

**Project for Improvement of Financial Reporting and Auditing (PIFRA)
Audit Component – Credit #2921 PAK**

AUDIT COMPONENT No. 100

Financial Audit Manual

Prepared for:

The Department of the Auditor-General of Pakistan

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1. ORGANISATION AND PURPOSE OF THE MANUAL

1.1 Purpose of the Audit Manual

The purpose of this Audit Manual is to provide DAGP auditors with a set of modern auditing standards, concepts, techniques, and quality assurance arrangements that are consistent with international standards, for auditing entities in the Government of Pakistan. The Manual covers the entire audit cycle from planning to follow up.

This Audit Manual lays out what is expected of the auditors of the Department of the Auditor-General of Pakistan (DAGP). It provides the standards by which the audits are to be conducted. It provides guidance with regard to the methods and approaches to audit that can be applied by the auditors in carrying out their duties.

1.2 Types of audits dealt with

This Manual focuses on regulatory audit, as defined by INTOSAI Auditing Standards, which have been adopted by the Department of the Office of the Auditor-General of Pakistan.

Regulatory audit embraces:

- Attestation of financial accountability of accountable entities, involving examination of financial records and expression of opinions on financial statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations;
- Audit of internal controls and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity; and,
- Reporting of any other matters arising from or relating to the audit that DAGP considers should be disclosed.

1.3 Audit entities dealt with

DAGP's mandate includes the audit of federal, provincial and district government accounts which encompass government ministries, departments and agencies, self-accounting entities and exempt entities. The types of entities being audited include financial institutions, commercial entities, public utilities, and tax-collecting entities.

1.4 Accounting Responsibility Structure of the Government of Pakistan

The following is a brief summary of the accounting structure of the Pakistan government.

Federal government. The Controller General of Accounts (CGA) has primary responsibility for the completeness and accuracy of the Federation's financial statements. Reporting to the CGA, the Accountant General Pakistan Revenues (AGPR) is responsible for the centralised

accounting and reporting of federal transactions. Additionally the AGPR is responsible for the consolidation of summarised financial information prepared by federal self-accounting entities.

The AGPR receives accounts and reports from the sub-offices of the AGPR, district accounts officers, principal accounting officers of self accounting entities, federal treasuries and the State Bank of Pakistan/National Bank of Pakistan. The AGPR, in turn, provides annual accounts to the CGA.

There are AGPR sub-offices in each of the provinces that act as the district accounts officers in respect of federal government transactions.

Provincial governments. The CGA also has primary responsibility for the completeness and accuracy of the financial statements of the provincial governments.

Reporting to the CGA, the accountant general of each province is responsible for the centralised accounting and reporting functions within his/her respective province.

District governments. Each province is divided into districts. The district coordination officer of each district is the principal accounting officer of that district. The district coordination officer is supported by executive district officers who, in turn, supervise offices headed by drawing and disbursing officers.

Principal Accounting Officers (PAOs). Each ministry and department has a PAO. For the self accounting entities, the PAOs have been delegated authority to maintain their own accounts. They provide monthly accounting data to the AGPR and to the accountant generals.

District Accounts Officers (DAOs). The DAOs are responsible for the accounting functions of the districts. They have authority to pre-audit bills, issue payments, and record government transactions at the district level. They receive reports from the drawing and disbursing officers and bank scrolls from the State Bank of Pakistan/National Bank of Pakistan. They report district and provincial transactions to the Accountant General responsible for the province in which their districts are located. They also report federal transactions to the AGPR.

Departmental treasuries. Departmental treasuries are established to record specific accounting transactions such as income and sales taxes and customs duties.

Drawing and Disbursing Officers (DDOs). The DDOs are responsible for the accounting, cash and personnel functions of specific entities. They submit bills for pre-audit to the district accounts officers, and report to the district coordination officer of each district. They also report to the principal accounting officer of their entity.

DAGP's mandate includes the audit of the entire process described above.

1.5 Stages of audit work dealt with

This Manual covers the entire audit cycle for both the financial attestation and compliance with controls aspects of regulatory audits, including planning, fieldwork, evaluation of findings, reporting and follow up. While many of the same procedures apply to both attestation and compliance audit activities, sometimes different approaches are required to meet specific audit objectives. Where this is the case, the different approaches are described. This Manual also deals with such quality assurance techniques as supervision and review.

1.6 Organisation of the manual

The Manual begins with several Chapters that provide background material on audits in general, DAGP's mandate, and the auditing standards adopted by DAGP.

This is followed by a discussion of DAGP's management structure and the annual planning process by which DAGP establishes its departmental goals and resource needs.

The auditors' responsibilities through the complete audit cycle - the planning, fieldwork, evaluation, reporting and follow-up of individual audits – are presented using a framework adopted, in one form or another, by many SAIs and private sector audit firms around the world. This framework integrates the auditing concepts for all phases of the audit.

Throughout the manual, various quality assurance procedures are introduced. The Manual concludes with a summary of these procedures.

The Manual also contains a number of annexes that provide additional details and guidance material on specific matters, as well as a glossary of the terms used.

1.7 Links to other guidance material

This manual is supported by a standard audit working paper kit and a set of tailored audit guidelines. This Manual also makes reference to other DAGP documentation in existence at the time that this Manual was produced.

1.8 Standard audit working paper kit

The kit includes standard audit programme guides, checklists and forms, and a table of contents that follows a suggested standard working paper indexing scheme.

The kit also includes samples of the various supervision instruments used in DAGP.

1.8.1 Audit guidelines for specialised areas

This Manual and the standard audit working paper kit are applicable to the regulatory audits of all audit areas. These documents are complemented by tailored audit guidelines that show how the concepts in the manual, and the programmes, checklists, forms and supervision instruments in the working paper kit, are applied to perform financial audits in certain specific audit areas.

1.9 Need for professional judgment

Despite the detailed guidance presented in this Manual, professional judgment is always required. It is not possible to present guidance material in sufficient detail to eliminate the need for professional judgment and general knowledge of auditing theory. Nor is it possible to select one audit approach and mandate its use in all circumstances.

There are many possible approaches to obtaining the required level of audit assurance, each appropriate in certain circumstances. The auditor must be prepared to consider the circumstances of each audit and determine the best approach.

1.10 Updating the Audit Manual

DAGP's work, like the work of any SAI, continues to evolve. Consequently, this Manual should be periodically up-dated to ensure that it reflects the current policies and procedures of the office and to provide the most appropriate assistance to the auditors. Each auditor is therefore encouraged to identify areas in which the Manual requires updating or enhancement.

With appropriate up-dating, this Manual will continue to provide a clear statement of the authorities, responsibilities and policies of DAGP and a practical guide to auditors as they carry out their responsibilities in a professional and conscientious manner.