

# Audit Guidelines Income Tax Audit



Auditor-General of Pakistan



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



**GUIDELINES FOR THE AUDIT OF INCOME TAX**

**TO BE USED BY**

**THE DIRECTORATE GENERAL OF AUDIT INCOME TAX**





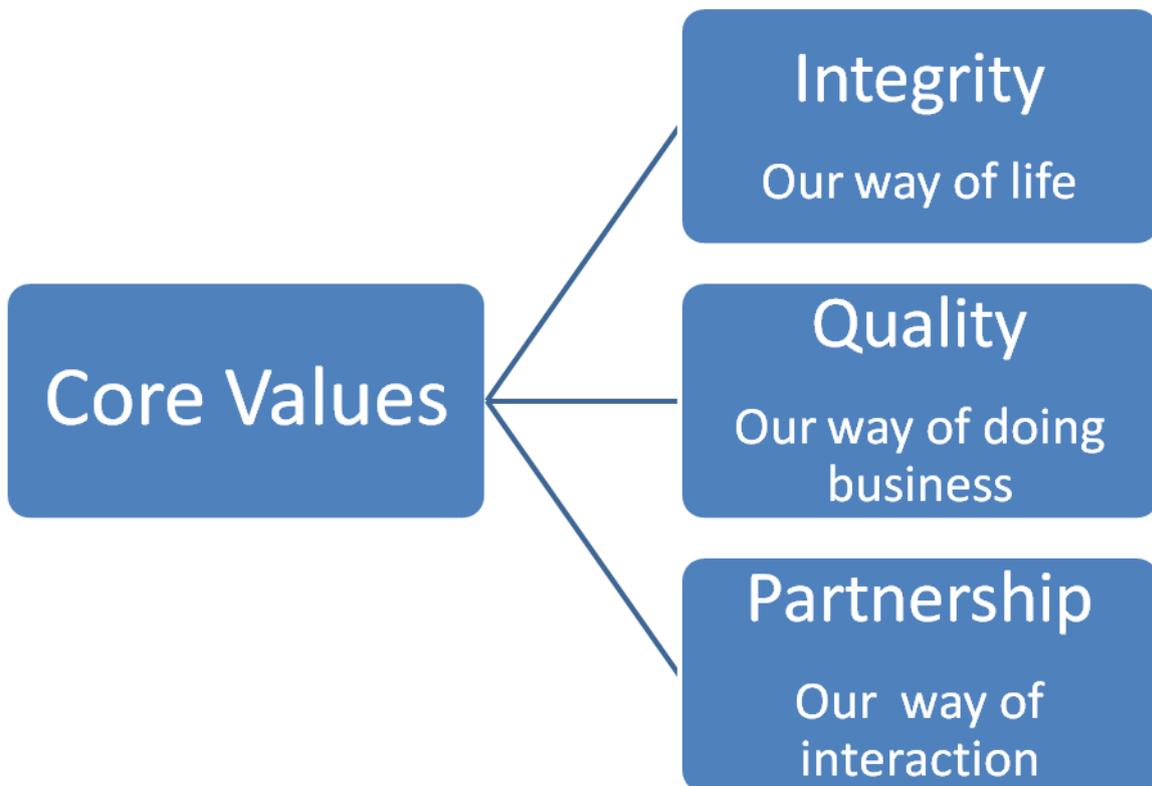
## VISION

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 TO REVISED EDITION**

The Financial Audit Manual (FAM) was commissioned in June 2006 by the Auditor-General of Pakistan for use in Field Audit Offices (FAOs) for conducting Certification and Compliance with Authority audits. The Manual is based on the INTOSAI Auditing Standards and the international best practices. It covers the entire Audit Cycle and provides guidance with regard to the methods and approaches to audit that can be applied by auditors for conducting the audit of government entities in Pakistan.

FAM has been implemented in the Department of the Auditor-General of Pakistan (DAG). However, during the course of its implementation, it was found that the Sectoral Guidelines developed by the consultants under the FAM project did not provide sufficiently detailed and specific guidance to the FAOs for conducting audit. As a result, the FAOs continued to rely on their old and outdated codes and manuals for conducting audit.

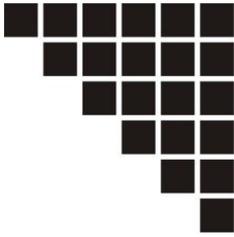
On the basis of lessons learnt from the implementation of FAM and its Sectoral Guidelines, it was decided to revise and update these Guidelines. This has been done with the help of consultants engaged by PIFRA for different FAOs, and in close coordination with the experienced auditors in the field. The results of these efforts are contained in these Guidelines. Though the document, as a whole has been revised, the section on the Audit Execution phase, in which detailed audit steps have been added is a significant addition.

I hope that the Guideline will prove useful to the FAOs and will go a long way in ensuring quality improvement in audit reports.

**Dated: March, 2010**

**(Tanwir Ali Agha)**  
Auditor-General of Pakistan





## **PREFACE TO FIRST EDITION**

These Guidelines are being issued after the commissioning of the Financial Audit Manual and are to be used for planning and conducting audits under the mandate of the Department of the Auditor-General of Pakistan (DAGP).

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

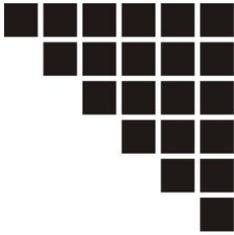
Implementation of the new audit methodology, and adoption of the Guidelines, will be carried out according to a schedule to be determined by my office according to a gradual phasing across the government entities that are covered in the audit mandate of the Auditor-General of Pakistan. Since the implementation of the new audit methodology is contingent upon professional training, it shall be the responsibility of the heads of the Field Audit Offices to get their personnel fully trained in the Financial Audit Manual and these Guidelines, with the help of Audit and Accounts Training Institute. Continued professional training of the officers and the staff of the Department shall remain the main focus of our efforts towards modernization and professionalism.

Keeping in view the future changes in the international best practices and the changing demands of the stakeholders, these Guidelines will be required to be updated and expanded. Field Auditors using these Guidelines are therefore encouraged to make suggestions for improvements in these Guidelines and other tools on an ongoing basis. Suggestions for improvements will be duly considered and incorporated in these Guidelines where necessary, by the Research and Development Wing of the Department of the Auditor General of Pakistan.

**(Muhammad Younis Khan)**  
Auditor General of Pakistan

**Dated: March, 2006**





## **Chapter 1**

# **INTRODUCTION TO AUDIT GUIDELINES**

## **1.1 Purpose of the Guidelines**

These Guidelines aim to provide specific and detailed guidance to auditors engaged in the audit of income tax. 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.

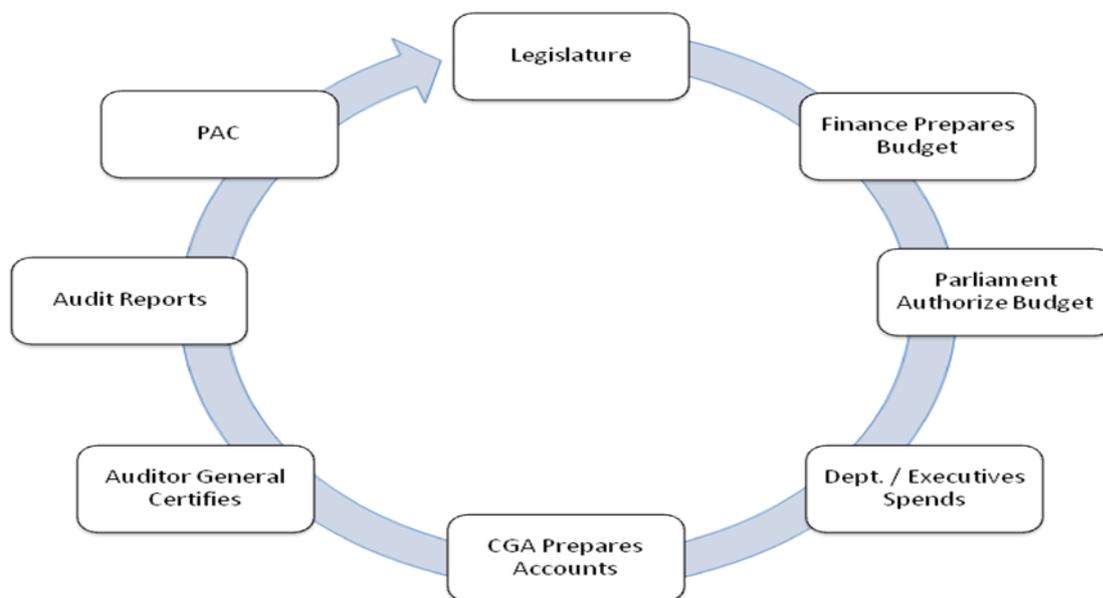
Ultimately, it is the audit team leader who will have to use his/her judgment in determining how best to apply the Audit Working Papers Kit in conducting a specific audit.

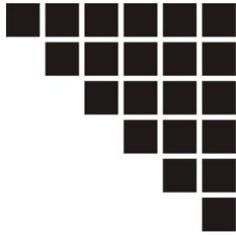
## 1.7 The Accountability Cycle

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. These reports are then discussed in the Public Accounts Committee (PAC) who then reports back to the National Assembly.





## Chapter 2

# OVERVIEW OF THE DIRECTORATE GENERAL OF AUDIT INCOME TAX

## 2.1 Overview of the Office

Office of Directorate General of Audit Income Tax is an important Field Audit office of the Auditor-General of Pakistan (AGP). This office facilitates the AGP in fulfilling its constitutional responsibility of conducting the audit of Receipts and expenditure of Federal Board of Revenue in all the provinces of Pakistan. It has been conducting the audit of receipts since 1988 and audit of expenditure since 2008.

This office is headed by a Director General based at Lahore with a sub office at Karachi which is headed by a Director. Prior to 1988, the audit of Income tax was never conducted and the Directorate General of Audit of Revenue Receipt conducted audit of sales tax, customs and wealth tax.

Office of the Directorate General of Audit Income Tax derives its mandate under delegated powers from the Auditor-General of Pakistan as specified under Articles 168 to 171 of the Constitution of the Islamic Republic of Pakistan read with the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

According to his mandate, the AGP has the responsibility to:

- Certify the accounts of the Federation
- Audit all expenditure from Consolidated Fund
- Audit all transactions relating to Public Accounts
- Audit all receipts of Consolidated Fund and Public Account
- Undertake studies and analysis relating to Federal Government Accounts

As per his mandate the Directorate General of Income Tax Audit is responsible for the audit of receipts and expenditure of Federal Board of Revenue

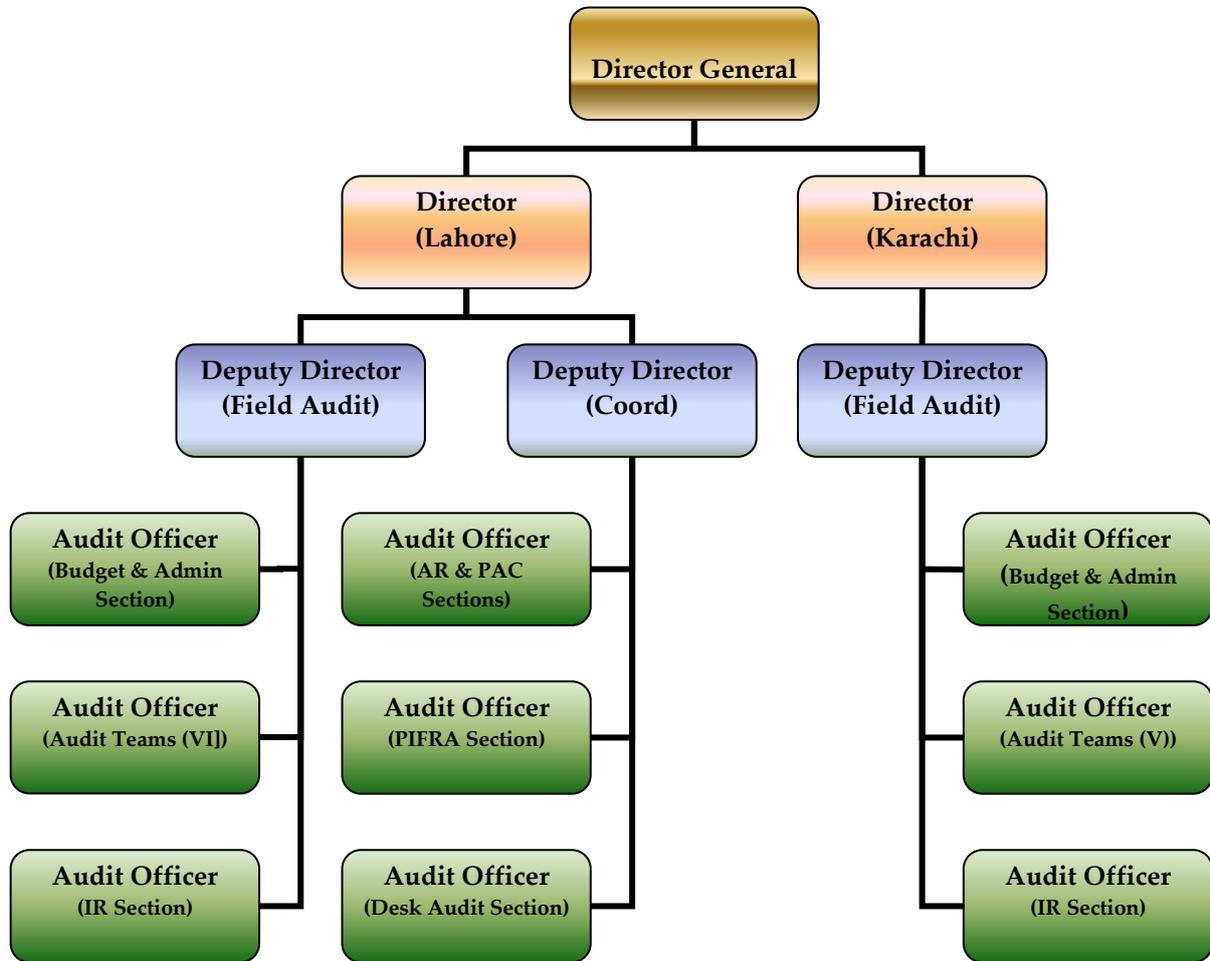
## 2.2 Jurisdiction

Sr. No.	Principal Accounting Officer (PAO)	Departments	Mandate
1.	Secretary Revenue Division (Federal Board of Revenue)	Income Tax Department <i>Subordinate Offices:</i> 1. Large Tax payer Units in Lahore, Islamabad and Karachi (3). 2. Regional Tax Offices in various cities (13).	Audit Of Direct Tax Receipts and Expenditure.
2.	Controller General of Accounts	Accountant General Pakistan Revenues: 1. AGPR Islamabad and its Sub-offices in each provincial capital. 2. Federal Treasury Offices (FTO) in various cities where departmental treasury function exists. 3. District Accounting Offices (DAO) in various cities where departmental treasury function does not exists.	Audit of Direct Tax Receipts <sup>1</sup>

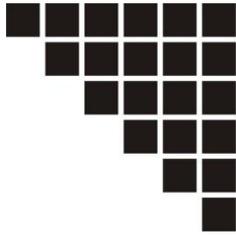
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<sup>1</sup> Audit of these offices is conducted during the certification audit process. Income tax receipts are collected at NBP bank which is then further remitted to SBP bank. Income tax receipts figure is given by NBP to FTO (departmental treasury) or DAO (incase where departmental treasury does not exist). FTO reports income tax figure to relevant provincial AGPR sub-office which then reports the final figure to AGPR Islamabad

### 2.3 Organogram of DG, Income Tax Audit







## Chapter 3

# SCOPE OF AUDIT

### 3.1 Types of Audits<sup>2</sup>

Directorate General Audit, Income Tax conducts the following types of audit:

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

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

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

### 3.2 Definition of Government Audit

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

1. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinion on Financial Statements;
2. Attestation of financial accountability of the government administration as a whole;
3. Audit of financial systems and transactions including an evaluation of compliance with applicable 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 Institutions considers should be disclosed.

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<sup>2</sup> These Guidelines provide guidance on both the Certification and Compliance with Authority audit.

Performance audit<sup>3</sup> is concerned with the audit of economy, efficiency and effectiveness and embraces:

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

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

### 3.3 Certification Audit

#### **Objectives:**

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

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

Financial Statements have a large number of external users and it is necessary that the Financial Statements properly represent the financial position of the auditee. In order to express the 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)

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<sup>3</sup> Detailed guidelines for Performance Audit have been issued by the DAGP which are being updated under a special program initiated by PIFRA.

**Methodology:**

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

### 3.4 Compliance with Authority Audit

**Objective:**

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

**Methodology:**

- Updating the understanding of the business processes with respect to control structure.
- Identification of key controls on the basis of prior years' audit experience /special directions from the head office etc.
- Prioritising risk areas by determining significance and risks associated with identified key controls.
- Design audit programmes including analytical procedures for testing identified risk conditions.
- Selection of audit formations i.e. DDOs on the basis of:

- Materiality/significance
- Risk assessment
- Selecting samples as per sampling criteria.
- Execution of audit programmes.
- Identification of weaknesses in internal controls and development of audit observations and recommendations relating to non compliance of laws, rules, regulations and prescribed procedures.
- Integrating the work with financial attest audit, where possible.
- Evaluating results;
- Reporting; and
- Follow up.

### 3.5 Important Audit Components of Income Tax Audit

There are two major types of activity in the auditee department being audited by Directorate General of Audit Income Tax are:

- a. Formulation and administration of fiscal policies and,
- b. Levy and collection of Federal Taxes including Direct Taxes;

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 efforts and resources.

Direct Taxes comprise of the following heads of account namely:

1. Income Tax,
2. Capital Value Tax,
3. Workers Welfare Fund (WWF) and
4. Wealth Tax.

Income Tax makes up approximately 95% of total direct tax collection.

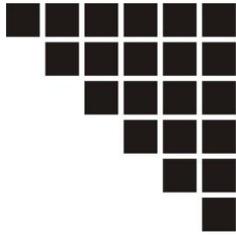
Within Income tax there are various auditable areas that have been identified based on the significance of legislation and its enforcement, which includes the following:

- I. Assessment and Collection of taxes,
- II. Collection on demand (Includes additional taxes and penalties),
- III. Withholding taxes (Tax collected or deducted at source) and
- IV. Refund.

<b>Auditable Area</b>	<b>Risks</b>	<b>Audit steps to mitigate risks</b>
Assessment and Collection of Taxes.	<ul style="list-style-type: none"> <li>● Short recovery of tax due to incorrect computation of tax liability.</li> <li>● Short recovery of tax due to incorrect application of law.</li> </ul>	<ul style="list-style-type: none"> <li>● Check the validity of Income tax return.</li> <li>● Check the completeness of transaction flow.</li> </ul>

Auditable Area	Risks	Audit steps to mitigate risks
	<ul style="list-style-type: none"> <li>• Challan/CPR particulars are not traceable in the accounts.</li> </ul>	
Collection on demand	<ul style="list-style-type: none"> <li>• Ineffective desk audit function.</li> <li>• Non compliance with notices of demand.</li> <li>• Not paying Tax by due date.</li> </ul>	<ul style="list-style-type: none"> <li>• Check the timeliness of tax payments.</li> <li>• Check follow up with demand notices</li> </ul>
Withholding Taxes	<ul style="list-style-type: none"> <li>• Tax deducted at source at incorrect rate.</li> <li>• Tax not deducted at source where required.</li> <li>• Tax deducted but not deposited into the Federal Treasury.</li> <li>• Advance Tax not paid when it is liable on Taxpayer under Section 147 to the Income Tax Ordinance 2001.</li> </ul>	<ul style="list-style-type: none"> <li>• Check the validity of Withholding statements filed.</li> <li>• Check the timeliness of tax payments.</li> </ul>
Refund	<ul style="list-style-type: none"> <li>• Wrong determination of refund.</li> <li>• Wrong adjustment of refund,</li> <li>• Wrong assessment of income.</li> </ul>	<ul style="list-style-type: none"> <li>• Check the validity of Refund case.</li> <li>• Check the validity of income tax return.</li> </ul>





## Chapter 4

# PERMANENT FILE OF AUDITEE DEPARTMENTS

## 4.1 Introduction

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

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

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

The Permanent File includes information that will be of continuing importance to the audit activity in the particular area of audit. This may include:

- Copies of relevant Government legislation, 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.
- 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 contain specific guidance for using the above forms.

#### 4.4 Update Control Sheet - PF

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

#### 4.5 Status of Entity – Form PF-I.

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

#### 4.6 Background Information – Form PF-II.

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

The main functions of auditee department generally are:

- Formulation and administration of fiscal policies
- Levy and collection of federal taxes and
- Quasi- judicial function of hearing of appeals.

*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. LTU Karachi); and
- Other operational locations that collect, record, process and report financial information of auditee activities (e.g. Federal Treasury Offices and District Accounting Offices etc)

#### 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. The Income Tax department maintains its account with SBP whose description is Central Non-food account 1 and account numbers are:

<b>Bank</b>	<b>Account No.</b>	<b>Head of Account</b>
SBP	06200299990184	NBP Income Tax
SBP	06200299990234	Capital Value Tax
SBP	0620099990314	B 03081 Withholding Tax on Cash Withdrawal

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

The auditor should list the names of personnel with authority to certify, approve and authorize 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, Provincial and District accounting levels.
- b. Document a brief description of the accounting system (the means, including staff and equipment, by which an organisation produces its accounting information).

The major accounting records maintained by the auditee department 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
- Assessment Records
- Daily Collection Register
- Arrear Register
- Refund Register
- Refund Voucher Books
- Monthly Performance Report
- Monthly Cash Account prepared by F.T.O.

**Accounting Manuals and Codes:**

- Income Tax Ordinance 2001,
- Income Tax Rules 2002,
- Notifications,
- SROs,
- Circulars,
- SOP on Monitoring of Withholding Tax,
- SOP on Collection Automation Process (CAP),
- Federal Treasury Rules,
- Accounting Policies and Procedures Manual (APPM),
- New Accounting Model (NAM),
- Revised System of Financial Control and Budgeting,
- Public Procurement Rules 2004,
- General Financial Rules.

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

Where there are new administrative policies or procedures with which the auditee departments should comply, the auditors must become familiar with them and ensure that the audit is conducted against these benchmarks. In addition, the auditor should consider whether the policies and procedures in force are effective at reinforcing good management practices.

Where a rule or procedure does not contribute to good management practices, it is the job of the auditor to recommend changes to such rules and procedures.

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

*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 statement components (including individually significant transactions and events), and their impact on the Financial Statements of the Federal and Provincial governments (in liaison with those auditors having responsibility for these audits). This will help the auditor to plan 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 statement is to consider each line item in the Financial Statements to be a separate component. The line item would be each amount reported in the financial statement, including the amount disclosed in the notes thereto.

Sometimes the financial statement 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:

1. Income
  - Appropriations (grants)
  - Rentals (self-generating income)
  - Intergovernmental or interdepartmental transfers
  - Income Tax
  - Capital Value Tax
  - Worker's Welfare Fund (WWF)
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 statement components along with their main account heads and areas critical for auditing.

Significant Financial Statement Components	Main Heads	Critical Area
Revenue	Income Tax	<ul style="list-style-type: none"> <li>• Short recovery of tax due to incorrect computation of tax liability.</li> <li>• Short recovery of tax due to incorrect application of law.</li> <li>• Challan/CPR particulars are not traceable in the accounts.</li> <li>• Non compliance with notices of demand.</li> <li>• Not paying Tax by due date.</li> <li>• Tax deducted at source at incorrect rate.</li> <li>• Tax not deducted at source where required.</li> <li>• Tax deducted but not deposited into the Federal Treasury.</li> <li>• Advance Tax not paid when it is liable on Taxpayer under Section 147 to the Income Tax Ordinance 2001.</li> </ul>

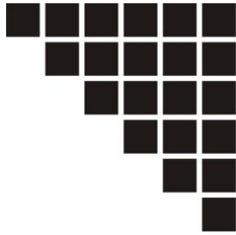
#### 4.14 Significant Accounting Policies – Form PF-X.

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:

- Revenue Recognition
- 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 Federal board of revenue has been annexed as Appendix – A.*



## Chapter 5

# AUDIT PLANNING PHASE

## 5.1 Introduction

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

Individual audits must be planned to ensure that:

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

The planning phase involves the following:

- Determining the overall objectives and scope of audit; \*
- Understand the entity's business;\*
- Assessing materiality, planned precision and audit risk.
- Assessing the entity's system of internal controls.
- Determining the components by which the audit will be conducted.\*
- Determining Financial Audit and Compliance with Authority 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 Test of Detail.

*\* 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).

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

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

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

## 5.4 Audit objectives and scope

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

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

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

The nature and size of the audit entity determines the scope of the audit, and is generally defined by the audit mandate. For the audit of Financial Statements audits, 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 the 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 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 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.

Greater reliance can be placed on revenue figures if the auditor finds that the Income Tax Department has a strong monitoring of activities (particularly tracking achievement of progress against project milestones as well as revenue against budget).

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 Test of Detail.

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 Test 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 Test 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 Test 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 Test 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 Test of Detail**

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 revenue, 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 revenue types, or to ensure that at least one sample item is drawn from each revenue 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 is being used to do the selection. Random selection is also possible, but contains all of the difficulties of cell selection. In addition, it has a further disadvantage – should fixed interval or cell selection be used, the sample size will automatically be adjusted for any over or under-estimations of the population value. With random selection, this will not occur. Hence random selection is rarely used with MUS. For both fixed interval selection and cell selection, the auditor needs to know the sampling interval.

#### **Selecting the sample – non-statistical sampling**

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

For detailed guidance please refer to Appendix B of FAM.

### 5.24 High value item selection form

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

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

### 5.25 Key item selection form

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

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

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

## 5.26 Sample sizing for tests of internal control

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

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

## 5.27 Sample sizing for substantive Test of Detail

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 Directorates or of other Directorates contributing to the centrally led audit. An example of such an audit is the annual audit of the Financial Statements of the Federation. Direct tax receipts collected by FBR are reported in the Financial Statements of the Federal Government which are certified by DG Federal Audit (Central Team).

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 objective and error condition;
- Determining the optimum mix of tests of internal controls, analytical procedures and substantive Test of Detail 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.

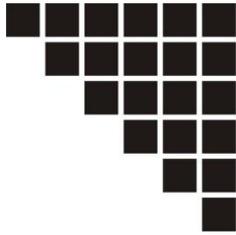
The Field audit teams of the same or other Directorates are, in turn, responsible for:

- 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.

In centrally led certification audit of the Federal Government Financial Statements, the following (Planning Phase) forms of the Audit Working Papers Kit shall not apply during the certification audit work of the Directorate General of Audit Income Tax:

- Materiality assessment form
- Expected aggregate error and planned precision form
- Audit risk assessment form
- Inherent risk assessment form
- Control risk assessment form
- Analytical procedures assurance form
- Source of audit assurance form





## Chapter 6

# AUDIT EXECUTION PHASE

## 6.1 Introduction

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

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

The Audit Working Papers Kit provides:

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

## 6.2 The Audit Team’s Responsibility in Execution Phase

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

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

Sections 9.9 to 9.11 of FAM provide details of the 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 consider for Income Tax audit are as follows:

- Employee related expenditure
- Goods and Services
- Contracting
- Receipts

*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 Income Tax audit given at section 6.16 onwards of this chapter under the heading Audit Programmes. The auditors are expected to select the relevant audit programmes for each audit as they do not have to apply all the possible Audit Programmes in every audit.

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

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

### **Audit Objectives:**

To determine whether, on the basis of the transactions examined (selecting a representative sample of transactions or other form of sample), the entity's Financial Statements complies with the following assertions<sup>4</sup>:

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

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

## 6.13 Substantive Test of High Value/Key Items – Summary

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

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

The auditor will complete one copy of this form for every single error discovered in any of the substantive Test of Detail (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.

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<sup>4</sup>Another set of assertions commonly used are: Existence / Completeness / Valuation / Rights and Obligations (or Ownership) / Presentation and Disclosure. The set used in these Guidelines is more appropriate for the audit of transactions in the public sector.

## 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 Programme – Compilation of Accounts
- Audit Programme – Assessment and collection of taxes
- Audit Programme – Withholding taxes
- Audit Programme – Refund
- Audit Programme – Additional taxes and penalties
- Audit Programme – Advance tax
- Audit Programme – Payroll
- Audit Programme – Procurement
- Audit Programme – Goods and services

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–Compilation of Accounts

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By:	WP Ref.
<p><b>At Federal Treasury Offices (FTO):</b></p> <p><b>Completeness, Occurrence and Measurement</b></p> <ul style="list-style-type: none"> <li>• Obtain progressive figure reported to RTO (MPR) and reconcile it with the monthly figure of FTO (Monthly Cash Account).</li> <li>• Obtain progressive figure reported by SBP (Collection Statement) of each month and reconcile with the figure reported by FTO (Monthly Cash Account).</li> <li>• Obtain progressive collection from National Bank Main branch and match with the total collection according to FTO.</li> <li>• Obtain Form 35/Form 36 and compare it, month by month, with DPC summary statement.</li> <li>• Obtain figures remitted to SBP by NBP and compare it with the figure reported in bank wise reconciliation summary prepared by DPC.</li> <li>• Obtain summary of deposit from National Bank of Pakistan and observe delay in remittance. In case of delay check that Penalty is imposed @10% p.a. on each day of delay.</li> <li>• Check that the missing instruments identified by the FTO from the reconciliation with DPC were followed up promptly.</li> <li>• Obtain soft copy of Daily collection summary for July, August and September for the subsequent year and analyze it to identify instances for spill over.</li> <li>• Check entries made in Daily Collection Register / Cash Book for the month of June and note down the particulars of Challan / CPR, Taxpayer name, NTN and amount of collection. Scrutinize refund register for the month of July and match particulars of refund vouchers issued to particulars mentioned above to identify cases of <i>Window Dressing</i>.</li> </ul> <p><b>For each income tax return chosen, select the corresponding CPR / tax challans and apply the following steps:</b></p> <ul style="list-style-type: none"> <li>• Trace particulars of the tax challans / CPR to relevant Daily Bank scroll and check that each particular is cross matched.</li> <li>• For each Tax Challan / CPR check that they are completely filled</li> </ul>		

Audit Procedure	Done By:	WP Ref.
<p>including the following particulars:</p> <ul style="list-style-type: none"> <li>○ Name and NTN of Payee,</li> <li>○ CPR is stamped and signed by bank officials,</li> <li>○ Amount in number and words are clearly mentioned,</li> <li>○ Mode of payment.</li> </ul> <ul style="list-style-type: none"> <li>● Check that the particulars of the Tax Challan / CPR are punched correctly by KPO in the computer system by verifying entry in the system.</li> <li>● Obtain monthly cash account prepared by FTO for submission to AGPR sub-office and check that the entry of Tax Challan / CPR has been made by scrutinizing supporting working paper to Monthly Cash Account.</li> <li>● Obtain Scroll information sent by NBP Main branch to SBP from FTO (which is sent along with Cheque for remittance of collection to SBP from NBP) and trace the entry of Tax Challan / CPR in the scroll information.</li> <li>● In case, where Tax Challan/CPR is not traced, obtain figures remitted to SBP by NBP and compare it with the figure reported in bank wise reconciliation summary prepared by FTO to identify delay in remittance.</li> </ul>		
<p><b>At Accountant General Pakistan Revenues (AGPR):</b></p> <p><b>Completeness, Occurrence and Measurement</b></p> <p><b>AGPR Sub-office</b></p> <ul style="list-style-type: none"> <li>● Obtain Head wise reconciliation statement(s) between AGPR and FBR (Gross and Net). Scrutinize them for any differences.</li> <li>● Obtain Head wise reconciliation statements carried out between FTOs with AGPR sub-offices. (This information will be provided by the FAOs).</li> <li>● Compare the reconciliation statements in step 2 with step 1 to check that overall reconciliation carried out between AGPR and FBR is correct.</li> <li>● Obtain Detail book (source – wise / head wise) from AGPR Sub-office and match figure of receipts reported from subsidiary record and reconciled figures.</li> <li>● Check figures from detail book has been correctly carried to Monthly Civil account.</li> </ul> <p><b>AGPR Islamabad</b></p> <ul style="list-style-type: none"> <li>● Compare ‘Revenue Receipt’ figures in Finance Accounts with the head wise reconciliation statement (between AGPR and FBR). Check that only reconciled figures appear in Finance Accounts.</li> </ul>		

Audit Procedure	Done By:	WP Ref.
<ul style="list-style-type: none"> <li>• Compare 'Revenue Receipt' figures in Finance Accounts with collection figures quoted by SBP.</li> <li>• Check figures from detail book has been correctly carried to Monthly Civil account.</li> </ul>		

### 6.18 Audit Programme–Assessment and collection of taxes

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By:	WP Ref.
<p><b>Sample is to be selected from Detail of Income tax Returns</b>  <b>For each Income Tax Return selected, apply following steps:</b></p> <ul style="list-style-type: none"> <li>• Check that:                             <ul style="list-style-type: none"> <li>○ The accounting profit has correctly been reported.</li> <li>○ The inadmissible deduction/provisions claimed in accounts have been correctly added in the profit.</li> <li>○ The accounting depreciation has been added to the profit.</li> <li>○ Tax depreciation been claimed as per Income Tax Ordinance 2002.</li> <li>○ Tax reductions, tax averaging tax credits claimed are in order and duly supported by prescribed documents and also correctly reflected in the balance sheet.</li> <li>○ The tax payables computed correctly and credit of payment claimed duly evidenced.</li> <li>○ Opening stock/closing stocks has been correctly carried forward.</li> <li>○ All deductions claimed are as per Section 21 of Income Tax Ordinance (ITO) 2001.</li> <li>○ The treatment of intangibles has been made according to section 24 of ITO, 2001.</li> <li>○ The pre-commencement expenses have been claimed in accordance with the section 25 of ITO, 2001.</li> <li>○ Any fines and penalties have <i>not</i> been claimed as deduction.</li> <li>○ In case of un-paid trading liabilities for more than 3 years, check that the same have been added back.</li> <li>○ Exchange fluctuation gain/losses are on actual basis (not</li> </ul> </li> </ul>		

Audit Procedure	Done By:	WP Ref.
<p>on accrual basis).</p> <ul style="list-style-type: none"> <li>○ Income exempt from tax has been claimed is as per ITO, 2001.</li> <li>○ Re-couped expenditure is added to inadmissible expenses as per section-70 of ITO, 2001.</li> <li>○ Foreign tax credits and foreign losses have been claimed in accordance with section 103 &amp; 104 of ITO, 2001 respectively.</li> <li>○ Carry forward and brought forward of unabsorbed depreciation, initial allowance, amortization and business losses (other than speculation business) have correctly been recorded.</li> <li>○ That income under normal tax regime has not been attributed as income subject to final tax.</li> <li>○ Check the amount of tax has correctly been worked out.</li> </ul> <ul style="list-style-type: none"> <li>● For each income tax return, check that: <ul style="list-style-type: none"> <li>○ The return is in the prescribed form,</li> <li>○ The Return is accompanied by such annexure, statements or documents as prescribed;</li> <li>○ The Return states all the particulars or information as specified in the form of return, including a declaration of records kept by the taxpayer; and</li> <li>○ The Return is signed by the person as per section 172 of ITO, 2001.</li> </ul> </li> <li>● In case where Return has not been furnished, check that whether Penalty has been imposed as per ITO, 2001. Check that the taxpayer paid tax along with the return on due date and evidence (Tax Challan/CPR) of deposit of tax collected attached along with Return.</li> <li>● In case where tax is either not paid with return or is paid after due date, check that additional tax is charged as per Income Tax Ordinance 2001.</li> <li>● Check that taxpayer claimed correct credit of withholding taxes. (cross refer with the challan /certificate)</li> <li>● Check that whether withholding tax has been correctly deducted and deposited. Also check that additional tax for default of deduction and payment has been charged.</li> </ul>		

## 6.19 Audit Programme–Withholding taxes

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By:	WP Ref.
<p><b>Sample is to be selected from List of Withholding Agents. For each Withholding agent selected, apply the following steps:</b></p> <ul style="list-style-type: none"> <li>• Obtain <i>list of withholding agents</i> from RTO/LTU.</li> <li>• Select a sample and check whether Withholding agents are filing the <i>monthly and annual statements</i> within prescribed dates as per Income Tax Ordinance, 2001. <ul style="list-style-type: none"> <li>○ <i>Annual Statement</i> is to be filed within 2 (two) months from the end of the financial year,</li> <li>○ <i>Monthly Statement</i> is to be filed within 20<sup>th</sup> day of the following month.</li> </ul> </li> <li>• In case where withholding agents did not submit statement, check whether additional tax and/or penalty have been imposed as per ITO, 2001.</li> <li>• Obtain Monthly Statements (for the months of September/December/March/June) of each Withholding Agent and check that they are filled completely including the following: <ul style="list-style-type: none"> <li>• Date of Tax Collection/deduction,</li> <li>• Date of Deposit in bank,</li> <li>• Tax Challan / CPR No. and Date.</li> <li>• Check that evidence (Tax Challan/CPR) of deposit of tax collected is attached along with Statements especially for top 5 high value Tax deductions and collections.</li> <li>• For the selected withholding agents, select the monthly statements of September, December, March, June and for top 5 Tax deductions and collections check that tax deducted or collected at source has been at calculated correctly.</li> <li>• For top 5 Tax deductions and collections selected above check that tax deducted or collected has been at rates as per Income Tax Ordinance 2001.</li> </ul> </li> </ul>		

## 6.20 Audit Programme–Refund

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By:	WP Ref.
<p><b>Sample is to be selected from Refund Register.</b>  <b>For each Refund Voucher issued selected, apply the following steps:</b></p> <ul style="list-style-type: none"> <li>• Match particulars of refund vouchers with the refund register and refund application/return.</li> <li>• In case of multiple challans, check Taxation Officer properly verifies list of taxpayers from whom tax has been deducted.</li> <li>• Check that there is no other tax demand due against the taxpayer. If yes then Check that the refund due has properly/correctly been adjusted against the outstanding demand</li> <li>• Check that the tax deducted at source claimed is not final tax.</li> <li>• Check that the refund application is filed on prescribed format as laid out in Circular No. 5 of 2003 and Rule 71 of the Income Tax Rules 2002.</li> <li>• Check that the verification procedure has been completed within 30 days from receipt of refund application as required by Circular No.5 of 2003.</li> <li>• Check that refund has been determined correctly as laid out in Section 170 of the Income Tax Ordinance 2001.</li> <li>• Check that taxable income and tax liability has been determined as per Income tax ordinance 2001.</li> <li>• Check that the name and NTN appearing in the Refund application/return matches with the particulars appearing in the Register and refund voucher.</li> <li>• Check that the refund voucher has been issued along with refund order within forty-five days of the receipts of the refund application as required by Circular No.5 of 2003.</li> <li>• Check that issuance/processing of refund falls within the jurisdiction of the relevant Enforcement division of LTU/RTO.</li> <li>• Check that the copy of refund order has been sent to respective DG of RTO/LTU as mentioned in Letter No. 7(54) S.Asst/2007 dated 14-01-2008.</li> <li>• Check that a certificate in the prescribed form is issued by Taxation Officer along with refund order as instructed in Letter</li> </ul>		

<b>Audit Procedure</b>	<b>Done By:</b>	<b>WP Ref.</b>						
<p>No. 7(54) S.Asst/2007 dated 14-01-2008.</p> <ul style="list-style-type: none"> <li>• Check that the certificate issued complies with the following salient features:                             <ul style="list-style-type: none"> <li>○ Duly signed by the officer who is the refund issuing authority,</li> <li>○ Reference number on the certificate is the same appearing on Refund voucher book.</li> </ul> </li> <li>• Check whether the Taxation Officer and Additional Commissioner of Income Tax have properly verified the refund before issuance of refund.</li> <li>• Check that the refund voucher is issued within the limits of the authorized signatories:</li> </ul> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse; width: 60%;"> <tbody> <tr> <td style="padding: 2px;">Below Rs.100, 000</td> <td style="padding: 2px;">Taxation Officer</td> </tr> <tr> <td style="padding: 2px;">Rs.100, 000 to Rs. 500,000</td> <td style="padding: 2px;">Taxation Officer, Additional CIT.</td> </tr> <tr> <td style="padding: 2px;">Above Rs. 500,000</td> <td style="padding: 2px;">Taxation Officer, Additional CIT, CIT.</td> </tr> </tbody> </table>	Below Rs.100, 000	Taxation Officer	Rs.100, 000 to Rs. 500,000	Taxation Officer, Additional CIT.	Above Rs. 500,000	Taxation Officer, Additional CIT, CIT.		
Below Rs.100, 000	Taxation Officer							
Rs.100, 000 to Rs. 500,000	Taxation Officer, Additional CIT.							
Above Rs. 500,000	Taxation Officer, Additional CIT, CIT.							

## 6.21 Audit Programme–Additional taxes and penalties

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

<b>Audit Procedure</b>	<b>Done By</b>	<b>W.P Ref</b>
<p><b>Sample is to be selected from demand register and the following steps are to be applied:</b></p> <ul style="list-style-type: none"> <li>• Check whether taxpayer has paid the advance tax due under section 147 of ITO 2001 by due date. If not, check whether penalty has been imposed on taxpayer under section 183 of ITO 2001.</li> <li>• Check whether the taxpayer has deposited the tax withheld by due date. If not, check whether penalty has been imposed on taxpayer under section 183 of ITO 2001.</li> <li>• Check whether taxpayer has paid the admitted tax liability along with the return by due date. If not, check whether penalty has been imposed on taxpayer under section 183 of ITO 2001.</li> <li>• Check whether the taxpayer has filed its return or statement within due date. If not, check whether penalty imposed under section 182 of ITO 2001.</li> <li>• Check whether concealment of income has been established on</li> </ul>		

Audit Procedure	Done By	W.P Ref
<p>taxpayer and, if yes check whether penalty has been imposed under section 184 of ITO 2001.</p> <ul style="list-style-type: none"> <li>• Check whether notices u/s 116, u/s 176 were issued. If yes check whether taxpayer has complied with their notices, and if no check whether penalty has been imposed under section 186 of ITO 2001.</li> <li>• Check whether taxpayer has made false or misleading statement to the department; if yes check whether penalty is imposed under section 187 of ITO 2001.</li> </ul>		

## 6.22 Audit Programme–Advance tax

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By:	WP Ref.
<p><b>Sample is to be selected from Daily Collection Register / Challan /CPR Wise data at DPC.</b>  <b>For each Advance Tax Challan / CPR selected, apply the following steps:</b></p> <ul style="list-style-type: none"> <li>• From Desk audit on last year taxpayer data, identify cases (AOP / Individual) where latest assessed taxable income is greater than Rs.200, 000.</li> <li>• For each case selected from Desk audit above and DCR / CPR- Wise Data, check that Advance Tax is paid in the following quarters: <ul style="list-style-type: none"> <li>○ For September Quarter (15<sup>th</sup> September),</li> <li>○ For December Quarter (15<sup>th</sup> December),</li> <li>○ For March Quarter (15<sup>th</sup> March), and</li> <li>○ For June Quarter (15<sup>th</sup> June),</li> </ul> </li> <li>• Check that advance tax has been calculated correctly in accordance with requirements of section 147 of the Income Tax Ordinance 2001.</li> <li>• Check that evidence (Tax Challan/CPR) of deposit of tax collected or deducted is attached along with each case.</li> <li>• In case where advance tax has not been paid where required, check whether additional tax has been imposed as per ITO, 2001..</li> </ul>		

## 6.23 Audit Programme-Payroll

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By:	WP Ref.
<p><b>Existence and Occurrence</b></p> <ul style="list-style-type: none"> <li>• Select a sample of transactions and                             <ul style="list-style-type: none"> <li>○ Check the Payroll/Audit Register for all employees in the sample</li> <li>○ Check that payment was made to correct payee.</li> <li>○ Check attendance records to determine that employees in sample earned the amount due in pay.</li> </ul> </li> </ul>		
<p><b>Completeness</b></p> <ul style="list-style-type: none"> <li>• Compare list of employees paid against Establishment Register for selected months</li> <li>• Select a sample of employees who recently retired / transferred out / otherwise left the office and check whether any received payments after date of leaving (adjusting for timing of last payment)</li> <li>• Select a sample of employees recently joining the office and confirm that they were not paid before they commenced</li> <li>• Conduct a reconciliation (and/or check a batch of transactions) between {Direct Credit Advice / Payroll Advice / DDO monthly statement<sup>5</sup>} and Monthly Schedule of Employees' Salaries and General Ledger</li> <li>• Take a sample of employees (from establishment listing / telephone list / or other source) and check that they have received payment out of the payroll system.</li> </ul>		
<p><b>Measurement</b></p> <ul style="list-style-type: none"> <li>• For the sample of transactions check:                             <ul style="list-style-type: none"> <li>○ that the Payroll Register is consistent with relevant Rules applying to promotion, pay rates and entitlements; and</li> <li>○ that 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</li> </ul> </li> </ul>		

<sup>5</sup> Note: payroll payments under the DDO monthly statement may possibly not show up in other documents as salary payments (although they should).

Audit Procedure	Done By:	WP Ref.
regulations governing deductions such as rent deductions, loans and advances / etc.)		
<p><b>Regulatory</b></p> <ul style="list-style-type: none"> <li>• Check that all documents relating to the sample of transactions/employees are completed fully, have proper authorisation</li> <li>• Rules regarding receipt of increments in pay should be checked</li> <li>• Check that the total number of employees (by individual units) receiving pay does not exceed stipulated establishment limits.</li> </ul>		

## 6.24 Audit Programme-Procurement

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

Audit Procedure	Done By <sup>6</sup> :	WP Ref <sup>7</sup> .
<p><b>Proper Contracting Process Followed</b></p> <ul style="list-style-type: none"> <li>• Select a sample of contracts (focusing on large contracts, and/or contracts of possibly a questionable nature.)</li> <li>• For each contract, examine the contract file and obtain information on: <ul style="list-style-type: none"> <li>○ Timing of the process (initiation of the contracting process, issue of the request-for-proposal (RFP), closing date for the bids, the decision on which bid is elected, date of informing the successful bidder, date of signing contract – noting whether any negotiations prior to signing of the contract)</li> <li>○ Number of RFPs sent out, number of bids received (on time), number of bidders who missed the deadline (if any), number of bids that qualified under the criteria</li> <li>○ The scores and the bid prices of each bid received</li> <li>○ The summary of the evaluation and selection process</li> <li>○ Any correspondence relating to the bidding process and conclude on the appropriateness of the process (sufficient bids received, decision supported by analysis, timely</li> </ul> </li> </ul>		

<sup>6</sup> The name/initials of the auditor who undertook the work

<sup>7</sup> Cross referenced to the working papers that contain the supporting details.

<b>Audit Procedure</b>	<b>Done By6:</b>	<b>WP Ref7.</b>
<p style="text-align: center;">process)</p> <ul style="list-style-type: none"> <li>• For each contract, review the advertising process and determine whether information about the RFP was widely distributed, with sufficient time provided to respond</li> <li>• For each contract, assess whether the RFP is stated in clear, unambiguous terms, with sufficient specifications to check that all bidders are able to offer comparable bids</li> <li>• Also, check that the terms of the RFP were such that the responses were not too restricted {Sometimes, the requirements are written so that they distort the bidding process such as:               <ul style="list-style-type: none"> <li>○ only one supplier can meet the conditions imposed</li> <li>○ the requirements are so demanding (such as tough penalty clauses for failure to meet contract conditions) that many potential bidders are discouraged from bidding</li> <li>○ imposed budget so low that better suppliers would not bid and the supplier who does get awarded the contract naturally fails to deliver an adequate product/service for the price}</li> </ul> </li> <li>• Examine what was done when less than 3 bids were submitted. {Was special authority obtained to proceed when fewer than 3 bids received and justification given (such as only 2 suppliers of product/service available)? Was the RFP process repeated and if so was there a sufficient number of bids obtained the second time?}</li> <li>• Check that contracts were not entered into (signed) without assurance that sufficient funds were available and monies had been allocated for that purpose</li> </ul>		
<p><b>Analysis of Bids According to Selection Criteria</b></p> <ul style="list-style-type: none"> <li>• Seek evidence that evaluation criteria and scoring method are established before bids are opened (by observation and/or interviewing and confirm that in certain cases, these criteria and the scoring method are provided to potential bidders with the RFP)</li> <li>• Note whether there are more than one (should be 3 or more) evaluators asked to score the bids</li> <li>• On a sample basis, confirm that the scores awarded against individual criteria for the different bidders are reasonable and assess whether the variability in scores between different evaluators is reasonable</li> </ul>		

Audit Procedure	Done By6:	WP Ref7.
<p><b>Calculations and Comparisons Properly Carried Out</b></p> <ul style="list-style-type: none"> <li>• For each contract, check:                             <ul style="list-style-type: none"> <li>○ the calculation of scores given by each evaluator against the criteria;</li> <li>○ the calculation of the overall score (the average of the individual evaluator’s scores); and</li> <li>○ the verification of bidders price; and confirm correct (sometimes the bidder may have miscalculated the total price compared to the detailed breakdown of costing)</li> </ul> </li> <li>• For sole source contracts, check whether there is any evidence that the reasonableness of the price had been checked by the contracting authority (whether any assurance given that the price was reasonable)</li> <li>• For these sole source cases, the auditor should verify that the pricing was not unreasonable (on the basis of other contracts / industry standards for the type of work / etc.)</li> </ul>		
<p><b>Disclosure of Information and Award of Contract</b></p> <ul style="list-style-type: none"> <li>• For each sample contract, check whether the evaluation and selection process was properly documented; and the decision properly justified</li> <li>• For sole sourced cases in the sample, determine what justification was given for sole sourcing the contracts (for contracts valued above the cut-off figure for sole sourcing)</li> <li>• Check that before the contract was awarded the end user was consulted (may be already represented on the evaluation committee)</li> <li>• Check the amount of time taken between submission of bids and awarding of the contract and conclude whether the process took an excessive time.</li> <li>• Where the awarding process was lengthy enquire as to the impact of the delays.</li> </ul>		
<p><b>Contract properly drawn up</b></p> <ul style="list-style-type: none"> <li>• Check that the contract contains all relevant standard clauses</li> <li>• Where special clauses are included, determine whether legal advice was obtained for any that are inconsistent with the standard clauses, or could have substantial cost implications</li> <li>• Check that the contract specifies, wherever possible, clear milestones, or specific deliverables, to be met before payments</li> </ul>		

<b>Audit Procedure</b>	<b>Done By6:</b>	<b>WP Ref7.</b>
<p>are made under the contract</p> <ul style="list-style-type: none"> <li>• Confirm that the contract was in place, signed by both parties, before any activities were carried out under the contract</li> <li>• Review any penalty clauses and assess their reasonableness</li> <li>• Examine whether the contracts are clear as to how shortfalls, or variances from the original contract, are to be handled.</li> <li>• Finally check that the contract (if properly carried out) meets the requirements as originally defined</li> <li>• Where applicable, check whether pre-shipment inspection clauses have been included</li> </ul>		
<p><b>Appropriate amendments to contract</b></p> <ul style="list-style-type: none"> <li>• Determine whether for any changes to the contract, the rationale for those changes is documented and fully justified</li> <li>• Check that there had been no changes made to the contract that could negate the cost-effectiveness of the original choice of the selected contractor/supplier over the other bids received., i.e. check that the bidder did not come in low to beat out the competition and then obtained increases in the value of the contract to complete the job profitably</li> </ul>		
<p><b>Performance under the contract</b></p> <ul style="list-style-type: none"> <li>• For each contract in the sample, determine if the contract was carried out satisfactorily, and if there were any delays, over-runs, failure to meet quality, timeliness and quantity of the good or service provided under the contract.</li> <li>• Determine whether the correct goods or services were received according to the contract</li> <li>• Where any of the contracts were not carried out satisfactorily, determine the problem(s) that contributed to inadequate performance</li> <li>• In particular, identify any failures in the internal controls that might have contributed to the inadequate performance (such as, lack of adequate quality control checks specified for each stage of delivery {of project or manufacture of equipment})</li> <li>• Check if there were any situations where the government failed to meet its responsibilities for meeting deadlines under the contract (such as the delivery of detailed drawings or the</li> <li>• Inspection of a particular stage of construction) and if so, check if this resulted in any increase in cost or reduction in performance under the contract.</li> </ul>		

Audit Procedure	Done By6:	WP Ref7.
<p><b>Payments under the contract</b></p> <ul style="list-style-type: none"> <li>• For each contract in the sample, check that there was evidence on file that each milestone had been met before payment was made (where payment was conditional on the milestone being satisfactorily met prior to payment)</li> <li>• Check that there is evidence that the contract manager, or project manager, made a signed statement that the work has been performed or products delivered according to specifications</li> <li>• Check that all payments were made only after being properly authorized by sanctioning officer, and note whether there was a statement that payment was consistent with the terms of the contract</li> </ul>		

## 6.24 Audit Programme- Goods and Services

**Audit Entity:**

**Audit Period:**

**Date(s) Conducted:**

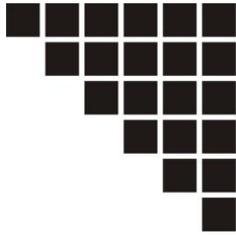
Audit Procedure	Done By8:	WP Ref9.
<p><b>Existence and Occurrence</b></p> <ul style="list-style-type: none"> <li>• Select a sample of transactions</li> <li>• For this sample of transactions, collect all related documentation (purchase order / purchase authorization / invoice / delivery receipt / any receiving documentation / payment) and check entry in Inventory Register and in general ledger</li> <li>• Check payments for product/service entered into ledger for correct year</li> <li>• Confirm that the payment was made to the correct payee by comparing information on cheque register with invoice and delivery information</li> <li>• Through CAATs or other means, identify in the records any situations of “identical” transactions and check whether they are two separate purchases (tracing through to physical check of goods/services received) or are cases of double payment for same goods/service. Follow up on cause(s) of duplicate payments (including possibility of fraud).</li> <li>• Check also whether any “identical” transactions resulted from a</li> </ul>		

<sup>8</sup> The name/initials of the auditor who undertook the work

<sup>9</sup> Cross referenced to the working papers that contain the supporting details.

<b>Audit Procedure</b>	<b>Done By8:</b>	<b>WP Ref9.</b>
<p>practice of “order splitting”, i.e. purchase orders split to avoid need for sanction from a higher authority.</p> <ul style="list-style-type: none"> <li>• At least for large transactions and transactions close to year end, conduct physical check on existence of goods and services (if these are distant from site where conducting audit, may seek confirmation in writing from DDO or independent party)</li> <li>• Review suspense account for uncleared payments or for inappropriate clearances</li> </ul>		
<p><b>Completeness</b></p> <ul style="list-style-type: none"> <li>• Reconcile total expenditures on goods and services with the amount recorded on the general ledger (if practical or use of CAAT available)</li> <li>• Check that all goods and services recorded as acquired in the year are charged against that year (if practical or use of CAAT available)</li> <li>• Check for recently delivered goods and current service contracts that payments are recorded and/or monies allocated for payment (particularly important if the audit is conducted close to year end)</li> </ul>		
<p><b>Measurement</b></p> <ul style="list-style-type: none"> <li>• For the sample of transactions, check that the documentation (purchase order / purchase authorization / invoice / delivery receipt / any receiving documentation / payment) is consistent in quantity, pricing, product description (particularly checking for substitution of lower quality/grade product)</li> <li>• Check whether the individual items add up to the total given on the voucher / purchase order and the appropriate amounts of tax have been supplied</li> <li>• Follow up on any short-fall / substitution / missing items / multiple deliveries to check that only what was received was paid for</li> <li>• Check that the invoice and payment have applied proper prices / include any negotiated prices or other arrangements / reflect correct freight charges if applicable</li> <li>• Check also that any payment advances have been properly reflected in the invoice and correspondingly deducted from payment</li> <li>• Check arithmetical accuracy</li> <li>• Check inclusion of applicable guarantees, service support</li> <li>• If any products / services to provide maintenance or spare parts</li> </ul>		

Audit Procedure	Done By8:	WP Ref9.
<p>for a product (i.e. an expenditure to service a product previously acquired) are included in the sample of transactions, check that no payments were made for maintenance / replacement parts that should have been covered by warranties</p> <ul style="list-style-type: none"> <li>• Check in case of late delivery, whether any penalties apply under contract and if so, whether payment was adjusted accordingly</li> <li>• Check for any duplicate payments (see application of CAAT / analytical review under Analytical Review activity)</li> </ul>		
<p><b>Regularity</b></p> <ul style="list-style-type: none"> <li>• Check there has been proper authority to enter into the acquisition process, and that the size of the purchase is within the authority limit of the authorizing officer (<i>use of certification and authorization register?</i>)</li> <li>• In the cases of large purchases, check for supporting material to justify the acquisition of the goods and services: identified in budget or paper defining the needs and requirements</li> <li>• Check that the expenditure is consistent with the nature of the appropriation to which it was charged - check whether the particular goods or services are a correct expenditure against the budget (consistent with the object / appropriation / objectives of the programme).</li> <li>• Check that supplier's name is on list of approved vendors (or, if part of audit plan, check proper contracting procedures have been followed by applying contracting audit programme)</li> <li>• Check that in all major respects, the laws, regulations, rules and policies applying to the acquisition are complied with (<i>need to include the relevant policies, rules, etc.</i>)</li> </ul>		
<p><b>Presentation and Disclosure</b></p> <ul style="list-style-type: none"> <li>• Check that purchase payments are correctly identified in the General Ledger under the correct Object and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the payments have been correctly coded according to the Chart of Accounts codes.</li> <li>• Check whether the manager(s) responsible for the purchasing function(s) receive(s) timely reports from the General Ledger under the relevant Object Codes and that the information is presented in a way that it can be used by the responsible managers section.</li> <li>• Check whether the manager(s) reconcile the information in the accounting report with the purchases for the period reported.</li> </ul>		



## Chapter 7

# AUDIT EVALUATION AND REPORTING PHASE

## 7.1 Introduction

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

### **Evaluation of Audit Findings/Results**

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

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

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

### **Reporting of Audit Conclusion**

The auditor normally issues:

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

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

Whatever the audit type, the same considerations apply:

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

## 7.2 The Audit Team's Responsibility

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

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

The audit team leader will check 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 check 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 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 auditor's understanding of the reporting process, the Reporting Cycle of the Income Tax 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. *Pre-PAC meeting with the AGP or Additional Auditor General*
5. *Audit report issued to the President*
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 by consolidating the Audit reports of all PAOs, and incorporating Grants. Analysis of all concerned ministries/Divisions, and is sent to the AGP office for Quality Assurance Review.

*Quality assurance review at DAGP*

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

*Audit report issued to President*

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

*Pre-PAC meeting with AGP*

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

*Public Accounts Committee (PAC) Meeting*

- i) The DAGP supports the PAC for appropriate action against the paras included in the Audit Report.
- ii) The PAC accordingly disposes of the audit 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 contain specific guidance for using the forms given for the evaluation phase in the Audit Working Papers Kit.

## 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 Test of Detail, 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 Test of Detail. 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 limits (UEL) for over- and under-statements based on the evaluations 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 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 reports: Unqualified Audit Opinion; Qualified Audit Opinion – Scope Limitation; Qualified Audit Opinion – Departure from Government's Accounting Policies; Qualified Audit Opinion –

Uncertainty; Qualified Audit Opinion – Inappropriate Accounting Policies; Adverse Audit Opinion; Disclaimer of an Opinion.

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

## 7.20 Follow up Continuity Schedule

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

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

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

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

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

The errors identified during the financial audit could include:

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

Recommendations made by the auditor can relate to:

- Reservations being expressed in the audit report;
- Comments on the form and content of the Financial Statements;
- Comments on the accounting policies used to prepare the Financial Statements;

- Compliance with authority violations;
- Internal control weaknesses; and
- Performance (value-for-money) matters.

Audits frequently identify situations that require follow-up in the following years. For example, control failure 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 the audit team has fulfilled all the requirements of a quality audit.

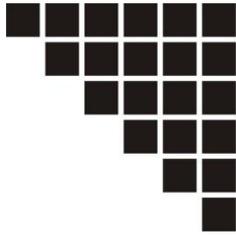
It is emphasised that the primary purpose of this post-audit review is to encourage continuous improvement in the quality of the DAGP's work. The reviews are not intended to praise or criticize the work of the audit team or individual auditors. In this spirit, those being reviewed should be comfortable 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 Directorate.

In centrally led certification audit of the federal government Financial Statements, the following (Evaluation & Reporting Phase) forms of the Audit Working Papers Kit shall not apply during the certification audit work of the Directorate General of Audit Income Tax:

- Overall Error in Financial Statements
- Memorandum Supporting Signature
- Auditor's Opinion



## Chapter 8

# KEY TASKS AND RESPONSIBILITIES

## 8.1 Introduction

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

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

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

## 8.2 Assigning Roles and Responsibilities

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

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

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

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

### 8.3 Key Tasks and Responsibilities: Permanent File

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

	Development of a brief description of the accounting system used by the auditee.		<b>P</b>	<b>R</b>	
<b>4.12</b>	Listing Key Contacts.	<b>P</b>	<b>S-R</b>		
<b>4.13</b>	Listing Significant Audit Areas.		<b>P</b>	<b>S-R</b>	<b>A</b>
	Updating determination of components.		<b>P</b>	<b>R</b>	
<b>4.14</b>	Listing Significant Accounting Policies.		<b>P</b>	<b>R</b>	
	Update and review of Significant Accounting policies.		<b>P</b>	<b>R</b>	
	Review and Sign Off of all the forms within the Permanent File.			<b>R</b>	<b>A</b>

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

### 8.4 Key Tasks and Responsibilities:                      Audit Planning Phase

<b>RESPONSIBILITIES</b>					
Guideline reference	TASKS	AO/Assistant Director	Deputy Director	Director	Director General
<b>5.4</b>	Determining Audit objectives and scope.				<b>P</b>
<b>5.5</b>	Listing/ Updating Points for attention at next audit.	<b>P</b>	<b>S</b>	<b>R</b>	
<b>5.6</b>	Preparing/Issuing Entity communication letter.		<b>P</b>	<b>R</b>	<b>A</b>
<b>5.7</b>	Preparing Audit planning memorandum.		<b>P</b>	<b>R</b>	
<b>5.8</b>	Revising Memorandum on post-planning changes.		<b>P</b>	<b>R</b>	
<b>5.9</b>	Scheduling Important dates.	<b>P</b>	<b>R</b>		
<b>5.10</b>	Preparing Tour Program..	<b>P</b>	<b>S</b>	<b>R</b>	<b>A</b>
<b>5.11</b>	Pursuing Information requested from entity officials.	<b>P</b>	<b>S</b>		

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

<b>RESPONSIBILITIES</b>					
Guideline reference	TASKS	AO/Assistant Director	Deputy Director	Director	Director General
<b>5.28</b>	Documenting Checklist of accounting estimates to be reviewed.		<b>P</b>	<b>R</b>	
<b>5.29</b>	Recording Points for attention at next audit.	<b>P</b>	<b>S</b>	<b>R</b>	
<b>5.30</b>	Documenting Audit planning checklist.		<b>P</b>	<b>R</b>	<b>A</b>

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### 8.5 Key Tasks and Responsibilities:

### Audit Execution Phase

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

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

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P=Perform

## 8.6 Key Tasks and Responsibilities: Audit Evaluation & Reporting Phase

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

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

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### 8.7 Key Tasks and Responsibilities: Audit Quality Assurance

<b>RESPONSIBILITIES</b>					
<b>Guideline reference</b>	<b>TASKS</b>	<b>AO/Assistant Director</b>	<b>Deputy Director</b>	<b>Director</b>	<b>Director General</b>
<b>Planning</b>					
<b>5.3</b>	Review that Planning has been carried out as per the recommended planning			<b>R</b>	<b>S</b>

Guideline reference	TASKS	RESPONSIBILITIES			
		AO/Assistant Director	Deputy Director	Director	Director General
	process.				
<b>FAM 15.3.6</b>	Assigning Appropriate staff, required strength and skill set of the audit team.			<b>P</b>	<b>R</b>
<b>FAM 15.3.7</b>	Preparation, revision and approval of the Audit Budget.		<b>P</b>	<b>R</b>	<b>A</b>
<b>5.30</b>	Ensuring that audit programs are in place as required in Audit Policy Checklist.		<b>P</b>	<b>R</b>	
<b>Execution</b>					
<b>5.8</b>	Ensuring revision of the planning decisions, if required.		<b>P</b>	<b>R</b>	<b>A</b>
	Supervision of all phases of execution as per the tasks assigned in “key tasks related to execution phase” list.		<b>P</b>	<b>R-S</b>	
	To ensure review of audit working paper files.		<b>P</b>	<b>R</b>	<b>S</b>
<b>6.16</b>	To ensure executing audit steps as per the Audit Programs.		<b>P</b>	<b>R</b>	<b>S</b>
	Ensuring reporting and monitoring of audit activities with reference to “execution task list.”		<b>P</b>	<b>R-S</b>	
<b>Evaluation &amp; Reporting</b>					
<b>7.3</b>	To ensure detailed review and approval of monetary errors, compliance with authority Violations and internal control deviations found.		<b>P</b>	<b>R-S</b>	<b>A</b>
<b>7.15,7.16,7.18</b>	Ensuring tools for the auditor’s opinions and		<b>P</b>	<b>S</b>	<b>R</b>

<b>RESPONSIBILITIES</b>					
<b>Guideline reference</b>	<b>TASKS</b>	<b>AO/Assistant Director</b>	<b>Deputy Director</b>	<b>Director</b>	<b>Director General</b>
	statements are used.				
<b>7.17</b>	Ensuring Documentation of Audit Completion Checklist.		<b>P</b>	<b>R-S</b>	<b>A</b>
<b>7.21</b>	Reviewing the Quality Assurance Checklist. *		<b>P</b>	<b>R</b>	<b>A</b>

**A= Approve,**

**R= Review,**

**S=Supervise,**

**P=Perform**

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



## APPENDIX - A

**AUDITOR-GENERAL OF PAKISTAN**

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**PERMANENT FILE INDEX/CHECKLIST**

<b>Main Reference</b>	<b>Supporting Schedules</b>		<b>Done by</b>	<b>Date</b>
<b>PF</b>		Updated Control Sheet	Kashif Kamran Maqbool Ahmad	<b>04.03.2008</b>
<b>PF-I</b>		Status of the Entity		
<b>PF-II</b>		Background Information		
<b>PF-III</b>		List of Auditable Locations		
<b>PF-IV</b>		List of Bank Accounts		
<b>PF-V</b>		List of Authorized Signatories		
<b>PF-VI</b>		External Factors		
<b>PF-VII</b>		Accounting Records and Accounting System		
<b>PF-VIII</b>		Key Contacts		
<b>PF-IX</b>		Significant Audit Areas		
<b>PF-X</b>		Significant Accounting Policies		
<b>Supporting Documents List</b>				
		FBR Accounting Process Collection of Taxes		
		Transaction flow		
		Refund Procedure		
		Flow of Return, Assessment, Audit, Recovery of Tax		

<b>Main Reference</b>	<b>Supporting Schedules</b>		<b>Done by</b>	<b>Date</b>
	Mission, Vision, Objectives			
	Financial Statements of Federal Government			
	Income Tax Ordinance 2001			
	Income Tax Rules 2002			

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**UPDATE CONTROL SHEET**

Name of entity/organization : Federal Board of Revenue,  
Islamabad.

Original file prepared by : Mr. .Kashif Kamran  
Mr. Maqbool Ahmad

Dated: 04-03-2008 :

**File updated by: Maqbool Ahmad Date: 06-04-2009**

**File updated by: \_\_\_\_\_ Date: \_\_\_\_\_**

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**Form PF-1**

**Understanding of Entity's Business – Status of Entity**

**Name of Entity/Organization:**

**Federal Board of Revenue**

**1. Principal Address:**

Constitution Avenue, Islamabad

**Background Information**

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

In order to remove impediments in the exercise of administrative power of a Secretary to the Government and effective formulation and implementation of fiscal policy measures, it was decided to restore the Revenue Division. This experiment continued for a short period. In January 1995, Revenue Division was abolished and CBR reverted back to the pre-1991 position. However, from December 01, 1998, Revenue Division was once again re-created and it continues to exist as such.

In the existing setup, the Chairman CBR, being the executive head of the Board as well as Secretary of the Revenue Division, has the responsibility for (i) formulation and administration of fiscal policies (ii) levy and collection of federal taxes and (iii) quasi- judicial function of hearing of appeals. His responsibilities also involve interaction with the offices of the President, the Prime Minister, all economic as well as trade and industry Ministries.

**2. Status of the Entity**

Federal Government Entity incorporated under the Central Board of Revenue Act 1924, with Centralized Accounting System.

**3. Inter-Governmental Relationship**

Revenue Division, Ministry of Finance

**DIRECTORATE GENERAL INCOME TAX AUDIT****PERMANENT FILE****Form PF-II****Understanding of Entity's Business – Background Information****Name of Entity/Organization:****Federal Board of Revenue**

The Chairman **Federal Board of Revenue**, being the executive head of the Board as well as Secretary of the **Revenue Division** has the responsibility for (i) formulation and administration of fiscal policies (ii) levy and collection of federal taxes and (iii) quasi-judicial function of hearing of appeals. His responsibilities also involve interaction with the offices of the President, the Prime Minister, all economic as well as trade and industry Ministries and providing Policy Making Services as **Revenue Division** is a part of Ministry of Finance.

**1. Size of Entity**

- **Financial Highlights**

**a) Direct Taxes (Rs. In Billion)**

Particulars	2008-09	2007-08	2006-07
Direct Taxes	440.3	387.5	333.7

Source: FBR Quarterly Review 2008-09 (Apr-June)

**b) Direct Taxes (Head Wise) (Rs. In Billion)**

Particulars	2008-09		2007-08		2006-07	
Voluntary Payment	141.7	31%	145.5	37%	165.7	48%
Collection Demand	77.2	17%	42.9	11%	11.2	3%
Deduction at source	240.8	53%	206.6	52%	170.9	49%
Gross receipts	459.7	100%	395.00	100%	347.8	100%
Refund	(38.8)		(25.8)		(32.2)	
Other Direct Taxes	19.4		18.0		18.1	
Net Direct Taxes	440.3		387.5		333.7	

Source: FBR Quarterly Review 2008-09 (Apr-June)

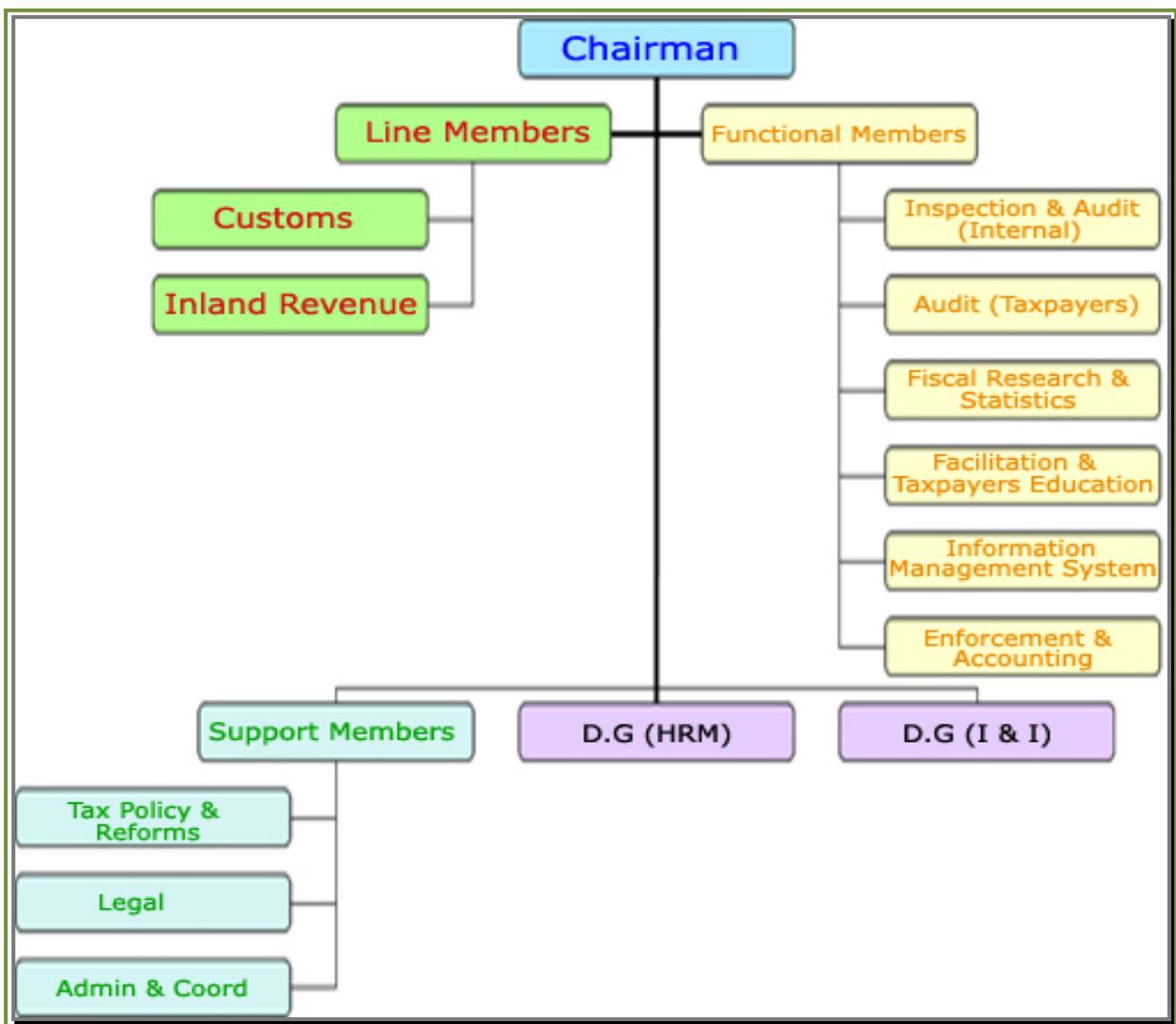
No of Taxpayer	2008-09 2,214,561	2007-08 2,139,397	2006-07 1,812,351
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**2. Organization Structure**

Revenue collection is the responsibility of the Federal Board of Revenue (FBR) under the Ministry of Finance and Revenue. The main organizational components involved are:

- The Principal accounting office (Islamabad)
- Provincial Accounting Offices (in Lahore, Peshawar, Karachi and Quetta)
- Regional/District Accounting Offices

**ORGANOGRAM**



**3. Core Operational Activity/Corporate Plan**

The main functions carried out by the organization include:

- Collection of Direct Taxes
  - Income Tax
  - Workers' Welfare Tax
  - Capital Value Tax
- Collection of Indirect Taxes
  - Customs Duty
  - Sales Taxes
  - Federal Excise Duty.
- Issue of circulars setting out the Board's interpretation of Income Tax Ordinance, 2001

**4. Major Services**

Collection of Revenue

**5. Major Beneficiaries**

Federal Government

**6. Major Collection Centre**

RTO's (Regional Tax Offices) / LTU's (Large Taxpayer units) / FTO's (Federal Treasury Office)

**7. Reporting Authority**

Chairman Federal Board of Revenue (FBR)

**DIRECTORATE GENERAL INCOME TAX AUDIT  
PERMANENT FILE**

**Form PF-III**

**Understanding of Entity's Business – List of Auditable Locations**

**Name of Entity/Organization:**

**Federal Board of Revenue**

**MAIN OFFICE:**

Federal Board of Revenue, Constitution Avenue, Islamabad

**SUB OFFICES:**

<b>S.No.</b>	<b>RTOs/LTUs</b>
<b>1.</b>	Regional Tax Office, Abbottabad (52)
<b>2.</b>	Regional Tax Office, Peshawar (63)
<b>3.</b>	Regional Tax Office Islamabad (61)
<b>4.</b>	Regional Tax Office Rawalpindi (60)
<b>5.</b>	Large Taxpayers Unit, Islamabad (64)
<b>6.</b>	Regional Tax Office Sialkot (59)
<b>7.</b>	Regional Tax Office Gujranwala (58)
<b>8.</b>	Regional Tax Office Lahore (57)
<b>9.</b>	Large Taxpayers Unit, Lahore (39)
<b>10.</b>	Regional Tax Office Multan (55)
<b>11.</b>	Regional Tax Office Faisalabad (56)
<b>12.</b>	Large Taxpayers Unit, Karachi (51)
<b>13.</b>	Regional Tax Office Karachi (34)
<b>14.</b>	Regional Tax Office Hyderabad (52)
<b>15.</b>	Regional Tax Office Sukkur (53)
<b>16.</b>	Regional Tax Office Quetta (54)

• **OTHER ACCOUNTING LOCATIONS (Federal Treasury Offices(FTO's) :**

1. FTO Lahore,
2. FTO Karachi,
3. FTO Peshawar,
4. FTO Multan,
5. FTO Faisalabad,
6. FTO Gujranwala,
7. FTO Quetta,
8. FTO Rawalpindi.
9. FTO Hyderabad
10. DAO/FTO Sukkur

## LIST OF ACCOUNTING LOCATIONS

### **Main Accounting Office**

Accountant General, Pakistan Revenues, Islamabad

The AGPR, Islamabad prepares annual Finance Account on the basis of Accounts received from its sub-offices and other self- accounting entities.

### **Provincial Accounting Office**

- Provincial Accountants General at Lahore, Peshawar, Karachi and Quetta
- AGPR's sub- offices at Lahore, Peshawar, Karachi, Quetta and Gilgit

### **Regional/District accounting offices**

- District Accounts Offices
- Departmental Treasuries
- Federal Treasury at Islamabad and Karachi.

### **Other Accounting Locations**

- Directorate of Accounts, Pakistan Post Office.
- Military Accountant General (withholding tax)
- Pak PWD (withholding tax)
- Other self- accounting entities like Pakistan Railways, Pakistan Mint, Geological Survey of Pakistan, and Forest etc.

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

PRAL database system at Lahore, Karachi, Islamabad, Rawalpindi, Faisalabad and Multan.  
SAP-R3 Financial Reporting.

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**Form PF-IV**

**Understanding of Entity's Business – Bank Accounts**

**Name of Entity/Organization:** **Federal Board of Revenue**

**State Bank of Pakistan**

*Account No. Central 1      Non-Food*

<b>Bank</b>	<b>Account No.</b>	<b>Head of Account</b>
<b>SBP</b>	06200299990184	NBP Income Tax
<b>SBP</b>	06200299990234	Capital Value Tax
<b>SBP</b>	0620099990314	B 03081 Withholding Tax on Cash Withdrawal

**List of Receipts Heads**

*Revenue Receipt*

**B- Tax Revenue**

**B01- Direct Taxes (on income and wealth)**

- B011 Taxes on Income
- B012-13 Property and Wealth Tax
- B01501 Workers Welfare Fund
- B0161 Tax on Profession, Trades and Callings
- B017-18 Capital Value Tax

**B02- Indirect Taxes (on Commodities and Transactions)**

- B020-21-22 Customs
- B023 Sales Tax
- B024 Federal Excise
- C03902 Petroleum Development Levy (collection only)

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**Form PF-V**

**Understanding of Entity's Business – List of Authorized Signatories**  
**Name of Entity/Organization: Federal Board of Revenue**

- A) Director Generals and Commissioners of Income Tax posted in RTOs/LTUs**  
**B) ASSESSMENT FINALIZATION LEVEL**

<b>Direct Taxes</b>	
Self Assessment	Commissioner is the only authority under the Income Tax Ordinance 2001 who can authorize anybody to ask for the short documents for finalization of assessment.

**C) Refunds**

<b>Sr#</b>	<b>Authority</b>	<b>Amount Limit</b>
<b>I</b>	Taxation Officer	<b>Up to Rs. 100,000</b>
<b>ii</b>	Inspecting Additional Commissioner	<b>Up to Rs. 500,000</b>
<b>iii</b>	Commissioner	<b>Above Rs. 500,000</b>

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**Form PF-VI**

**Understanding of Entity's Business – External Factors**

**Name of Entity/Organization:**

**Federal Board of Revenue**

- **POLITICAL FACTORS:**
  - Political instability resulting in inconsistency of Government policies.
  - Social insecurity.
  - Breakdown in business activity due to Strikes etc.
  
- **ECONOMIC FACTORS:**
  - Bullish, Bearish trends of Stock Exchange.
  - Disturbance in Agri Products Supply-Demand equilibrium.
  - Changes in Monetary and Fiscal Policies.
  - Changes to Government Policies (e.g.)
    - Introduction of Self Assessment Scheme,
    - Amendments in rates of tax through Finance Bill,
    - Exemptions and tax credits,
    - Introduction of new taxes and extending the tax base etc.
  - Power outage.
  - Global recession.
  
- **SOCIAL FACTORS:**
  - Deterioration of law and order.
  - In ability to expand Tax-Base due to pressure from certain groups (Feudal System).
  - Rapid growth in population.
  - Terrorism
  
- **TECHNOLOGICAL FACTORS:**
  - Changes in the technology-----E-filing of return and statements.

## **DIRECTORATE GENERAL INCOME TAX AUDIT**

### **PERMANENT FILE**

**Form PF-VII**

**Understanding of Entity's Business – Accounting Records & Accounting System**  
**Name of Entity/Organization: Federal Board of Revenue**

List of Accounting Records:

- Assessment records
- Daily Collection Register
- Arrear Register
- Refund Register
- Refund Voucher Books
- Monthly Performance Report
- Monthly cash account prepared by F.T.O.

#### **Details of Accounting System**

#### **Main Business Processes - Collection of Taxes**

#### **PROCEDURE FOR DEPOSIT OF INCOME TAX IN THE BANK THROUGH SINGLE INPUT FORM BY NORMAL TAXPAYERS.**

Procedure for deposit through single input form and sequence of operations will be as follows:-

- Taxpayer presents Income Tax Input Form at Bank's Counter.
- NTN or CNIC of Individual taxpayers and NTN/ Registration/ Incorporation Number in the case of Companies/AOP's is inputted.
- If NTN (as input) is verified against NTN Master Index, Taxpayer's Name and Address will appear on the screen.
- If NTN of the "payee" is not verified, CNIC to be obtained,
- If both, i.e. NTN or CNIC are not available, tax may be deposited by the Withholding Agent but no credit will be allowed to the payees in respect of such tax deposits. In case the "payee" is a Company /AOP etc. tax deposited to be accepted with a valid NTN only. Tax will be deposited and credited to a suspense account,
- The Name on screen is checked against Input Form as mentioned.
- Taxpayer's Business Name, Taxpayer's Address is checked as mentioned on Input Form,
- Status of Taxpayer appears on screen after the NTN is verified from Master Index.
- Where NTN has been verified from NTN Master Index, Name of LTU / RTO will appear after the input of Taxpayer's NTN.
- Tax Year is inputted as given on Input Forms.

- Tax “type” is inputted as given on Input Form. Payment Section Code and Payment Section will automatically appear.
- Mode of payment is inputted along with details of Cheque / Pay Order number, if applicable.
- The amount to be paid (in numbers) is inputted and amount in words appears automatically.
- In case payment in cash, data is saved and CPR is printed.
- CPR is stamped and signed and handed over CPR to Taxpayer.
- In case the tax is deposited through clearing i.e. a banking instrument, a Token is issued on the prescribed format.
- After clearance of the payment, CPR will be issued and handed over to the tax payer.
- Saved data is sent to the Bank’s Server.
- Data will be transmitted to FBR/PRAL as per prescribed time schedule for A, B, and C categories of Branches, who will apply validation checks (What is the time schedule and what validation checks are applied).
- Electronic data will be stored in the respective databases of FBR and data shall be simultaneously uploaded by FBR/PRAL on RTO’s / LTU’s Servers.

#### **PROCEDURE FOR DEPOSIT OF TAX WITHHELD BY THE WITHHOLDING AGENTS**

Tax collected / deducted under the withholding regime of the Ordinance is deposited by the Withholding Agents in the Bank in the following situations:

1. Where number of “payees” is up to 10, and
2. Where number of “payees” is multiple i.e. more than 10

The Withholding Agents deposit the tax either:

- By preparing separate “Input Forms” for each tax payer or,
- Through a single/composite input form for all the “payees”.

Each position is explained as follows:

#### **DEPOSIT OF TAX THROUGH SEPARATE CHALLANS**

In case of deposit of tax through separate Challans for each “payee”, the procedure for deposit tax and the process will be the same as indicated in “*Procedure for Deposit of Tax through single input form for Normal Tax Payers*”.

#### **DEPOSIT OF TAX BY WITHHOLDING AGENTS WHERE NUMBER OF “PAYEES” IS UP TO 10 & TAX IS DEPOSITED THROUGH ONE COMPOSITE INPUT FORM.**

Where the Withholding Agents deposit the tax through one composite input form with number of “payees” being up to 10, the procedure would be as follows:-

- The Withholding agent shall prepare the Input Form (IT 31-A revised) in hard/ soft form,
- The Input Form shall be presented to the Bank.

- The Bank will input the data on the system, strictly in accordance with the Input Form presented by the withholding agent.
- In case of soft copy, the Bank will upload data from the soft copy provided by the tax payer.
- The Bank will input NTN and CNIC / Registration Incorporation Number of Taxpayer.
- If NTN (as input) is verified against NTN Master Index, Taxpayer's Name and Address will appear on the screen automatically. Match name on form and on the screen,
- If NTN of the "payee" is not verified, CNIC shall be obtained,
- If both, i.e. NTN or CNIC are not available, tax may be deposited by the Withholding Agent but no credit will be allowed to the payees in respect of such tax deposits. In case the "payee" is a Company /AOP etc. tax deposited to be accepted with a valid NTN only. Tax will be deposited and credited to a suspense account,
- The total Amount of Tax being deposited appears automatically,
- The total amount of Tax being paid is verified against Tax Input Form / or the Bulk Data.
- Mode of payment is punched.
- Data is saved to print CPR where payment is made in cash.
- Where payment is through clearing i.e. banking instrument, details of Cheque etc are inputted, as applicable and a temporary token on prescribed form is issued.
- Data is saved and CPR on confirmation of payment from the Bank is issued.
- The Bank generates CPR summary as per prescribed format.
- CPR is stamped and signed and handed over CPR to the Taxpayer.
- Saved data is sent to the Bank's Server.
- PRAL up-loads data on respective databases of FBR
- Data to be uploaded by FBR/PRAL simultaneously on RTO's / LTU's Server.
- Data will be transmitted to FBR/PRAL as per prescribed time schedule for A, B, and C categories of Branches, who will apply validation checks (What is the time schedule and what validation checks are applied).
- Electronic data will be stored in the respective databases of FBR and data shall be simultaneously uploaded by FBR/PRAL on RTO's / LTU's Servers.

**DEPOSIT OF TAX BY WITHHOLDING AGENTS, WHERE NUMBER OF "PAYEES" IS MULTIPLE & TAX IS DEPOSITED THROUGH A COMPOSITE IN-PUT FORM FOR ALL "PAYEES"**

Where the Withholding Agents deposit the tax through a single instrument for all "payees", the procedure would be as follows:-

- Withholding Agent will provide bulk-data (soft copy of data on CD, or on memory stick etc.) for loading into Bank's database (the format in Excel is available on FBR's website),
- Taxpayer also presents Income Tax Input Form at Bank's counter (but how many as Input Form is up to 10 payees),
- Bank shall upload data into the system,
- The Bank will input NTN and CNIC / Registration Incorporation Number of Taxpayer,
- If NTN (as input) is verified against NTN Master Index, Taxpayer's Name and Address will appear on the screen automatically. Match name on form and on the screen,
- If NTN of the "payee" is not verified, CNIC to be obtained,
- If both, i.e. NTN or CNIC are not available, tax may be deposited by the Withholding Agent but no credit will be allowed to the payees in respect of such tax deposits. In case the "payee" is a Company /AOP etc. tax deposited to be accepted with a valid NTN only. Tax will be deposited and credited to a suspense account,
- The total Amount of Tax being deposited appears automatically.
- The total amount of Tax being paid is verified against Tax Input Form / or the Bulk Data.
- Mode of payment is inputted.
- Data is saved to print CPR where payment is made in cash.
- Where payment is through clearing i.e. banking instrument, details of Cheque etc are inputted, as applicable and a temporary token on prescribed form is issued.
- Data is saved and CPR on confirmation of payment from the Bank is issued.
- The Bank generates CPR summary as per prescribed format.
- CPR is stamped and signed and handed over CPR to the Taxpayer.
- Saved data is sent to the Bank's Server.
- Data will be transmitted to FBR/PRAL as per prescribed time schedule for A, B, and C categories of Branches, who will apply validation checks (What is the time schedule and what validation checks are applied).
- Electronic data will be stored in the respective databases of FBR and data shall be simultaneously uploaded by FBR/PRAL on RTO's / LTU's Servers

**COLLECTION, RECORDING, PROCESSING AND REPORTING OF ACCOUNTING INFORMATION BY NBP**

- The Challan / Computerized Payment Receipt (Input Form) issued by NBP designated branch to taxpayer/withholding agent is kept and accordingly on the basis of Challans/computerized payment receipts a daily bank scroll is prepared by the NBP Branch.
- The daily bank scroll prepared by NBP designated branch along with collection is transmitted to NBP Main Branch in corresponding district along with Challans in accordance to remittance procedures of A (Within 24 hours), B (Within 48 Hours), C (Within 72 Hours) Category of Branches.
- All Daily bank scrolls received by all designated branches along with Challans are consolidated at NBP Main Branch.
- Designated branch of NBP also sends a *Scroll Summary for Information and Intimation* along with cheque made payable to SBP in the corresponding district.
- NBP Main Branch sends Consolidated Daily Bank scroll/Abstract Statement to DPC (Data Processing Centre) / FTO (Federal Treasury Office) / DT (Departmental Treasury) along with Challans.
- In case of over-under reporting of collection an Adjustment Advice (Debit/Credit Note) is prepared and issued by NBP to DPC / FTO / DT requesting the necessary adjustment.

#### **COLLECTION, RECORDING, PROCESSING AND REPORTING OF ACCOUNTING INFORMATION BY SBP**

Collection directly received by SBP from taxpayers / withholding agents is same as above procedure for collection by NBP which is as follows:

- The Challan / Computerized Payment Receipt (Input Form) issued by NBP designated branch to taxpayer/withholding agent is kept and accordingly on the basis of Challans/computerized payment receipts a daily bank scroll is prepared by the NBP Branch.
- The daily bank scroll prepared by NBP designated branch along with collection is transmitted to NBP Main Branch in corresponding district along with Challans in accordance to remittance procedures of A (Within 24 hours), B (Within 48 Hours), C (Within 72 Hours) Category of Branches.
- All Daily bank scrolls received by all designated branches along with Challans are consolidated at NBP Main Branch.
- Designated branch of NBP also sends a *Scroll Summary for Information and Intimation* along with cheque made payable to SBP in the corresponding district.
- NBP Main Branch sends Consolidated Daily Bank scroll/Abstract Statement to DPC (Data Processing Centre) / FTO (Federal Treasury Office) / DT (Departmental Treasury) along with Challans.
- In case of over-under reporting of collection an Adjustment Advice (Debit/Credit Note) is prepared and issued by NBP to DPC / FTO / DT requesting the necessary adjustment. However, SBP monthly reconciles its collection and remittances received from NBP Main branches with relevant DPC / FTO / DT. Collection, Recording, Processing And Reporting Of Accounting Information By FTO

- After receiving Daily Scrolls/Abstract Statement along with Challans from NBP Main Branches, DPC / FTO / DT sorts Challans/computerized payment receipts source wise (RTO/LTU) and account head wise (i.e. Income Tax, WWF etc.).
- DPC / FTO / DT mark each challan with a Treasury Voucher No. (TV No).
- This information is uploaded in the system of DPC / FTO / DT and the Challans/computerized payment receipts are dispatched to relevant RTO's / LTU's for record keeping.
- DPC / FTO / DT on the basis of Daily Scrolls/ Abstract Statement received from NBP Main Branches prepares Monthly Account / Monthly Cash Account (Account Head Wise) and sends it to AGPR (Accountant General Of Pakistan Revenue) sub-office and Director Research and Statistics of FBR (Federal Board of Revenue).
- DPC / FTO / DT reconcile its monthly cash account (receipts total) with the information about collection (Own and NBP Main branch) received from SBP.
- In case of over-under reporting of collection an Adjustment Advice (Debit/Credit Note) is prepared and issued by SBP to DPC / FTO / DT requesting the necessary adjustment.
- All FTO / DPC / DT then reconcile their total collection with the total collection appearing in MPR's of all RTO's / LTU's.

**COLLECTION, RECORDING, PROCESSING AND REPORTING OF ACCOUNTING INFORMATION BY AGPR (SUB-OFFICES AND ISLAMABAD)**

- NBP Main Branch also sends the scrolls to AGPR Sub-Office.
- In case where sub-office of AGPR is not located in the city, NBP Main Branch sends scroll to District Accounts Office (DAO) and the DAO sends the same to AGPR Sub-office. AGPR Sub – Office prepares monthly reconciliation (of receipts side) against monthly cash account sent by DPC / FTO / DT or DAO.
- AGPR Sub-office mainly receives information from following sources:
  - Monthly Cash Account from DDO's (Drawing and Disbursement Officers) of LTU's,
  - Monthly Cash Account from DPC's / FTO's (Data Processing Centre) of RTO's,
  - Monthly Cash Account from DAO's (District Accounts Offices) where FBR representation does not exist,
  - Monthly Cash Account from TO's (Treasury Office) for miscellaneous receipts,
- On the basis of above monthly cash accounts received from corresponding offices the Section officer of AGPR Sub-office prepares a detail book (Source of collection and account head wise).
- On the basis of detail book a monthly civil account is prepared by AGPR sub-offices and is sent to AGPR Islamabad.
- AGPR Islamabad prepares a Consolidated Monthly civil account on monthly basis by compiling and consolidating the monthly civil accounts submitted by AGPR sub-offices.

- AGPR Islamabad prepares working sheet (Account Head wise) from the information compiled and extracted from the monthly civil accounts prepared and submitted by the AGPR Sub-offices on a monthly basis.
- AGPR Islamabad, then prepares, a consolidated working sheet (Account Head wise) at the year end from the consolidated monthly civil accounts duly prepared.
- On the basis of Consolidated working sheet a Manuscript of Financial Information is prepared and then Finance Accounts are prepared from it at the year – end.

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**Form PF-VIII**

**Understanding of Entity's Business – Key Contacts**

**Name of Entity/Organization:**

**Federal Board of Revenue**

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

**DIRECTORATE GENERAL INCOME TAX AUDIT**

**PERMANENT FILE**

**Form PF-IX**

**Understanding of Entity’s Business – Significant Audit Areas**

**Name of Entity/Organization:**

**Federal Board of Revenue**

**Significant Audit Areas**

<b>Significant Financial Statement Components</b>	<b>Main Heads</b>	<b>Critical Area</b>
<b>Revenue</b>	<b>Income Tax</b>	<ul style="list-style-type: none"> <li>• Short recovery of tax due to incorrect computation of tax liability.</li> <li>• Short recovery of tax due to incorrect application of law.</li> <li>• Challan/CPR particulars are not traceable in the accounts.</li> <li>• In effective desk audit function.</li> <li>• Non compliance with notices of demand.</li> <li>• Not paying Tax by due date.</li> <li>• Tax deducted at source at incorrect rate.</li> <li>• Tax not deducted at source where required.</li> <li>• Tax deducted but not deposited into the Federal Treasury.</li> <li>• Advance Tax not paid when it is liable on Taxpayer under Section 147 to the Income Tax Ordinance 2001.</li> <li>• Wrong determination of refund.</li> </ul>

**DIRECTORATE GENERAL INCOME TAX AUDIT  
PERMANENT FILE**

**Form PF-X**

**Understanding of Entity's Business – Significant Accounting Policies**

**Name of Entity/Organization:**

**Federal Board of Revenue**

**Revenue recognition**

Revenue is recognized on the date of receipt of money by the bank or clearance of cheque. Revenue is recognized on a gross basis and related costs are recorded separately. Receipts representing recovery of any previous overpayment are adjusted against relevant expenditure, if it occurs in the same financial year.

