficiency of DAGP. One of these reforms is installation of Video Conferencing System in the office of Auditor General of Pakistan, Pakistan Audit Accounts Academy, Lahore and its regional offices in Karachi, Peshawar and Quetta. An additional link has been established in the office of Director General (Performance Audit Wing), Lahore. The purpose of video conferencing facility is not only to conduct official meetings through the use of modern facility but also to ensure operational efficiency and economy of resources. The Auditor-General of Pakistan inaugurated the facility on March 15, 2017.

The system will not only save time and travel costs but will also provide an opportunity for oversight of audit work carried out by different Directorate Generals at Federal and Provincial levels. Pre-PAC meetings can also be held through this system, which would save time and money in repeated movement of field audit offices teams. Besides this the system also has the capacity to link with international forums too and will thus enable DAGP to interact with various International Organizations of which DAGP is a member in a timely

manner but will also contribute to the modernization of audit process with the contribution from International Organizations.

AUDITORS REWARDED FOR IDENTIFYING IRREGULARITIES IN THE CONSTRUCTION OF GRAND HYATT HOTEL

Auditor General of Pakistan granted Special Honorarium equal to two months' pay for the staff of Audit, Works (Federal), Islamabad on identifying irregularities in the construction of Grand Hyatt Hotel in Islamabad. The irregularities identified by the Auditors of Auditor General of Pakistan Office not only highlighted the professional competence of the Department of Auditor General of Pakistan but also had significant audit impact.

AGP has started a system of rewards and punishment in the Department of Auditor General of Pakistan under Strategic Reforms Plan (2015-19) and under this initiative AGP has dismissed 3 officers of BS-17 and BS-19 who were found guilty of corruption and misconduct in last six months to eliminate corruption and indiscipline from department because he has zero tolerance in this regard. To bring further improvement in this system the AGP has started a "Whistle Blowing" policy and a dedicated system for registering the complaints has also been put in place on the directions of AGP.

FEDERAL CABINET APPROVES AGP ACT

Federal Cabinet accorded its approval for Auditor General of Pakistan Act, which is aimed at respecting the office of the Auditor General of Pakistan and sustainable development monitoring and reporting. This Act, on subsequent approval from Parliament, will not only harmonize accounts of institutions, associations, foundations, etc., whose expenses are covered by grants financed by the state or by contributions, duties, or other revenues according to statute but will also establish mechanism for holding those government departments accountable that are reluctant to become part of audit process toensure good governance for the welfare of the people of Pakistan. In addition to this the Act will further strengthen the Department of Auditor General of Pakistan by broadening the scope of audit beyond mandatory audit and will provide for various other types of audit including special audit, environmental audit, IT audit, compliance audit and performance audit which will not only ensure transparency in government transactions but will also increase the confidence of domestic and foreign investors.

SAI PAKISTAN LIKELY TO BECOME MEMBER OF INTERNATIONAL WORKING GROUP ON FIGHT AGAINST CORRUPTION AND MONEY LAUNDERING

The Auditor General of Pakistan, Rana Assad Amin, has welcomed the response of Accountability State Authority (ASA) Egypt, which is the Supreme Audit Institution (SAI) of Egypt, for membership in the INTOSAI Working Group on Fight against Corruption and Money Laundering. The Accountability State Authority of Egypt as Chair of the Working Group has informed that Pakistan would be invited to the next Working Group meeting where membership request of Pakistan would be presented. The INTOSAI Working Group on Fight Against Corruption and Money Laundering aims to promote a proactive role and international cooperation between INTOSAI members in reference to fight against money corruption and laundering in a manner consistent with the competencies and authorities of SAIs and independence requirements of INTOSAI.

DAGP SIGNS MOU WITH VIRTUAL UNIVERSITY

Department of Auditor General of Pakistan signed an MoU with Virtual

University on March 27, 2017. The MoU will allow online sharing of courseware developed by VU with DAGP through Pakistan Audit and Accounts Academy website. Under the MoU Virtual University will extend cooperation in expanding the outreach of DAGP through development of e-learning courses subject to the condition that the trainers will be arranged by the DAGP. The video production facility of VU may be used for recording lectures/clip modules on Accounting and Auditing Software. As agreed in MoU Virtual University will extend this facility free of charge.

Virtual University will also provide advice/technical assistance to DAGP, if sought in policy matters related to indigenization and updating of software, upgrading hardware and acquiring of services from the open market. VU may introduce a course each on Government Accounting and Auditing as part of its curriculum for Undergraduate and Graduate levels with the help and assistance of DAGP. VU may provide technical assistance/advice on establishment of Information Technology Wing of DAGP on permanent basis particularly with reference to human resources to further enhance the mode of recruitment in DAGP at various levels and to suggest criteria to fix the emoluments and upward mobility in an organized and sustainable manner.

DAGP NEWS

- Auditor General of Pakistan congratulated all officers of PA&AS on their promotion to BS-22, BS-21, BS-20 and BS-19. He wished them all the best for their future and new assignments.
- Mr. Haq Nawaz and Mr. Zafar Hassan Raza promoted to BS-22.
- Dr. Waheed Ahmed appointed as Military Accountant-General vice Mr. Muhammad Ikram Khan who has been posted as Deputy Auditor-General (A&C).
- Mr. Haq Nawaz appointed as Additional Auditor-General-II.
- Mr. Imran Iqbal posted as Additional Auditor-General-I.
- Syed Karamat Hussain Bokhari as AG Punjab vice Mr. Farrukh Hamidi who has been posted as AG Sindh.
- ECOSAI Performance Audit Course was held at Lahore from 5-16 December 2016. Sixteen (16) participants attended the training course. Nine (09) of whom were from Afghanistan, TRNS, Tajikistan, Turkey and Iran.
- Mr. Javaid Jahangir Ex-Addl. Auditor General and Agha Muhammad Ansar, DG attended ICGFM Winter Training Conference from December 5 – 7, 2016 at Washington DC – USA.
- Mr. Muhammad Kamran Khan, Director attended seminar "How to Ensure Efficient Auditing and Effectiveness of Audit results" from October 17-21, 2016. ASOSAI Secretariat at Seoul, Korea organized the seminar.
- Rana Shakeel Asghar, Director attended the 17th meeting of INTOSAI Working Group on Environmental Auditing from 24-27 October, 2016 at Jakarta, Indonesia. DAGP has been entrusted with chairmanship of one sub-committee and membership of two sub-committees related to environmental auditing issues.
- Mrs. Robina Faisal DAG, Mrs. Raheela Saad DG, Mr. Khalid Mahmood Director and Ms. BismahFarrukh Khan Deputy Director attended ASOSAI-IDI 3i cooperative audit program on disaster management from 06-14 October 2016 at Jakarta, Indonesia. IDI-ASOSAI Programme aimed at implementing performance audit ISSAIs to disaster management audits.
- Mr. Khurram Raza Qureshi, Director General (IR&C) attended the annual meetings of the INTOSAI Capacity Building Committee and INTOSAI Donor Cooperation Steering Committee from 03-06 October, 2016 at Cape Town, South Africa.
- Mr. Kamran Rashid Khan, DG Audit (DM), Islamabad attended the 10th meeting of Working Group on Fight Against Corruption & Money Laundering held from 27-29 September, 2016 at Bonn, Germany and presented the case for Pakistan's membership in the said working group. The Working Group on Fight Against Corruption & Money Laundering has extended membership to SAI Pakistan.
- Mr. Shahid Saleem, Director General (F&I), Islamabad attended the seminar on "Experience of Supreme Audit Institutions of Members States, Observer States and Dialogue Partners of the SCO in Implementation of Certification of Public Auditor" held from October 20-21, 2016 at Astana, Republic of Kazakhstan.
- Mr. Mujahid Ali Shaikh, Deputy Director Audit attended ASOSAI-

Sponsored Workshop on Assessment of Internal Control from October 5-16, 2016 at Kuala Lumpur, Malaysia.

- Mr. Faisal Ismaili, FA&CAO/Railways, Lahore attended 6th seminar on Environmental Auditing and 5th Working Meeting of ASOSAI WGEA from 17-19 October, 2016 at Jaipur, India.
- Syed SajjadHyder, DG conducted audit of the Accounts of SAARC Secretariat, SAARC- Japan Special Fund and the SAARC Regional Centers for the year 2016.

AUDITOR GENERAL'S REFORMS

Muhammad Yahya, Director-General

Soon after taking oath of the Auditor-General of Pakistan (AGP) in June 2015, Rana Assad Amin initiated a series of systemic reforms to promote transparency and accountability in Government transactions. He has been engaged in restoring a soft image of the Department after inheriting a regime of lackluster performance based on traditional auditing approach.

The Department is presently engaged in promoting audit reforms based on the Auditor General's first ever Strategic Plan 2015-19, primarily implemented through recommendations of the Audit Reforms Committee.

Far reaching outcomes of these reforms include a remarkable increase in recoveries to the tune of Rs.81 billion in 2015-16 as compared to Rs.40/- billion during 2014-15, showing an increase of 100% in recoveries at the instance of audit and Special focus on performance and special audits in an enabling environment, monitored at the highest level.

The benefit-cost ratio has registered a record high of 21:1 in 2015-16, against the strategic plan target of 12:1. This means that for every rupee spent on audit, Rs.21/- is recovered by ministries/divisions on the basis of observations raised by audit.

Human resource development and a paradigm shift in audit approach to special audits are also the hallmarks of AGP's reforms agenda. Under new reforms agenda the new audit approach has been initiated in all Field Audit Offices by allocating at least 30% of their resources for special audit activity.

For administration of special audit activities, a grade 21 position has been created to implement and monitor performance audit, forensic audit, IT audit, banking audit and environmental audit.

Pakistan Audit & Accounts Officers are also being trained in emerging areas including forensic, environmental and performance audit. Special priority is being given to expansion of the human resources base to meet the challenges of extended scope of audit, aimed at focusing on systemic and technical aspects of audit.

The website of AGP has also been given a new shape and soon it will be converted into a web portal involving online interaction among various wings of AGP Headquarters besides real time linkage with the prime portal of ECOSAI.

In the international arena, significant achievements have been made for standardization of audit at local level and cooperation with other Supreme Audit Institutions. Memorandum of Understandings for cooperation in public sector auditing have been signed with the Supreme Audit Court of Iran, Turkish Court of Accounts and China National Audit Office for conducting cooperative audits, peer reviews, mutual visits and joint training programs.

As a special initiative, the Department is actively pursuing creation of SAARCOSAI organization of Supreme Audit Institutions of SAARC countries besides proposing establishment of a regional organization of SAIs of D8 countries including Pakistan, Indonesia, Malaysia, Bangladesh, Egypt, Turkey, Nigeria and Iran.

One of the key challenges of Pakistan Audit Department is that it's administrative and financial independence is not compromised. The International Organization of Supreme Audit Institutions has already recommended that the Department should be given an independent status by treating it as an independent watchdog.

To strengthen its exclusive mandate, the Department has resolved that that no government agency can escape auditing, in view of a Supreme Court ruling with reference to Article 170 of the Constitution that the Auditor General of Pakistan enjoys a strong constitutional mandate to audit all public spending without exception. In this context, the Department has proposed certain amendments in the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

The proposed legislation will ultimately lead to greater financial and operational independence of the department as it renders its audit reports for adjudication of the parliament.

Performance Audit Manual of the Department is being revised to provide for latest audit methodologies in terms of international standards and good practices. High quality audit for efficient implementation of financial discipline in the country is the hallmark of ongoing reforms of the Auditor General's Department.

With a top down approach, performance evaluation of senior officers on audit side is regularly monitored through focused briefing sessions on implementation of the audit plans. While recoveries at the instance of audit have significantly increased, output of field audit offices is will be linked with a performance based reward system. Finance Division has also been approached to allow a 20% incentive allowance for audit employees.

Procurement of IT based Audit Management System has been planned to produce high quality audit reports with real time monitoring and tracking of audit observations at the highest level.

Another reform area for government audit is collaboration with investigating agencies like NAB. The Bureau has been approached to sign a Memorandum of Understanding with the Auditor General's Department for sharing of audit observations involving serious irregularities.

In a nutshell, the department's reforms will have a long lasting impact on the organization's internal governance while improving the extent of its contribution in the Government's accountability mechanism. Success of the Department's anti-corruption measures will also depend upon a corresponding initiative by the executive departments.

PUBLIC PRIVATE PARTNERSHIP IN AUDITING - SAI PAKISTAN PERSPECTIVE

Muhammad Raza Shah, Director INTOSAI

INTRODUCTION

The concept of Public Private Partnership in the field of auditing is a new one. Partnership between public and private auditors is primarily based on the understanding that effective cooperation between public and private auditors will enhance the quality and uniformity of the audit practice throughout the world and strengthen public confidence in the global auditing and assurance profession.

The Supreme Audit Institutions, which are the highest auditing bodies in public sector in respective jurisdictions tend to cooperate and collaborate with private auditing entities in one way or another. As per respective mandates, the Supreme Audit Institutions contract out work to external audit firms. Private audit firms carrying out public sector audits on behalf of the statutory audit constitutes the most important collaboration between SAIs and private auditing firms. Other forms of collaboration between the two may include sharing knowledge through seminars/workshops, joint trainings and representation in professional bodies etc.

The International Organization of Supreme Audit Institutions (INTOSAI), which is the largest representative body of SAIs, has a close collaboration with professional bodies and private auditing entities. INTOSAI develops International Standards of Supreme Audit Institutions (ISSAIs) in cooperation with the private standard setting bodies. As part of the cooperation between INTOSAI and the International Auditing and Assurance Standards Board (IAASB) "sector neutral" terminology is included in the International Standards on Auditing (ISAs) when possible so that they can be readily understood and applied in both the public and private sectors.

COLLABORATION OF DEPARTMENT OF THE AUDITOR GENERAL OF PAKISTAN WITH PRIVATE AUDITING ENTITIES & PROFESSIONAL BODIES

The Department of the Auditor General of Pakistan (DAGP) is the Supreme Audit Institution (SAI) of the Pakistan. The mission of DAGP is to serve the nation by promoting accountability, transparency and good governance in the management and use of public resources. The core values of the DAGP are Integrity, Quality and Partnership.

Presently, the collaboration between DAGP and private auditing bodies/professional bodies takes place in following forms:

1. DAGP PARTNERING WITH PROFESSIONAL BODIES

The Department of the Auditor General of Pakistan (DAGP) has recently established a Policy Board to provide suggestions/recommendations on the strategic issues of government auditing and accounting and public financial management. Besides members from DAGP, the Policy Board consist of members from private sector which includes President Institute of Chartered Accountants of Pakistan (ICAP), President, Institute of Cost and management Accountants of Pakistan (ICMAP), President Pakistan Institute of Public Finance Accountants (PIPFA) and Chairman Securities and Exchange Commission of Pakistan (SECP). The building of such kind of relationship with the professional bodies is likely to increase the credibility and transparency of DAGP and in turn will lead to greater independence in a longer run. Presently, there is no representation of private auditing firms in the Policy Board. However, DAGP can explore the possibility of inclusion of representatives

from one or two private auditing firms in the Policy Board.

2. APPOINTMENT OF PRIVATE AUDITING FIRMS

There are certain statutory and corporate bodies in Pakistan whose guiding legislation provide for appointment of private auditors after concurrence of DAGP. Therefore, one of the aspects of association between DAGP and private auditing firms is that the DAGP accords concurrence for appointment of private auditing firms as Auditors to audit the Financial Statements of various corporate bodies like Competition Commission of Pakistan (CCP) and Securities and Exchange Commission of Pakistan (SECP) etc. It may, however, be noted that appointment of private auditing firms by DAGP does not absolve the Auditor General of Pakistan of the constitutional duty to audit these bodies directly. Therefore, if deemed necessary, DAGP conduct audit of such bodies and audit reports are presented to the legislature.

3. DAGP AND PAKISTAN INSTITUTE OF PUBLIC FINANCE ACCOUNTANTS (PIPFA)

The Institute of Chartered Accountants of Pakistan (ICAP), Institute of Cost and Management Accountants of Pakistan (ICMAP) and Auditor General of Pakistan (AGP) constituted Pakistan Institute of Public Finance Accountants (PIPFA) in 1993. The Institute is registered with Securities and Exchange Commission of Pakistan (SECP) as Association Not for Profit under section 42 of the Companies Ordinance, 1984. PIPFA was constituted to impart quality education and develop Specialized Professional Accountants.

The Public Finance Accountants (APFA) produced by PIPFA meet the requirements of the industry. The members of PIPFA occupy middle to top Accounting / Financial positions in the leading public and private sector organizations, financial institutions, NGOs and consultancy firms as Chief Financial Officers, and/or Company Secretaries.

The auditors of SAI Pakistan are either Associate or Fellow members of PIPFA and thus PIPFA provides an opportunity for DAGP Auditors and Private Auditors to come together and share views and communicate with each other through participation in seminars and workshops etc.

4. COLLABORATION BETWEEN DAGP AND INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN (ICAP)

Institute of Chartered Accountant of Pakistan (ICAP) was established in 1961 as a premier regulatory body for the development and regulation of the Accounting Profession in the Country. ICAP also serves as a premier institution, which produces qualified accountants in Pakistan. DAGP has recently taken an initiative of collaboration with ICAP. Presently, DAGP is negotiating with ICAP for grant of certain exemptions for its auditors.

5. DAGP's FINANCIAL AUDIT MANUAL (FAM) PROVIDES FOR OUTSOURCING OF STATUTORY AUDIT WORK TO PRIVATE FIRMS

The Financial Audit Manual (FAM) provides for outsourcing of audit work to the private auditing firms. As per FAM, DAGP may consider using the work of another auditor (s), however in such cases DAGP is required to apply adequate procedures to provide assurance that the private auditor (s) have exercised due care and complied with relevant auditing standards. (Reference Chapter 2-15 of FAM)

6. ATTACHMENT OF DAGP OFFICERS WITH PRIVATE AUDITING FIRMS

Until recently the newly recruited officers of Pakistan Audit and Accounts

Service were used to be attached with the private auditing firms for three months to get exposure and practical training of audit activities. The attached officers used to accompany the private auditors on various audit assignments. This activity was a good forum to bring together the public and private auditors that enriched the professional experience of both sides by sharing knowledge, skills and expertise. The attachment of officers with private audit firms was discontinued a few years back. DAGP can consider reviving the practice keeping in view the increased importance of collaboration between public and private auditors.

7. PROSPECTS OF COLLABORATION BETWEEN DAGP AND PRIVATE AUDIT FIRMS DURING AUDIT OF FOREIGN FUNDED PROJECTS

DAGP regularly conduct audit of Foreign Aided Projects (FAP). This involve issuance of financial audit report developed primarily for use by the donor agencies like ADB, UNDP, World Bank, USAID, DFID, CIDA, IFAD, IDB and JICA etc. Every donor agency has its specific requirements of audit of the funded projects. The Terms of Reference (ToRs) of many Development Partners include the provision of hiring auditors and consultants from private audit firms to assist the SAI in auditing the projects.

DAGP has the required expertise and resources to conduct audit of any type of foreign funded project and until now has not engaged the private auditing firms in this regards.

Audit of foreign funded projects by DAGP in collaboration with private audit firms, if required in future may provide a good opportunity for partnering with private auditing community.

CHALLENGES IN ACHIEVING A WIN-WIN COLLABORATION

Public Private Partnership in auditing in Pakistan may face the following challenges:

8. The structure and regulatory framework of both public and private auditing in Pakistan is entirely different. Both auditors work in different environments and culture. In order to reap benefits of collaboration between the public and private auditors it is essential to acclimatize and expose both to the different environments in which the public and private auditing operates. Therefore, dealing with change and change management is a serious challenge to address.

9. Independence is the most important prerequisite for a SAI. Collaborating with private auditing firms without compromising independence of the SAI is indeed a difficult task to manage. It is extremely important that partnership is made with private auditing firms while independence of the SAI is not compromised.

10. SAIs have contrasting mandates laid down in the guiding legislation and other regulations. Partnering with private firms will depend upon the regulations, mandate and organizational structure of the SAI. The mandate of DAGP does not specify the terms and extent of collaboration with private audit firms. Therefore, it will be challenging for the SAI to cooperate and collaborate with private auditing firms within the assigned mandate.

11. Private auditing firms mainly conduct financial audit whereby an assurance is provided on the financial operations of the entity. On the other hand, DAGP apart from financial audit also carries out a vast number of performance or value for money audit, which has no roots in private auditing. Expanding opportunities for the implementation of Performance Auditing by the private auditing

firms in private sector exists; however, adopting the practice of Performance Auditing by private auditing firms may be challenging due to varied scope and reporting processes across the public and private auditing.

CONCLUSION

Public Private Partnership in audit is essential for the growth of the auditing profession in Pakistan. DAGP and private auditing firms need to frequently communicate and devise mechanisms to effectively collaborate with each other for mutual benefits. Such interaction will lead to knowledge sharing and adoption of best practices. However, collaboration between public and private auditing is required to be made keeping in view the mandate, regulations and internal/external environment and without compromising the independence and status of the SAI.

SAMPLING TECHNIQUES IN FINANCIAL AUDIT MANUAL

Dalila Kiran Shakil, Director

FAM the Financial Audit Manual implemented by SAI Pakistan in its field audit offices in 2005 is designed on the basis of best international auditing practices as defined by the ITOSAI auditing standards.

The purpose of FAM is to provide the DAGP auditors, for auditing the government entities a set of modern auditing standards, concept techniques and quality assurance arrangements. The sampling techniques used in the substantive testing and compliance testing are therefore done in accordance with the requirements of the DAGP auditing standards as prescribed by FAM.

In FAM the need of audit sampling is based on the fact that the accounting population in Public Sector consists of large number of accounts, a detailed examination of which is not possible and this therefore leads to sampling.

Sampling is however only one source of Audit assurance, it is therefore important for the auditor to derive assurance from all the audit procedures for the purpose of adequate audit assurance. A sample conclusion is applicable only to the population from which it is derived; a sample should therefore be the representative of the population.

In order to understand why audit sampling is necessary consider the case of compliance testing which is the first step in conducting the audit .A compliance testing determines the extent to which the internal controls (internal controls are a set of procedures designed to minimize the chances of error in the government accounting system such as compliance with approved accounting financial framework I e NAM,PPRA rules ,financial policies etc)are complying the entity's policies ,procedure ,laws etc. Full testing for this purpose in government entities where the data is composed of thousands of vouchers will result in wastage of resources and time, and this therefore leads to sampling. An auditor may opt for the full examination of the population when the population consists of small number of large value items and there us a significant risk that the internal control deviations may results to monetary error greater than the materiality, when the other means do not provide sufficient audit evidence or when the full examination is cost effective

CAATS techniques are used in FAM for sample size calculation and error evaluation, the OAGP has introduced CAATS (ACL) in field audit offices where computerized data is available .CAATS is slowly replacing the conventional manual process of error evaluation in OAGP as it is more time and cost effective .Also manual calculations are prone to error risk, CAATs reduces the error risk because if the auditor is using planning parameters that are not in common practice or theoretically questionable ,CAATS either provide a warning message or does not allow the calculations to proceed. Also CAATS provide every possible confidence level which are not present in manual tables for confidence level. Thousands of audit officials have been trained in ACL during past few years by the PIFRA training wings .PIFRA has also produced many master trainers in ACL which are engaged in extensive training of field audit officers. However there is a myth among the auditors that using the sampling techniques instead of conventional methods of voucher selection and evaluation, results in inaccurate analysis of financial statements and therefore leads to misstated results. In fact if the sampling techniques used by the auditor are in accordance with the guidance of FAM, the sampling results would show the true picture of the validity of financial data presented by the data holders and will results in the accurate estimate of population misstatements. Therefore

there is a need to properly address this misconception that exists among the auditors for completely implementing the FAM objective.

In FAM a sampling frame is used to draw conclusion for the target population. Units of population may be payroll or procurements bills, vouchers etc. A sampling always have some defects despite the assurance from the holding ministries, department etc. There are various ways to deal with such cases, such as selecting a large sample and eliminating small ones or using the estimated data etc.

Generally the sampling is auditing is either statistical or non statistical and the international auditing practices allows for either sampling method.

Non statistical or judgmental sampling

It is an approximation to simple random sampling use in the test of control activities. It is often called as the haphazard selection but it does not mean the careless or reckless .the auditor should select the sample without deliberately deciding to include or exclude certain items and should project the sample results to the population and should collect a sufficient evidence to support a valid conclusion.

The auditing practices board states that the judgmental sampling is an "acceptable method of selection provided that the auditor is satisfied that the sample is not the unrepresentative of the entire population "(APB, 1993)

Non statistical sampling method is criticized on the ground that it is unscientific as the probability of the selection of individual items can not be as curtained. Which results in inconsistent and unreliable estimates >this is due to the fact that the sampling depends upon the individual auditor knowledge, experience, prejudices, physical and mental health etc. and a pressure on the auditor to reduce the cost of auditing. Thought the audit testing in non statistical sampling is not consistent between the auditors in different SAIs especially as far as the sample size determination is concerned however FAM gives its auditors clear guidelines and audit procedures in this regard. Different types of non statistical sampling used in FAM are DDO selection, Page selection from the filing etc.

Statistical sampling

It is a selection of a sample from the population in such a way that each sampling unit has an equal and known chance of selection. It includes simple random, systematic random and stratified (MUS) random sampling techniques. it is preferred over the non statistical sampling techniques as it gives a representative sample since in it each sampling unit has an equal and known chance of selection.

The statistical sampling mainly used in FAM is probability proportional to size (PPS) sampling also called as the monetary unit sampling. The population in PPS sampling is the population of individual rupee contained in a particular account being tested. The sampling unit is the individual rupee

The auditor uses a systematic sampling approach to select every thousand rupee in the population after a random start. However, the individual rupee s elected is not the items of audit interest. The items of interest are the "units" containing the individual rupee. A unit might be , a specific purchase order recorded in the purchase records. Larger units are more likely to be selected than smaller units .i e , the likelihood of a unit being selected is proportional to its size- thus the name probability-proportional –to-size sampling

In substantive testing, (substantive sampling involves detailed examination

of the monetary value of the account balances to determine their accuracy and to draw conclusions about the materiality of the error amounts in the accounts.) MUS is used to obtain monetary estimates of the total error amount or confidence limits for the total error amount in a particular account.

MUS for compliance testing are not used as frequently as attribute sampling for compliance tests. However, it has an advantage over attribute sampling – unlike attribute sampling; larger transactions have a greater chance of selection using MUS. This is because the internal control deviations (An internal control deviation is the result of the failure to properly perform a particular internal control) in large monetary items are more significant than internal control deviations in small monetary items. Where as in an Attribute sampling involves the selection of a sample of physical units(supplier invoices, for example), as opposed to individual monetary units(Rupees).in this case, all physical units, regardless of their size, will have an equal chance of selection. In effect, the auditor is taking the position that internal control deviations (unapproved supplier invoices, for example) in small monetary items are just as significant as internal control deviations in large monetary items

These guidelines of sampling as introduce by FAM, if implemented truly by the auditors will always result in complete, accurate and valid financial analysis thus fulfilling the vision of the DAGP of developing the auditing and accounting capabilities to establish the department as a credible professional institution that promotes good governance and public accountability.

REFERENCES

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- Internal Auditing: Assurance & consulting Services by the institute of internal Auditors

AUDIT RISK AND MATERIALITY

Muhammad Adeel Javaid

Audit Risk is defined in the International Standards on Auditing (ISAs) section 400 as the "risk that the auditor gives an inappropriate audit opinion when financial statements are materially misstated".

In an audit of financial statements, the auditor's judgment as to matters that are material to users of financial statements is based on consideration of the needs of users as a group; the auditor does not consider the possible effect of misstatements on specific individual users, whose needs may vary widely. The evaluation of whether a misstatement could influence economic decisions of users, and therefore be material, involves consideration of the characteristics of those users.

Users are assumed to:

- Have an appropriate knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with an appropriate diligence;
- Understand that financial statements are prepared and audited to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- Make appropriate economic decisions on the basis of the information in the financial statements.

The determination of materiality, therefore, takes into account how users with such characteristics could reasonably be expected to be influenced in making economic decisions.

The decisions that occur during the planning phase of the audit provide the benchmarks for decisions throughout the audit about:

- Overall or planning materiality;
- Performance materiality, an amount lower than planning materiality, that takes into account the potentially undetected material errors; and
- Specific performance materiality, the application of performance materiality to a specific class of transactions, balances, and disclosures. It is either equal to or less than performance materiality.

HOW TO CALCULATE OVERALL OR PLANNING MATERIALITY:

The auditor's materiality decision is a multi-factor decision involving both quantitative and qualitative aspects. Calculated materiality amounts derived using quantitative approaches may be increased or decreased based on auditor's professional judgment about possible effects of qualitative factors such as:

- Risk of earning manipulations
- Possible effect of misstatements on trends
- Presence of restrictive debt covenants
- Magnifying effect of misstatement for share price manipulation
- Misstatement for achieving projects earnings

- Accuracy and reliability of accounting system
- Possible impact of misstatement on segment information
- Detection of fraud or fraud indicators in prior period

The best way to assess the risk of material misstatement (ROMM) for an auditor is to analyze the prior period financial statements and auditor's opinion thereof. The analysis of prior period statements and reports may enable an auditor to judge the extent to which the financial statements could be materially misstated and could help him in establishing a threshold for detecting any possible misstatements. This threshold can be used for determining the audit tolerance level or lower materiality threshold for auditors.

In an audit of the financial statements of a government entity or an entity that receives government assistance, auditors may set lower materiality levels than audit in private sector because of the public accountability of government entity, various legal and regulatory requirements and visibility and sensitivity of government programs and activities.

Though auditing standards do not set any mechanism or approach for quantifying the amount of audit materiality but there are various approaches that the auditors use for calculating as Audit Misstatement Posting Threshold. Blend and Formula Methods are two methods that could be used for preliminary materiality judgment.

BLEND METHOD:

Blend method uses four elements of financial statements for computing materiality by setting out a percentage for each element and then taking average of the total amount. The four elements and their percentages are as given under:

5% of Pre-Tax Income

1/2% of Total Revenue

1/2% of Total Assets

1% of Equity

An illustration of this method could be like this:

Pre-Tax Income of Co. XYZ is Rs. 100,000, Value of total assets is Rs. 10, 00,000, Revenue of Co. is 700,000, and Shareholder's equity is Rs. 300,000.

Calculation of Materiality Amount will be like this:

100,000x5% + 700,000x0.5% + 10, 00,000x0.5% + 300,000x1%/4

5,000+3500+5,000+3000/4

Materiality Amount = 4125

FORMULA METHOD:

The other method used is Formula Method, which uses KPMG formula for computation of materiality. The formula used is:

1.84 x (Greater of Assets or Revenues)$^{2/3}$

Using the above formula we can calculate the materiality amount from above illustration as under:

Pre-Tax Income of Co. XYZ is Rs. 100,000, Value of total assets is Rs. 10, 00,000, Revenue of Co. is 700,000, and Shareholder's equity is Rs. 300,000.

In the above illustration the amount of total assets exceeds the amount of total revenue and hence we will use the amount of assets for calculating materiality using KPMG formula.

$1.84 \times (10, 00,000)^{2/3}$

Materiality Amount = 18400

Materiality could be further applied to individual accounts/heads of accounts on the basis of overall materiality, expected un-corrected error and the ratio of account balance to Total of all account balances. The formula used for assigning materiality to individual accounts/heads of accounts is as given under:

Materiality for Account = Overall Materiality-Expected uncorrected error x (Account Balance/Total of All Account Balances)$^{1/2}$

Using this formula an account that is 40% of total of all accounts will have high materiality assigned to it as compared to an account that is only 10% of total of all accounts. Similarly auditor can use appropriate audit procedures for determining expected uncorrected errors and could record such errors separately. Expected uncorrected errors could be incorrectly recorded financial statement amounts or the amounts that should have been recorded in the financial statements but were not recorded due to some control deficiency. Any uncorrected errors that are equal to or above 5% of Overall materiality can cause material misstatement. Uncorrected errors below 5% of Overall Materiality are considered to be immaterial or inconsequential.

Applying above formula can enable an auditor to assign the materiality amount to different accounts for reducing the risk of material misstatement and for narrowing the scope of his judgment with regard to different heads of accounts.

PERFORMANCE MATERIALITY AND AUDIT MISSTATEMENT POSTING THRESHOLD:

From above two formulas we can see that the materiality amount could vary from possible low of 4125 to a possible high of 18400 depending on the auditor's judgment. Thus various quantitative approaches can be viewed as decision aids that assist auditors in making their materiality judgment.

Based on the risk of material misstatement auditors can set any amount lower than the amount of materiality in the range of their analysis as performance materiality. Performance Materiality is used to reduce the probability of risk that the aggregate sum of undetected or uncorrected misstatements will not exceed Overall Materiality. If the aggregate sum of any such misstatements exceeds the amount of Overall Materiality, the financial statements will be considered as materially misstated. In determining performance materiality If the risk of material misstatement is on lower side the auditor can choose high materiality amount and subsequently amount lower than the materiality amount as PM but if the risk of material misstatement is higher, the auditor will choose low materiality amount and subsequently amount lower than materiality amount as PM to reduce the chances of possible audit risk. For example, an auditor may decide to use a relatively low materiality level for an event that could have possible negative impact for the users of financial statements if misstated. Similarly an auditor

can use high materiality level for events that either have low chances of occurring or a misstatement of those events could not impact the future economic decisions of users of financial statements.

As a general principle Performance Materiality could be in the range of 60-80% of Overall Materiality. Normally auditors use 75% of Overall Materiality as Performance Materiality.

Audit Misstatement Posting Threshold (AMPT) is an amount below the performance materiality that the auditor considers clearly trivial and the aggregate sum of undetected and uncorrected misstatements needs not to be taken for these trivial amounts for determining material misstatement of financial statements. AMPT in general is between 0-10percent of Overall Materiality.

Though good materiality is necessary and crucial for carrying out audits but there is no formal guidance available in auditing standards on implementing the materiality concepts. Best way to implement materiality by auditors is through using both qualitative and quantitative techniques and thereafter applying their own judgment for this purpose.





Editor's Note

The third issue of DAGP Newsletter "Vouch" , in a new format, is in your hands finally. It is a matter of satisfaction for the staff responsible for bringing it out. I am sure you will like it in this shape. The purpose of this newsletter is to connect PA&AS members and to provide a common platform for sharing of information among all DAGP field offices. This Edition includes all activities that took place since the last issue in October 2016. I hope the newsletter will encourage you to express your creativity and share anything that you think would be of interest to other readers. I also seize this opportunity to thank all those who submitted their contributions for this Issue and request others to give their input in the form of articles, personal achievements and of their offices. Your literary efforts would also be welcomed and considered for publication.

In bringing out this issue the guidance of AGP was always available. The AGP has also indicated awarding suitable compensation for selected articles. Our team would feel motivated if you offer comments and suggestions for improvements. Please feel free to provide your feedback at our website www.agp.gov.pk or by sending us an email at agp@agp.gov.pk. If you want to be more intimate you can reach me at 092-51-9222917 and Muhammad Adeel Javaid, Deputy Director Media, at 092-51-9225245. By the way the next issue is scheduled in June 2017, so hurry up and send something that we can be proud of printing in VOUCH. In the meanwhile enjoy spring.

Tahir Kamal