

Audit Guidelines WAPDA Audit



Auditor-General of Pakistan

**DEPARTMENT OF
THE AUDITOR-GENERAL OF PAKISTAN**



**GUIDELINES FOR THE AUDIT OF WATER AND POWER DEVELOPMENT
AUTHORITY (WAPDA)**

TO BE USED BY

THE DIRECTORATE GENERAL OF AUDIT (WAPDA)



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

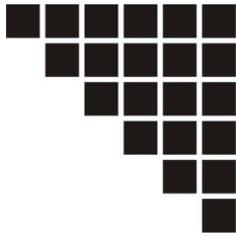
Our way of interaction

Table of Contents

PREFACE TO REVISED EDITION	I
PREFACE TO FIRST EDITION	II
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	3
1.7 The Accountability Cycle of the Auditor-General of Pakistan	4
OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT WAPDA.....	7
2.1 Overview of the Office.....	7
2.2 Jurisdiction.....	7
2.3 Organogram of the Directorate.....	8
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	12
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.	19
4.8 List of Bank Accounts – Form PF-IV.	19
4.9 List of Authorized Signatories – Form PF-V.	19
4.10 External Factors – Form PF-VI.....	19
4.11 Accounting Records and Accounting System - Form PF-VII.....	19
4.12 Key Contacts – Form PF-VIII.....	21
4.13 Significant Audit Areas – Form PF IX.....	21
4.14 Significant Accounting Policies – Form PF-X.....	23
AUDIT PLANNING PHASE.....	25
5.1 Introduction.....	25
5.2 The Audit Team’s Responsibility in Planning Phase	26
5.3 Documentation in Planning Phase.....	26
5.4 Audit objectives and scope.....	27
5.5 Points for attention at next audit (from last year)	27

5.6 Entity communication letter.....	28
5.7 Audit planning memorandum	28
5.8 Memorandum on post-planning changes	28
5.9 Important dates	28
5.10 Tour Programme.....	29
5.11 Information requested from entity officials.....	29
5.12 Materiality assessment form	29
5.13 Expected aggregate error and planned precision form.....	29
5.14 Audit risk assessment form	29
5.15 Inherent risk assessment form	30
5.16 Internal control questionnaire - controls for overall environment.....	30
5.17 Internal control questionnaire – general computer controls.....	30
5.18 Internal control questionnaire – application controls.....	31
5.19 Control risk assessment forms.....	31
5.20 Analytical procedures assurance form	31
5.21 Source of audit assurance form.....	31
5.22 List of applicable laws and regulations.....	32
5.23 Sample selection checklist.....	32
5.24 High value item selection form.....	34
5.25 Key item selection form.....	34
5.26 Sample sizing for tests of internal control.....	35
5.27 Sample sizing for substantive tests of details.....	35
5.28 Checklist of accounting estimates to be reviewed	35
5.29 Points for attention at next audit	35
5.30 Audit planning checklist.....	35
5.31 Centrally Led Audit	36
AUDIT EXECUTION PHASE.....	37
6.1 Introduction	37
6.2 The Audit Team’s Responsibility in Execution Phase	37
6.3 Forms and Schedules for Audit Execution Phase	38
6.4 Summary of Analytical Review Procedures Performed.....	38
6.5 Details of Analytical Review Procedures Performed	39
6.6 Completed Internal Control Questionnaires	39
6.7 Internal Control Deviations Form	39
6.8 Internal Control Deviations Summary	39
6.9 Compliance Summary.....	40
6.10 Substantive Tests of Accounting Estimates	40
6.11 Errors in Accounting Estimates.....	40
6.12 Substantive Test Sample Summary for each Audit Programme.....	40
6.13 Substantive Test of High Value/Key Items – Summary	41
6.14 Details of Errors in Samples, High Value Items and Key Items	41
6.15 Exit Interviews	42
6.16 Audit Programmes.....	42
6.17 Audit Programme: Operations Management.....	43
6.18 Audit Programme: Inventory Management	59
6.19 Audit Programme: Contract Management.....	62
6.20 Audit Programme: Accounting And Finance Management.....	68
AUDIT EVALUATION AND REPORTING PHASE.....	73

7.1 Introduction	73
7.2 The Audit Team’s Responsibility	74
7.3 Documentation in Evaluation and Reporting Phase	76
7.4 Internal Control Weaknesses – Impact Analysis	77
7.5 Analytical Procedure Thresholds	77
7.6 Evaluation of Analytical Procedures	78
7.7 Evaluation of Internal Control Deviations	78
7.8 Substantive Tests Evaluation – Projectable Errors from Sample	78
7.9 Substantive Tests Evaluation – Non-Projectable Errors	78
7.10 Substantive Tests Evaluation – Summary	78
7.11 Achieved Level of Assurance Form	79
7.12 Error in Each Component	79
7.13 Overall Error in Financial Statements	79
7.14 Compliance-With-Authority Violations	79
7.15 Checklist of Management Representation Letter	80
7.16 Sample Management Representation Letter	80
7.17 Audit Completion Checklist	80
7.18 Memorandum Supporting Signature	80
7.19 Auditor’s Opinion	80
7.20 Follow up Continuity Schedule	81
7.21 Quality Assurance Checklist	82
7.22 Centrally Led Audit	82
KEY TASKS AND RESPONSIBILITIES	83
8.1 Introduction	83
8.2 Assigning Roles and Responsibilities	83
8.3 Key Tasks and Responsibilities: Permanent File	84
8.4 Key Tasks and Responsibilities: Audit Planning Phase	85
8.5 Key Tasks and Responsibilities: Audit Execution Phase	87
8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase	88
8.7 Key Tasks and Responsibilities: Audit Quality Assurance	90
APPENDIX – A	92



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.

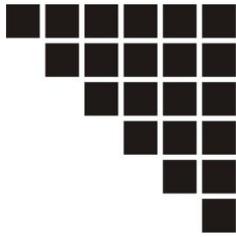
FAM has been implemented in the Department of the Auditor-General of Pakistan (DAG). However, during the course of its implementation, it was found that the Sectoral Guidelines developed by the consultants under the FAM project did not provide sufficiently detailed and specific guidance to the FAOs for 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.

Dated: March, 2010

(Tanwir Ali Agha)
Auditor-General of Pakistan



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).

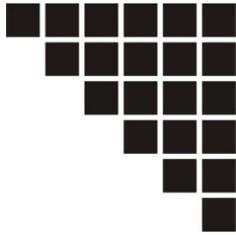
The Guidelines and the other audit tools are an important foundation for bringing our work in the line with international best practices. Our auditors will have to apply with dedication the guidelines provided by the Financial Audit Manual while auditing in the field.

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 WAPDA and PEPCO. 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.

The DAGP has vested the Directorate General with the authority, sanctioned through the Auditor-Generals Ordinance, 2001, to conduct the Regularity Audit and related services in respect of the entities and projects falling under the ambit of WAPDA and PEPCO. Moreover, WAPDA Act, 1958 also requires that the accounts of the authority shall be audited every year by the Auditor -General of Pakistan.

1.3 Auditors' Responsibility

Every auditor engaged in government audit is required to be familiar with audit theory, practice, standards, and techniques described in FAM, which includes the Audit Working Papers Kit. Because of the importance of ensuring a high standard of work by the DAGP,

particular attention needs to be paid to the quality assurance programme. DAGP's quality assurance framework ensures that its work is performed as efficiently and effectively as possible and complies with the INTOSAI Auditing Standards. Quality is performing an audit effectively, following up all errors and deviations with a rigorous evaluation, reporting clearly on the results, while at the same time respecting the resource and time constraints established by the budget. Therefore, quality assurance occurs throughout all the phases of audit, not at the end. (Ref: Financial Audit Manual Para 15.1.1)

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

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

1.4 Practical Tools

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

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

1.5 Continuous Improvement

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

1.6 Using the Standard Audit Working Papers

The audit process generally follows a standard Audit Cycle comprising the following phases:

- General audit planning
- Detailed activity and resource planning
- Fieldwork
- Evaluation
- Reporting
- Follow-up

These phases are common to all types of audit. An overview of the Audit Cycle as a whole is provided in Chapter 6 of FAM. Additional detail is provided in Chapters 7 through 14.

The Audit Working Papers Kit has been designed to guide audit teams through these phases in a structured manner, and are presented in the four sets of working papers. Once completed and supplemented with additional information gathered during the course of audit, each of these sets of working papers represents a “file” that documents audit activities and supports the conclusions reached.

The files that represent the work done in each of the phases of audit are:

- Permanent file,
- Planning file,
- Working Paper file, documenting the execution phase, and the
- Evaluation and Reporting file

It is recommended that the electronic versions of forms given in the Audit Working Papers Kit are used during the conduct of audit. The auditor is reminded of the importance of keeping back-ups of filled-out forms (electronic and hard copy) to ensure that they are adequately protected.

Kindly note that each form or schedule included in the Audit Working Papers Kit incorporates notes on how to use the form. These notes are printed in italics to differentiate them from other material on the form. In some cases, the note may relate to a specific item on the form, in which case it will follow the item it relates to. Notes that apply to the form as a whole are presented either at the beginning or the end of the form.

These Guidelines do not repeat the instructions for each form. Its purpose is to provide additional guidance specific to the type of audit being planned or conducted. Forms and schedules given in the Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of these forms, marked with an asterisk (*), can also be used for Compliance with Authority Audit. In both the cases, the notes on the form are sufficient to guide the auditor and no additional information is required in these Guidelines.

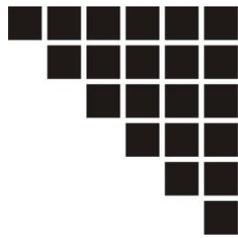
Ultimately, it is the audit team leader who will have to use his/her judgment in determining how best to apply the Audit Working Papers Kit in conducting a specific audit.

1.7 The Accountability Cycle of the Auditor-General of Pakistan

The accountability cycle starts with the preparation of annual budget statement which is approved by WAPDA and respective Board of Director (BOD) of each incorporated entity. A detailed elaboration is as follows:

1. Each year Member Finance or Director Finance receives budget estimates from field formations.
2. Based on the resources available and priorities of the government, the annual budget is prepared in respect of WAPDA and Pakistan Electric Power Company (PEPCO).
3. The Authority approves the budget in respect of WAPDA. Moreover, BOD/ NEPRA approve the budget in respect of incorporated entities.
4. Member Finance or General Manager Finance sanctions the expenditure of WAPDA. However the Chief Executive Officer/ Board of Directors (BOD) sanction the expenditure in respect of incorporated entities.
5. Member Finance is responsible for the preparation of annual Financial Statements of WAPDA. Finance Director/ Manager 'Corporate Accounts' of each incorporated entity is responsible for preparation of Financial Statements of their respective entities.
6. Each year, Director General Audit WAPDA performs the Regularity Audit of the Financial Statements of WAPDA; whereas the financial statement of fifteen incorporated entities are certified by the commercial auditors. This office conducts the Compliance with Authority Audit in respect of incorporated entities and issues the Audit Report containing the significant instances of non compliance with rules and regulations, policies and procedures. However, no audit opinion on the overall financial position is expressed.
7. WAPDA is an 'Exempt Entity' under NAM and is not required to submit the audited financial statement through Auditor-General of Pakistan. However, the Audit Reports are laid before the National Assembly. These reports are then discussed in the Public Accounts Committee who then reports back to the National Assembly.





Chapter 2

**OVERVIEW OF THE DIRECTORATE
GENERAL OF AUDIT WAPDA**

2.1 Overview of the Office

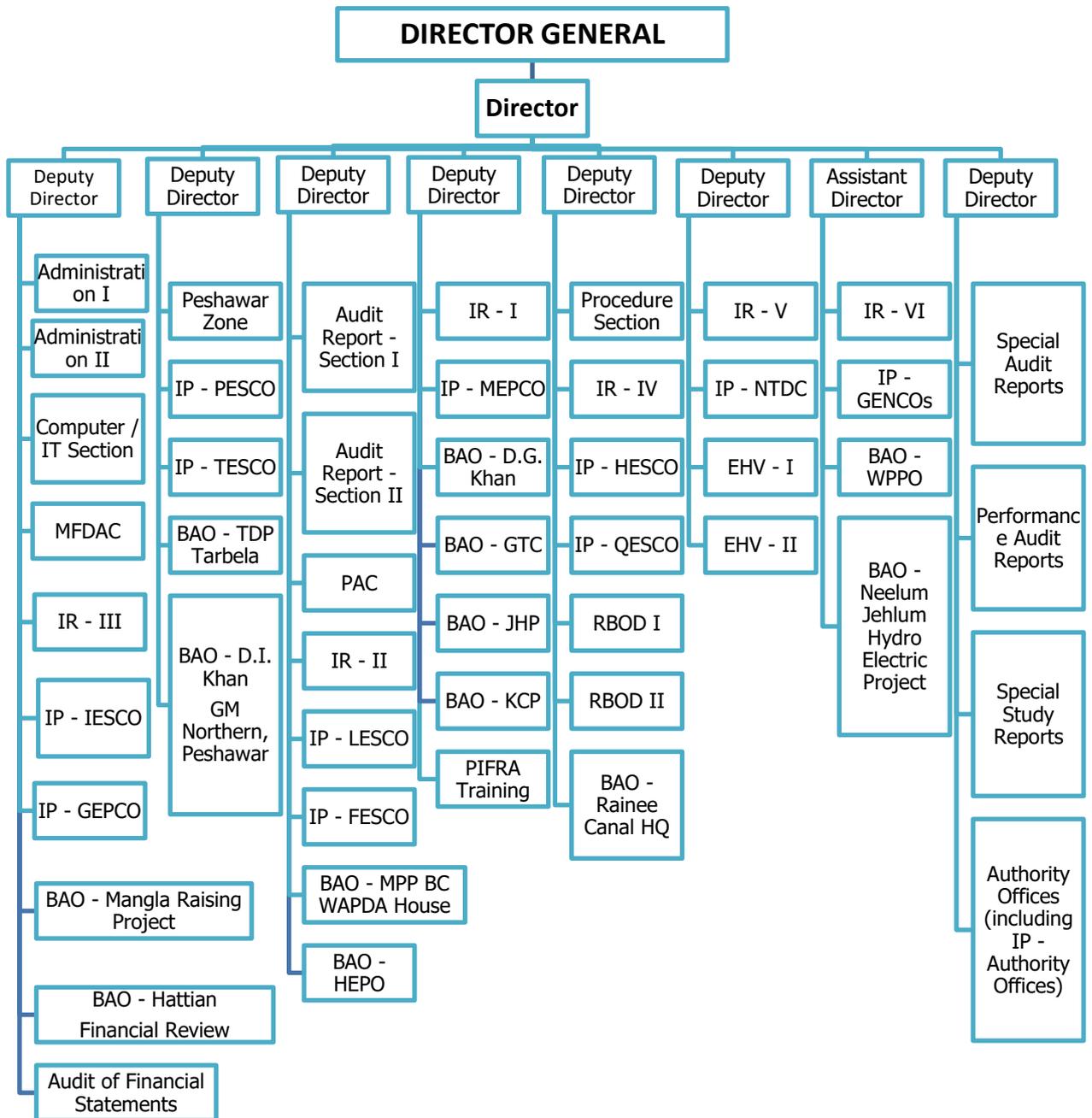
In compliance with the provisions of Section-28 of WAPDA Act-1958, the audit of the accounts of Water & Power Development Authority was initially assigned to the Director General Audit & Accounts (Works), Lahore. With the expansion of the activities of WAPDA, it was considered necessary to create an independent audit agency to carry out the requirement of Act. Accordingly, the Directorate General Audit WAPDA was established vide Government of Pakistan, Ministry of Finance letter No. F-7 (4) –Admn-III (RWP)/62 dated 12-04-1962. This office started its function as separate entity w.e.f. July 1, 1962.

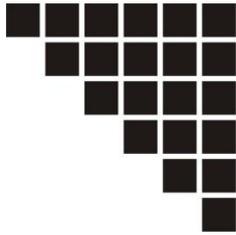
Directorate General, Audit WAPDA is located at Lahore with one Zonal office at Peshawar and twelve Branch Audit Offices at Lahore, Islamabad, D.I. Khan, D.G. Khan, Guddu, Sukkur, Mangla, Tarbela and Hattian. This office is headed by a Director General (BPS-20) and has a sanctioned strength of 440. This Directorate is engaged in concurrent post audit of important projects of WAPDA/ PEPCO through these Branch Audit Offices and compliance audit of PEPCO, 9 DISCOs (Power Distribution Companies), 4 GENCOs (Power Generation Companies), NTDC (National Transmission and Dispatch Company) and remaining Authority/Project Offices of WAPDA and PEPCO through Inspection Parties.

2.2 Jurisdiction

Sr. No.	Principal Accounting Officer (PAO)	Departments	Mandate
1	Secretary, Ministry of Water and Power	1. WAPDA	Regularity Audit
		2. PEPCO along-with 14 Corporate Entities	Compliance with Authority Audit

2.3 Organogram of the Directorate





Chapter 3

SCOPE OF AUDIT

3.1 Types of Audits¹

Directorate General Audit, WAPDA conducts the following types of audit.

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

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

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

3.2 Definition of Government Audit

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

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

¹ These guidelines provide guidance on both the Certification Audit and Compliance with Authority Audit.

Performance Audit² is concerned with the audit of economy, efficiency and effectiveness and embraces:

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

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

3.3 Certification Audit

Objectives:

To express an opinion on the Financial Statements to the effect that:

1. The Financial Statements properly present, in all material respects, the government's financial position, the results of its operations, its cash flows and its expenditures and receipts by appropriation; 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 authorised by Parliament and have, in all material respects, been booked to the relevant grants and appropriations.

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

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

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

Methodology:

- Understanding the audit entity;
- Conducting risk assessment;
- Defining detailed audit objectives;
- Developing audit programmes;
- Performing analytical procedures;
- Testing the internal controls;
- Determining sample size for substantive testing of details;
- Conducting substantive tests;
- Evaluating results;
- Reporting; and
- Follow up.

3.4 Compliance with Authority Audit

Objective:

1. Audit against 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
- Review of left out formations for carrying out analytical procedures if deemed necessary.
- Selecting samples by using a statistical sampling technique for covering the entire population.
- 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

Some of the specific risks relating to WAPDA and PEPCO include:

- Award of contract to unsuitable supplier/contractor.
- Time overrun leading to exorbitant cost overrun.
- Delay in completion of Projects.
- Line losses beyond targets set by NEPRA.
- Repeated revisions of drawings/estimates and administrative approvals.
- Maintenance of stock without its actual requirement.
- Theft of electrical material.
- Undue generation of revenue due to over billing.
- Violation of government policy for the deposit of funds.
- Non-maintenance of record relating to assets.
- Non-maintenance of agreed percentage at the time of the approval of the contract, at the time of making final payment.

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

The major focus of the Directorate General Audit, WAPDA is on:

- Revenue received by the auditee departments.
- Expenditure incurred by the auditee departments.
- Assets maintained by the auditee departments.

3.5.1 Audit of Revenue

The main components of revenue are:

- Sale of Electricity
- Sale of Scrap

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

3.5.2 Audit of Expenditure

There are two major types of activities in the auditee departments being audited by the Directorate General Audit, WAPDA:

- a. Capital works (Civil works and Electrical works); and
- b. Operations, maintenance and repairs (Civil works and Electrical works).

These activities are multifarious in nature and widely dispersed across the country. A significant challenge for the audit team is to decide on the appropriate and judicious use of audit effort and resources.

In deciding what capital projects to audit, the audit team should begin with a list of projects (given in the monthly accounts maintained by respective divisions and authority offices) which are either ongoing or have reached completion in the period being audited. The sample of projects to be audited will then be selected from this list. The audit team will include those projects:

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

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

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

- From one year to the next at particular locations; or
- By comparing similar facilities across the country, allowing for such factors as the size of the facility (by comparing the power transmission losses of different distribution companies; or by cost/employee working at the facility).

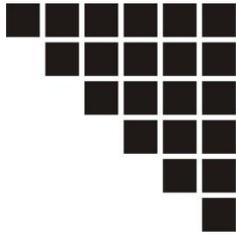
This will provide a basis for selecting locations which should be subject to scrutiny. The auditor may also perform random sampling of transactions.

A sound knowledge of operations will help the auditor identify potential problem areas. For example, if money was spent in the previous year on fixing a problem and then in the current

year, there is further expenditure on the same work, the auditor may decide to investigate reasons for further expenditure.

3.5.3 Audit of Assets

The auditors should check that the auditee departments have maintained proper records of purchase and sale of assets, and that all rules and regulations are being followed in this respect. The auditors should also check that the auditee departments have maintained a Fixed Asset Register which must reflect the current status of assets. Moreover, the auditors should observe that necessary steps have been taken by the departments for the safety of assets.



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 the audit activity in the particular area of audit. This may include:

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

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

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

4.2 The Audit Team's Responsibility

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

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

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

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

4.3 Documentation in Permanent File

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

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

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

4.4 Update Control Sheet - PF

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

4.5 Status of Entity – Form PF-I.

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

4.6 Background Information – Form PF-II.

The auditor should gather financial and other background information about the entities which are represented in the Financial Statements of WAPDA. This includes information about total assets, total liabilities, total revenue and total expenditure of the entity, estimated budget (development/non-development), operational activity/corporate plan of the entity like organization structure, main functions, etc., some of which are summarized below:

Organization Structure

During the year 1998, WAPDA was re-structured into WAPDA and PEPCO (responsible for Power Wing and 14 Corporate Entities). PEPCO was incorporated as a private company under the Companies Ordinance, 1984 (Ordinance), whereas the subsidiary undertakings including four power generation companies (GENCO's), one dispatch company (NTDC) and nine power distribution companies (DISCO's) were incorporated as public limited companies under the provisions of the Ordinance. An independent Chairman was appointed to manage the affairs of PEPCO. The company is solely responsible for the supervision and management of operations of the above referred incorporated entities. The incorporated entities and their major functions include:

- 4 Generation companies, known as GENCOs, generate electricity and sell it to NTDC
- NTDC, the National Transmission and Dispatch Company, purchases electricity from GENCOs and resells it to 9 “DISCOs” or Distribution Companies. In addition to this operational undertaking, there is also a construction side of NTDC that does civil works as well as works of electrical nature.
- There are 9 Distribution companies (DISCOS) – Quetta Electric Supply Company (QESCO), Hyderabad Electric Supply Company (HESCO), Lahore Electric Supply Company (LESCO), Gujranwala Electric Power Company (GEPCO), Faisalabad Electric Supply Company (FESCO), Multan Electric Power Company (MEPCO), Peshawar Electric Supply Company (PESCO), Tribal Areas Electric Supply Company

(TESCO) and Islamabad Electric Supply Company (IESCO) – which are responsible for supplying electricity to the geographical areas within their jurisdiction.

Besides the above companies, there is a residual wing of WAPDA. All the companies are independent entities and have their own Board of Directors. The accounting unit in the case of DISCOs is at the level of a Deputy Manager (XEN).

Main Functions

The main functions carried out by the organization include:

Power Generation

- Load balancing and plant operations
- Plant and equipment maintenance
- New plant and equipment

Power Transmission

- Maintenance of high voltage transformers
- Transformer site security
- Monitoring line losses
- High power transmission systems installation projects

Electricity Distribution

- Maintenance of poles, lines, transformers
- Monitoring line losses
- New line construction

Revenue Collection

- Meter reading
- Billing
- Collection

Strategic Planning of Power Supply

- Long term forecasting of power demand
- Long-term construction and acquisition plans
- Financing of future needs

Water

- Management of water development projects
- Maintenance of irrigation, water supply and drainage facilities
- Flood management
- Inland navigation

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 list all locations (accounting units) including the Office of General Manager (Finance) of all the residual wings of WAPDA, and other accounting locations (GENCOS, DISCOS, etc.), that collect, record, process and report financial information of the entity, including the various projects sponsored by the residual wings.

4.8 List of Bank Accounts – Form PF-IV.

The auditor should list names, addresses and account numbers of all bank accounts maintained in the name of General Manager (Finance) of WAPDA, the Director Finance of all GENCOS, DISCOS, NTDC, the General Managers (Projects), Chief Engineers, Project Directors, etc.

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 WAPDA’s Book of Financial Powers.

4.10 External Factors – Form PF-VI.

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

- Economic trends and conditions affecting input costs
- Variation in budgets
- Changes in the policies of National electric power regulatory authority (NEPRA)
- Private power infrastructure board (PPIB)
- Independent power producers (IPPs)
- Political influence
- Law and order situation in the area
- Natural calamities
- Theft of electricity by the consumers
- Fluctuation in fuel prices
- Right of way problem
- Government policies from time to time
- General financial indicators and trends

4.11 Accounting Records and Accounting System - Form PF-VII.

This form has two requirements:

- a. List the accounting records maintained by the auditee departments for the collection, recording, processing and reporting of financial information of all the formations at the authority level, in case of WAPDA and at the sub division level, in case of PEPCO.
- b. Document a brief description of the accounting system (the means, including staff and equipment, by which an organisation produces its accounting information).

The major accounting records maintained by the auditee departments include:

- Cash payment vouchers
- Cash book- imprest
- Cash book- collection
- Cheque books and cheque counterfoils
- Bank statements and bank reconciliation statements
- Miscellaneous receipt book
- Journal vouchers
- Dr/ Cr advices (to record inter-offices transactions)
- Super-subscribed cheques (to record inter-offices payments)
- General ledger and subsidiary ledgers
- Record of units received and sold
- Billing Record
- Consumer Case Files
- Stores and T & P stock reconciliation statement
- Ledger posting summary
- Trial balance
- Budget/expenditure statement
- Contractor ledger
- Pre-audit register
- Material consumption record
- Job cards (at project construction office only)
- Store cards (at regional stores/field stores only)
- Measurement Books
- Work Estimates

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

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

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

4.12 Key Contacts – Form PF-VIII.

The auditor should list the names and contact information of key personnel of auditee (It can be an XEN).

4.13 Significant Audit Areas – Form PF IX.

The auditor should obtain a current and up to date chart of accounts. The auditor should ensure that the chart of accounts agrees with the accounts classification and chart of accounts currently authorized for use by WAPDA. This is currently described in WAPDA's Accounting Manual and International Financial Reporting Standards.

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 WAPDA and PEPCO. This will help the auditor to plan the audit for specific Financial Audit and related Compliance with Authority Audit objectives.

The list of significant components provided in the Form is for illustration purposes only. The auditor should update the list in the light of the Financial Statements of WAPDA and its formations to reflect actual components to be used.

For a Financial Statement Audit, the most logical way of dividing up the Financial Statement is to consider each line item in the Financial Statements to be a separate component. The line item would be each amount reported in the Financial Statements, including amount disclosed in the notes thereto. Sometimes the financial statement includes several different groupings of the same total amount. For example, in the consolidated Financial Statements of WAPDA or PEPCO corporate entities, financial data/expenditure may be grouped by:

- The Functional Units making up the reporting formation, i.e. Residual Wings, GENCOS, DISCOS, NTDC;
- Income & Expenditure/Profit & Loss Accounts or Appropriation Accounts of each accounting entity;
- Economic function (Power Generation, Power Transmission, Electricity Distribution, Revenue Collection, Strategic Planning of Power Supply, etc.)
- Object element (Sale of Electricity, Surcharges, Cost of Electricity, Operating Costs, Assets, Liabilities, etc.);

Some of the major financial items to be audited might include:

Income

- Sale of electricity
- Surcharges
- Sale of Scrap

Expenditures/Costs

- Cost of electricity (National Transmission and Dispatch Company Ltd. and other private Producers having direct contract with DISCOs)
- Other operating costs
- Depreciation
- Financial charges
- Payroll
- Personnel benefits such as Pensions and Provident Funds

Assets

- Operating fixed assets
- Capital work in progress (civil works and distribution equipment)
- Current assets (stores)
- Current assets (trade debts)
- Loans
- Cash and bank accounts

Liabilities

- Long-term loans
- Provision or retirement benefits
- Security deposits
- Current liabilities (creditors, etc.)

Significant Financial Statement Components	Main Heads	Critical Area
Expenditure	Civil Works – A012 (Development	<ul style="list-style-type: none"> • Planning & Estimation of works. • Tendering of works and engagement

Significant Financial Statement Components	Main Heads	Critical Area
	Expenditure)	of consultancy services <ul style="list-style-type: none"> • Post bid contract amendments • Variation /change orders in original contract/work orders • Measurement of works • Extra financial assistance to the contractors • Escalation claim of the contractors • Contract Payments • Violation of contract specification/design • Non-imposition of liquidated damages due to delay in completion of works • Failure and termination of contracts

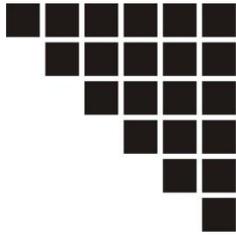
4.14 Significant Accounting Policies – Form PF-X.

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 WAPDA and PEPCO.

Significant policies may include:

- Accounting for staff retirement benefits
- Revenue recognition criteria
- Accounting for liabilities and commitments
- Accounting for Contracts
- Accounting for capital project work-in-process
- Fixed assets valuation and related depreciation
- Accounting for foreign currency transaction and interest payments

Note: A sample of the permanent file prepared for the 'Faisalabad Electric Supply Company, (FESCO)' 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 for audit; *
- Determining the audit scope; *
- Assessing materiality, planned precision and audit risk.
- Assessing the entity’s system of internal controls.
- Determining the components by which the audit will be conducted.*
- Determining Financial Audit and Compliance with Authority Audit objectives and error/irregularity conditions *
- Assessing inherent 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 Certification and Compliance with Authority Audit. Whereas the unmarked steps are relate with only Certification Audit.*

5.2 The Audit Team's Responsibility in Planning Phase

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

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

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

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

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

5.3 Documentation in Planning Phase

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

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

- Internal control questionnaire – application controls *
- Control risk assessment form *
- Analytical procedures assurance form
- Source of audit assurance form
- List of applicable laws and regulations *
- Sample selection checklist *
- High value item selection form *
- Key item selection form *
- Sample sizing for tests of internal control *
- Sample sizing for substantive tests of details
- Checklist of accounting estimates to be reviewed *
- Points for attention at next audit *
- Audit planning checklist *

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

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

5.4 Audit objectives and scope

The audit is conducted to address a particular objective. Each audit will be designed to address one or more of the following objectives:

- Expressing an opinion on Financial Statements;
- Expressing an opinion regarding compliance with current rules and regulations;
- Testing compliance with authority or controls on selected transactions with no opinion being expressed; and
- Evaluating operational performance.

Note: For a comprehensive discussion of audit objectives, please see Section 7.1 of FAM.

The nature and size of the audit entity determines the scope of the audit, and is generally defined by the audit mandate. For the audit of Financial Statements, that are required under Section 7 of the Auditor-General Ordinance, 2001, the entity to be audited will be defined by the applicable accounting policies of the government.

5.5 Points for attention at next audit (from last year)

The purpose of this form is to highlight matters that should be taken into account when planning the following year's audit. The auditor should record expected developments in the entity's activities that may require changes in the audit planning. This form can also be used

to document practical suggestions for changes to the next year's audit. All audit staff are encouraged to suggest improvements in the audit plan and procedures.

5.6 Entity communication letter

The Audit Working Papers Kit includes the template of a letter which needs to be issued to the management of the auditee. It sets out the terms of the audit and will include the issues that the auditor wants to bring to the attention of entity's management. This letter will clarify what is expected from auditors during the course of audit and leads to cooperation between both the parties.

5.7 Audit planning memorandum

The audit planning memorandum should comprise a concise and easy to understand summary of important factors and decisions made during the planning phase. Emphasis should be placed on changes that have been made to the previous year's plan. The audit planning memorandum should not duplicate all of the details set out elsewhere in the planning file, the permanent file, or in the audit programmes.

The actual contents of the audit planning memorandum will depend on specific circumstances of the audit. It should include any changes in the nature of entity's business, structure of business, accounting policies or systems, internal controls or operational environment that will affect the planned audit. It should also explain and establish an audit strategy, time tables and overall budget together with any significant changes made from the previous year.

5.8 Memorandum on post-planning changes

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

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

5.9 Important dates

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

5.10 Tour Programme

Tour programmes needs to be prepared and approved keeping in view the timelines, resource constraints and audit strategy. The head of office should ensure that tour programmes are prepared and approved well in time and appropriate record is being kept in this regard.

5.11 Information requested from entity officials

The audit team leader should keep track of information requested from the auditee's management, including what information was requested, when it was required to be delivered and when it was actually received. This form provides a suggested format, but the audit team leader may choose to use his or her own format.

5.12 Materiality assessment form

Materiality can be defined as follows: "An error (or the sum of the errors) is material if the error (or the sum of the errors) is big enough to influence the users of the Financial Statements".

Assessing materiality is an important aspect of modern systems-based audits. This form provides guidelines and suggestions for assessing an appropriate materiality amount for the audit at hand.

Note: For a comprehensive discussion on Materiality, see section 7.3.1 and Appendix D of FAM.

5.13 Expected aggregate error and planned precision form

Other values which are important in determining appropriate sample size and in evaluating the results of the audit are expected aggregate error and planned precision. This form provides detailed instructions for arriving at these values for the audit at hand.

5.14 Audit risk assessment form

It is important that the audit team establish an appropriate level of risk for the audit. The concept of risk is very important in planning system-based audits and is discussed in detail in sections 7.7 and 7.8 of FAM. This form is used to identify whether there are any particular factors that would cause the auditor to reduce the level of risk he or she is willing to accept, therefore requiring additional audit work to be planned so as to raise the level of audit assurance.

5.15 Inherent risk assessment form

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

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

5.16 Internal control questionnaire - controls for overall environment

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

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

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

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

5.17 Internal control questionnaire – general computer controls

This form is used to guide the auditor in considering the internal controls operating in the entity’s computerised environment. Internal controls are discussed at length in section 7.4 of FAM.

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

5.18 Internal control questionnaire – application controls

This form is used to guide the auditor in considering the internal controls operating in specific computer-based financial applications. Internal controls are discussed at length in section 7.4 of FAM.

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

5.19 Control risk assessment forms

This form is used by the auditor to summarise the assessment of risk in the general control environment, the overall computer environment and in specific computer applications (from the previous three forms).

The risks identified through the assessment of controls may impact different components differently, so the auditor should consider control risk separately for each component (or group of similar components). The assessment of risk is very much a matter of professional judgment. In general, during the first few years following the introduction of new auditing paradigm, it is suggested that all control risks are assumed to be high unless there is sufficient evidence to support lowering that assessment.

5.20 Analytical procedures assurance form

The audit team leader uses this form to document the analytical procedure(s) that are planned for each component. The type of procedure selected is important as different procedures (i.e. comparative, predictive, statistical or overall verification procedures) provide a different level of assurance when it comes to planning substantive tests of details.

Detailed instructions are provided with the form.

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

5.21 Source of audit assurance form

In conducting audit, the audit team is looking for sources of assurance that the Financial Statements provide a true and fair view. One source of assurance is a detailed review of individual transactions (substantive tests of detail). However, this is very time consuming, so the audit team looks for other sources of assurance that might enable them to reduce the

amount of substantive tests of detail. The audit risk model provides an arithmetic method of using the assessments of inherent risk, control risk, analytical procedures and overall audit risk to arrive at the level of assurance that is required from substantive tests of detail.

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

5.22 List of applicable laws and regulations

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

5.23 Sample selection checklist

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

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

Sampling:

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

Sampling risk

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

Statistical sampling

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

Non-statistical sampling

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

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

Monetary Unit Sampling (MUS) for substantive tests of details

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

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

Methods of sample selection

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

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

1. Random selection

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

2. Fixed interval (systematic) selection

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

3. Cell (random interval) selection

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

4. Stratified random selection

CAATs may offer a fourth method – stratified random sampling. Using this approach, the population is first stratified based on monetary ranges, type of expenditure, etc.,

and then a random sample is drawn from each range. This could be used, for example, to weight an attribute sample to the larger dollar items or specific expenditure types, or to ensure that at least one sample item is drawn from each expenditure type.

Selecting the sample – statistical sampling

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

Selecting the sample – non-statistical sampling

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

For detailed guidance please refer to Appendix B of FAM.

5.24 High value item selection form

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

The auditor will identify the high value items on this form and will cross-refer each item to the working papers that records 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 FAM, 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 provide details 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 Directorates or of other Directorates contributing to the centrally led audit.

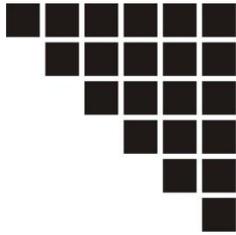
Para 6.4.5 to 6.4.10 of FAM gives guidance about a centrally led audit. The central team is responsible for:

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

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

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

The Directorate General Audit, WAPDA is solely responsible for the audit of the Auditee entity under its jurisdiction with the involvement of its Field Audit Teams.



Chapter 6

AUDIT EXECUTION PHASE

6.1 Introduction

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

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

The Audit Working Papers Kit provides:

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

6.2 The Audit Team’s Responsibility in Execution Phase

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

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

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

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

- a. Financial Statements
- b. Trial balance
- c. Expenditure statement

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

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

6.3 Forms and Schedules for Audit Execution Phase

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

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

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

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

6.4 Summary of Analytical Review Procedures Performed

This form is used to summarize the analytical procedures that were performed. The auditor should note the procedures that were performed and cross-refer each procedure to the working paper that provides the details of the test (i.e. Details of Analytical Review Procedures Performed form).

6.5 Details of Analytical Review Procedures Performed

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

6.6 Completed Internal Control Questionnaires

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

The key ICQs to consider for WAPDA Audit are as follows:

- Goods and Services
- Contracting
- Project Costs and Performance
- Receipts
- Major Assets
- Stores and Inventory
- Land and Buildings Management
- Budgeting and Expenditure Controls

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

6.7 Internal Control Deviations Form

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

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

6.8 Internal Control Deviations Summary

For each significant type of deviation detected, the auditor should report it to the entity's management and make a recommendation for rectifying the control weakness. The purpose of this form is to help the auditor track each weakness identified by applying the ICQ, the

problem and their recommendation which were reported to the entity. The year in which the entity took corrective action should also be considered.

6.9 Compliance Summary

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

6.10 Substantive Tests of Accounting Estimates

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

6.11 Errors in Accounting Estimates

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

6.12 Substantive Test Sample Summary for each Audit Programme

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

Substantive testing examines a sample of individual transactions to determine whether the transactions selected comply with all applicable laws, regulations, 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 complies with the following assertions³:

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

The key Audit Programmes for this purpose are given under 6.16.

6.13 Substantive Test of High Value/Key Items – Summary

This form is used to summarise errors found by the Substantive Tests of High Value/Key Items that were performed. The auditor should note what procedures were performed and the nature and value of the errors, and cross-reference the procedure to the working paper that provides the details of each test (Details of Errors in Samples, High Value Items and Key Items).

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

The auditor will complete one copy of this form for every single error discovered in any of the substantive tests of details (from sampled transactions and High Value Items and Key Items). Details of the voucher on which the error occurred, the nature and cause of the error and its value should be documented on this form.

³Another 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.

6.15 Exit Interviews

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

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

6.16 Audit Programmes

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

- *Operational management*
- *Inventory management*
- *Contract management*
- *Accounting and finance management*

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: Operations Management

Audit Entity:

Audit Period:

Date(s) Conducted:

- I. Transmission and distribution losses (line losses)
- II. Damages to electrical installations/equipments
- III. Short recovery of capital cost in consumer cases (specially in agriculture tube-wells, industrial, commercial, bulk supply and private housing schemes)
- IV. Short recovery of energy charges and fixed charges
- V. Over estimation in village electrification schemes to draw excess funds from Government
- VI. Non-capitalization of works
- VII. Un-authorized extension of load
- VIII. Theft of electricity and electric material
- IX. Non/partial execution of ERO's
- X. Non return of surplus and dismantled material to store
- XI. Non-adherence to NEPRA Standards
- XII. Mis-appropriation of material
- XIII. Irregular refund
- XIV. Contingent expenditure
- XV. Non compliance of RCO Policy
- XVI. Economic dispatch order
- XVII. Load management of power transformers
- XVIII. Non implementation of tariff approved by NEPRA
- XIX. Breakdown electricity interruptions
- XX. Non lodging of insurance claims
- XXI. Illegitimate payments
- XXII. Improper mode of payment
- XXIII. Incomplete record
- XXIV. Inadequate utilization of resources
- XXV. Non compliance with the government directives (Ministry of Health) in respect of rate, contract for supply of medicines
- XXVI. Improper maintenance of power plants
- XXVII. Non billing in newly electrified schemes
- XXVIII. Poor maintenance of power house
- XXIX. Material in transit
- XXX. Receipt and issue of store and fuel
- XXXI. Fuel requirement to generate electricity
- XXXII. Forced outages
- XXXIII. Re-imburement of General Sales Tax
- XXXIV. Actual fuel consumption with reference to estimated fuel requirements to generate electricity
- XXXV. Non- Finalization of Inquiry/Disciplinary cases
- XXXVI. Employee related expenses

Audit Obj.	Audit Procedure	Done By:	WP Ref.
I	<p><i>Transmission and distribution losses (line losses)</i></p> <ul style="list-style-type: none"> • Compare actual line losses mentioned in CP-22A with the targets fixed by the management/NEPRA. • Point out, if progressive line losses are beyond target/technical parameters. • Point out progressive negative line losses, especially in case of independent feeders. • Check what actions have been taken for excess line losses. • Check what measures are taken by the management to improve the system. 		
II	<p><i>Damages to electrical installations/ equipments</i></p> <ul style="list-style-type: none"> • Check whether M&T Report / departmental enquiry report for damage has been prepared and responsibility fixed against responsible individual(s) (if any). • Check that all the damaged material has been returned to store on MRN. • Check that approval was given by the competent authority for the drawl of new material against damaged material. • Check that the newly drawl material has been accounted for in the books (EMBs/MSR/CA-21/CA-22 etc) properly. 		
III	<p><i>Short recovery of capital cost in consumer cases (specially in agriculture tube-wells, industrial, commercial, bulk supply and private housing schemes)</i></p> <ul style="list-style-type: none"> • Check from individual consumer case file that deposit works estimates were prepared according to drawings, and sanctioned by the competent authority as per delegated powers. • Check that the following charges have been included in the estimate and demand notice prepared accordingly <ol style="list-style-type: none"> 1. Security Deposits (latest applicable rates) 2. Feeder Rehabilitation Charges (from industrial consumers having load upto 1,000 K.W) @ rates circulated in 09/2007 3. Transformer Sharing Costs (if any) 4. Grid Sharing Costs (if any) 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>5. Material Costs and 20 % Installation Charges @ 8% (in estimate) and 12% (in store issue rates).</p> <ul style="list-style-type: none"> • Check from stock account that the actual cost of material drawn at the time of installation was same as deposited by the consumer (from paid D/N) and any difference recovered accordingly. • Check from consumer files that any change (correction, alteration) was fed into the system for billing before the next billing date. 		
IV	<p><i>Short recovery of energy charges and fixed charges</i></p> <ul style="list-style-type: none"> • Check from Billing Record (CP-88A and CP-88L) that all the charges (Fixed as well as variable) were recovered according to actual reading/ load and existing tariff. • Check from consumer files that any change (correction, alteration) was fed into the system for billing before the next billing date. • Point out if there is any short recovery of fixed/variable charges 		
V	<p><i>Over estimation in village electrification schemes to draw excess funds from Government</i></p> <ul style="list-style-type: none"> • Check from deposit works estimate files that all the estimates for village electrification have been prepared according to Drawings and latest village electrification criteria approved by GOP/PEPCO • Check that material included in the estimate was according to drawings. • Check that amount charged for the material issued is in accordance with the updated rates issued by the stores department. • Check that the installation and overhead charges are included in the estimates according to the prevailing rates. • Point out if there is variation of +10% / -10%. 		
VI	<p><i>Non-capitalization of works</i></p> <ul style="list-style-type: none"> • Check that all the completed works were vetted by the BARQAAB/ Consultants. • Check from the Completion Reports issued by 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>the consultants that any surplus material was returned to store or not.</p> <ul style="list-style-type: none"> • Check that A-90 (completion report) was prepared according to sanctioned estimates. • Check that all the completed works were transferred to relevant asset account (capitalized) timely. 		
VII	<p><i>Un-authorized extension of load</i></p> <ul style="list-style-type: none"> • Check from reading record/ Kalamzoo (reading sheets) that the connections were running according to sanctioned load. • Point out all the cases where MDI is consistently more than sanctioned load (at least 3 consistent months). • Check from MDI Correspondence file/ consumer case file that any action has been taken/notice issued against the defaulting consumer or not. (as per Clause-6 of abridged conditions of supply) • Check from consumer case file/ demand notice that all the costs relating to regularization of extension of load have been recovered or not. • Check from the billing record that all the fixed charges recovered from the consumer are in accordance with the actual load at site. 		
VIII	<p><i>Theft of electricity and electric material</i></p> <ul style="list-style-type: none"> • Check from the theft case file, the instances of theft of electricity/electric material. • Check that the FIR has been lodged against the culprits and copy of FIR retained in the 'theft file'. • Check from the theft file that the departmental enquiry was constituted to probe the matter. • Check that appropriate action has been taken against the officials involved in the matter. • Check that the detection bill was charged as per policy in vogue in the case of theft of electricity. • Check from the monthly progress report and related detection billing files that the recovery was effective against the detection bill. • In the case of non-recovery, check that the case 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	for write off was prepared and sanctioned by the competent authority.		
IX	<p style="text-align: center;"><i>Non/partial execution of ERO's</i></p> <ul style="list-style-type: none"> • In case of industrial consumers, check the consumer file and in case of domestic and commercial consumers check CP-112 & 114/ progress reports to ascertain that the complete Equipment Removal Order (ERO) was affected by the field formation. • In case of non compliance with the above, check from the consumer files that the appropriate action has been taken against responsible officials. • Check that the material removed is booked in separate register (i.e. ERO register). • Check from the ERO register and Material Return Note (MRN) that the material removed returned to store after one year. • Point out if ERO has not been implemented and/or material has not been removed/returned to store. 		
X	<p style="text-align: center;"><i>Non return of surplus and dismantled material to store</i></p> <ul style="list-style-type: none"> • Check from the SR (Store requisition) and relevant registers (EMBs/MSR/CA-21/CA-22 etc) that the material issued from the store is accounted for properly. • Check from the consumer files and estimates that appropriate credit (after charging depreciation) was given to the consumer in case of dismantled material. • Check from the MRN that all the dismantled material was returned to store. • Check that the MRN is approved by the competent authority. 		
XI	<p style="text-align: center;"><i>Non-adherence to NEPRA Standards</i></p> <ul style="list-style-type: none"> • Compare actual line losses from CP-22A with the standards set by NEPRA. • Check from the billing data that the tariff charged is in accordance with the latest tariff approved by NEPRA. 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<ul style="list-style-type: none"> • Check from the tripping register that the tripping on 11 KV feeder and transmission line is according to the standard fixed by NEPRA. • In case of non compliance with NEPRA standards, check from the personal/ correspondence file that appropriate action has been taken against the responsible officials. 		
XII	<p><i>Mis-appropriation of material</i></p> <ul style="list-style-type: none"> • Check that Departmental Enquiry Committee was commissioned to probe into the matter. • Check enquiry reports and ascertain that action has been taken against the responsible officials in accordance with the recommendations of Enquiry Committee. 		
XIII	<p><i>Irregular refund</i></p> <ul style="list-style-type: none"> • Check from the CP-52/CP-75 that the refund was sanctioned to consumers after the approval of appropriate authority. • Check that the refund was sanctioned after ensuring the legitimacy of the case. • Check that the sanction of refund was issued in accordance with the rules and regulations of the company. • Check from CP-88A of next month that the Bill Adjustment Note has been fed to computer. • Point out if adjustments are not according to rules and regulations of the company. 		
XIV	<p><i>Contingent expenditure</i></p> <ul style="list-style-type: none"> • Check that the budget is approved for contingent payments. • In respect of petty payments, check that the amount is paid after approval from the competent authority in accordance with the delegation of financial powers. • Check from the payment voucher that the payment is made to the right person. • Check that the supporting documents are attached with the voucher. • Check that the payment voucher has been entered in the cash book 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
XV	<p><i>Non-compliance with the Re-connection order (RCO) policy</i></p> <ul style="list-style-type: none"> • Check from the CP-18 & 19 that the RCO fee and other dues (fixed charges and material cost, if any) are recovered as per RCO policy in vogue. • Check that the material was drawn according to RCO. • Check from the RCO register that the application for reconnection was made within 3 years, as mentioned in RCO policy. • Check that the RCO is approved by the competent authority. 		
XVI	<p><i>Economic despatch order</i></p> <ul style="list-style-type: none"> • Check reports showing the demand of energy and forecast the demand for energy. • Check the energy supplied from log sheet demand order register. 		
XVII	<p><i>Load management of power transformers</i></p> <ul style="list-style-type: none"> • Check transmission and transformation losses register and monthly reports, and identify the deviations in the standard load. • Check the transformers maintenance register and identify the instances of repair and maintenance carried out during the year. • Check the transformers oil consumption register and check the consumption of the oil through receipt and issue of oil. • Check the disposal of dirty oil and oil of old/damaged transformers from the dirty oil register and. 		
XVIII	<p><i>Non implementation of tariff approved by NEPRA</i></p> <ul style="list-style-type: none"> • Compare the billing data with the underlying invoices showing the sales and purchase of energy. • Check the monthly reports showing information regarding the energy purchased and rate charged in this respect. Check that the rate charged is in accordance with the schedule of tariff issued by 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	NEPRA.		
XIX	<p><i>Breakdown electricity interruptions</i></p> <ul style="list-style-type: none"> • Check the log of shut down orders received from NPCC, Islamabad. • Check the shut down reports above 20 minutes and below 20 minutes. • Identify abnormal tripping and ascertain whether appropriate action has been taken by checking the inquiry reports for all such instances. 		
XX	<p><i>Non lodging of insurance claims</i></p> <ul style="list-style-type: none"> • Check the insurance claim register and identify the insurance claims lodged during the year for indemnification. • Check insurance claim Performa's is prepared according to WEPS Procedures showing the particulars of the equipment damaged. • Check the survey reports to find out the cause of the damage. • Check damaged reports showing the cause and impact of damage. • Check inquiry reports to find out the cause, findings and possible remedial action required to be undertaken. • Check indemnification reports lodged with the Director General Insurance, WAPDA and check that the report was filed on a timely basis (i.e. within 3 months). • Check the account of indemnified amounts to identify the pending insurance claims and causes of non-indemnification and point out un-indemnified cases. • Check that the disposal of damaged material is according to WAPDA disposal procedures. 		
XXI	<p><i>Illegitimate payments</i></p> <ul style="list-style-type: none"> • Check the cash account and identify the nature of payments. • Check the counter foil of cheque book to examine that the cheques were signed by the authorised officer/ staff person. • Check the sanction register and see that the 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>sanction work was made in accordance with rules and regulations as mentioned in the book of financial power.</p> <ul style="list-style-type: none"> • In case of default identified through the examination of above referred documents, check the enquiry reports and ascertain that the investigation was conducted and proper action has been taken against the responsible persons. • Check all the payments and ascertain that all the payments were made in accordance with the book of financial power. 		
XXII	<p><i>Improper mode of payment</i></p> <ul style="list-style-type: none"> • Check the policy of payment adopted by the management and see whether the payments are made in accordance with the underlying policy. • Identify the instances where payment was made through cash. • In case of payments through bank, check that the cheques were crossed in the favour of payee. • Reconcile the payments made with the underlying documents to ascertain the legitimacy of the payments made. • Check the existence of any internal control to revoke the improper mode of payment. 		
XXIII	<p><i>Incomplete record</i></p> <ul style="list-style-type: none"> • Check the Index Register to assess how much record was maintained in the office being audited. • Check the existence of rules and regulation pertaining to the maintenance of record. • Check the internal audit reports and identify the instances of incomplete records. • Check the inquiry report and see whether appropriate action has been taken against person responsible for omission. 		
XXIV	<p><i>Inadequate utilization of resources</i></p> <ul style="list-style-type: none"> • Check the advice received from the office of Finance Director to assess the volume of resources. • Check the works/ estimates register and 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>ascertain how many cases were approved under these resources.</p> <ul style="list-style-type: none"> • Check the general ledger to see whether the funds were utilized as projected in the estimates. 		
XXV	<p><i>Non compliance with the government directives (Ministry of Health) in respect of rate, contract for the supply of medicines</i></p> <ul style="list-style-type: none"> • Check that the rules and regulations pertaining to the issue and acceptance of tender were followed for all the tenders issued and accepted during the period. • Check the purchase register and assess the impact due to purchase of medicines other than rate contract. 		
XXVI	<p><i>Improper maintenance of power plants</i></p> <ul style="list-style-type: none"> • Check the specification of the power plant and its maintenance procedure. • Check the maintenance register and see whether the maintenance was carried out in accordance with the technical standards. • Check the payments made in respect of maintenance and assess financial implication due to improper maintenance. • Check the E-Form and assess the generation loss due to shut down as a result of improper maintenance. • Check the tripping register to ascertain revenue losses. • Check the inquiry report and the action taken against the responsible person. 		
XXVII	<p><i>Non billing in newly electrified schemes</i></p> <ul style="list-style-type: none"> • Check that the capital cost and security deposit were charged to the respective account or reference number. • Check the service connection order/ date of installation and compare it with the forwarding list prepared by the SDO. • Check the monthly reports despatched to revenue office and make sure that the completeness of the cases as mentioned in the 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>forwarding list.</p> <ul style="list-style-type: none"> • Check CP-13 prepared in accordance with the information provided in the forwarding list and check its timely submission to the computer section for billing through CP-136, CP-137, RCP-136, and RCP-137. • Check the output of the computer section and see whether it reconciles with the information forwarded to the computer section by the revenue office. 		
XXVIII	<p><i>Poor maintenance of power house</i></p> <ul style="list-style-type: none"> • Critically examine the E-form. • Scrutinize the annual rehabilitation and maintenance programme and check whether appropriate action has been taken in accordance with the plan. • Check the sanctioned strength of the maintenance and operational staff. • Check from the annual plant shut down programme and see whether the replacement of parts has been made on due dates. • Check the availability of fuel supply i.e. furnace oil and gas. • Check the overhauling programme and ascertain whether major overhauling is carried out on due dates. 		
XXIX	<p><i>Material in transit</i></p> <ul style="list-style-type: none"> • Check the purchase order and ascertain whether material has been received as mentioned in the purchase order. • Check whether the debit advices received in respect of material purchased have been booked in debit advice register. • Check whether material has been received against the debit advices booked in the debit advice receipt register. • Check whether the material received is booked in the stock measurement register. 		
XXX	<p><i>Receipt and issue of store and fuel</i></p> <ul style="list-style-type: none"> • Check the purchase orders and ascertain whether 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>the material/ fuel have been received as mentioned in the purchase order.</p> <ul style="list-style-type: none"> • Check fuel inspection report and ascertain whether the quantity and quality is in accordance with the purchase order. • Compare the purchase order with furnace oil receipt note. • Check the material requisition slips and see whether the same were approved by the competent authority. • Check material consumption register and ascertain whether the consumption reflects the issuance made against material requisition slips. 		
XXXI	<p><i>Fuel requirement to generate electricity</i></p> <ul style="list-style-type: none"> • Check the E-Form. • Carry out the scrutiny of previous fuel consumption data and identify the average consumption of fuel for the power plant. • Check the schedule of maintenance of the power house and identify the planned/ forced outages and its causes. 		
XXXII	<p><i>Forced outages</i></p> <ul style="list-style-type: none"> • Check the remarks recorded against the forced outages. • Identify the cause of fault and ascertain whether proper action has been taken if it is due to the negligence of concerned personnel. • In case of operational fault, check whether corrective measures have been taken. 		
XXXIII	<p><i>Re-imburement of General Sales Tax</i></p> <ul style="list-style-type: none"> • Check that the sales tax paid on purchase invoices has been booked in the books of accounts. • Check that the sales tax refund case is lodged with the sales tax authority. • Check that refund has been received against the refund claims filed with the sales tax authority. In case of non receipt of refund, identify its causes. 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
XXXIV	<p><i>Actual fuel consumption with reference to estimated fuel requirements to generate electricity</i></p> <ul style="list-style-type: none"> • Check the fuel consumption of the plant from the E-form and ascertain whether the consumption is as per de rated capacity of the plant. • Check the fuel consumption data for the year and compare it with the same data for the last year. • In case of variation, identify the causes of such variations. 		
XXXV	<p><i>Non-Finalization of Inquiries/Disciplinary cases</i></p> <p>Select the high value/key cases from the list of finalized/pending cases</p> <ul style="list-style-type: none"> • Check what action should be taken and what action has been taken by the management • Report any in-ordinate delay on the part of management in the finalization of cases. • Check that the penalty imposed has been recorded in the service book/personal file of the employee well in time. • Check that the recovery has been taken in the accounts under the head 'Recoverable'. • Check that the difference amount of loss (actual loss-penalty imposed) has been got written off from the competent authority. 		
XXXVI	<p><i>Employee Related Expenses</i></p> <ul style="list-style-type: none"> • Check that proper particulars are entered in Audit Register for Gazetted Officer and in Scale Audit Register for Non Gazetted Officer. • 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 A.R. • Check that acknowledgement of payment to employees is received from employees / Drawing and disbursement officer (DDO). • Check that DDO certified the payment to Non Gazetted Officer 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<ul style="list-style-type: none"> • Check that Payroll Officer prepares Monthly Schedule of Employees latest by 26th of each month and Approved by Supervising Payroll Officer. • Check that Delegated Officer (other than Payroll/ Supervising Payroll Officer) prepares Payroll Credit Invoice or Cheque and sign by at least two officers. • Check that relevant officer enters all the payments into Register and prepares Payroll Advice Note (PAN) for bank in case of Cheque payment and Payroll Credit Advice (PCA) for direct bank transfer. • Check that payment to employees is reconciled with concerned department. • Check that the copy of PCA & PAN is sent to Account Section. • Check that the employee is identified in Audit/Scale Audit Register; and that payment was made to correct payee • Check that proper personal files of all the officers with all necessary particulars are maintained. • Check that Service Book maintained for Non Gazetted Officer and certified by DDO. • Conduct a reconciliation (and/or check a batch of transactions) between {Direct Credit Advice / Payroll Advice /DDO monthly statement} and monthly schedule of Employees' Salaries and Compilation Sheet • Check that the deductions are correct (according to the GP Fund / the income Tax Ordinance, 2001 and as modified from time to time / other deductions in accordance with rules and regulations governing deductions such as rent deductions, loans and advances / etc.) • Check that the amount of the first payment was correct according to the joining date of the new employees and according to their Payroll Register • Check that the amount of the last payment was correct according to the date of last day of employment in section and according to their 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>Payroll Register – compare pay slips with Last Pay slip Certificate issued</p> <ul style="list-style-type: none"> • Check that payroll payments are correctly identified in the Compilation Sheet under Payroll Object and correctly coded according to the Chart of Accounts by checking that the net pay and deductions have been correctly coded according to the Chart of Accounts codes. • Check that the total pay (gross, net and deductions) are correctly presented in the Compilation Sheet of the selected month by making the necessary calculations. <p>Adhoc Relief</p> <ul style="list-style-type: none"> • Check that employees whose date of joining was 30-6-2005 was paid adhoc relief allowance as per revised pay scale 2005. • Check that the adhoc relief allowance shall continue to be admissible at frozen level on existing conditions. • Check that the allowance is admissible to the employees transferred from one post to another taking effect after 01-07-2005, provided they were previously in receipt of such benefits. • Check that this allowance was also admissible 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. <p>Special Additional Allowance</p> <ul style="list-style-type: none"> • Check that this allowance was not paid to new employees who joined after 1-12-2001 and only paid to previous employees at frozen level who were entitled to and in respect of the benefits immediately before their appointment (promotions/transfers/absorptions). <p>Special Allowance</p> <ul style="list-style-type: none"> • Check that an increase @ 15 % on initial of the pay shall be allowed to the contractual appointees as special allowance that are in 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p>receipt of pay package slightly higher than the standard pay package prescribed under the contract appointment policy dated: 29-12-2004.</p> <p>Special Relief Allowance</p> <ul style="list-style-type: none"> • Check that employees whose date of joining was 30-6-2005 onwards was paid special relief allowance @ 15 % of basic pay per month to a civil servant in BPS-1 to 22 as per revised pay scale 2005. This allowance continues to be admissible at frozen level on existing conditions. • Check that the allowance is admissible to the employees transferred from one post to another taking effect after 01-07-2005, provided they were previously in receipt of such benefits. • Check that this allowance was also admissible 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. <p>Superannuation age</p> <ul style="list-style-type: none"> • Check that superannuation pension is granted to a Government servant only on completion of age. Identify those Government officials who have attained the age of superannuation but are still in government job. <p>Annual Increments</p> <ul style="list-style-type: none"> • 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. <p>Dearness Allowance</p> <ul style="list-style-type: none"> • 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. 		

Audit Obj.	Audit Procedure	Done By:	WP Ref.
	<p style="text-align: center;">Entertainment Allowance</p> <ul style="list-style-type: none"> • Check that this allowance is admissible to the Grade 19 and above officers only. 		

6.18 Audit Programme: Inventory Management

Audit Entity:

Audit Period:

Date(s) Conducted:

- I. Non preparation of realistic annual plan for the procurement of material/ equipment
- II. Improper maintenance of stock accounts regarding receipt and issue of material.
- III. Blockage of funds due to unnecessary purchase of material.
- IV. Non disposal of surplus/ unserviceable material.
- V. Non replacement of defective, substandard and damaged material under warranty period.
- VI. Penalties/ demurrage charges due to the late clearance of consignments from custom.

Audit Obj.	Audit Procedure	Done By:	WP Ref.
I	<p><i>Non preparation of realistic annual plan for the procurement of material/ equipment</i></p> <ul style="list-style-type: none"> • Check that a realistic annual plan for the procurement of material/ equipment is prepared after obtaining requirements from the field formations. • Check that actual procurement is made according to the approved procurement plan. • Check that the actual procurement procedures being adopted by the company are cost effective by considering bulk or piecemeal procurement policies. 		
II	<p><i>Improper maintenance of stock accounts regarding receipt and issue of material.</i></p> <ul style="list-style-type: none"> • Check that the material was taken in Stock Measurement Book/ stock ledger on receipt of material as per purchase order. 		

	<ul style="list-style-type: none"> • Check that the material is received after Material Inspection Report. • Check that the material inspection committee points out any deficiency in the material received. • Check that that the defective material is not accounted for in the stock measurement book. • In case of defective material, check that the replacement is made by the supplier in accordance with the terms and conditions of purchase order. • Where supplier fails to replace defective material in accordance with the terms and conditions of purchase order, check that appropriate action has been taken against the supplier. • Check that the material damaged during the warranty period is replaced by the supplier in accordance with the terms and conditions of the purchase order. • Check that the Material Requisition Slip (MRS) is issued to draw the material from the store. • Check that the MRS is approved by the competent authority. • Check that the material issued is consumed against the job order/ work for which it has been drawn from the store. 		
<p>III</p>	<p><i>Blockage of funds due to unnecessary purchase of material.</i></p> <ul style="list-style-type: none"> • Check the material requisition slips and estimates to ascertain the actual requirement of material to be procured, • For large procurement orders, ascertain that proper justification for acquisition and approval from the competent authority in accordance with WAPDA purchase procedures. • Check the findings and approval of internal auditors in respect of large payment orders. • Check stock cards/ bin cards and material balance reports to ascertain the material held in stock is not repurchased. • Check the policy for the utilization of material on projects other than those for which material was acquired. • Check inquiry reports and identify the instances of excess material purchases and ascertain whether appropriate action has been taken against the responsible officials. 		

	<ul style="list-style-type: none"> • Check the survey reports for the disposal policy of excessive material and ascertain whether the reports are approved by the competent authority and calculate the loss, if any. 		
IV	<p><i>Non disposal of surplus/ unserviceable material.</i></p> <ul style="list-style-type: none"> ▪ Identify surplus/ unserviceable material from the stock balance report. ▪ Investigate the reasons for non-disposal. ▪ Check the impact of financial losses suffered due to the deterioration of material. 		
V	<p><i>Non-replacement of defective, substandard and damaged material under warranty period.</i></p> <ul style="list-style-type: none"> • Check that the goods received are according to the terms and conditions of the purchase order. • Check the material inspection report/ goods transfer note prepared at the receipt of goods and ascertain whether the goods are in accordance with the specifications laid down in the purchase order. • Check goods transfer note and ascertain whether the defective material is replaced by the supplier in accordance with the terms and conditions of the manufacturer. • For the goods damaged during the warranty period, check that the replacement is made by the supplier in accordance with the terms and conditions of the purchase order. • In case of insured material, check that the insurance claim was lodged and indemnified from the insurer in accordance with the insurance agreement. 		
VI	<p><i>Penalties/ demurrage charges due to the late clearance of consignments from customs.</i></p> <ul style="list-style-type: none"> • Check the invoices showing the amount of demurrage charges. • Check the custom clearance inquiry reports of material received late from Resident Representative, Karachi (RRK). • Check the adjustment/ payment record of demurrage charges. 		

6.19 Audit Programme: Contract Management

Audit Entity:

Audit Period:

Date(s) Conducted:

- I. Unrealistic estimation of works.
- II. Non-transparency in tendering of works, procurement of goods/ material and hiring of consultancy services.
- III. Violation of PPRA rules, WAPDA purchase procedures and Authority instructions.
- IV. Modification in standard clauses of contracts/ supply orders.
- V. Non imposition of liquidated damages in late completion of works/ supply of goods.
- VI. Failure and termination of contracts/ supply orders.
- VII. Repeat orders.
- VIII. Extra financial assistance to the contractors.
- IX. Escalation claim of the contractors.
- X. Variation/ change orders in original contracts/ work orders.
- XI. Measurement of works.
- XII. Violation of contract clauses.
- XIII. Non-recovery/adjustment of loans and advances to contractors/ suppliers/ departments/ employees.
- XIV. Non-encashment of performance bonds/bank guarantees.
- XV. Non mutation of property/ land
- XVI. Unsanctioned work
- XVII. Purchase of expensive electricity
- XVIII. Late resolution of disputes with IPPs
- XIX. Inventory of assets with contractors/ consultant
- XX. Non-assessment of compensation cost for land and damages to crops/ properties etc according to the prevailing rules

Audit Obj.	Audit Procedure	Done By:	WP Ref.
I	<p><i>Unrealistic estimation of works</i></p> <ul style="list-style-type: none"> ▪ Check that the survey report is prepared and approved by the competent authority. ▪ Check that the work and estimates are sanctioned and approved by the competent authority as per book of financial power. ▪ Check the tenders and ascertain whether the estimates represent the probable cost of the execution of works. ▪ Check drawings, work specifications and site survey 		

	<p>reports to ascertain whether the project is carried out in accordance with the requirements.</p> <ul style="list-style-type: none"> ▪ Check that the estimates are based upon prevailing market rates. ▪ Check that the actual expenditure over the approved cost of estimate is within 15%. In case of variation over the limit, ascertain whether approval has been obtained from the competent authority. ▪ Check that the rates used in the estimate are in accordance with the rates specified in WAPDA Composite Schedule of Rates or approved price bulletin. 		
II	<p><i>Non-transparency in tendering of works, procurement of goods/ material and hiring of consultancy services</i></p> <ul style="list-style-type: none"> ▪ Check that the tender is announced publicly in accordance with the policy of the government/PPRA Rules/WAPDA Purchase Procedures and ADB/WB Guidelines (where applicable). ▪ Check that envelop is attached with all the bidding applications. ▪ Compare the contents of tender with the estimates. ▪ Check that the cost of administrative and technical sanctioned is recorded in the tender register. ▪ Check that the bidding applications of potential suppliers are recorded in the tender register. ▪ Compare bidding applications and tender register to ascertain the accuracy of particulars (e.g. rates, quantity etc) quoted by the applicants. ▪ Check that there are no interpolations, and corrections are made to the tender. Check that all the changes are approved by the competent authority. ▪ Check that the comparative statement of all the bid applications is prepared in the tender register. ▪ Check the basis on which bidding applications were accepted or rejected. ▪ Check the arithmetic accuracy of the calculations made in the tender and estimates. ▪ Check the attendance sheet of potential bidders to ascertain the participation of all the bidders. 		
III	<p><i>Violation of PPRA rules, WAPDA purchase procedures and Authority instructions</i></p> <ul style="list-style-type: none"> ▪ Check that all the tenders are generated in accordance with the provisions of PPRA rules, WAPDA purchase procedures and authority instructions issued from time to time. 		

<p>IV</p>	<p><i>Modification in standard clauses of contracts/ supply orders</i></p> <ul style="list-style-type: none"> ▪ Check that all the tenders and changes thereon are approved by the competent authority as per book of financial powers. ▪ Compare the terms of actual contract with bidder and tender. In case of any variation, investigate the matter. 		
<p>V</p>	<p><i>Non-imposition of liquidated damages in late completion of works/ supply of goods</i></p> <ul style="list-style-type: none"> ▪ Check the works register, progress report and stock register with contract entered into with the supplier. ▪ In case of delay in the execution of contract, or supply of material, check that the liquidated damages (LD) charges have been recovered in accordance with the provisions of WAPDA purchase procedures and book of financial power. 		
<p>VI</p>	<p><i>Failure and termination of contracts/ supply orders</i></p> <ul style="list-style-type: none"> ▪ Check the civil works register and stock register and compare it with the purchase order to identify differences in the pending civil works and quantity of material due to be received. ▪ In case of non compliance with the terms and conditions of the contract, check whether the contractor is penalized in accordance with the provisions of the contract/ purchase order. 		
<p>VII</p>	<p><i>Repeat orders</i></p> <ul style="list-style-type: none"> ▪ Check the contractor register and ascertain whether the repeat contract is not entered into with the same supplier/ contractor over the ceiling limit specified in WAPDA purchase procedures/ PEPCO Guidelines/Bidding Documents. ▪ Check the rate analysis including current and previous year rates and identify variation in prices. In case of any downward movement in prices, investigate the matter. ▪ Check that the repeat orders are issued within 6 months of the initial purchase order. In case of civil works, ascertain whether variation orders are booked in accordance with the provisions of the book of financial powers. 		
<p>VIII</p>	<p><i>Extra financial assistance to the contractors</i></p> <ul style="list-style-type: none"> • Check contract agreement and compare it with payment vouchers through which payment was made to the 		

	<p>contractor.</p> <ul style="list-style-type: none"> • In case of any deviation from the contract agreement, record the instances and probe into the matter. 		
IX	<p><i>Escalation claim of the contractors</i></p> <ul style="list-style-type: none"> • Check the escalation provisions of the contract agreement and compare them with the payment voucher(s). • In case of deviation, record the instances and probe into the matter. 		
X	<p><i>Variation/ change orders in original contracts/ work orders</i></p> <ul style="list-style-type: none"> • Check that the variation order is approved by the competent authority as mentioned in the book ‘Delegation of Financial Power’. • Check that variation was recommended by the engineer (nominated consultant) of the contract. • Check that the cost of variation order was prepared in accordance with the terms and conditions of the contract agreement or prevailing market rates. 		
XI	<p><i>Measurement of works</i></p> <ul style="list-style-type: none"> • Check the measurement book and ascertain whether the measurements are recorded in chronological order. • Check the arithmetic accuracy of the calculations booked in the measurement book and ascertain the aggregate measurements do not exceed the estimated quantities as mentioned in the Bill of Quantity (BoQ). • Identify the cases of excess measurement from the measurement book and check that proper action has been taken against the responsible officials. 		
XII	<p><i>Violation of contract clauses</i></p> <ul style="list-style-type: none"> • Check the provisions of the contract agreement and compare it with the payment vouchers. • Identify the instances of violation and work out the financial impact of the violation. 		
XIII	<p><i>Non-recovery/adjustment of loans and advances to contractors/ suppliers/ departments/ employees</i></p> <ul style="list-style-type: none"> • Check that the loans and advances issued are approved by the competent authority. • Check that loans and advances issued to the suppliers are in accordance with the terms and conditions of the contract. 		

	<ul style="list-style-type: none"> • Check the accurate booking of all loans and advances in the Financial Statements. • Check the progress reports, contract/ pay bills and ascertain whether the loans and advances are recovered in accordance with the terms and conditions of the agreement. 		
XIV	<p><i>Non-encashment of performance bonds/bank guarantees</i></p> <ul style="list-style-type: none"> • Check that the performance bonds/ bank guarantee received from the supplier/ contractor are in accordance with the terms and conditions of the contract. • Check the authenticity of the performance bonds/ bank guarantees being submitted by the contractors/ suppliers. • Check the guarantee register and ascertain the completeness and safe custody of the bonds/ guarantees. • Check that the bonds/ guarantees are en-cashed in accordance with the provisions of the contract. 		
XV	<p><i>Non mutation of property/ land</i></p> <ul style="list-style-type: none"> • Check the land/ property register and ascertain that all the mutations of the property have been made in the record of right. • In the case of non-mutation, identify its causes. 		
XVI	<p><i>Unsanctioned work</i></p> <ul style="list-style-type: none"> • Check that administrative and technical sanction of work has been made for all the contracts and projects. • Where no approval has been obtained, identify its causes. 		
XVII	<p><i>Purchase of expensive electricity</i></p> <ul style="list-style-type: none"> • Obtain the list of power houses from which electricity is purchased. • Check the power purchase agreement and identify the terms and conditions for the purchase of electricity. • Check the economic despatch order and identify the anticipated electricity demand of NTDC. • Check the invoices through which payment is made and ascertain whether these are in accordance with the specified purchase rates. • Check the payment record and ascertain that the payments are made in accordance with the terms and 		

	conditions of the power purchase agreement.		
XVIII	<p><i>Late resolution of disputes with IPPs</i></p> <ul style="list-style-type: none"> • Check the disputes file and identify the pending disputes with IPP's. • Check the relevant clauses of power purchase agreement pertaining to the dispute arise between WAPDA and IPPs. • Check the enquiry reports and ascertain whether due action has been taken. • Check the status of pending litigation cases, if any. • In case of decision by the court/ enquiry committee, check that appropriate action has been taken on timely basis. 		
XIX	<p><i>Inventory of assets with contractors/ consultant</i></p> <ul style="list-style-type: none"> • Check that the lump sum BOQs is in accordance with the clause 57.2 of the contract agreement duly approved by the engineer. • Upon completion of the project, check that all the equipment mentioned in the breakdown of contract agreement is handed over to the employer. • Check that any deviation/ shortage from the approved breakdown have been charged to the contractor. • Check that vehicles purchased by the contractor at the cost of employer are returned to employer upon completion of the project. In case of non submission, ascertain whether due action has been taken. 		
XX	<p><i>Non-assessment of compensation cost for land and damages to crops/ properties etc according to the prevailing rules</i></p> <ul style="list-style-type: none"> • Check that the prescribed performa by the acquiring agency has been filed with the collector for acquisition of land and ascertain whether it is supported by proper justification. • Check that feasibility study has been carried out in respect of proposed acquisition and final decision is made upon the findings of the feasibility study. • Check that critical examination of notification under section 4 of 'Land Acquisition Act' has been carried out by the collector. • Check that the collector approves the survey within sixty days from the issuance of the notification 		

	<p>under section 4 of ‘Land Acquisition Act’.</p> <ul style="list-style-type: none"> • Check that notification under section 5 of the Land Acquisition Act has been issued by the collector to the commissioner alongwith supporting certificates within the prescribed time period (i.e. one year from the issuance of notification under section 4). • Check that the commissioner issued declaration under section 6 of the Act under prescribed period from the date of issuance of notification under section 5 of the Act. • In case of non-compliance with the above referred rules, check that proper action has been taken against the responsible officials/ officers. 		
--	---	--	--

6.20 Audit Programme: Accounting And Finance Management

Audit Entity:

Audit Period:

Date(s) Conducted:

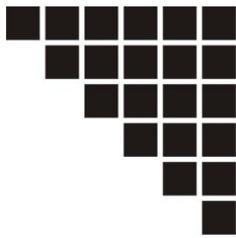
- I. Remittance of revenue collection from banks
- II. Violation of government policy for depositing funds into banks
- III. Non remittance of interest earned on village electrification funds to Government
- IV. Presentation of Financial Statements viz Trial balance, balance sheet and profit & loss account etc.
- V. Embezzlement, overpayments, mis-appropriation and mis-use of funds
- VI. Mis-classification of expenditure
- VII. Improper accounting for foreign currency transactions and interest payments
- VIII. Interest charges on late payments to IPPs
- IX. Payments of capacity charges to IPPs

Audit Obj.	Audit Procedure	Done By:	WP Ref.
I	<p><i>Remittance of revenue collection from banks</i></p> <ul style="list-style-type: none"> • Check bank scrolls and CP-49 prepared at the revenue offices to ascertain whether the remittances are in accordance with the actual billing data. • Check CP-49 to ascertain whether the revenue collected by the bank remitted within specified time period to Authority’s main account. • In case of delayed remittance of revenue by the bank to Authority’s main account as per CP-49, check that penalty (mark up) is imposed in accordance with the collection agreement. 		

	<ul style="list-style-type: none"> • Check the recovery of mark up charged as a result of delayed remittances from the bank. 		
II	<p><i>Violation of government policy for depositing funds into banks</i></p> <ul style="list-style-type: none"> • Check the cash collection account and bank deposit slips to ascertain whether the funds are deposited into bank according to the government policy. • Check the agreement with the bank and ascertain whether the company has selected bank(s) for deposits offering the highest interest rates. • Calculate the financial impact of non-compliance with government policies and check that appropriate action has been taken against the responsible persons. 		
III	<p><i>Non remittance of interest earned on village electrification funds to Government</i></p> <ul style="list-style-type: none"> • Check the credit advices received from the office of Finance Director and ascertain whether the receipt of village electrification funds is in accordance with the terms and conditions of village electrification programme. • Check that the funds for village electrification are utilized in accordance with the applicable policy. • Check the priority registers showing the village electrification programme and whether the projects are carried out in accordance with the specified sequence. • Check monthly progress reports to ascertain whether the funds are utilized in accordance with the estimates being made and any excess funds are deposited back to the government after the completion of the project or the preparation of completion report. • Check that the interest on village electrification fund is remitted to the government in accordance with the specified terms and conditions. 		
IV	<p><i>Financial Statements viz Trial balance, balance sheet and profit & loss account etc.</i></p> <ul style="list-style-type: none"> • Check that the components of Financial Statements are recorded in accordance with the applicable laws and accounting standards. • Check the aging of accounts receivables and identify 		

	<p>any major outstanding balances.</p> <ul style="list-style-type: none"> • Check that appropriate action has been taken to recover long outstanding balances. • Check the debt considered as bad comply with the bad debt recognition policy. • Check that the Financial Statements are audited by the commercial auditors. 		
V	<p><i>Embezzlement, overpayments, mis-appropriation and mis-use of funds</i></p> <ul style="list-style-type: none"> • Check the vouchers, underlying sanction and supporting documents to ascertain controls over the disbursement of cash. • Check that the cash books are properly maintained. • Check that bank reconciliation is prepared and differences identified. 		
VI	<p><i>Mis-classification of expenditure</i></p> <ul style="list-style-type: none"> • Check, on sample basis, that the expenses, income and items of balances sheet are booked under proper head of accounts. • Check the classification of transactions by comparing the sanction of expenses from relevant account head/ budgetary grant. • Check all the transactions booked in the ledger/ trial balances. 		
VII	<p><i>Improper accounting for foreign currency transactions and interest payments</i></p> <ul style="list-style-type: none"> • Check that the foreign currency transactions are booked in accordance with the applicable accounting policies. • Check that the interest is calculated and paid according to the terms and conditions of loan agreement. 		
VIII	<p><i>Interest charges on late payments to IPPs</i></p> <ul style="list-style-type: none"> • Check the detail of outstanding invoices payable to IPPs. • Check the date of payment of invoice mentioned on the invoice. • Calculate the number of days payments remained outstanding for each invoice. • Check that the rate of interest charged as penalty on late payment is in accordance with the power 		

	<p>purchase agreement (PPA).</p> <ul style="list-style-type: none"> • Check that demand for funds is raised on timely basis. • In case of delayed payment, identify the cause of delay and check that appropriate action has been taken against responsible person(s) if delay is due to the negligence of any official. 		
<p>IX</p>	<p><i>Payments of capacity charges to IPPs</i></p> <ul style="list-style-type: none"> • Check the due date of invoices payable to IPPs. • Check that the invoices have been processed within 26 days from the date of receipt of invoice. • Check the dependable capacity and ascertain whether that it has been verified by the manager technical. • Check the indexation dates and ascertain whether the rates are updated on these dates. • Check the exchange rate receipt(s) from the banks for indexation dates. • Check the average exchange rates for the last six months. • Check the Consumer Price Index (CPI) for the last six months and the average rate for six months. • Check the reference value of exchange and inflation rates. • Compute the escalable and non-escalable component. • Identify the disputed amount of invoice and find out the nature and cause of dispute. Ascertain whether the disputes raised have been settled within the timeframe provided by the PPA. 		



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 details for one specific Financial Audit or Compliance with Authority Audit objective for one component may be totally different from another objective or component. Appendix D of FAM provides a 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 reports:

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

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

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

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

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

To facilitate the auditors, understanding of the reporting process, the Reporting Cycle of the WAPDA Audit is given below.

Reporting Cycle of Compliance with Authority Audit

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

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

Development of Draft Audit Report (DAR)

- i. The reporting cycle begins by issuing Observations Statements (OS) which reflect the instances of non-compliance with the underlying rules and regulations, policies and procedures, in respect of financial year subject to audit.
- 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 by consolidating the Audit reports of all PAOs, and incorporating Grants Analysis of all concerned ministries/ Divisions, 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 work is performed as efficiently and effectively as possible and complies with INTOSAI Auditing Standards.

Audit report issued to President

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

Pre-PAC meeting with 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. In this meeting, the audit paras are categorised as either highlighted or un-highlighted depending upon the significance of audit evidence and on the basis that compliance has been carried out by the auditee.

Public Accounts Committee (PAC) Meeting

- i. The DAGP supports the PAC for appropriate action against the paras included in the Audit Report.
- ii. The PAC accordingly disposes of the audit para 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 Tests of Details (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 objective 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 a compliance requirement. For example, an entity may have reported under-spending a particular grant, whereas the auditor

has concluded that expenditures have not all been properly charged to that grant. This type of error, and other compliance violations, would be evaluated using this form.

7.15 Checklist of Management Representation Letter

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

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

7.16 Sample Management Representation Letter

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

7.17 Audit Completion Checklist

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

7.18 Memorandum Supporting Signature

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

7.19 Auditor's Opinion

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

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

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

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

7.20 Follow up Continuity Schedule

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

The entity officials themselves are responsible for ensuring that their Financial Statements 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.

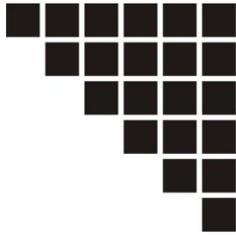
7.21 Quality Assurance Checklist

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 emphasized 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 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 the field audit teams of the same Directorate.



Chapter 8

KEY TASKS AND RESPONSIBILITIES

8.1 Introduction

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

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

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

8.2 Assigning Roles and Responsibilities

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

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

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

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

8.3 Key Tasks and Responsibilities: Permanent File

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

8.4 Key Tasks and Responsibilities: Audit Planning Phase

RESPONSIBILITIES					
Guideline reference	TASKS	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		

RESPONSIBILITIES						
Guideline reference	TASKS	AO/Assistant Director	Deputy Director	Director	Director General	
5.12	Preparing Materiality assessment form		P	R		A
5.13	Computing Expected aggregate error and planned precision form.		P	R		
5.14	Preparing Audit risk assessment form.		P	R		
5.15	Preparing Inherent risk assessment form.		P	R		
5.16	Developing Internal control questionnaire - controls for overall environment.		P	R		
5.17	Documentation of the internal control questionnaire – general computer controls.		P	R		
5.18	Documenting Internal control questionnaire – application controls.		P	R		
5.19	Developing Control risk assessment form.		P	R		
5.20	Documenting Analytical procedures assurance form.		P	R		
	Updating optimum combination of procedures.			P	R	
5.21	Documenting Source of audit assurance form.		P	R		
5.22	Listing all applicable laws and regulations.	P	S	R		
5.23	Documenting and Updating Sample selection checklist.	P	S	R		
5.24	Preparing High value item selection form.		P	R		
5.25	Preparing Key item selection form.		P	R		
5.26	Computing Sample sizing for tests of internal control.		P	R		
5.27	Calculating Sample size for substantive tests of details.		P	R		
5.28	Documenting Checklist of accounting estimates to be		P	R		

RESPONSIBILITIES					
Guideline reference	TASKS	AO/Assistant Director	Deputy Director	Director	Director General
	reviewed.				
5.29	Recording Points for attention at next audit.	P	S	R	
5.30	Documenting Audit planning checklist.		P	R	A

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

8.5 Key Tasks and Responsibilities: Audit Execution Phase

RESPONSIBILITIES					
Guideline reference	TASKS	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	P	S	R	

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

8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

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

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

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

8.7 Key Tasks and Responsibilities: Audit Quality Assurance

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
Planning					
5.3	Review that Planning has been carried out as per the recommended planning process.			R	S
FAM 15.3.6	Assigning Appropriate staff, required strength and skill set of the audit team.			P	R
FAM 15.3.7	Preparation, revision and approval of the Audit Budget.		P	R	A
5.30	Ensuring that audit programs are in place as required in Audit Policy Checklist.		P	R	
Execution					
5.8	Ensuring revision of the planning decisions, if required.		P	R	A
	Supervision of all phases of execution as per the tasks assigned in “key tasks related to execution phase” list.		P	R-S	
	To ensure review of audit working paper files.		P	R	S
6.16	To ensure executing audit steps as per the Audit Programs.		P	R	S
	Ensuring reporting and monitoring of audit activities with reference to “execution task list.”		P	R-S	
Evaluation & Reporting					
7.3	To ensure detailed review and approval of monetary		P	R-S	A

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
	errors, compliance with authority Violations and internal control deviations found.				
7.15,7.16,7.18	Ensuring tools for the auditor’s opinions and statements are used.		P	S	R
7.17	Ensuring Documentation of Audit Completion Checklist.		P	R-S	A
7.21	Reviewing the Quality Assurance Checklist. *		P	R	A

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

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



APPENDIX - A

AUDITOR-GENERAL OF PAKISTAN

[PF-A]

**PERMANENT FILE OF FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)
Permanent File Index/Checklist**

Main Reference	Supporting Schedules		Done by:	Date:
PF-B PF-I PF-II PF-III PF-IV PF-V PF-VI PF-VII PF-VIII PF-IX PF-X		Update Control Sheet Status of the Entity Background Information List of Auditable Locations List of Bank Accounts List of Authorised Signatories External Factors Accounting Records and Accounting System Key Contacts Significant Audit Areas Significant Accounting Policies	1.Mirza Afzal Baig, Audit Officer 2. Azhar Hussain Butt, A.A.O	June, 2009

SUPPORTING DOCUMENT LIST:

Annexure Reference	Supporting Schedules	Volume Reference	Document	Done By:	Date
1		Vol-I	Mission, Vision	M. Afzal Baig	June, 2008
2		Vol-I	Organization Chart	Do	June, 2008
3		Vol-I	Memorandum of Association & Article of Association	Do	June, 2008
4		Vol-I	Book of Financial Power	Do	June, 2008

Annexure Reference	Supporting Schedules	Volume Reference	Document	Done By:	Date
5		Vol-I	Budget 2007-08 & 2008-09	M. Aslam Baig	June, 2009
6		Vol-I	Financial Statement 2007-08 & 2006-07	Do	October, 2009
7		Vol-II	Schedule of Electricity Tariff	Do	June, 2009
8		Vol-II	Barqaab Consultancy Agreement	M. Afzal Baig	June, 2008
9		Vol-II	Chart of accounts	Do	June, 2008
10		Vol-II	Sanctioned Strength	Do	June, 2008
11		Vol-II	Minutes of B.O.D Meetings	M. Aslam Baig	October, 2009
12		Vol-III	WAPDA Purchase Procedure	M. Afzal Baig	June, 2008
13		Vol-III	PPRA Rules 2004	Do	June, 2008
14		Vol-III	WAPDA Transport Rules	Do	June, 2008
15		Vol-III	WEPS Procedure	Do	June, 2008
16		Vol-III	NEPRA Act-1997	Do	June, 2008
17		Vol-III	Performance Standards (Transmission) Rules 2005	Do	June, 2008
18		Vol-IV	CPWA A-Code	Do	June, 2008
19		Vol-IV	Electricity Act-1910	Do	June, 2008
20		Vol-IV	WAPDA Manual/General Rules	Do	June, 2008
21		Vol-IV	General Financial Rules	Do	June, 2008
22		Vol-V	WAPDA Schedule of Composite Rates	Do	June, 2008

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Update Control Sheet

Name of Entity/Organisation: FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

Original file prepared by: i) Mr. Muhammad Afzal Baig, Audit Officer
 ii) Mr. Azhar Hussain Butt (Asstt. Audit Officer)

Date: June, 2008

File updated by: I) Mirza Aslam Baig, Audit Officer Date: June, 2009
 ii) Amjad Ali (A.A.O)

File updated by: _____ Date: _____

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF- I

Understanding of Entity's Business – Status of Entity

Name of Entity/Organisation: ***FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)***

Principal Address:

Chief Executive Office, FESCO
Canal View, Abdullahpur,
Faisalabad
Phone # 041-9220184
Fax # 041-9220445
Web Site: www.fesco.gov.pk

Status of the Entity:

It is a registered Public Limited Company since May, 1998 under the Companies Ordinance, 1984. It falls under the category of "Exempt Entity" under NAM.

Inter-Governmental Relationship:

It is a subsidiary of Pakistan Electric Power Company (PEPCO) which is an independent company, registered under the Companies Ordinance, 1984 as a private limited company.

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF- II

Understanding of Entity's Business – Background Information

Name of Entity/Organisation: ***FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)***

Size of Entity

• Total assets (as on 30-06-2008)	=	Rs. 40,338	million
• Total liabilities (as on 30-06-2008)	=	Rs. 42,479	million
• Total revenue (2007-2008)	=	Rs. 42,242	million
• Total expenditure (2007-2008)	=	Rs. 51,064	million
• Total Budget (2008-2009)			
○ Operations, maintenance and repairs		Rs. 4,159	million
○ Capital works		Rs. 1,460	million

Vision Statement

To provide reliable, affordable and safe electricity to make industrial and agricultural sectors competitive for world market, there alleviating poverty in the area of responsibility.

Core Operational Activity/Corporate Plan

- Purchase of Power from National Transmission & Despatch Company (NTDC)
- Distribution of Power to Public as well as Private Consumers.
- Construction & Operation of 66 KV & 132 KV Grid Stations & Transmission Lines.
- Procurement of Construction & Operation Material.
- Construction & Maintenance of Civil, Electrical & Mechanical Works.

Major Business Operations

A sample data flow diagram showing the flow of activities pertaining to 'Inter-Office Transactions of FESCO' is appended at the end of this form.

Major Beneficiaries

Districts falling within the geographical jurisdiction of the Company include Faisalabad, Jhang, Bhakkar, Sargodha, Toba Tek Singh, Khushab and Mianwali.

Major Cost Centres

(As listed in PF-III)

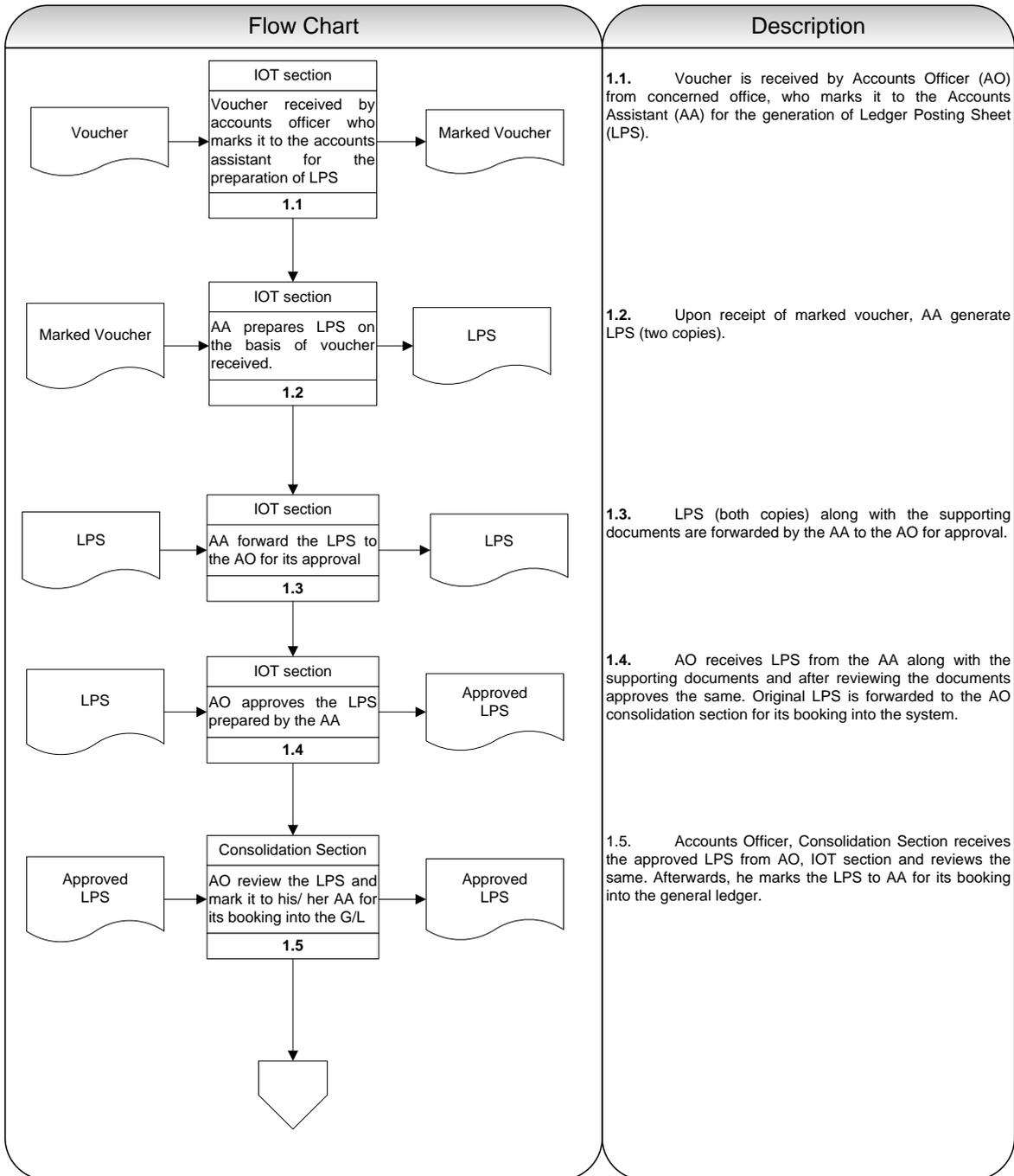
Reporting Authority

The company is reportable to Pakistan Electric Power Company (PEPCO).

Major Business Operations – Inter-Office Transactions

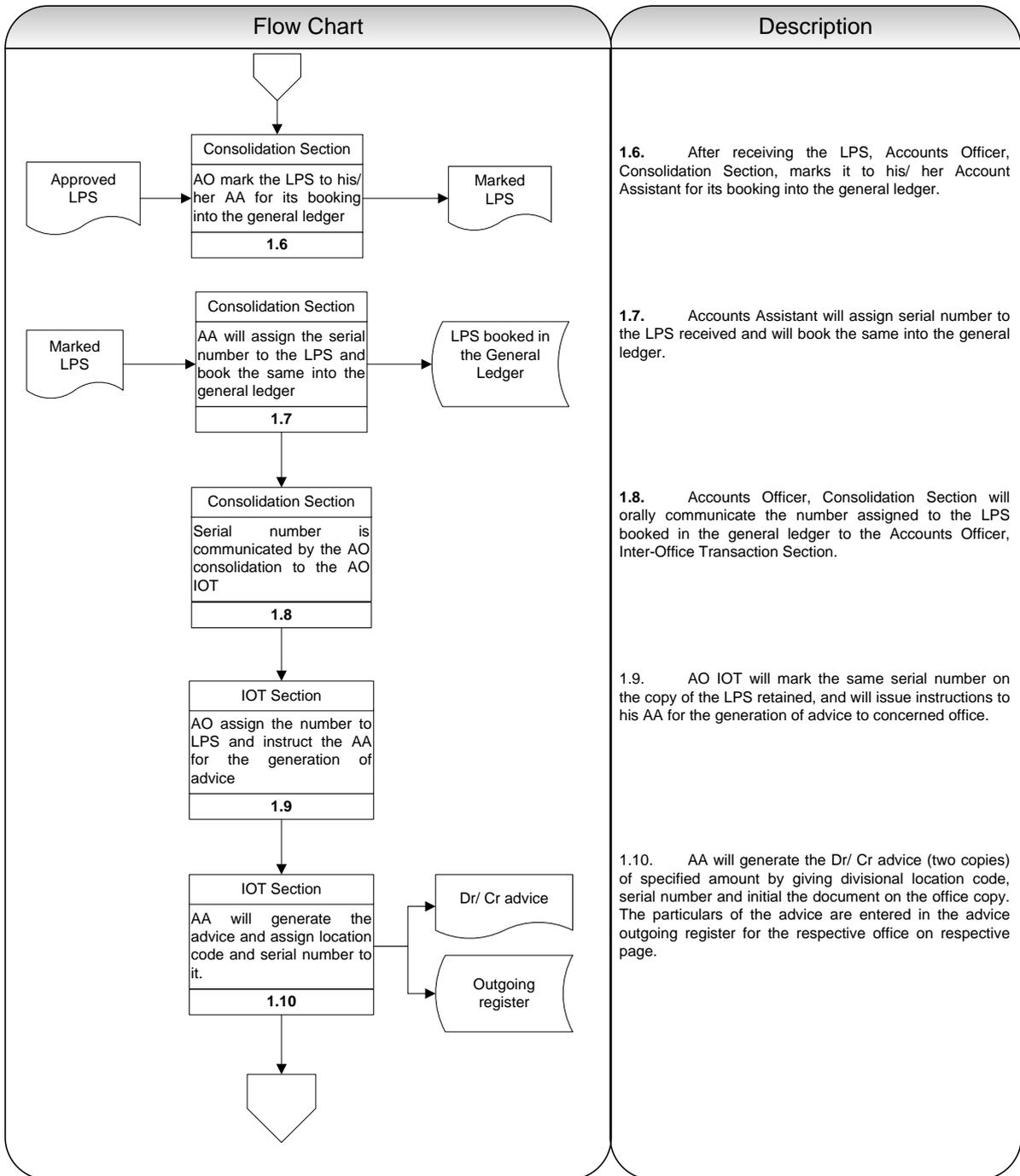
FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

Office: Finance Director Office
Subject: Inter-Office Transactions



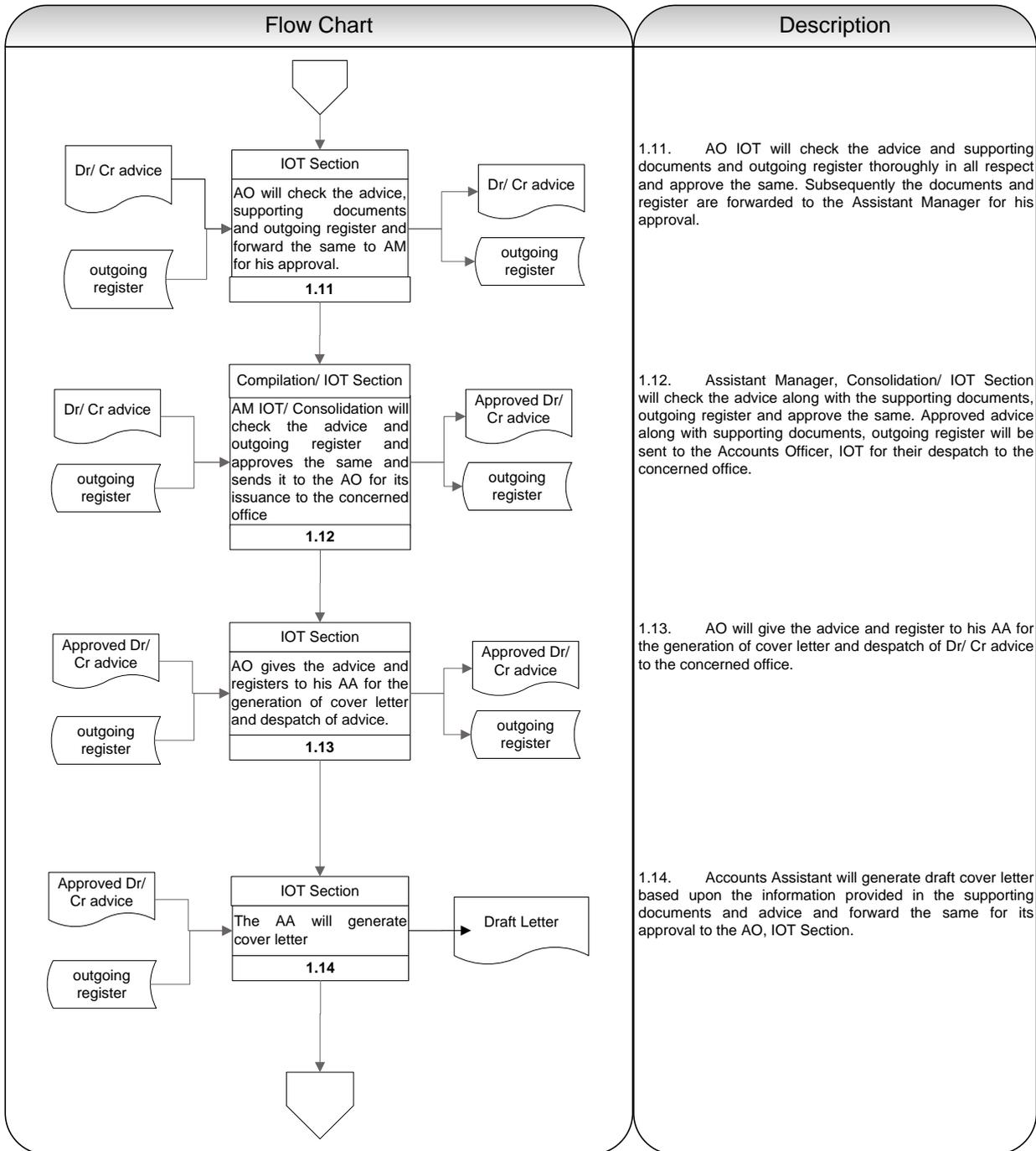
FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

Office: Finance Director Office
Subject: Inter-Office Transactions



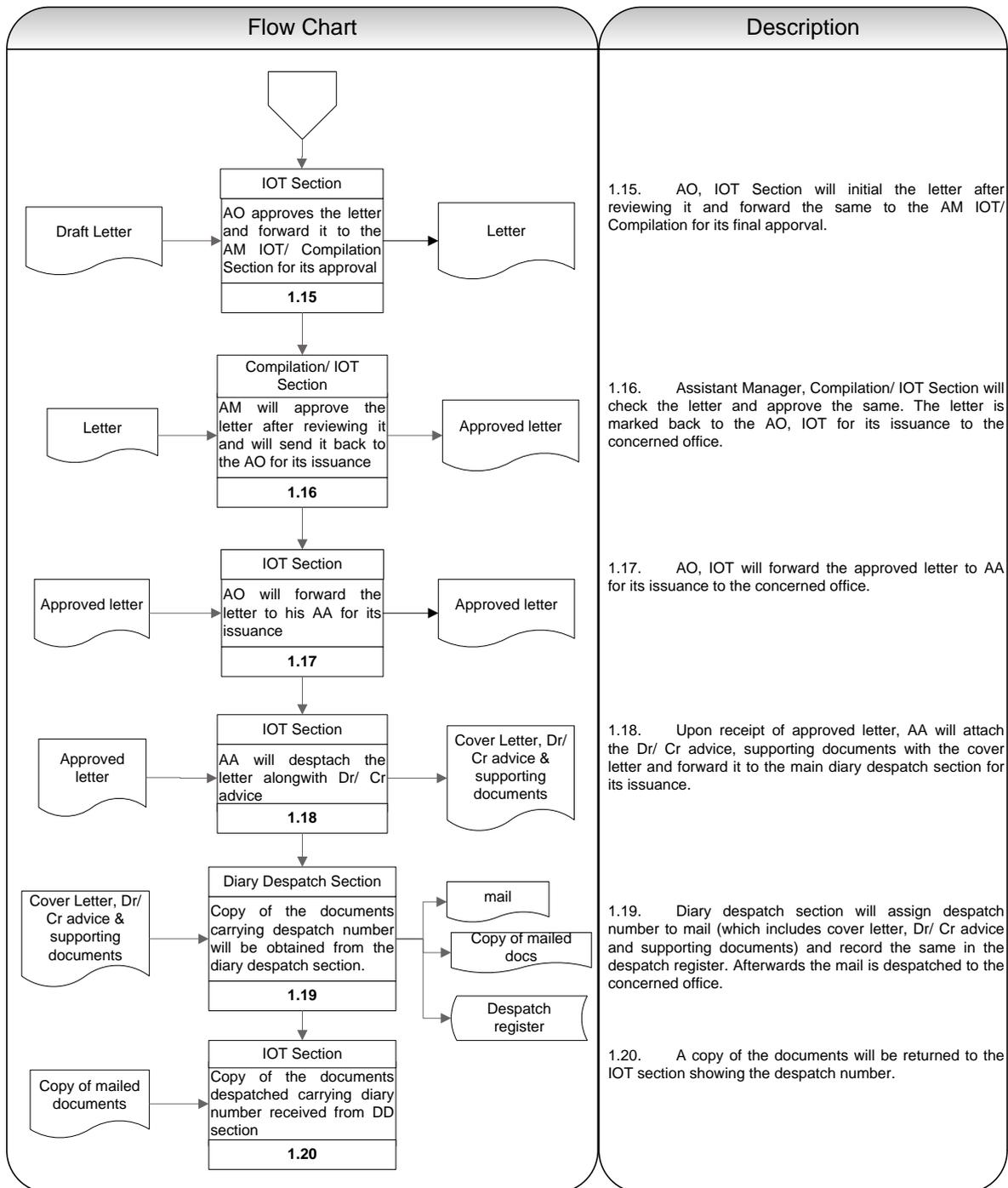
FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

Office: Finance Director Office
Subject: Inter-Office Transactions



FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

Office: Finance Director Office
Subject: Inter-Office Transactions



**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF- III

Understanding of Entity's Business – List of Auditable Locations

Name of Entity/Organisation: *FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)*

- **Main Accounting Office**

Finance Directorate at the Company's Head Office.

- **Divisional Accounting Offices**

Accounts are maintained at levels of Project Director, Deputy Manager (operation/civil/construction/material management) and Assistant Manager (Customer Services).

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF - IV

Understanding of Entity's Business – List of Bank Accounts

Name of Entity/Organisation: *FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)*

- Bank accounts are kept at Finance Directorate (company level) and each Project Director, XEN. and Revenue Office Level.

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF- V

Understanding of Entity's Business – List of Authorised Signatories

Name of Entity/Organisation: ***FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)***

- Finance Director and Chief Executive Officer are responsible for reporting financial information of the company.
- Finance Director and Chief Executive officer are co-signatories for payment at the Head Office whereas Project Director and Budget & Accounts Officer, XENs/Revenue Officers and Divisional Accounts Officers are co-signatories for payment at the Project Director Office, Divisional Office and Revenue Office Level respectively.
- Financial Powers and Sanction Limits are as per Company's Book of Financial Powers.

Understanding of Entity's Business – External Factors

Name of Entity/Organisation: ***FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)***

External factors that affect the overall working/financial statement of the company are as under:-

- National Electric Power Regulatory Authority (NEPRA)
- Private Power Infrastructure Board (PPIB)
- Independent Power Producers (IPPs)
- Political Influence
- Law & Order situation in the area
- Natural Calamities
- Theft of Electricity by the consumers
- Fluctuation in Fuel Prices
- Right of Way Problem
- Government Policies from time to time

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF- VII

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

Name of Entity/Organisation: ***FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)***

Accounting System

There is a Manual System for recording the transactions at each Accounting Unit Level under double entry system according to the Companies Ordinance, 1984. However, units received/sold record, Billing and Revenue Collection record relating to consumers at Revenue Offices and Inventory Control Record (material received and issued) at Regional Stores/Field Stores is computerised. Monthly Trial Balance as well as Budget /Expenditure Statements are prepared at each Accounting Unit Level and are consolidated at the Finance Directorate level where Annual Financial Statements of the Company are prepared.

- *Flow chart of procurement process, material issuance and consumption process and civil works are attached at the end of this form.*

Accounting Record maintained at Finance Directorate Level

- Cash Payment Vouchers
- Cash Book- Imprest
- Cash Book- Collection
- Cheque Books and Cheque Counterfoils
- Bank Statements & Bank Reconciliation Statement
- Miscellaneous Receipt Book
- Journal Vouchers
- Dr/Cr advices (to record inter-office book transactions)
- Super Subscribed Cheques (for inter-offices payments)
- General Ledger & Subsidiary Ledgers
- Record of units received & sold
- Stores and T & P stock Reconciliation Statement
- Ledger Posting Summary
- Consolidated Trial Balance
- Budget/Expenditure Statement
- Consolidated Financial Statements
- Contractor Ledger
- Pre-audit register

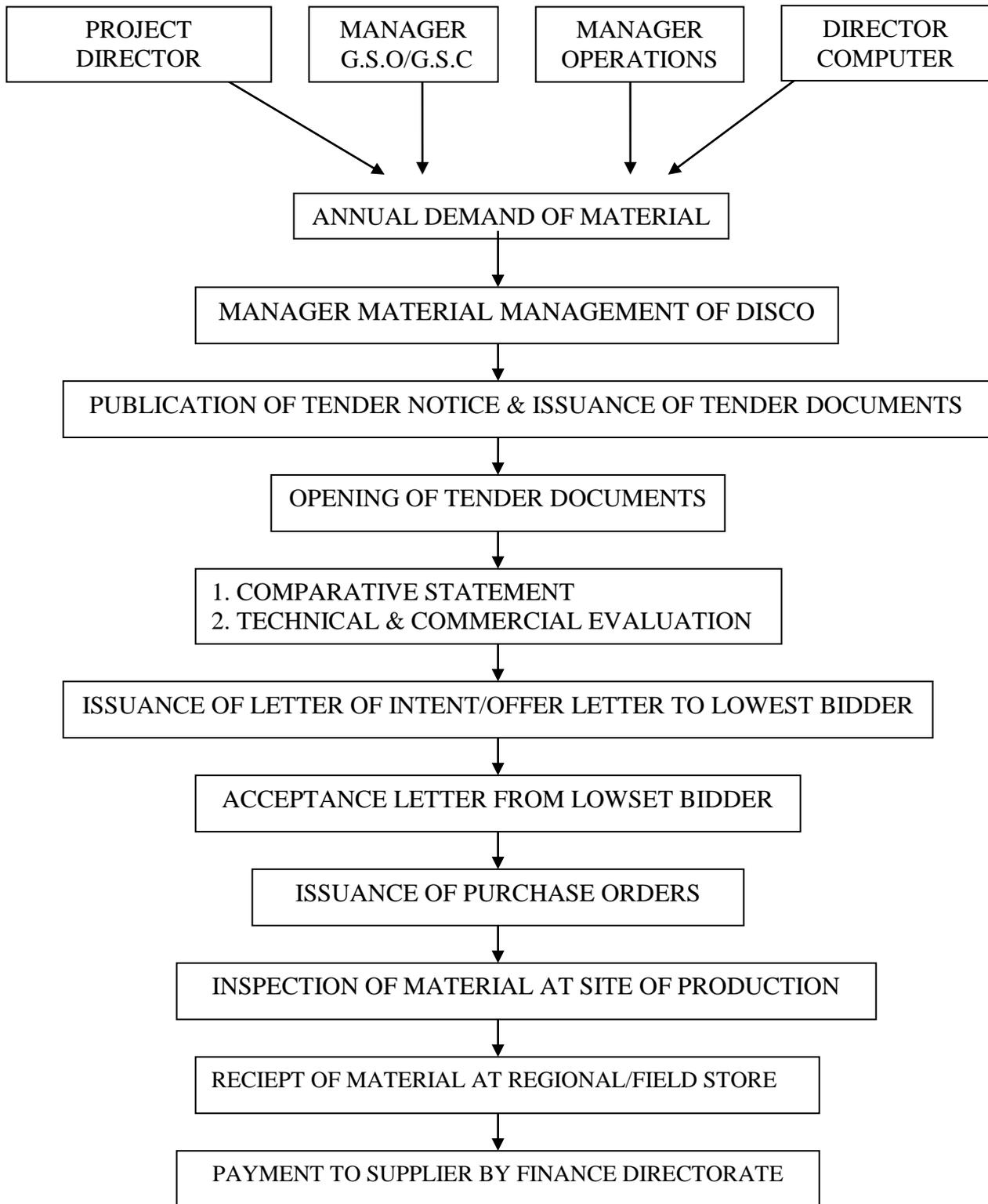
Accounting Record maintained at Project Director, Revenue office & Divisional Level

-
- Cash Payment Vouchers
 - Cash Book- Imprest
 - Cash Book- Collection

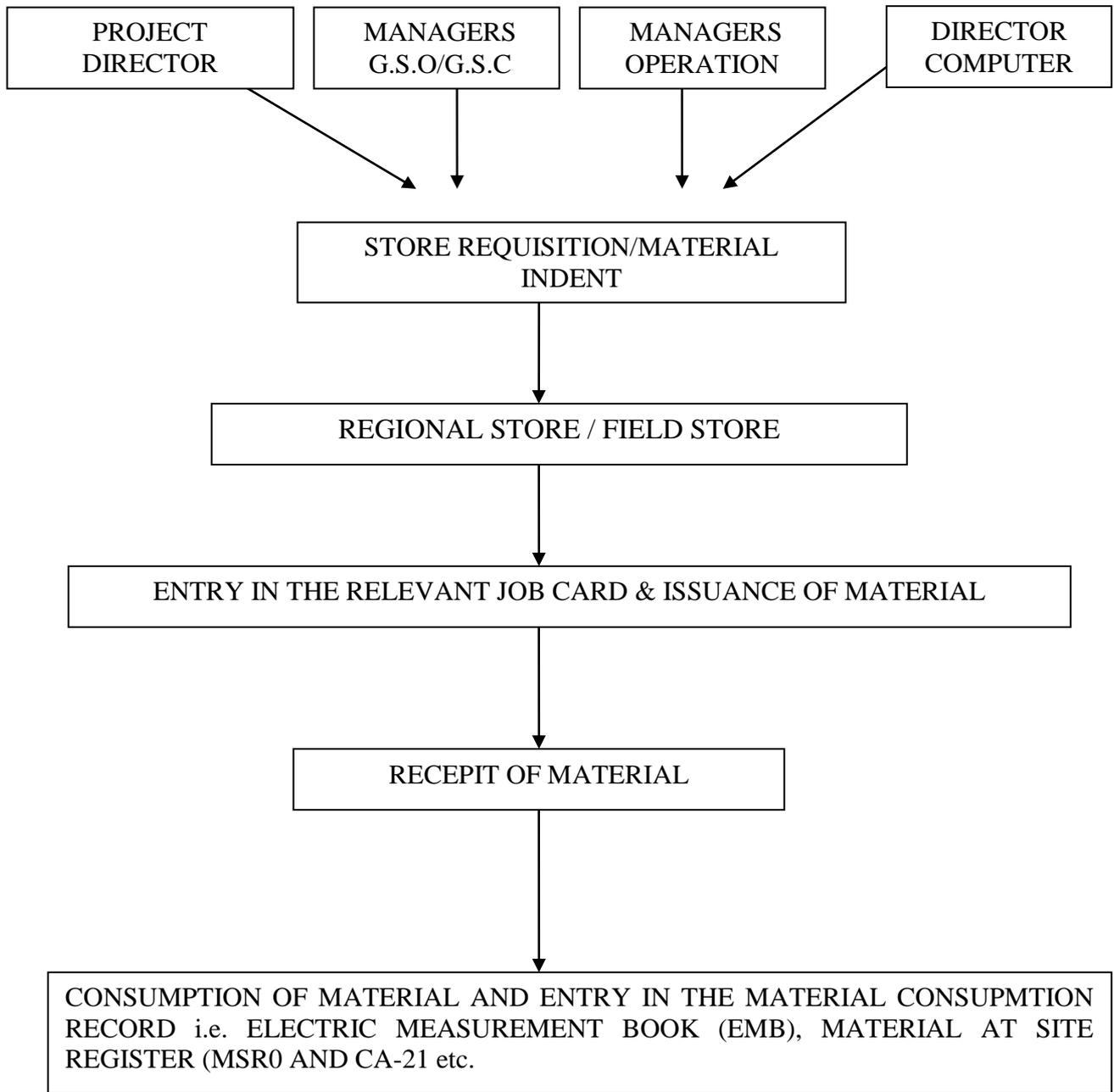
Audit Guidelines for WAPDA Audit

- Cheque Books and Cheque Counterfoils
- Bank Statements & Bank Reconciliation Statement
- Miscellaneous Receipt Book
- Journal Vouchers
- Dr/Cr advices (to record inter-offices transactions)
- Super Subscribed Cheques (to record inter-offices payments)
- General Ledger & Subsidiary Ledgers
- Record of units received & sold
- Stores and T & P stock Reconciliation Statement
- Ledger Posting Summary
- Trial Balance
- Budget/Expenditure Statement
- Contractor Ledger
- Pre-audit register
- Material Consumption Record
- Job Cards (at project construction office only)
- Store Cards (at regional stores/field stores only)

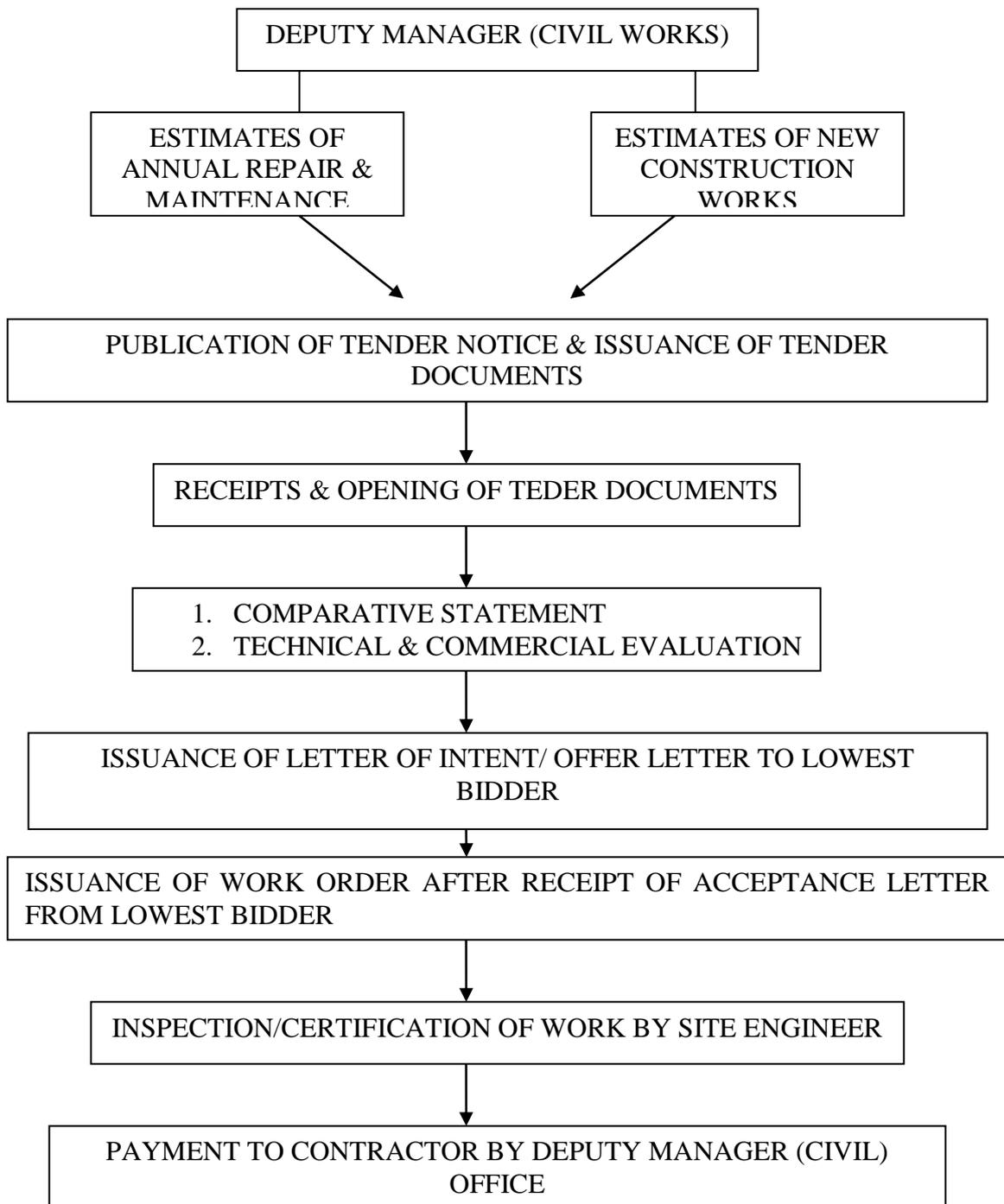
FLOW CHART OF PROCUREMENT PROCESS



FLOW CHART OF ISSUANCE AND CONSUMPTION OF MATERIAL



FLOW CHART OF CIVIL WORKS



AUDITOR-GENERAL OF PAKISTAN
Form PF- VIII

PERMANENT FILE

Understanding of Entity's Business – Key Contacts

Name of Entity/Organisation: **FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)**

The names and contact information of key personnel at all management levels of the entity are as under (list of B.O.D & copy of FESCO Telephone Directory is also enclosed).

Key Management Personnel	Name	Title	Tel.	Fax	Email
Principal Accounting Office <ul style="list-style-type: none"> • Management • Finance • Accounts 	Mr. Shahid Rafi	Secretary, Ministry of Water & Power, Islamabad	051- 9211852	051- 9203187	
	i) Mr. Ahmed Saeed Akhtar			041- 9220445	
	ii) Ch. M. Ashraf	Chief Executive Officer, FESCO	041- 9220184	041- 9220445	
	Mr. Izhar Ul Haq	Director (HR & A), FESCO	041- 9220247		
	Rana Tariq Parvez	Director Finance, FESCO	041- 9220242	041- 9220564	
		Manager (Finance), FESCO	041- 9220160	041- 9220564	

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Form PF- IX

Understanding of Entity's Business – Significant Audit Areas

Name of Entity/Organisation *FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)*

The list of significant audit areas/financial statement component is as under:-

Significant Financial Statement Components

- Liabilities & Commitments
- Deposits & Reserves
- Fixed Assets and Depreciation
- Investments
- Cash & Bank
- Loans and Advances
- Revenues/Receipts
- Purchase Costs/Payments
- Employee Related Expenses/Payments
- Operating Expenses/Payments
- Grants, Subsidies & Write offs
- Interest Payments
- Suspense & Clearing
- Stores & Stock
- Damages & Theft of Material & Equipment
- Capital Work in Progress (Civil/Electrical/Mechanical)
- Estimates of Deposit works

SPECIFIC AUDIT RISKS

Risks involved in Operational Management:

- Transmission and distribution losses (line losses)
- Damages to electrical installations/equipments
- Short recovery of capital cost in consumer cases (specially in agriculture tube-wells, industrial, commercial, bulk supply and private housing schemes)
- Non billing in newly electrified schemes
- Short recovery of energy charges and fixed charges
- Over estimation in village electrification schemes to draw excess funds from Government
- Non-capitalization of works
- Un-authorized extension of load and detection bills
- Theft of electricity and electric material
- Non/partial execution of ERO's
- Non return of surplus and dismantled material to store
- Non-adherence to NEPRA Standards
- Mis-appropriation of material
- Irregular refund
- Contingent expenditure
- Excess drawl of material
- Non compliance of RCO policy

Risks involved in the Contract Management:

- Unrealistic estimation of works
- Non-transparency in tendering of works, procurement of goods/material and hiring of consultancy services
- Violation of PPRA rules and WAPDA purchase procedure/ Authority's instructions
- Modification in standard clauses of contract/supply orders
- Non imposition of liquidated damages in late completion of works/late supply of goods
- Failure and termination of contracts/supply orders
- Repeat orders
- Extra contractual financial assistance to contractors
- Escalation claim of the contractors.
- Variation/change orders in original contracts/work orders
- Measurement of works
- Violation of contract clauses

Risks involved in Inventory Management:

- Non preparation of realistic annual plan of procurement of material/ equipment
- Receipt and issue of material
- Material purchased in excess of requirement and subsequent became obsolete

- Blockage of funds due to un-necessary purchase of material
- Non replacement of defective and sub-standard material and damaged under warranty period

Risks involved in Financial Management:

- Remittance of revenue collection from banks
- Violation of government policy for depositing funds into banks
- Non remittance of interest earned on PSDP and village electrification funds to Government
- Financial Statements viz Trial balance, balance sheet and profit & loss account etc.
- Loans and advances to contractors/ suppliers and employees
- Non-encashment of performance bonds/bank guarantees
- Embezzlement , overpayments, mis-appropriation and mis-use of funds
- Mis-classification of expenditure
- Improper valuation and presentation of assets
- Accounting for foreign currency transactions and interest payments

**AUDITOR-GENERAL OF PAKISTAN
AUDIT PLANNING-PERMANENT FILE**

Form PF- X

Understanding of Entity's Business – Significant Accounting Policies

Name of Entity/Organisation: ***FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)***

Significant Accounting Policies of the Company are as under:-

- **Staff retirement benefits – Pension and Provident Fund**

The Company operates unfunded pension, post-retirement free electricity and medical benefits schemes for all its permanent employees. Contributions are made in accordance with the actuarial recommendations. For General Provident Fund and WAPDA welfare Fund, the company makes deduction from the salaries of employees.

- **Revenue recognition**

- a) Revenue from electricity sales is recognized on the basis of electricity supplied to consumers.
- b) Meter rentals are recognized on time proportionate basis.
- c) Interest on bank deposits is recognized using effective interest method.
- d) Profit on investment is recognized on the basis of effective yield.
- e) Revenue from sale of scrap is recognized on the despatch of goods.

- **Deferred Credit**

Amounts received from consumers and the government as contribution towards the cost of extension of distribution net work and of providing service connections are deferred and taken to profit and loss account over the estimated useful lives of the related assets.

- **Fixed assets – valuation and depreciation**

- a) Operating fixed assets except freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any.
- b) Freehold land is stated at cost.
- c) Depreciation on fixed assets is charged to profit and loss account on straight line method. Depreciation charges commence from the month in which an asset is available for use and no depreciation is charged in the month of disposal.

- **Stores and Spares**

These are valued at lower of fortnightly moving average cost and net realisable value. Provision is made for obsolete items, except items in transit, which are stated at cost.

- **Trade Debts**

Trade Debts are carried at original billed value less an estimate for provision for doubtful debts. Provision for doubtful debts, for private consumers, is made which are more than one year old. No provision is made for Government consumers.

- **Provisions**

Provisions are recognized in the balance sheet when the company has legal or constructive obligation as a result of past events, and is probable that the outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimates.

- **De-recognition**

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on De-recognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the profit & loss account in the year the asset is derecognized.

- **Foreign Currencies**

The Financial Statements are presented in Pak Rupees, which is the company's functional currency. Transactions in foreign currency, during the year, are initially recorded in the functional currency at the rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at functional currency rate of exchange prevailing at the balance sheet date. All differences are taken to the profit & loss account.

