

DEPARTMENT OF
THE AUDITOR - GENERAL OF
PAKISTAN



GUIDELINES FOR THE AUDIT OF WORKS OPERATIONS

TO BE USED BY

THE DIRECTORATE GENERAL OF AUDIT (WORKS) – FEDERAL



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

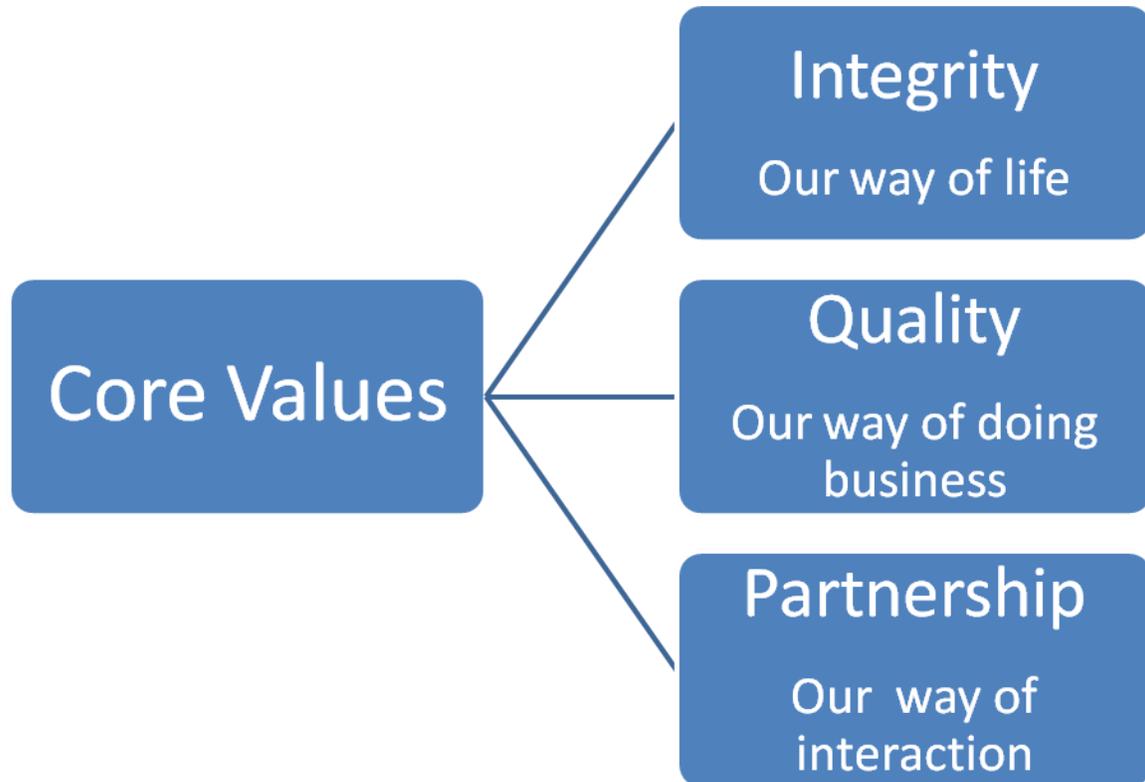


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PREFACE

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 (DAGP). However, during the course of its implementation, it was found that though it is quite comprehensive for developing an understanding of audit concepts, standards and techniques, it does not provide sufficiently detailed and specific guidance to the FAOs for conducting audit. Realising this need, the DAGP prepared guidelines pertaining to different sectors and departments. Some of these guidelines are specific to an office (e.g. DG, Works), while the others are applicable across the board (Environment).

These Guidelines were circulated among the FAOs for use. However, they were not found helpful, and could not offer the hands-on practical assistance they were meant to provide. The result was that the FAOs continued to rely on their old and outdated codes and manuals for conducting audit.

On the basis of lessons learnt from the field, 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 result of these efforts are contained in this totally rehashed Guidelines. Though the document, as a whole, has been revised, I would like to particularly mention the section on the Audit Execution Phase, in which detailed audit steps have been added.

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

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 Works at the Federal level. They do not replace the Financial Audit Manual (FAM) that establishes a general framework for conducting audit, but complement it. An auditor is expected to continuously refer to FAM in developing a general understanding of audit concepts, standards and methodology. The Guidelines assist in their practical implementation.

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

1.2 Guiding Principles

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

1.3 Auditors' Responsibility

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

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

recommended in these Guidelines and respective forms have been followed in all respects.

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

1.4 Practical Tools

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

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

1.5 Continuous Improvement

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

1.6 Using the Standard Audit Working Papers

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

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

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

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

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

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

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

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

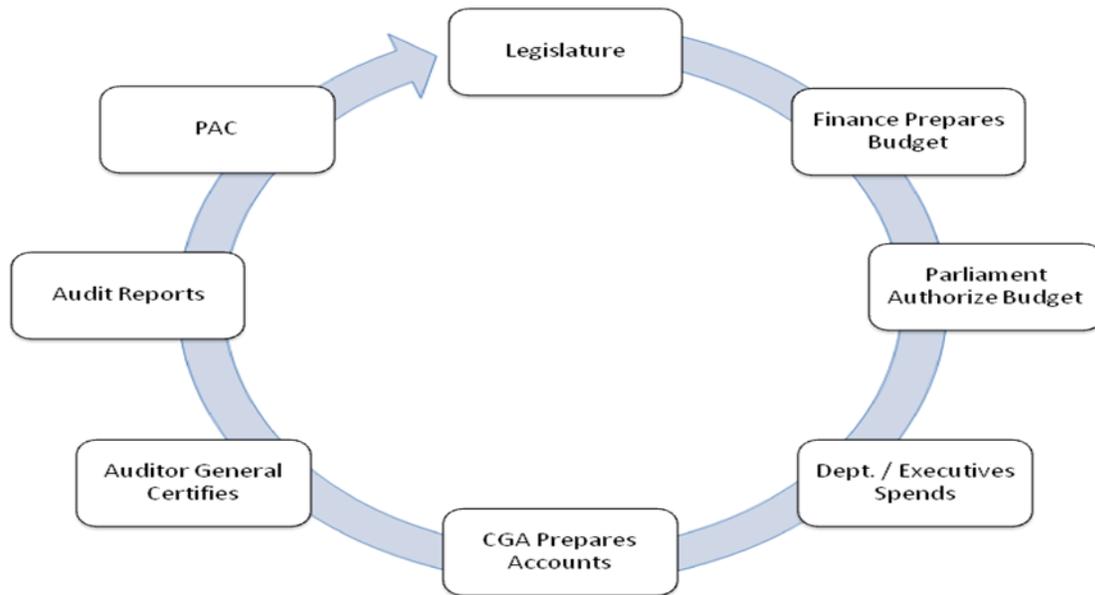
These Guidelines do not repeat the instructions for each form. This purpose is to provide additional guidance specific to the type of audit being planned or conducted. Forms and schedules given in the Audit Working Papers Kit essentially meet the requirements of Certification Audit. However, some of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

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

1.7 The Accountability Cycle

The accountability cycle starts with the preparation of annual budget statement which is approved by the Parliament. A detailed elaboration is as follows:

1. Each year, Ministry of Finance receives budget estimates from government agencies.
2. Based on the resources available and priorities of the government, the annual budget is prepared.
3. The Parliament approves the budget.
4. Principal Accounting Officers (PAOs) sanction the expenditure.
5. Controller General of Accounts is responsible for the preparation of Annual Financial Statements. This task is accomplished through the Accountant General Pakistan Revenues (AGPR), who has the primary responsibility for disbursements, keeping a record of transactions and the preparation of Annual Financial Statements of the Federal, Provincial and District governments for centralized accounting entities. In the case of self-accounting entities, this task is accomplished by the PAOs.
6. Each year, the Auditor General of Pakistan certifies the Financial Statements of Federal, Provincial and District governments.
7. Audited Financial Statements and audit reports are laid before the National Assembly/Provincial Assembly. These reports are then discussed in the Public Accounts Committee (PAC) who then reports back to the National Assembly/Provincial Assembly.



2. OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT (WORKS) – FEDERAL

2.1. Overview of the Office

The Directorate of Audit and Accounts Works was constituted with effect from 1st August, 1956 for keeping the accounts of works expenditure of the entire province of West Pakistan (excluding charges on regular establishment drawn from the treasuries and pre-audit counters of the Audit Offices at Lahore, Peshawar and Karachi) and for the audit of such expenditure. The audit and accounts of Central Public Works Department (PWD) divisions in West Pakistan, formerly under the jurisdiction of the Accountant General Pakistan Revenue, was also transferred to this office with effect from 1st October 1961.

The audit functions relating to Karachi Development Authority, Agricultural Development Corporation, Thal Development Authority, Capital Development Authority, Airports Development Agency and Land and Water Development Board were also entrusted to this office under the provisions of Acts/Ordinances for the establishment of these authorities/corporations from time to time.

On the dissolution of one unit on 1st July, 1970, this office was also bifurcated. Consequently, the Works Audit Department and its ancillary sections dealing with the audit of the works portion of the provinces of NWFP, Sindh and Baluchistan were transferred to the Accountants General NWFP, SINDH and the Comptroller, Baluchistan.

The scheme of the departmentalization of Accounts was introduced on 1st January, 1976 in Pak. PWD. The accounting work, along with proportionate staff, was transferred to the office of Director, Budget and Accounts under the Chief Engineer Pak. PWD, Karachi.

This office was renamed as Directorate General Audit and Accounts Works, Lahore with effect from 21st June, 1982 vide Auditor-General's letter No. 1039-GB.I/176-81 dated 21st June, 1982. On the eve of the bifurcation of Audit and Accounts functions of this office w.e.f. 1st July, 1992, the audit component was renamed as Directorate General Audit Works, Lahore and made responsible for the audit of works expenditure as per Auditor-General of Pakistan U.O. No. 314/17-AR-II/C/91 dated 4th June, 1992, read with memo No. 135-56-Coord-II/C/86 dated 7th June, 1992. At the time of the establishment of District and Provincial Governments setup, office of the Director General, District Audit Punjab, Lahore was created on 19th June 2003, and the audit of the C&W Department (District Government portion), H&PP, HP&EP Department and the District portion of LG&RD were transferred to that office. However, the devolved departments i.e. LG&RD and H&PP have been resurrected at Provincial level, presently known as LG&CD and PHATA respectively.

The audit of works expenditure in respect of Workers Welfare Board, Sindh was being conducted by the Directorate General of Audit Works from day one. The audit of works expenditure of Punjab Workers Welfare Board was assigned to this office vide OAGP

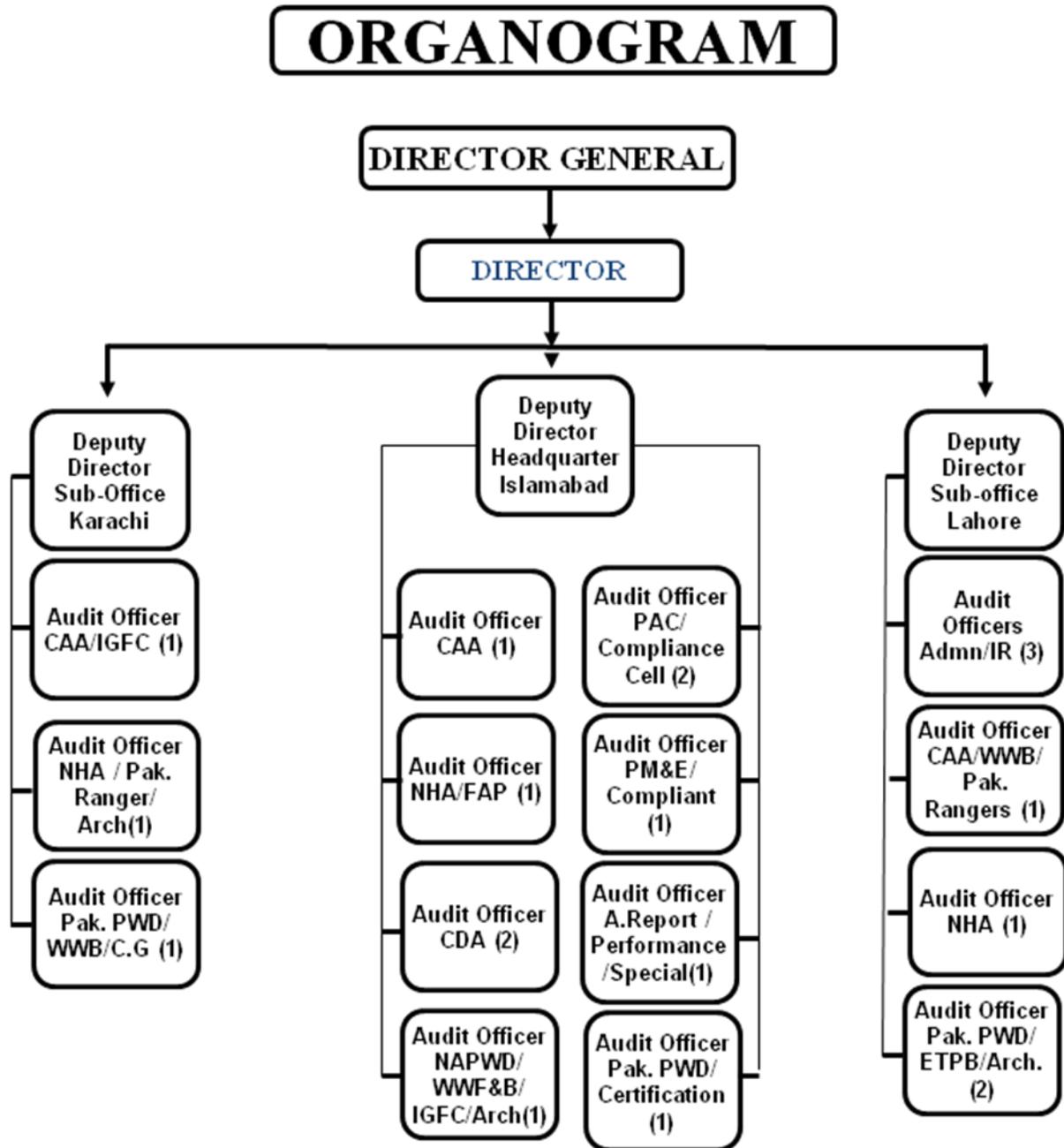
letter No. 991/27-AR-I/C/2000 dated 20th September, 2000. The DAGP, vide letter No. 427/15-P&C/I-C/2008 dated 11th October, 2008, assigned the audit of entire expenditure (development and non-development) of all Provincial Workers Welfare Boards/Funds to this office.

The office of the Director General of Audit Works, Lahore has been bifurcated into two offices i.e. Director General Audit Works (Federal), Islamabad and Director General Audit Works (Provincial), Lahore vide notification No 535/PA/BIF/Re-Org/Works/F.24 dated 13th February 2010, issued by the Deputy Auditor-General (Provincial Audit), Islamabad.

2.2 Jurisdiction

Sr. No.	Principal Accounting Officer	Attached Departments	Mandate
1.	Secretary , M/O Housing & Works, Islamabad	i. Pakistan Public Works Department ii. Estate Offices	Complete audit
2.	Secretary, Cabinet Division, Islamabad	Capital Development Authority, Islamabad	Complete audit
3.	Secretary, M/O Communications, Islamabad	National Highway Authority, Islamabad	Complete audit
4.	Secretary , M/O Labour, Manpower & Overseas Pakistani, Islamabad	Workers Welfare Boards	Complete audit
5.	Secretary , M/O Kashmir Affairs and Gilgit Bultistan and States & Frontier Region, Islamabad	Gilgit Bultistan Public Works Department	Complete audit
6.	Ministry of Minorities, Culture, Sports, Tourism & Youth Affairs, Islamabad	i. Archaeology Department ii. Evacuee Trust Property Board	Works portion
7.	Ministry of Defence	Civil Aviation Authority	Complete audit
8.	Ministry of Interior	i. IGFC (NWFP & Balochistan) ii. Pakistan Rangers (Punjab & Sindh) iii. Pak. Coast Guard	Works portion

2.3 Organogram of DG, Audit Works (Federal)



3. SCOPE OF AUDIT

3.1 Types of Audits¹

Directorate General Audit, Works (Federal) conducts the following types of audit:

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

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

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

3.2 Definition of Government Audit

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

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

Performance 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;

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

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

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

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

Methodology:

- Understanding the auditee;
- Conducting risk assessment;
- Defining detailed audit objectives;
- Developing audit programmes;
- Performing analytical procedures;
- Testing the internal controls;
- Determining sample size for substantive testing of detail;

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

3.4 Compliance with Authority Audit

Objective:

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

Methodology:

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

- Integrating the work with financial attest audit, where possible.
- Evaluating results;
- Reporting; and
- Follow up.

3.5 Important Audit Components of Federal Works Audit

Some of the specific risks relating to Works Operations include:

- Award of contract to unsuitable supplier/contractor.
- Time overrun leading to exorbitant cost overrun.
- Employment of unwanted work charge establishment.
- Completion and certification of work below specification.
- Repeated revisions of drawings/estimates and administrative approvals.
- Maintenance of stock without its actual requirement.
- Non-auction of unserviceable material/machinery.
- Non-maintenance of record relating to assets.

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

The major focus of the Directorate General Audit, Works (Federal) 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 Plots
- Toll collection
- Aeronautical and non-aeronautical revenue relating to Civil Aviation Authority
- Rent of Federal lodges (Pak PWD)
- House rent recovery from occupants of government accommodation (Estate Offices)

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

3.5.2 Audit of Expenditure

The expenditure incurred on two major types of activities in the auditee departments are:

- Capital works; and
- Operations, maintenance and repair 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/development projects to audit, the audit team should begin with a list of projects (given in the monthly accounts maintained by respective divisions) 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 calculating the costs/square foot of facility space; 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.

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

4. PERMANENT FILE OF AUDITEE DEPARTMENTS

4.1 Introduction

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

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

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

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

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

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

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

4.2 The Audit Team's Responsibility

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

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

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

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

4.3 Documentation in Permanent File

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

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

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

4.4 Update Control Sheet - PF

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

4.5 Status of Entity – Form PF-I

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

4.6 Background Information – Form PF-II

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

The main functions of the auditee departments generally are:

- Construction of new public structures (Airport, Buildings and Roads) – capital expenditure
- Repair & Maintenance of existing public structure – current expenditure

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

4.7 List of Auditable Locations – Form PF-III

The auditor should document the addresses of all locations including:

- Headquarter;
- Field Offices (e.g. works division);
- Project sites or other operational locations that collect, record, process and report the financial information of auditee activities; and,
- Locations where assets are located and their existence can be checked by the auditor.

4.8 List of Bank Accounts – Form PF-IV

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

4.9 List of Authorized Signatories – Form PF-V

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

4.10 External Factors – Form PF-VI

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

- Economic trends and conditions affecting input costs.
- Variation in budgets.
- Timing of project completion and carry over into subsequent financial years.
- Local interventions or events that might have an impact on project progress.
- 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 Federal level.
- b. Document a brief description of the accounting system (this means, including staff and equipment, by which an organisation produces its accounting information).

The major accounting records maintained by the auditee departments include:

- Cash Book
- Cheque Book
- Vouchers/Bills
- Contractor's Ledger
- Expenditure Statement
- Monthly Return
- Funds Releases

- Budget Releases
- Transfer Register
- Advance Register
- Expenditure Register
- Stock Register
- Measurement book
- Detailed Estimates
- Security Deposit Register
- Interim Payment Certificates
- Escalation Payment Certificates

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

Accounting Manuals and Codes:

- General Financial Rules
- Federal Treasury Rules
- Revised System of Financial Control and Budgeting
- FIDIC Guidelines³
- WB Procurement Guidelines
- Pakistan Allocation Rules
- Esta Code
- FR & SR
- Accounts Code
- Departmentalization Scheme
- Central Public Works Account (CPWA Code)
- Central Public Works Department (CPWD Code)
- Public Procurement Rules, 2004
- Schedule of Rates
- Book of Specifications
- Compendium of Service Rules (CSR)
- Income Tax Rules
- Drawing and Disbursement Office (DDO) Hand Book
- GP Fund Rules 1925
- Pakistan Engineering Council (PEC) Rules
- Land Acquisition Act
- Workers Welfare Fund Ordinance, 1971

In addition to the above mentioned list, the following is the list of manuals and codes which are entity specific for Federal Departments:

- National Highway Authority (NHA) Act
- NHA Manual

³ FIDIC is a French abbreviation of ‘Federation Internationale des Ingenieurs Conseils’

- NHA Code
- NHA Standard Operating Procedures
- Capital Development Authority (CDA) Manual
- Civil Aviation Authority (CAA) Ordinance
- CAA Act
- CAA Works Procedure
- CAA Procurement Regulations

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 regulations. 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 business process is attached in Form PF-II of 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 at the principal accounting office, and all subsidiary accounting locations.

4.13 Significant Audit Areas – Form PF IX

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

The auditor should list critical audit areas/significant Financial Statements components (including individually significant transactions and events), and their impact on the Financial Statements of the Federal and Provincial governments (in liaison with those auditors having responsibility for these audits). This will help the auditor to plan his/her

audit for specific Financial Audit and related Compliance with Authority Audit objectives.

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

- by district; or
- by capital projects, operations, ongoing maintenance of the facilities, major repairs, etc.; or
- by major activities (building, roads, water courses, etc.); or
- Object element [civil works (A012), repair & maintenance (A013) etc].

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

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

Sometimes the Financial Statements includes several different groupings of the same total amount. For example, in the Financial Statements of auditee department(s), financial data/expenditure may be grouped by:

- Separate districts;
- Economic, or business, functional classification (buildings, roads, water courses, etc.);
- Object element [civil works (A012), repair & maintenance (A013) etc].

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

1. Income
 - Appropriations (grants)
 - Rentals (self-generating income)
 - Intergovernmental or interdepartmental transfers
2. Expenditures/Costs
 - Major capital projects
 - Equipment (vehicles / heavy construction)
 - Goods and services
 - Utilization of inventory
 - Depreciation
 - Payroll
 - Personnel benefits such as Pensions and Provident Funds
3. Assets
 - Fixed assets (land / buildings / infrastructure – roads, bridges)

- Capital work in progress (civil works, etc.)
 - Major equipment
 - Current assets (stores)
 - Cash
4. Liabilities
- Long-term loans
 - Provision for retirement benefits
 - Security deposits
 - Current liabilities (creditors, etc.)

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

Significant Financial Statement Components	Main Heads	Critical Area
Revenue	Sale of Plots	<ol style="list-style-type: none"> 1. Balloting 2. Timely realization of instalments 3. Penalties if applicable
	Advertising	<ol style="list-style-type: none"> 1. Tendering process 2. Realization of receipts as per contract
	Toll collection	<ol style="list-style-type: none"> 1. Tendering process 2. Realization of receipts as per contract
	Aeronautical	<ol style="list-style-type: none"> 1. Land charges 2. Housing/Parking charges 3. Air worthiness charges 4. Fuel

	Non Aeronautical	<ol style="list-style-type: none"> 1. Lease of land 2. Commercial concession for 3-5 years 3. Cargo throughput charges 4. Entry fee etc 5. Car parking
Expenditure	Civil Works (Development Expenditure)	<ol style="list-style-type: none"> 1. Planning & Estimation of works. 2. Tendering of works and engagement of consultancy services 3. Post-bid contract amendments 4. Variation /change orders in original contract/work orders 5. Measurement of works 6. Payment to the contractors beyond the terms of contract 7. Escalation claim of the contractors 8. Contract Payments 9. Violation of contract specification/design 10. Non-imposition of liquidated damages due to delay in completion of works 11. Failure and termination of contracts
	Repair and Maintenance	<ol style="list-style-type: none"> 1. Planning & Estimation of works. 2. Tendering of works 3. Variation /change orders in original contract/work orders 4. Measurement of works 5. Work Payments

	Work Charge Establishment	<ol style="list-style-type: none"> 1. Sanction estimate 2. Appointment procedures 3. Payment to work charged establishment 4. Engagement of work charged establishment after the completion of a work.
Assets	Fixed Assets	<ol style="list-style-type: none"> 1. Fixed Asset Register 2. Addition 3. Disposal 4. Insurance of assets
	Investment	<ol style="list-style-type: none"> 1. Approval of Investment Decision 2. Implementation of Government Instructions 3. Physical Verification of Investment Instruments 4. Recording of Investments in accounting records 5. Disinvestment decisions

4.14 Significant Accounting Policies – Form PF-X

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

Significant policies may include:

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

Note: A sample of the permanent file prepared for the Capital Development Authority has been annexed as Appendix – A.

5. AUDIT PLANNING PHASE

5.1 Introduction

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

Individual audits must be planned to ensure that:

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

The planning phase involves the following:

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

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

5.2 The Audit Team's Responsibility in Planning Phase

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

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

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

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

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

5.3 Documentation in Planning Phase

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

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

- Checklist of accounting estimates to be reviewed
- Points for attention at next audit *
- Audit planning checklist *

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

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

5.4 Audit objectives and scope

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

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

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

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

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

The purpose of this form is to highlight matters that should be taken into account when planning the following year's audit. The auditor should record expected developments in the entity's activities that may require changes in the audit planning. This form can also be used to document practical suggestions for changes to the next year's audit. All audit staff are encouraged to suggest improvements in the audit plan and procedures.

5.6 Entity communication letter

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

5.7 Audit planning memorandum

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

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

5.8 Memorandum on post-planning changes

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

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

5.9 Important dates

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

5.10 Tour programme

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

5.11 Information requested from entity officials

The audit team leader should keep track of information requested from the auditee's management, including what information was requested, when it was required to be

delivered and when it was actually received. This form provides a suggested format, but the audit team leader may choose to use his or her own format.

5.12 Materiality assessment form

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

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

Note: For a comprehensive discussion on Materiality, see section 7.3.1 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 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 invoices, 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 CAATs are being used to do the selection. Random selection is also possible, but contains all of the difficulties of cell selection. In addition, it has a further disadvantage – should fixed interval or cell selection be used, the sample size will automatically be adjusted for any over or under-estimations of the population value. With random selection, this will not occur. Hence random selection is rarely used with MUS. For both fixed interval selection and cell selection, the auditor needs to know the sampling interval.

Selecting the sample – non-statistical sampling

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

For detailed guidance please refer to Appendix B of FAM.

5.24 High value item selection form

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

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

5.25 Key item selection form

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

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

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

5.26 Sample sizing for tests of internal control

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

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

5.27 Sample sizing for substantive tests of details

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

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

5.28 Checklist of accounting estimates to be reviewed

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

5.29 Points for attention at next audit

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

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

5.30 Audit planning checklist

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

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

5.31 Centrally Led Audit

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

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, Works (Federal) is solely responsible for the Certification Audit of the Pakistan Public Works Department with the involvement of his other branch offices and field audit teams

6. AUDIT EXECUTION PHASE

6.1 Introduction

This chapter provides guidance for the auditors work at the execution stage. This stage includes compliance testing (test of controls), substantive testing, collecting and reviewing evidence and maintaining working papers files. It needs to be noted that the audit programmes given at the end of this chapter provide guidance to the field auditors for Certification Audit and Compliance with Authority Audit.

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

The Audit Working Papers Kit provides:

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

6.2 The Audit Team's Responsibility in Execution Phase

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

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

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

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

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

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

6.3 Forms and Schedules for Audit Execution Phase

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

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

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

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

6.4 Summary of Analytical Review Procedures Performed

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

6.5 Details of Analytical Review Procedures Performed

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

6.6 Completed Internal Control Questionnaires

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

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

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

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

6.7 Internal Control Deviations Form

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

Where the operations of the auditee organisation are 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 works audit given at Section 6.16 onwards of this chapter under the heading Audit Programmes. The auditors are expected to select the relevant audit programmes for each audit as they do not have to apply all the possible Audit Programmes in every audit.

Substantive testing examines a sample of individual transactions to determine whether the transactions selected comply with all applicable laws, regulations and rules to find any errors or anomalies that may exist. Each Audit Programme provides a basic set of steps for the auditor to follow to perform substantive tests.

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

Audit Objectives:

To determine whether, on the basis of the transactions examined (selecting a representative sample of transactions or other form of sample), the entity's Financial Statements complies with the following assertions⁴:

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

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

6.13 Substantive Test of High Value/Key Items – Summary

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

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

The auditor will complete one copy of this form for every single error discovered in any of the substantive tests of details (from sampled transactions and High Value Items and Key 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.

⁴Another 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.

- Audit of Expenditures – Employee related expenses
- Audit of Expenditures – Procurement
- Audit of Expenditures – Planning and Contract Awarding
- Audit of Expenditures – Contract Implementation / Execution
- Audit of Expenditures – Contract Completion
- Audit of Expenditures – Work Charge Establishment
- Audit of Expenditures – Disbursement (Workers Welfare Fund)
- Audit of Income – Generation of Funds (Workers Welfare Fund)
- Audit of Income – Revenue (Workers Welfare Fund)
- Audit of Income – Revenue (National Highway Authority)
- Audit of Income – Revenue (Capital Development Authority)
- Audit of Assets – Assets Management
- Audit Programme – Audit of Investment
- Audit Programme – Financial 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 - Employee Related Expenses

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<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 • 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 copy of PCA & PAN are 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 		

<p>regulations governing deductions such as rent deductions, loans and advances / etc.)</p> <ul style="list-style-type: none"> • 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 Payroll Register – compare pay slips with Last Pay slip Certificate issued • 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 (Wage Type: 1831)</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. (Ref: para-6 of Finance department Letter # FD.PC.2-1/2005) • Check that the adhoc relief allowance shall continue to be admissible at frozen level on existing conditions. (Ref: Office memorandum # FD.PC-2-1/2007 Dated: July 23, 2007). • 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. (Ref: letter # FD.PC-2-2/99 Dated: July, 21, 2007). • 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. (Ref: letter # FD.PC-2-2/99 Dated: July, 21, 2007). <p>Special Additional Allowance (Wage type:)</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 		
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(promotions/transfers/absorptions).

(Ref: letter # FD.PC-2-2/99 Dated: July, 21, 2007)

Special Allowance (Wage Type: 1550)

- Check that an increase @ 15 % on initial of the pay shall be allowed to the contractual appointees as special allowance who are in receipt of pay package slightly higher than the standard pay package prescribed under the contract appointment policy dated: 29-12-2004.

(Ref: letter # FD.PC-2-1/2007 Dated: 23rd July, 2007)

Special Relief Allowance

- 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.

(Ref: para-6 of Finance department Letter # FD.PC.2-1/2005)

(Ref: letter # No. FD.PC-2-1/2003)

(Ref: Office memorandum # FD.PC-2-1/2007 Dated: July 23, 2007)

- 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.

(Ref: letter # FD.PC-2-2/99 Dated: July, 21, 2007)

- 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.

(Ref: letter # FD.PC-2-2/99 Dated: July, 21, 2007)

Superannuation age

- 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.

Annual Increments

- 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>(Ref: letter# FD.PC-2-1/2007 Dated: 23rd July, 2007)</p> <p>Dearness Allowance (Wage type: 1864)</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. <p>(Ref: letter# FD.PC-2-1/2007 Dated: 23rd July, 2007)</p> <p>Entertainment, Orderly and Senior Post Allowances (Wage type 1518)</p> <ul style="list-style-type: none"> • Check that these allowances have been paid to entitled officers only. 		
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6.18 Audit Programme - Procurement

Audit Entity:
Date(s) Conducted:

Audit Period:

Audit Procedure	Done By	WP Ref
<p>I. Existence and occurrence Check the:</p> <ul style="list-style-type: none"> • Documentation (purchase order/purchase authorization/invoice/delivery receipt and receiving documentations) • Entry in inventory register. • Payments for product/material entered into ledger for current year. • Payment was made to the correct payee. <p>[CPWA Code Para 105 to 110]</p>		
<p>II. Completeness</p> <ul style="list-style-type: none"> • Reconcile total expenditures on product/material with the amount recorded in the ledger. • Check that all material recorded as acquired in the year are charged against that year. <p>[Rule 26 of G.F.R. Volume-I]</p>		
<p>III. Measurements</p> <ul style="list-style-type: none"> • Check that the measurements were made in proper document/measurement books. • Check that goods were received as per order and paid for what was received. Identify any short fall by comparing purchase order and good received note. • Check that the invoices and payments have applied proper prices and include correct freight charges if applicable. • Check that advance payments have been reflected in the invoice and correspondingly deducted from payment. • Check arithmetical accuracy • Check applicable guarantees, service support. • Check that no payments were made for maintenance/replacement parts that were covered by 		

<p>warranties.</p> <ul style="list-style-type: none"> • Check in case of late delivery, whether any penalties apply under contract and if so, whether payment was adjusted accordingly. <p>[CPWA Code Para No. 209]</p>		
<p>IV. Regularity</p> <ul style="list-style-type: none"> • Check that the acquisition process and the size of purchase is within the authority limit of the authorizing officer. • Check that the supporting documents contained the justification for large purchases. • Check the expenditure was consistent with the nature of the appropriation to which it was charged. • Check that the supplier's name is on the list of approved vendors. • Check that in all major respects, the laws, regulations, rules and policies to the acquisition are complied with: <ul style="list-style-type: none"> ○ Procurement Process and Methodology ○ Economy and effectiveness ○ Storage issues ○ Indent to supply ○ Storage ○ Issue policy ○ Arranging of stores ○ Limits of storage <p>[PPR-2004: Rule 15 to 22] [CPWA Code Para 105 to 110]</p>		
<p>V. Monitoring and Maintenance</p> <ul style="list-style-type: none"> • Examine the facilities for handling of equipments and check that: <ol style="list-style-type: none"> a. the equipments placed in suitable places b. the storage is free of hazards in dangerous situation c. the handling equipment is in good handling order d. there were adequate periodic checks over the usage of equipments e. there are adequate physical control over the equipments to check that the equipment were properly safeguarded • Check whether the maintenance of equipments records are sufficient to safeguard the inventory <ol style="list-style-type: none"> a. records are maintained up to date b. access to record is limited to make it difficult to alter to cover up theft 		

regular reconciliation of actual equipments with inventory records and accounting records thereof [CPWA Code Para 105 to 110]		
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6.19 Audit Programme - Planning and Contract Awarding

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<p>I. Planning & Estimation of works. Check that :</p> <ul style="list-style-type: none"> • Feasibility study was prepared in case of Mega Projects. • Drawings, work specifications were prepared on the basis of data of survey reports. • Was the project economically viable on the basis of feasibility study. • If the project was not economically viable, what were the reasons for its selection • Design was prepared through design consultants/design wing and approved by the competent authority. • Rates used in the estimates were in accordance with the rates specified in NHA composite Schedule of Rates. • Estimates were based upon prevailing market rates in case of Non Schedule Rates. • Rates of Non Schedules Items were properly analysed and analysis was available with estimate. • PC-I/Engineer's estimate was approved by the competent forum/authority. • Estimate covers all the components of the project objectives. <p>[Chapter 11, Para 1 of 'Guidelines for Project Management'] [C.S.R. of the relevant department]</p>		
<p>II. Transparency in tendering of works and engagement of consultancy services <u>Engagement of consultants</u> Check that:</p> <ul style="list-style-type: none"> • Consultants were selected after advertisement in the press • Criteria for pre-qualification was clearly defined • Both technical and financial proposals were evaluated • Selection was made on merit • Consultants were appointed as per approved policy and guidelines issued by the Govt. <p>[PPR-2004 : Rules 8, 12 & 15]</p>		

Engagement of contractor

- Check the enlistment/renewal of contractors with the department
- Check the notification for pre-qualification of contractors advertised in the press.
- Check that the criteria for selection of contractors were followed.
- Check that the sufficient time was given to contractors for submission of documents for pre-qualification

[Code of the relevant department]

Tendering:

- Check that tender was advertised in accordance with the policy of the government.
- Check that bids were invited/received from pre-qualified bidders
- Check that bids were evaluated and accepted within validity period.
- Check that bid security was obtained.
- Check that tenders were opened in the presence of bidders.
- Check that the tender sale and tender open register maintenance.
- Check the provisions of PPRA -2004 were followed.
- Compare the content of tender with the estimates.
- Check that the tender documents were prepared clearly & accurately, without any ambiguity.
- Check that the costs of administrative and technical sanctions were recorded in the tender register.
- Check the criteria of pre-bid meetings/amendments.
- Compare bidding applications and tender register to ensure the accuracy of particulars (e.g. rates, quantity etc) quoted by the applicant and rates quoted by the contractor were provided in figure and words.
- Check that there were no interpolations and corrections made in the tender and ensure that all the changes were approved by the competent authority.
- Check that a comparative statement of all the bidders was prepared in the tender register.
- Check the basis on which bidding applications were accepted or rejected.
- Check the arithmetic accuracy of the calculations in the tender and estimates.

<ul style="list-style-type: none"> • Check that acceptance letters were issued to the successful bidders within bid validity period. • Check that work was not awarded without open tendering. <p>[PPR-2004: Rule 20 to 27] [Relevant contract agreements]</p>		
<p>III. Post bid contract amendments</p> <ul style="list-style-type: none"> • Check that the post bid amendments were made in accordance with the rules and regulations. • Check the contract agreement to see the amendments included therein. <p>[NHA Code: Chapter 3, Para 97]</p>		

6.20 Audit Programme - Contract Implementation/Execution

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<p>I. Variation /change orders in original contract/work orders</p> <ul style="list-style-type: none"> • Check that the variations/deviation from approved scope was made as per requirements. • Check variation was recommended by the engineer (nominated consultant) of the contract • Check that the variation order is approved by the competent authority. • Check that the cost of variation order was prepared in accordance with the terms and conditions of the contract agreement or prevailing market rates. <p>[NHA Code: Chapter 3, Para 97]</p>		
<p>II. Measurement of works</p> <ul style="list-style-type: none"> • Check the measurement book and ensure that the measurements were recorded in chronological order. • Check the arithmetic accuracy of the calculations booked in the measurement book and ensure the aggregate measurements do not exceed estimated quantities as mentioned in the Bill of Quantities (BOQ). • Identify the cases of excess measurement from the measurement book and ensure proper action has been taken against the responsible officers/officials. • Check that detail measurements were recorded in the M.B. • Check that material tested in authorized/approved laboratory. <p>[C.P.W.A Code: Para 209]</p>		
<p>III. Extra financial assistance to the contractors</p> <ul style="list-style-type: none"> • Check contract agreement and compare it with measurements recorded in the measurement book and payment vouchers through which payment was made to the contractors. • In case of any deviation from the contract agreement, record the instances and probe into the matter. <p>[C.P.W.A Code: Para 209]</p>		
<p>IV. Escalation claim of the contractors</p>		

<ul style="list-style-type: none"> • Check escalation provisions of the contract agreement and compare with the payment voucher. • Check that the Factor "C" was provided in the agreement. In case of change of Factor "C" record the instances and probe into the matter. • Check the current rate/base rates of materials is provided in the agreement for escalation purpose. • Check the source of material is mentioned in the agreement. If there is a change in source of material, probe into the matter. <p>[Contract Clause – 70, Appendix -C]</p>		
<p>V. Payments</p> <ul style="list-style-type: none"> • Check vouchers passed/payment made by SDO was pre-audited by DAO • Check that necessary deductions were made from the contractor's payments. • Check that paid voucher amount or its part, in case placed in suspense head Misc. P.W. advances as recoverable from departmental officials was as per rules and its adjustment/recovery made within financial years as per budget manual. • Check that paid voucher for release of security deposit was prepared after the maturity period or amount released against bank guarantee as per agreement clause. Equal amount in deposit was available in P.W. Deposit. • Check that expenditure was within the budgetary allocations/ funds released. • Check that paid vouchers entered in the cash book • Payments made were acknowledged by the contractors. • Check that price variation was worked out correctly and arithmetical calculations were correct. • Check that paid vouchers for mobilization advances were against irrevocable bank guarantees issued by local scheduled banks and forfeited in case of defaulter contractors. • Check secured advance payment against indenture bond, on the certificate of SDO and recovered with interest in case of contractors default. • Check voucher for advance payment of work done but not measured as per laid down instructions • Check rates / quantity in vouchers correctly paid i.e. as per contract/ Market Rate System / Schedule of Rates. 		

<ul style="list-style-type: none"> • Check muster roll/Casual labour rolls against proper appointment and against provision in TSE. • Check that Financial Statements on RTSE/Final or last bill prepared and recovery of imbalance rates made. • Check recovery of minus final/running bill made. • Check that payment charged to proper head of account. • Check that entries of temporary advance/imprest and their adjustment were correctly made. <p>[C.P.W.A Code: Para 221] [C.P.W.A Code: Para 228 & 229]</p>		
<p>VI. Violation of contract specification/design</p> <ul style="list-style-type: none"> • Check the provision of contract specification/design and actual execution of work. • Identify the instances of violation, probe into the matter and worked out the financial impact of the violation. <p>[Relevant specification as per contract agreement]</p>		
<p>VII. Non imposition of liquidated damages due to delay in completion of works</p> <ul style="list-style-type: none"> • Check the work schedule with actual progress of work. • In case of delay in execution of contract, ensure liquidated damages (LD) have been imposed/recovered in accordance with the provisions of NHA procedures and book of financial power. <p>[Contract Agreement: Clause 45 & 46 of N.H.A]</p>		
<p>VIII. Failure and termination of contracts</p> <ul style="list-style-type: none"> • Check the civil works execution in accordance with the contractual provisions • In case of non compliance with the terms and condition of the contract ensure the contractor was penalized in accordance with the provisions of the contract. 		
<p>IX. Payment of advances, Mobilization advance, Secured advance</p> <ul style="list-style-type: none"> • Check the contractual provisions towards the payment of advances, Mobilization advance and Secured advance. • Check the authenticity of bank guarantees/debenture bonds submitted by the contractors/suppliers against Mobilization 		

<p>advance /Secured advance was paid.</p> <ul style="list-style-type: none"> • Check the material brought at site against which Secured advance was paid <p>[C.P.W.A Code: Para 238] [Relevant Contract Agreement Clauses]</p>		
<p>X. Non recovery/adjustment of loans and advances to contractors/suppliers/departments</p> <ul style="list-style-type: none"> • Check loans and advances issued to the contractors /suppliers were in accordance with the terms & conditions of the contract • Check the loans and advances given were approved by the competent authority. • .Check accurate booking of all loans and advances in the financial statements. • Check the progress report contracts and ensure the loans and advances were recovered in accordance with the terms and conditions of the agreement. <p>[C.P.W.A Code: Para 238] [Relevant Contract Agreement Clauses]</p>		
<p>XI. Non encashment of performance bonds/bank guarantee</p> <ul style="list-style-type: none"> • Check that the performance bonds/bank guarantee received from the contractor/supplier in accordance with the terms and conditions of the contract. • Check the authenticity of the performance bonds /bank guarantees being submitted by the contractors/suppliers. • Check the guarantee register and ensure the completeness and safe custody of the bonds/grantees. • Check the bonds /guarantees were encashed in accordance with the provisions of the contract. <p>[Relevant Contract Agreement Clauses]</p>		
<p>XII. Security deposits</p> <ul style="list-style-type: none"> • Check the provisions the contract agreement • Check the maintenance of security deposits registers/allied records. • Check the refunds of security deposits on satisfactory completion of defect liability period. <p>[C.P.W.A Code: Para 388 & 390]</p>		

<p>XIII. Deduction of income tax</p> <ul style="list-style-type: none"> • Check the provisions of the contract agreement towards deduction of income tax. • Check the actual deduction of income tax, if deviation, probe the matter into the matter. <p>[Income Tax Ordinance 2001]</p>		

6.21 Audit Programme - Contract Completion

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<p>I. Major Work (Development Work)</p> <ul style="list-style-type: none"> • Check that PC –IV prepared and submitted to the competent authority • Check that the Defect Liability Period has been successfully completed. • Check that the performance security and security deposit are released after the expiry of Defect Liability Period. • Check that the compliance of objectives set in PC-I have been started. • Check that no claim of the contractor / department is pending against the project. • Check that the accounts of the project has been finalised and not kept open. • To check that no work charges have been charged after the completion of the work/project <p>[Guidelines for Project Management: Annexure – XX]</p>		
<p>II. Minor Work (Repair & Maintenance)</p> <ul style="list-style-type: none"> • Check that completion certificate is issued by the concerned department. • Check that the Defect Liability Period has been successfully completed. • Check that the security deposit is released after the expiry of Defect Liability Period. • Check that no claim of the contractor / department is pending against the work. • Check that allottee of house acknowledge the execution of work in his house/quarter • Check the TSE is according to yard stick of annual M&R for Road/Building and without provision of contingencies. Check and report if any item pertaining to original work is incorporated in the M&R. • Check the issuance of AA of the M&R exceeding Rs. 50,000. • Check that the cushion of 10% has not been used in TS estimate. • Check that the work plan for M&R of road/buildings has been approved by the competent authority. 		

<ul style="list-style-type: none">• Check that the general repair and maintenance work has been completed within the financial year, as the sanction of estimate lapses on the last day of the working year. <p>[C.P.W.A Code: Para 260 to 262]</p>		
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6.21 Audit Programme - Work Charge Establishment

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<ul style="list-style-type: none"> • Check the Register of Fixed Charges to see that all sanctions and charges relating to it are in order. • Check provision in the sanction estimate. • Check the press advertisement for appointment of work charge establishment/employees • Check that the rates of pay approved by the Government for the classes of work charge establishment are not exceeded. • Check that employees under work charged establishment who are generally paid at monthly rates of pay should not paid as daily labours with a view to infringe the rules governing the pay of such establishment. • Check that the work charge employees/establishment is discontinued after specified time (89 days). • Check whether the engagement of work charge establishment has been discontinued or not after the completion of a work for which this establishment was enrolled. • Check that the work charge establishment has not been assigned the duties of permanent staff. • Check the payment is being made on muster roll to the work charge establishment with all codal formalities. • Check the execution work by work charge establishment according to their nature of duty. • Check that the expenditure is charged to proper head of account with correct amount in the relevant period. • Check that the payment made to the work charge establishment is based on Muster Roll (attendance sheet). <p>[C.P.W.A Code: Para 10 & 12] [C.P.W.A Code: Para 230 to 236]</p>		

6.22 Audit Programme - Disbursement (Worker Welfare Fund)

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done by	WP Ref
<p>I. Allocation of funds to Provincial Workers Welfare Boards</p> <ul style="list-style-type: none"> • Check the demands of Workers Welfare Boards • Check that whether demands were received in time • Check the rules and regulations towards approval of governing body • Check that whether funds were timely transferred/released to Workers Welfare Boards. • Check the monthly progress reports towards expenditure received from Workers Welfare Boards <p>[Sec 10 of WWF Ordinance, 1971]</p>		
<p>II. Sanction towards expenditure in respect of administration & management of the Fund</p> <ul style="list-style-type: none"> • Check the expenditures were incurred in accordance with rules and regulations • Check that cash book was maintained • Check that expenditures were incurred for approved purpose • Check the bank reconciliation statements • Check the expenditures were supported with proper vouchers <p>[Sec 10 of WWF Ordinance, 1971]</p>		

6.23 Audit Programme - Generation of Funds (Workers Welfare Fund)

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedures	Done By	WP Ref
<p>I. Contribution from Federal Government</p> <p>Check that:</p> <ul style="list-style-type: none"> • Whether funds were timely demanded. • Funds were placed in proper head of account • The cash books are maintained • The reconciliation with banks was made. <p>[Sec 11 of WWF Ordinance, 1971]</p>		
<p>II. Contribution from industrial establishment</p> <ul style="list-style-type: none"> • Check the policies/rules towards contribution from Industrial establishments • Check the share due to / received from the industrial establishment • Check the total amounts received from the industrial establishment • Check the booking of amounts received from the industrial units • Check that if industrial establishment fails to pay the amount due from it, additional amounts were imposed/recovered from these industrial establishments as per rules. <p>[Sec 4 & 5 of WWF Ordinance, 1971]</p>		
<p>III. Voluntarily contribution by Government of any other persons</p> <ul style="list-style-type: none"> • Check the total amounts received in this account voluntarily • Check the booking of amounts in the account books 		
<p>Income from the investment</p> <p>Check that :</p> <ul style="list-style-type: none"> • Approval of Competent Authority towards investment 		

<p>was obtained</p> <ul style="list-style-type: none"> • The rules of the Govt. were observed • Investments were made with approved banks/entity • Whether investment were made with those banks/entity offering maximum rate of profit • Whether safety measures towards custody of bonds, certificates were adopted • Whether responsibility in this regard was laid down there • Whether surprise checks were made • The profit earned from investment has been properly accounted for. <p>[Minutes of the 97th Meeting of Governing Body of WWF dated 7 March 2008]</p>		
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6.24 Audit Programme - Revenue (Workers Welfare Board)

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit procedure	Done By	WP Ref
<p>I. System of Recovery of rent of flats/shops</p> <ul style="list-style-type: none"> • Check the prevailing system towards recovery of rent of flats/shops • Check the total numbers of flats of Worker Welfares colonies and shops • Check the total number of flats/shops recorded in the ledgers maintained, to watch the recovery of rent • Compare the agreed rates of rent with actual realization <p>[Para 3.13(b) and annexure C of P.W.W.B Housing Scheme Policy 2002]</p>		
<p>II. Utilization of revenue towards expenditure</p> <ul style="list-style-type: none"> • Check that the provision of Workers Welfare Fund Ordinance • Check that the incurring of expenditure from revenue was provided in the budget 		
<p>III. Deposit of realized revenue in relevant account</p> <ul style="list-style-type: none"> • Check the contractual provisions for deposit of revenue. • Check that the revenue collected by the contractor has been deposited in authority's main account with in the specified time period. • In case of delayed remittance of revenue by the contractor to authority's main account, ensure that penalty (mark up) is imposed in accordance with the contractual clauses. • Check that the recovery of penalty (mark up) charged as a result of delayed remittances of revenue. <p>[Relevant Contract Clauses]</p>		

6.25 Audit Programme – Revenue (National Highway Authority)

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<p>I. Award of Operation & Management Contracts</p> <ul style="list-style-type: none"> • Check the tender was announced publicly in accordance with the policy of the government. • Check the pre-qualification of revenue contractors. • Check the record towards traffic count at various plazas. • Check the reserve price of toll plazas in accordance with traffic count. • Check that the bidding applications of potential contractors were recorded in the tender register. • Check that no work was awarded without tendering. <p>[P.P.R – 2004: Rule 15 to 20] [NHA Code: Chapter 3]</p>		
<p>II. Realization of revenue</p> <ul style="list-style-type: none"> • Compare the agreed rates with actual realization. • Compare the statement of vehicles with realized amounts. <p>[NHA Code: Chapter 5] [Relevant Contract Clauses]</p>		
<p>III. Deposit of realized revenue in relevant account</p> <ul style="list-style-type: none"> • Check the contractual provisions for deposit of revenue. • Check that the revenue collected by the contractor has been deposited in authority's main account with in the specified time period. • In case of delayed remittance of revenue by the contractor to authority's main account, ensure penalty (mark up) is imposed in accordance with the contractual clauses. • Check that the recovery of penalty (mark up) charged as a result of delayed remittances of revenue. <p>[Relevant Contract Clauses]</p>		

<p>IV. Payment of staff deployed at toll plazas in case of departmental collection</p> <ul style="list-style-type: none"> • Check the terms & conditions of employment contract. • Check that the deployment of staff was in accordance with the terms & conditions of employment contract. • Check that the payments were made on account of employees deployed at toll plazas. <p>[Terms & Conditions of Employees' Contract]</p>		
<p>V. Realization of revenue on account of installation of utilities in ROW. (Fibre cable, Sui gas pipe lines, WAPDA transmission line)</p> <ul style="list-style-type: none"> • Check the SOPs towards utilization of ROW • Check the record towards the utilization of ROW by various agencies / departments • Check that the realization of using of ROW is in accordance with the approved rates • Check the record towards the realization of revenue from various departments regarding utilization of ROW • Check that the revenue realized was deposited in the relevant bank account and recorded in the books of accounts. <p>[NHA Code: Chapter 8]</p>		
<p>VI. Utilization of revenue towards expenditure.</p> <ul style="list-style-type: none"> • Check whether the department is authorised to utilize the internally generated revenue. • If yes, check the Rules & Regulations of the department for its utilization. <p>[NHA Act and Road Maintenance Rules 2003]</p>		

6.26 Audit Programme - Revenue (Capital Development Authority)

Audit Entity:
Date(s) Conducted:

Audit Period:

Audit Procedure	Done By	WP Ref.
<p>I. Fixation of revenue targets</p> <ul style="list-style-type: none"> • Check that survey report was prepared and approved in order to estimate the revenue targets. • Check that revenue estimates are realistic and based on technical grounds. • Check that rates are according to the approved and updated schedule and revised after five/ten years. 		
<p>II. Procedure for collection of revenue</p> <ul style="list-style-type: none"> • Check that whether the relevant person (depositor/tax payer) was timely intimated about his/her liabilities and followed by reminders in case of no response. • Check that an incentive for timely payment was provided. <p>[Para 26 & 27 of GFR Vol –I]</p>		
<p>III. Realization of revenue</p> <ul style="list-style-type: none"> • Check that whether revenue was collected with in due time, if no, check that fines, surcharge, and delayed payment charges were properly levied. • Check that rebates, concessions and exemptions are granted according to rules (check cut-off dates for awarding rebates/exemption). • In case of sales/auctions, proper procedures are being followed. • Compare the estimated targets with actual revenue collected. <p>[Para 26 & 27 of GFR Vol –I]</p>		
<p>IV. Preparation of accounts</p> <p>Select sample from cash book and:</p>		

<ul style="list-style-type: none"> • Trace the flow of accounts and assure that the transactions are recorded in accounts. (select sample from receipt vouchers and trace in cash book, receipt book, ledger and vice versa) • Check that all receipts are properly maintained and acknowledged. • Check that receipt vouchers are pre audited. • Check arithmetical calculation, and that proper supporting are attached (see the contract agreed with the contractor if any). • Check that whether the receipt has been recorded in its proper head of account in ledgers. • Check that revenue collected through right-off ways (land space utilized by other agencies e.g. WAPDA, PTCL) has been properly recorded in accounts. • Check that manual ledgers are updated and checked <p>a) For cash book check that:</p> <ul style="list-style-type: none"> • No page was missing. • Page count certificate was properly recorded by the sub-divisional officer. • Editing has been attested by the sub-divisional officer. • All receipt vouchers are properly classified. • It has been properly closed (signed by DDO) at the end of month. • Bank reconciliation statement is placed in the cash book. <p>b) For cheque register check that:</p> <ul style="list-style-type: none"> • The amount of dishonoured cheque has been shown as outstanding in the ledger. • Cheque books are entered in the cheque book register in sequential order. <p>c) For monthly account:</p> <ul style="list-style-type: none"> • Check that revenue receipts from different sources have been incorporated in the monthly account. • Check that the closing balances of various formations are reconciled with the consolidated accounts of directorate of accounts (note down the differences if not reconciled). 		

V. Reconciliation <ul style="list-style-type: none">• Select a sample of receipt vouchers and match with the bank scroll.• Main account should be reconciled with the bank statement at the close of year.• Outstanding cheques may also be watched next month.		
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6.27 Audit Programme - Major Assets

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By:	WP Ref.
<p>Fixed Asset Register</p> <ul style="list-style-type: none"> • Check that the department has maintained fixed asset register in accordance with the provision of APPM (Form 13A). • For a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. • Check that assets are correctly identified in the Fixed Assets Register under the correct Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes. • Check that the all the additions (purchase / transfer in) and deletions (sale/of fixed assets have been properly incorporated in Fixed Asset Register. • Check whether the manager(s) responsible for asset management receive(s) regular reports from the Fixed Assets Register under the relevant Object Codes and that the information is presented in a way that it can be used by the responsible managers section. 		
<p>Physical Verification</p> <ul style="list-style-type: none"> • Check for a sample selected out of the Fixed Assets Register that the assets physically exist and that they comply with the information in the Register regarding location, asset identification number, description, classification, and other relevant information. • Check from physical inspection of a sample of assets on site that they are entered into the Register and that the information about them is accurate. • Check for a sample of expenditures (identified in General Ledger) that they have been recorded correctly in the 		

<p>Fixed Assets Ledger and that they are on site, according to location information in Ledger, and that they are operational and being used.</p> <ul style="list-style-type: none"> • For any items still in storage, or non-commissioned, determine reasons for non-functional state. • For any assets not delivered, determine why payment was made before delivery. (May need to follow-up on contract arrangements.) 		
<p>Fixed Assets Addition</p> <p>Purchases Check for a sample of additions that:</p> <ul style="list-style-type: none"> • Budget was approved for the particular purchase. • Purchase Indent is approved by the competent authority. • Tendering process was done in accordance with PPR Rules 2004. • Purchase Order generated in favour of selected/approved supplier. • For the sample of purchased items during period audited, check that the cost listed in the Fixed Assets Register is the same as the purchase price (including cost of installation & commissioning) and check against supporting documentation. <p>[Chapter-V, VI & VII of PPR]</p> <p>Transfer in</p> <ul style="list-style-type: none"> • For items transferred in, check whether any transfer payments were made and if so whether for an appropriate amount. • Check that any donation/gift of fixed asset received, met the requirements of the Accounting Policies and Procedures Manual- APPM [13.4.3 - Donations/gifts of fixed assets)]. <p>Subsequent Capitalization</p> <ul style="list-style-type: none"> • Review any expenditure on improvements to assets and check that these have been identified as capital expenditures. 		
<p>Fixed Assets Deletion</p> <p>Disposal Check for a sample of fixed assets disposal that:</p> <ul style="list-style-type: none"> • Whether proper authority was obtained to dispose of the 		

<p>asset</p> <ul style="list-style-type: none"> • That an appropriate price was obtained (either by a competitive bid process or by benchmarking the value of the asset before determining the price) • Where possible, compare prices obtained for similar assets and investigate any assets apparently sold below value • For any revenue, check that this was properly recorded in the General Ledger, or other account <p>Transfer out</p> <ul style="list-style-type: none"> • For items transferred in, check whether any transfer receipts were obtained and if so whether for an appropriate amount. • Check the accumulated depreciation of the assets transferred out has been excluded from the accounts. • Check that any income earned on the transfer out of fixed assets was correctly recorded. • Confirm that assets were received by the organizations to which they were transferred. 		
<p>Depreciation of Fixed Assets</p> <ul style="list-style-type: none"> • Checked on sample basis that the depreciation is accounted for accurately. 		
<p>Revaluation of Fixed Assets</p> <ul style="list-style-type: none"> • If during the period fixed assets were revalued, ensure that revaluation process in accordance with rules/policies adopted by the department. • Check that any gain/loss on revaluation of fixed assets had been accounted for in accordance with rules/policies adopted by the department. • Where assets have been revalued, determine reason for revaluation and if necessary obtain an opinion whether they are fairly valued. {This could be an issue where operations to be privatized.} 		
<p>Land Acquisition.</p> <ul style="list-style-type: none"> • Check that acquisition of land was made after proper evaluation and award under the rules. • Land acquired was in public interest within the ROW of road / building • Land award announced within one year in ordinary case 		

<p>and within six month in emergency case (U/S 17.4(6) and responsibility fixed for extra cost caused due to delay regarding revised land rate or interest beyond six month as per clause 7 of Land Acquisition Rules 1982.</p> <ul style="list-style-type: none"> • Check that name of land owner, actual acquired area, rates applied for land or other item in land award. • Check that the old structure on the acquired land is properly accounted for and auctioned. • Check that payment made to the original owner of the land is in accordance with land award. • Check that mutation of land acquired in the name of Govt. done. • Check that proper account of PLA is available for advance obtained in each case for land acquisition. Reconciliation made. Vouched account issue to concern besides refund of unspent balance. • Check that PLA pass book and voucher slips for each account was available. <p>{Land Acquisition Act 1894, Chapter-Section-4, 5, 6, 10, 11, 16, 17 & 23} {Land Acquisition Rules 1982, Clause 7}</p>		
<p>Ownership of Fixed Assets</p> <ul style="list-style-type: none"> • For assets examined, check, where appropriate, that the government has clear ownership and title to the asset. {This check is more likely to be important for any used items acquired (equipment, buildings, etc.) or for any construction on lands where the government may not have clear ownership of the land – particularly in the case of new road construction.} 		
<p>Reporting</p> <ul style="list-style-type: none"> • Check that the quarterly report on Fixed Assets Register as required by 2.2.7 of the FRM is produced in a timely manner. 		

6.28 Audit Programme - Investment

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref.
<p>I. Approval of investment decision</p> <ul style="list-style-type: none"> • Acquire the investment agreement and minutes of meetings of investment committee (investment targets are fixed). • Check that risk factors are kept in view while making investment (assess through professional judgment). • Check that investments are made according to the terms and conditions of the agreement and under the approval of investment committee or board of directors where applicable. 		
<p>II. Implementation of government instructions</p> <ul style="list-style-type: none"> • Check that the bank/financial institution where money is deposited is holding a minimum ranking of “A” according to the rating awarded by the standard rating agencies on the panel of State Bank of Pakistan (Pakistan Credit Rating Agency, JCR-VIS credit rating company, Moody’s Fitch’s and standard and Poor’s rating). • Prior to placing deposits with bank and in case of working balance exceeding 10 million, check that the bank selection has been made on the basis of competitive bids from at least three independent banks. • In case of working balance exceeding 10 million, check that not more than 50 % of such balance has been deposited with one bank. • In case, bank rating drops below “A” check that the new deposits and old deposits have been shifted to a bank with at least “A” rating within one month and two month respectively. • Check that the working balance limit of each organization has been determined with the approval of the administrative ministry in consultation with finance division. • For Investment in Non Government securities, check that the investment of surplus funds in the non government securities/TFCs/Shares does not exceed 20% of the total 		

<p>funds under management.</p> <p>Note: The above condition is not applicable on public sector enterprises/autonomous bodies that have statutory restrictions on their investing in non-government securities. Corporate entities which receive support from the current budget are holding trust funds such as pension fund, benevolent fund or insurance fund. These enterprises will devise their investment policies through their own board.</p> <ul style="list-style-type: none"> • Check the non-government investment instruments meet the eligibility criteria* as annexed. • Check the annual certificate is issued by the Chief Executive of PSE/Local/Autonomous body regarding the implementation of instructions in respect of the working balance and surplus fund. 		
<p>III. Physical verification of investment instruments</p> <ul style="list-style-type: none"> • Check that the physical verification of investment instruments is carried out. • Check that all investment instruments are serially numbered. 		
<p>IV. Recording investments in the accounting record</p> <ul style="list-style-type: none"> • Check that all investments have been properly recorded in the books of accounts. Compare the investment schedule with the ledger and bank records. • Explain movements and investigate any unexpected or unusual relationship between current period and prior period accounts. • Compare investment held at year end with prior year and budgeted amounts and enquire the variances. • Check that income from investment has been accounted for correctly. Perform recalculation of income on investment. • Check that the investment has been properly classified 		
<p>V. Approval of disinvestment decision</p> <ul style="list-style-type: none"> • Check that the encashment of investment instruments is made on favourable rates under the approval of proper authority and in accordance with the withdrawal policy. See the minutes of meeting in which disinvestment decision was taken. 		

<ul style="list-style-type: none">• Verify receipt of principal and interest income on the investments matured during the period.		
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Rules applicable for Investment

- Finance Division Memo No. F-4(1)/2002-BR-II dated 2 July 2003
- Interior Ministry Memo No. F-4/19/2003-CDA-III-10083 dated 18 September 2004
- Investment Policy of CDA through Coordination Directorate No. CDA – 728/BF-Coord/2007/1389 dated 8 July 2007
- Para 211 of CDA Procedure Manual Part - III

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

6.29 Audit Programme - Accounting and Financial Management

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Procedure	Done By	WP Ref
<p>I. Preparation of Budget and its approval</p> <ul style="list-style-type: none"> • Check that the budget preparation is in accordance with codal provision and approved by the competent authority. • Check the actual budget allocation towards the expenditures / revenues • Check the budget appropriations and re-appropriations towards the actual expenditures. 		
<p>II. Embezzlement, overpayments, mis-appropriation and mis-use of funds</p> <ul style="list-style-type: none"> • Check the vouchers, their approval and supporting documents to ensure that proper controls are in place over the disbursement of cash • Check that the cash books were properly maintained <p>III. Preparation of Financial statements</p> <ul style="list-style-type: none"> • Check that the components of Financial Statements were prepared in accordance with the applicable laws and accounting standards. • Check the existence of assets/liabilities in the accounts. • Check the aging of accounts receivable and identify any major outstanding balances • Check appropriate action has been taken to recover long outstanding balances • Check that bad debts have been recorded for long outstanding balances. • Check the Financial Statements were audited by the commercial auditors <p>IV. Operation of bank accounts</p> <ul style="list-style-type: none"> • Check the Govt. policies towards operation of bank accounts. 		

<ul style="list-style-type: none"> • Check the agreement with banks and ensure that the authority has selected banks offering highest interest rates for making deposits. ▪ Calculate the financial impact of non-compliance with the Govt. policies and ensure that appropriate action has been taken against the responsible persons. ▪ Check that monthly bank reconciliation statements were prepared and differences were identified. 		
<p>V. Accounting for foreign currency transactions and interest payments</p> <ul style="list-style-type: none"> • Check that the payments of foreign currency are in accordance with the provisions of loan agreement. • Check that the foreign currency transactions are recorded in accordance with the applicable accounting policies • Check that the interest calculation and payment are according to the terms and conditions of loan agreement. 		

7. AUDIT EVALUATION AND REPORTING PHASE

7.1 Introduction

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

Evaluation of Audit Findings/Results

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

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

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

Audit Report

The auditor normally issues:

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

The audit report is issued by the external auditor as a result of an external audit or evaluation performed on a legal entity or subdivision thereof (called an “auditee”). The report is subsequently provided to the auditee organisation in order to enable the users to make decisions based on the results of the audit.

Whatever the audit type, the same considerations apply:

- Audit reports should be easy for entity management to read (brief and clear);

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

7.2 The Audit Team's Responsibility

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

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

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

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

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

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

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

A formal process, governing how audit observations are developed, cleared and reported in the most appropriate reporting style, ensures quality. This process helps to ensure that

the contents of the report are correct, and that the findings, conclusions and recommendations contained in the report are easily understood and appreciated by the readers of the reports.

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

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

To facilitate the auditors' understanding of the reporting process, the Reporting Cycle of the Federal Works 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 the President*
5. *Pre-PAC meeting with the AGP or Additional Auditor-General*
6. *Public Accounts Committee (PAC) Meeting*

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

Development of Draft Audit Report (DAR)

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

Departmental Accounts Committee (DAC) meeting

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

Quality assurance review at DAGP

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

Audit report issued to the President

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

Pre-PAC meeting with AGP or Addl. Auditor General

- i) Pre-PAC meeting is held with the Auditor - General of Pakistan or the Additional Auditor-General. The audit paras are discussed thoroughly before being presented at the Public Accounts Committee (PAC) meeting.
- ii) During the Pre-PAC meeting, the audit observations are categorised according to their significance. Cases, where remedial measures have been taken by the audited departments, are also marked for the consideration of the PAC.

Public Accounts Committee (PAC) Meeting

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

7.3 Documentation in Evaluation and Reporting Phase

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

- Internal Control Weaknesses – Impact Analysis *
- Analytical Procedure Thresholds
- Evaluation of Analytical Procedures *
- Evaluation of Internal Control Deviations *
- Substantive Tests Evaluation – Projectable Errors from Sample

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

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

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

7.4 Internal Control Weaknesses – Impact Analysis

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

7.5 Analytical Procedure Thresholds

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

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

7.6 Evaluation of Analytical Procedures

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

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

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

7.7 Evaluation of Internal Control Deviations

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

7.8 Substantive Tests Evaluation – Projectable Errors from Sample

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

7.9 Substantive Tests Evaluation – Non-Projectable Errors

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

7.10 Substantive Tests Evaluation – Summary

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

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

7.11 Achieved Level of Assurance Form

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

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

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

7.12 Error in Each Component

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

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

7.13 Overall Error in Financial Statements

This form is designed to summarise errors in the Financial Statements – first the errors in receipts/revenues, expenditures and net income, and then the errors in assets, liabilities, equity and opening residual equity. The last table of this form then shows the overall most likely errors in assets, liabilities, receipts/revenues, expenditures, equity and opening residual equity, culminating with a Summary of Most Likely Errors.

7.14 Compliance-With-Authority Violations

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

7.15 Checklist of Management Representation Letter

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

This checklist will help the audit team ascertain whether all 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 reports, which also contain the Auditor's Opinion. The audit team will recommend the opinion which it believes is appropriate in the circumstances.

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

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

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

7.20 Follow up Continuity Schedule

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

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

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

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

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

The errors identified during the financial audit could include:

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

Recommendations made by the auditor can relate to:

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

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

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

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

7.21 Quality Assurance Checklist

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

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

7.22 Centrally Led Audit

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

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 sign 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	RESPONSIBILTIES			
		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

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

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P=Perform

RESPONSIBILITIES					
Guideline reference	TASKS	AO/Assistant Director	Deputy Director	Director	Director General
	Updating optimum combination of procedures.			P	R
5.21	Documenting Source of audit assurance form.		P	R	
5.22	Listing all applicable laws and regulations.	P	S	R	
5.23	Documenting and Updating Sample selection checklist.	P	S	R	
5.24	Preparing High value item selection form.		P	R	
5.25	Preparing Key item selection form.		P	R	
5.26	Computing Sample sizing for tests of internal control.		P	R	
5.27	Calculating Sample size for substantive tests of details.		P	R	
5.28	Documenting Checklist of accounting estimates to be reviewed.		P	R	
5.29	Recording Points for attention at next audit.	P	S	R	
5.30	Documenting Audit planning checklist.		P	R	A

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P=Perform

8.5 Key Tasks and Responsibilities: Audit Execution Phase

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
6.4	Documenting Summary of Analytical Review Procedures Performed.		P	R	
6.5	Documenting Details of Analytical Review Procedures Performed.	P	S	R	
6.6	Documenting Internal Control Questionnaires.		P	R	
6.7	Documenting Internal Control Deviations Form.		P	R	
6.8	Preparing Internal Control Deviations Summary.		P	R	
6.9	Preparing Compliance Summary.		P	R	
6.10	Documenting Substantive Tests of Accounting Estimates.		P	R	
6.11	Identifying and listing Errors in Accounting Estimates.		P	R	
6.12	Documenting Substantive Test Sample Summary for each Audit Program.	P	S	R	
6.13	Preparing Substantive Test of High Value/Key Items – Summary.		P	R	
6.14	Documenting Details of Errors in Samples, High Value Items and Key Items.		P	R	
6.15	Conducting Exit Interviews.		P	S	
6.16	Updation of Audit Steps given in the Audit Programmes, if needed.		P	R	S
6.16	Execution of Audit Steps as per the Audit Program	P	P-S	S-R	
	Ascertaining Execution of relevant Audit Programs		P	P-S	S

A= Approve,

R= Review,

S=Supervise,

P=Perform

8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

		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	
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	

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P=Perform

RESPONSIBILITIES					
Guideline reference	TASKS	AO/Assistant Director	Deputy Director	Director	Director General
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
5.3	Ensuring that audit programs are in place as required in Audit Policy Checklist.		P	R	
Execution					
5.8	Ensuring revision of the planning decisions, if required.		P	R	A
	Supervision of all phases of execution as per the tasks assigned in “key tasks related to execution phase” list.		P	R-S	
	To ensure review of audit working paper files.		P	R	S
6.16	To ensure executing audit steps as per the Audit Programs.		P	R	S
	Ensuring reporting and monitoring of audit activities with reference to “execution task list.”		P	R-S	
Evaluation & Reporting					
7.3	To ensure detailed review and approval of monetary errors, compliance with authority Violations and internal control deviations found.		P	R-S	A
7.15,7.16,7.18	Ensuring tools for the auditor’s opinions and statements are used.		P	S	R
7.17	Ensuring Documentation of Audit Completion Checklist.		P	R-S	A
7.21	Reviewing the Quality Assurance Checklist. *		P	R	A

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

A= Approve,

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Appendix - A

AUDITOR-GENERAL OF PAKISTAN

PERMANENT FILE OF CAPITAL DEVELOPMENT AUTHORITY

Permanent File Index/Checklist

Main Reference	Supporting Schedules		Done by:	Date:
PF 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 Auditor Locations List of Bank Accounts List of Authorized Signatories External Factors Accounting Records and Accounting System Key Contacts Significant Audit Areas Significant Accounting Policies	Malik Mehboob Ali Audit Officer	10.05.2008

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

Update Control Sheet

Name of Entity/Organization: Capital Development Authority

Original file prepared by: **Malik Mehboob Ali, Audit Officer**

Date: **10.05.2008**

File updated by: _____ Date: _____

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

CAPITAL DEVELOPMENT AUTHORITY

Form PF-I: Status of Entity

Principal Address:

Capital Development Authority
Ramna (G-7/4)
Islamabad
P. O. Box No: 1332

Status of the Entity:

The Capital Development Authority (CDA) came into existence on June 14, 1960. CDA is an autonomous body as per 1960 CDA Ordinance XXIII.

Inter-Government relationship:

Federal Government department/Authority established under section-4 of 1960 Ordinance running through a executive Board, Constituted by the Federal Government under section 6 of 1960 Ordinance.

Secretary Cabinet Division is the Principle Secretary. Chairman CDA and 06 Board Members are Administratively under Secretary Cabinet Division.

**AUDITOR-GENERAL OF PAKISTAN
PERMANENT FILE**

CAPITAL DEVELOPMENT AUTHORITY

Form PF-II: Background Information

Size of the Entity

Total Assets	Rs. 18,172.416 Million
Total Revenue	Rs. 4236.580 Million as per Finance Account 2006-07
Total Expenditure	Rs. 12,240.654 Million as per Finance Account 2006-07

Core Operational Activities/Corporate Plan

- City Maintenance
- Availability of indispensable necessities
- Further expansion of city with the passage of time, making amendments to meet requirements of that time.
- To keep city and its environment clean.
- Acquire land and undertake works in “Specified Area.”
- Planning and execution of development schemes
- Procure plants machinery instruments and materials

Major Services

Authority is responsible for:

- Municipal Services
- Allotment & Transfer of Plots
- Maintenance of Sector
- Provision of Health & Medical Services in Islamabad, all Federal area
- Traffic signals control
- Rescue Service 1122 in Islamabad & Rawalpindi

Major Beneficiaries

- General Public at large

Major Cost Centers

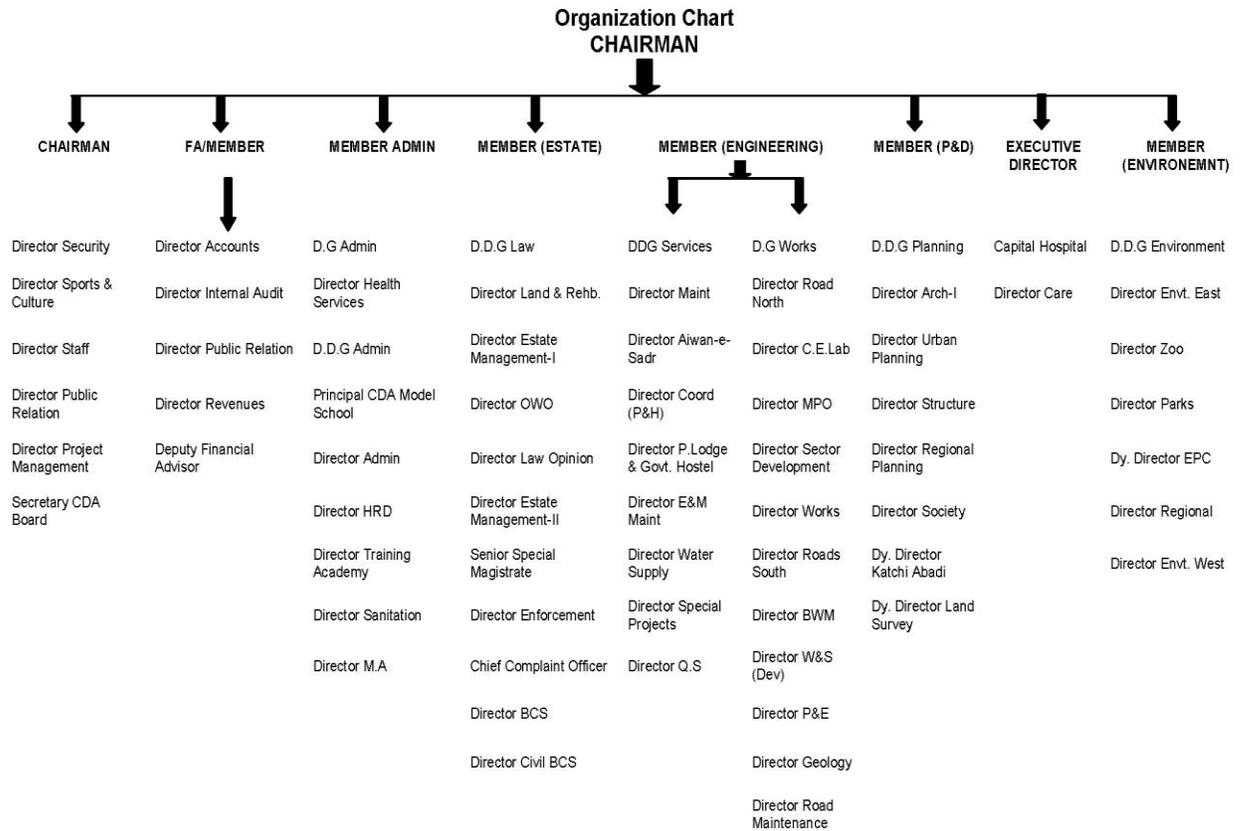
Major cost centers are same as the auditable locations listed on from PF III.

Reporting Authority

Cabinet Division

Secretary Cabinet Division Islamabad.

Organogram of CDA



Main Business Processes

1. Execution of new schemes.

For execution of new schemes following procedure is adopted.

Estimation

- In order to launch a new schemes / project Probable Cost-I (PC-I) also termed as rough cost estimate, Performa is prepared. On the basis of which administrative approval is sought by the competent authority. This approval act as green signal for execution of a project;
- After the accord of administrative approval, a detailed estimate (carrying details of items of works to be executed at site) is prepared and technically sanctioned by the:
 - Executive Engineer if estimated amount is up to Rs. 2.5 million;
 - Superintending Engineer if estimated amount is up to Rs. 10 million;
 - Chief Engineer Full Powers.
- Estimated cost should be within 10% above the rough cost / administrative approval.
- Rates provided in the estimate should be based on Market Rate Schedule (MRS) and for those items of works which are not covered in the MRS, analysis of rate for the items prepared and got approved by the Superintending Engineer;

Tendering

- As the estimate sanctioned by the competent authority, tenders for the work is then called for through local as well as national news papers in order to award the work, in compliance of Public Procurement Rules 2004
- Tenders for the work from pre-qualified contractors are opened by a Committee constituted for the purpose and after scrutinizing the bid schedules of the contractors, tenders of the lowest contractor are accepted and the work awarded to the lowest contractor;

Award of Work / Contract agreement

- Acceptance of tenders for a work cannot be issued over and above 15 % of the estimated cost;
- On issuance of acceptance letter a formal agreement, approved by the Finance Department, setting terms and conditions for execution of work is then signed by the Executive Engineer Concerned and the contractor;
- In case of any dispute the concerned Superintending Engineer act as arbitrator;
- Acceptance is issued by the authority who is competent to accord the technically sanction.

Execution

- As the work start at site measurement of each item of work executed is measured in a book called measurement book (MB);

- A sub-engineer is custodian of MB and is responsible for recording detail measurement of work;
- Detail measurements recorded therein in the MB provide basis of payments to contractor;
- A sub-divisional officer (SDO) exercise test check to the extent of 50 % of measurements recorded by the sub-engineer;
- Executive engineer is responsible for 10 % of recorded measurements.

Payment

- On execution of job running / final payments as the case may be are made to the contractor;
- Payment is made to the contractor on a prescribed format and on the basis of detail measurements recorded in the measurement book;
- For arithmetical accuracy, provisions of funds, checking of rates / quantities, ensuring required deductions there from the payment voucher is pre-audited by Divisional Accounts Officer (DAO) deputed by the Federal Government and passed by the executive engineer for making payment;
- After the payment voucher is passed a serial number allotted to it and entered in Cash Book;
- Cheque issued to the contractor who present it on the treasury for receiving payment.

2. Execution of Maintenance and Repair (M&R) Works

All M&R works are estimated, tendered, contracted, measured and paid in the same way like new schemes with the exception that rough cost estimate / administrative approval is not required. Estimate of M&R is technically sanctioned, in case of ordinary and special repairs to building and roads works, non-residential buildings and machinery & equipment) by the:

- Executive engineer if estimated cost is up to Rs.0.250 million;
- Superintending Engineer if estimated cost is up to Rs.1 million;
- Chief Engineer (Full Powers);

And in case of special repairs to residential buildings

- Executive engineer if estimated cost is up to Rs.50,000;
- Superintending Engineer if estimated cost is up to Rs.100,000;
- Chief Engineer up to Rs.1.5 lac;

Standard Documents Used

- PC-I/ Administrative approval (a rough cost estimate for seeking administrative approval of the competent authority);

- Detailed estimate Technically Sanctioned by the competent authority (shows details of quantities of items of works to be executed at site);
- Tender register (record of participants in a work containing rates quoted by the contractors);
- Comparative statement (prepared at the end of tendering process to ascertain rates of the bidders and to judge the 1st lowest contractor);
- Contract agreement Form (a document containing specific terms and conditions to carry out work);
- Measurement Book (M.B)(a book wherein works executed at site are measured for providing base of payment to the contractor);
- Paid vouchers (a document on prescribed performa through which payment is made to the contractor / supplier);
- Cheque book;
- Cash book (a document containing record of all transactions relating to receipts / payments);
- Stock register (depicts nature and quantity of stock / store articles available with the division);
- Deposit register (Contains details of deposits received from other formations/ authorities for the work to be done and details of securities of contractors);
- Schedule of Misc: Public works Register (shows amounts receivable/ adjustable against the whom it becomes due).

**AUDITOR-GENERAL OF PAKISTAN
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CAPITAL DEVELOPMENT AUTHORITY

Form PF-III: List of Auditable Locations

Main Accounting Office

Director Accounts, CDA, Islamabad.

Block No VI old Naval Head Quarter G-6 Islamabad.

Member Finance CDA is in charge of Finance / Accounts Department assisted by the Deputy Financial Advisor who prepare Budget and allocate / distribute funds to the Divisional Officers / Field offices

Other Accounting Locations

There are 68 Divisions of CDA where accounts are maintained. These are:

Sr. No	Directorate	Sr. No	Directorate
1	Administration Directorate	2	Aiwan-e-Sadar Directorate
3	Architecture Directorate	4	Building Control Directorate - I
5	Building Control Directorate - II (Civil)	6	Bulk Water Management Directorate
7	Capital Hospital	8	Cares Directorate
9	CDA Model School	10	Central Engineering Laboratory
11	Chairman Office / Director Staff	12	Computer Directorate
13	Coordination Directorate	14	Coordination Directorate (Parliament House)
15	Directorate of General Services	16	Directorate of Geology & Hydrology Laboratory
17	Directorate of Law Opinion	18	Directorate of M.Q.C
19	Directorate of One Window Operation	20	Directorate of Parks
21	Directorate of Parliament Lodges	22	Directorate of Quantity Survey
23	Directorate of Regulations	24	Directorate of Roads & Market Maintenance
25	Directorate of Society	26	Emergency & Disaster Management Directorate

Sr. No	Directorate	Sr. No	Directorate
27	E&M Maintenance Directorate	28	E&M Development Directorate
29	Enforcement Directorate	30	Environment Directorate (East)
31	Environment Directorate (Regional)	32	Environment Directorate (Urban/West)
33	Estate Management - I	34	Estate Management - II
35	Finance Directorate	36	Health Services Directorate
37	Human Resource Directorate	38	Internal Audit Directorate
39	Land & Rehabilitation Directorate	40	Law Directorate
41	Maintenance Directorate	42	MPO Directorate
43	Municipal Administration Directorate	44	Programming & Evaluation Directorate
45	Project Management Office	46	Public Relations Directorate
47	Regional Planning Directorate	48	Revenue Directorate
49	Road Directorate (North)	50	Road Directorate (South)
51	Sanitation Directorate	52	Sector Development (E&M) Directorate
53	Sector Development Directorate	54	Security Directorate
55	Sewerage Treatment Plant Directorate	56	Simply Dam Division
57	Works Directorate	58	Special Projects Directorate
59	Sports & Culture Directorate	60	Structure Directorate
61	Supply of Store Material (Hardware) items	62	Traffic Engg. & Transport Planning Cell
63	Training Academy	64	Treasury Division
65	Urban Planning Directorate	66	Water & Sewerage Development Directorate
67	Water Supply Directorate	68	Zoo & Wildlife Management Directorate

**AUDITOR-GENERAL OF PAKISTAN
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CAPITAL DEVELOPMENT AUTHORITY

Form PF-IV: List of Bank Accounts

Sr. No	Bank Name	Account No
1	Saudi Commercial Bank	0250-24732-401
2	Bank of Punjab	0011800002
3	HSBC	003-018322-001
4	Atlas Bank Limited	30160-17546-0103
5	Bank Alfiah Limited	02902882
6	Bank of Khyber	03621-00-3
7	Allied Bank Limited	011670011-5
8	MCB	365-Gold,2-5
9	United Bank Limited	0030001-9
10	Habib Bank Limited	06027000325701
11	National Bank of Pakistan	NIDA-02-0
12	Arif Habib Bank	1-4-120620-714-105917
13	NIB Bank Limited	0402-0018899-0036
14	First Women Bank	06000111
15	Faisal Bank Limited	1113-2116634-149
16	My Bank Limited	010760037-0
17	NIB Bank Limited	0601-0047767-1524
18	Askari Bank	0801-16506683
19	ABN AMRO (PCB)	325500002
20	Standard Chartered Bank	332-090,08-0182332-01
22	IDB	316
23	Bank Alfiah Limited (ISE)	02900120

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CAPITAL DEVELOPMENT AUTHORITY

Form PF-V: List of Authorized Signatures

Financial Power/ Sanction Limit

Chairman CDA	Full power
Member Engineering	50.00 million
Director General	20.00 million
Director	10.00 million

Source: Delegation of power CDA 2007.

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CAPITAL DEVELOPMENT AUTHORITY

Form PF-VI: External Factors

- Socio-economic factors
- Decrease in purchasing power of the consumers
- Political Influence
- Environmental effects

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CAPITAL DEVELOPMENT AUTHORITY

Form PF-VII: Accounting Record and Accounting System

The major accounting records maintained by the CDA include:

- Budget Allocation
- Cash Book
- Monthly Accounts
- Voucher's / Bills
- Contract Agreements
- Field Record
- Progress Reports
- Site Inspection Notes

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

Accounting Manuals and Codes:

In addition to the above mentioned list, the following is the list of manuals and codes which are entity specific for Federal Departments:

- Capital Development Authority (CDA) Manual
- Civil Aviation Authority (CAA) Ordinance

**AUDITOR-GENERAL OF PAKISTAN
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CAPITAL DEVELOPMENT AUTHORITY

Form PF-VIII: Key Contacts

Title	Telephone No	Fax No
Secretary Cabinet Division	051-9253010	051-9253010
Chairman	051-9253001	051-9253009
Member Finance	051-9253010	051-9253011
Member Administration	051-9252638	051-9252612
Member (P&D)	051-9252620	051-9252621
Member Engineering	051-9252970	051-9252996
Member Environment	051-9252606	051-9252487
Member Estate	051-9252648	051-9252646

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CAPITAL DEVELOPMENT AUTHORITY

Form PF-IX: Significant Audit Areas

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

Significant Financial Statement Components	Main Heads	Critical Area
Revenue	Sale of Plots	<ol style="list-style-type: none"> 1. Balloting 2. Timely realization of instalments 3. Penalties if applicable
Expenditure	Civil Works (Development Expenditure)	<ol style="list-style-type: none"> 1. Planning & Estimation of works. 2. Tendering of works and engagement of consultancy services 3. Post-bid contract amendments 4. Variation /change orders in original contract/work orders 5. Measurement of works 6. Payment to the contractors beyond the terms of contract 7. Escalation claim of the contractors 8. Contract Payments 9. Violation of contract specification/design 10. Non-imposition of liquidated damages due to delay in completion of works 11. Failure and termination of contracts
	Repair and Maintenance	<ol style="list-style-type: none"> 1. Planning & Estimation of works. 2. Tendering of works 3. Variation /change orders in original contract/work orders 4. Measurement of works 5. Work Payments
Assets	Fixed Assets	<ol style="list-style-type: none"> 1. Fixed Asset Register 2. Addition 3. Disposal 4. Insurance of assets

	Investment	<ol style="list-style-type: none">1. Approval of Investment Decision2. Implementation of Government Instructions3. Physical Verification of Investment Instruments4. Recording of Investments in accounting records5. Disinvestment decision
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CAPITAL DEVELOPMENT AUTHORITY

Form PF-X: Significant Accounting Policies

Expenses	Modified Cash Basis
Staff retirement benefits	As per Govt rules
Revenue recognition	On receipts basis