



A. Statutory Framework for Public Sector Auditing

27. Effectual scrutiny by the legislature to ensure effective implementation of fiscal and expenditure policies needs comprehensive and competent external audits that are underpinned by international standards on auditing.²² The environment for an effective Supreme Audit Institution (SAI) requires a comprehensive approach to public financial management. Supreme Audit Institutions are not stand-alone institutions. They are part of a PFM architecture that includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the supreme audit institution functions is integral to providing information for improving the overall PFM system. But the action must be within the executive branch yet under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing is necessary for the supreme audit institution to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that reform action is taken. It also requires public presentation of the audit reports to ensure public support for effective action. All of these requirements are covered by the INTOSAI and IFAC auditing standards listed in Annex B. These should be adopted by the Auditor General of Pakistan. The Government noted in its response to the draft report that the statutory framework included considerations of the Constitution and that it was not appropriate to compare with the frameworks of other countries as the frameworks reflect the choices made by the people of each country. Recognizing this, the report does not make comparisons between country's Constitutions; rather it identifies how the Constitution for Pakistan or other elements of the legal statutory framework make provision for the auditing principles that are set out in INTOSAI guidance.

28. The diagnostic questionnaires have collected information describing current arrangements and the apparent gaps in the country in the following areas:

- Institutional framework for the Supreme Audit Institution,
- Process for setting auditing standards,
- Use of code of ethics or conduct,
- Arrangements to ensure accountability in the Supreme Audit Institution,
- Arrangements to ensure independence,

²² Scope, quality, and follow-up of external audit is performance indicator No. 26 in the PFM Performance Measurement Framework supported by the World Bank and other development agencies.



Arrangements to ensure adequate skills and qualifications for the auditors,
Arrangements for providing training,
Arrangements to ensure auditor competence,
Arrangements for quality assurance.

29. Those areas with significant scope for improvement are discussed below.

(1) Statutory Framework

30. **The Auditor General's Ordinance 2001 requires some improvements.** The Auditor General is appointed under provisions stipulated in the Constitution of Pakistan 1973 (as amended). The Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 details the mandate, role, and powers of the Auditor General of Pakistan. The Ordinance requires some improvements to remove jurisdictional limitations on the AGP mandate: (a) make an explicit mention of the proprietary, efficiency, effectiveness, and economy in the use of public funds; and (b) provide for necessary dissemination arrangements for the audit reports.

31. **The Auditor General of Pakistan should have the authority to conduct a full range of audits for all government-owned or -controlled entities.** The Auditor General has full authority for auditing all budget sector receipts and expenditures from all government accounts, including defense expenditures.²³ The Auditor General has the authority to audit any body or authority established by the government, or which has received a loan or grant; however, there are some exclusion clauses allowed for, in the Constitution as well as in the Auditor General's Ordinance. Article 169(b) of the Constitution limits the powers and function of the Auditor General in relation to any authority or body established by the government depending on the provisions contained in the respective legislation establishing that authority body. Similarly, Sections 9 (explanation), 11 (proviso), 15, and 16 of the Ordinance impose certain conditions on the powers and function of the Auditor General in relation to the audit of public sector enterprises. These jurisdictional limitations are under review; potential revision of the Ordinance to remove the restrictive or exclusion clauses is underway by a committee of the Auditor General, Secretary Finance, and Secretary Law. The Public Accounts Committee of the Parliament is pursuing this issue.

32. **The Auditor General of Pakistan should have the authority to conduct a full range of audits, including regularity, financial, and performance audits.** The Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 specifies the following types of audits:

Section 7, Certification Audit (Accounts)
Section 8, Regularity Audit
Section 9, Audit of Authorities having loans or grants from public money

²³ There are minor exclusions of practice relating to receipts kept as local funds or so called non-public funds by some institutions.



Section 12, Audit of Receipts

Section 8 & 9, Receipts and Expenditures (includes authorities and bodies substantially financed by loans and grants)

Section 10, Study reports (which may include performance, governance, debt-management, or environment)

Section 15, Audit of Companies and Corporations established under the public sector.

33. There is no explicit mention of the proprietary, efficiency, effectiveness, and economy of use of public funds in the Auditor General's Ordinance, yet many of the senior staff categorized these as the main objectives of the AGP audit. The proposed review of the Ordinance to resolve jurisdictional issues should also look into providing for a specific mandate of the Auditor General in relation to proprietary, economy, efficiency, and effectiveness of utilization of public funds along the lines of the model legislation proposed by the UNDP or the ACCA.²⁴

34. **The legislation should clearly set out penalties and their appropriate application in the event of noncompliance with auditing requirements.** Section 14 of the Auditor General's Ordinance applies to any person or authority hindering the audit functions of the Auditor General with regard to inspection of accounts; this person or authority shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, as applicable to their actions. Section 14 does not mention who would initiate such an action. Either the Auditor General, Public Accounts Committee, Public Accounting Officer, or another body could potentially initiate the action. Consequently, the implementation of this section could be problematic. In case of any hindrance or problem, the Public Accounts Committee generally issues directives to the executives with regard to compliance of auditing requirements. This process is lengthy and subject to many delays thereby reducing the effectiveness of the provision. The Auditor General should have specific powers to initiate action against persons who refuse to provide auditable accounts and relevant records to the DAGP staff.

35. **Necessary dissemination arrangements for the audit reports should be clearly laid down in the legislation.** The legislative scrutiny is not supported by public scrutiny due to un-disseminated audit reports and government financial statements. There is confusion as to when audit reports and government financial statements become public documents. Specific provisions in the Auditor General's Ordinance should make public the audit reports and other documents in line with the ACCA model legislation as follows:²⁵

All reports issued by the Auditor General shall be considered public documents when the reports are presented to Parliament. As public documents they shall be made available to the public for a minimal cost-recovery fee.

²⁴ Section 21 of the Model Law developed by the UNDP Program for Accountability and Transparency (PACT); and Sections 32 and 55 of A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004.

²⁵ A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004, Section 38.



The Auditor General may make his/her reports publicly available in electronic format on the Internet.

The Auditor General shall provide copies of his/her published reports to the government archivist, all public and university libraries (in relevant locations); National Broadcasting Corporation; and the press.

The Auditor General or his/her staff may provide comments and interviews to the press or other media on the subject of any published audit reports.

(2) Setting Auditing Standards

36. **The IFAC-issued International Standards on Auditing should be formally adopted, preferably by way of mention in the Financial Audit Manual.** There is an Audit Code which lays down the basic principles of auditing in line with the Constitutional provisions and the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Auditor General of Pakistan adopted the INTOSAI Auditing Standards in 2002 with minor adaptations. The INTOSAI Auditing Standards form the basis of the auditing methodology and process for the office of the Auditor General of Pakistan. This methodology and process is further explained in the Procedure for Certification Audit of Appropriation and Finance Accounts prepared by the Auditor General. The Auditor General has approved the new Financial Audit Manual which would gradually replace the current procedures.²⁶ The INTOSAI recognizes that the INTOSAI Auditing Standards are broad in nature and that the IFAC-issued International Standards on Auditing provide another level of detail for public sector audit guidance. The INTOSAI is working with IFAC in the longer term to develop practice notes to assist with implementation of each ISA in the public sector. Therefore, explicitly prescribing the IFAC standards as the applicable auditing standards in addition to the INTOSAI Auditing Standards would ensure that the relevant developments in the auditing process are learned and applied on a continuous basis.

37. **A committee should be set up to review and adopt the International Standards on Auditing on a continuous basis.** It has been construed from various provisions of the legislation, including Section 22 of the Auditor General's Ordinance 2001, that the Auditor General would be the standard-setting authority for the public sector auditing. As an active member of INTOSAI, the Auditor General usually subscribes to the declarations of the international organization for implementation with regard to transference to the local setup and environment. Therefore, the INTOSAI Auditing Standards were adopted. The adoption process consisted of a review of the INTOSAI Code of Ethics and Auditing Standards by a committee of senior officers assembled by the Auditor General. A similar committee should review and adopt the IFAC-issued International Standards on Auditing for effect on a continuous basis. It would be useful to include on this committee representation from the Institute of Chartered Accountants of Pakistan, which

²⁶ Chapter 4 of Financial Audit Manual mentions that the INTOSAI Auditing Standards have been considered as the general framework for the auditing methodology and procedures. Although the new Financial Audit Manual does not mention specifically the International Standards on Auditing, the overall approach and methodology is consistent with them.



is in the process of adopting ISA compliance by its members. The process of ISA adoption should start with input at the exposure draft stage and continue through to issuing practical guidance on local application of the International Standards on Auditing. Pakistan has nominated persons to the Reference Panel of the INTOSAI Working Group on Financial Audit Guidelines, which is a subcommittee of the INTOSAI Auditing Standards Committee. The Government can similarly nominate persons for an ISA-adoption committee under the jurisdiction of the Auditor General, as per his/her authority under the Constitution, (Section 170).

(3) Code of Ethics

38. **Improved monitoring for adherence to the Code of Ethics is needed, as well as review by the Controller General of Accounts.** The INTOSAI Code of Ethics, which was prepared for auditors, was adopted by the Auditor General of Pakistan in 2002 to be followed by the DAGP audit staff and the CGA staff responsible for maintenance of accounts. Some minor adaptations and deletions were made while issuing the INTOSAI Code of Ethics and Auditing Standards to make them compatible with the local setup and environment. There is a need for taking practical steps to ensure compliance with the Code of Ethics. These steps might include guidance from the procedural mechanisms included in the IFAC Code of Ethics for Professional Accountants and review of the INTOSAI Code by the Controller General of Accounts to compare the ICAP Code for relevance for accountants.

(4) Ensuring Independence

39. **Notwithstanding the limitations identified earlier, the legislation provides a strong enabling environment where the Auditor General of Pakistan can perform its scrutiny functions with considerable independence.** The Constitution guarantees the protection of service of the Auditor General of Pakistan. Similarly, the charged expenditures of the DAGP are not subject to Parliamentary vote, therefore protecting the DAGP budget. Section 19 of the Auditor General's Ordinance gives the Auditor General full powers to incur expenditures within the budgetary provisions. As the head of a civil service cadre, the Pakistan Audit and Accounts Service, the Auditor General has substantial control over personnel and over the Audit and Accounts Training Institute, a powerful internal training and professional development mechanism. The overall status of the Auditor General ensures the independence of the position and an effective organization within the DAGP by virtue of the Auditor General's constitutional mandate; protection of term in office; financial and human resource independence; exercise of authority over the type of, schedule, and duration of audit; powers to examine records; direct liaison with the parliamentarians in the Public Accounts Committee; and INTOSAI representation. However, the Auditor General does have some limitations regarding managing staffing. In order to create new posts, the Auditor General must negotiate with the Ministry of Finance/government, which in practice does not considerably infringe on the AGP independence. However, the recruitment of civil servants in the Pakistan Audit and Accounts Service is done through the Federal Public Service Commission, an arrangement that has significant expertise issues.

40. **The AGP term of office is secure.** The Auditor General of Pakistan is appointed by the President of



Pakistan and his oath is administered by the Chief Justice of Pakistan. The AGP term of office is 5 years or until the attainment of 65 years of age by the incumbent, whichever is earlier. The Auditor General is secure in this position throughout the term and can carry out mandates without fear of retribution. Once appointed, the Auditor General can only be removed by reference of the Supreme Judicial Council and affirmed by majority vote in the Parliament (the same procedure for removing a Supreme Court judge). Therefore, even the appointing authority does not have the termination powers. Re-appointment is not allowed before two years after vacating the office, thereby limiting opportunities for re-appointment. The UNDP model legislation recommends a 12-year term, and the ACCA recommends appointment to retirement age of 65. The Government noted in its response to the draft report that it considered that the Constitutional guarantees sufficed and that a longer term was not needed.

41. **The Auditor General's Ordinance sets the AGP's right to access information and obligation to report to the President.** The Section 14 of the Auditor General's Ordinance 2001 indicates the powers of the Auditor General in connection with access to all offices having accounts and other related documents and some guidance on how to deal with any person hindering the audit functions. Article 171 stipulates that the Auditor General shall submit reports to the President who in turn delivers the same to the Parliament. The Parliament sends these reports to the Public Accounts Committee for detailed scrutiny. There has never been an amendment to any audit reports after being submitted to the President.

42. Before submission to the President, there is ample opportunity for the executive to resolve the audit observations through holding of (Special) or Departmental Accounts Committee meetings or simply by taking administrative action as recommended in the Audit Information Report. Nevertheless, the resolution of issues often does not occur.

43. **The audit reporting requirements need to be made more specific.** Section 7 of the Auditor General's Ordinance 2001 relates to the certification audit. This section assigns responsibility to the Auditor General for certifying accounts on the basis of the AGP audit for each financial year and presenting corresponding notes, comments, or recommendations related to those accounts. The Ordinance does not specify the timeline for submission of the certified annual accounts. Similarly, the Ordinance does not require the Auditor General to submit an annual report on his/her performance. Section 7 states the minimum audit requirements from the Auditor General as the certification of annual accounts. The Auditor General must plan to have available the resources needed to conduct the certified audit and know how much time can be allocated to other types of audits in a year in addition to the mandatory certification of accounts. The PIFRA is trying to achieve an integration of the certification and regularity audit by introducing more concurrent audit activities focusing on regularity and compliance as part of the certification audit. This would also lead to a timely certification of the accounts and meaningful and complete representation sent to the legislature.²⁷

²⁷ There is a lack of connection between certification and regularity audit reporting. The certification audit gives partial compliance in the form of "can be relied upon" subject to both qualifications contained therein, as well as the issues reported elsewhere in regularity audit reports. The certification audit reports are seldom discussed by the Public Accounts Committee thereby limiting the general dissemination/availability and use of the government financial statements by the stakeholders.



44. **Legislation should provide an environment in which the Auditor General is free to meet with the media on audit reports.** In Pakistan, unlike in other countries, the audit report is never discussed with the media. The only point in time when the press gets formal acknowledgement of an audit report is when the Public Accounts Committee deliberates on the audit observations. The model legislation for Supreme Audit Institutions reads, “The Auditor General or his/her authorized staff may provide comments and interviews to the press or other media on the subject of any published audit reports.”²⁸

45. **There are some issues which can hamper the independence of the audit staff on individual assignments.** The separation of audit and accounts has resolved the independence issue to some extent. However the rotations of assignments, including deputations to other departments and back to audit offices, need to be reviewed. Similarly, the dependence on the auditee organizations for providing logistics can affect the highest level of independence. It is preferable to adopt the IFAC Code of Ethics with regard to procedures for enhanced independence as required by rotation of assignments and nominal dependency for logistics on some auditees.

46. **Improved processes of the Public Accounts Committee and departmental administrations are needed for following up audit reports.**²⁹ Despite many opportunities, resolution of audit observations frequently does not occur before submission of reports to the President and subsequent review by the Public Accounts Committee. This suggests an apparent indifference by senior departmental managers. It is important that there be certainty that audit observations are dealt with seriously by the legislature and the central agencies, such as the Ministry of Finance. This lack of resolution at the audit stage has led to an enormous backlog by the Public Accounts Committee in hearing the audit observations. Improved audit methodology and report writing, and reformation of the fundamental processes for scrutiny need to be undertaken to reduce this backlog. Better protocols may be useful between the Auditor General and various departments to ensure that auditor access is made easy and disruption in departments is kept at a minimum. In addition, better protocols would help ensure that draft audit reports are reviewed quickly by the departments for accuracy and fairness and that the Auditor General and departments, as far as possible, reach an agreement on reports before they are made public. Similar protocols are needed between Parliament and the Auditor General covering, for example, how the audit reports will be handled. An audit-observation tracking system is being implemented under PIFRA II, which would improve the post-audit accountability system. However, the primary responsibility of follow-up of actions is with the Public Accounts Committee secretariat that is closely coordinated by the Auditor General for compliance with its part of directives/recommendations.³⁰ The Auditor General does not have statutory power for imposing sanctions directly.

²⁸ A Model National Audit Office Act, The Association of Chartered Certified Accountants, London, 2004.

²⁹ Legislative scrutiny of external audit reports is performance indicator No. 28 in the PFM performance measurement framework supported by the Bank and other development agencies.

³⁰ Although the Public Accounts Committee writes “directives” for its decisions, many stakeholders perceive in line with the decision of NWFP High Court declaring these as “recommendations,” which are subject to voluntary compliance by the executive.



(5) Accountability in the Supreme Audit Institution

47. **The Office of the Auditor General of Pakistan should be accountable for its performance and report to the legislature.** The Inspection, Regulation, Vigilance, and Monitoring of the Training Wing are independent branches of the Office of the Auditor General of Pakistan, which performs its functions under a Deputy Auditor General. This function is a kind of internal audit within the Office of the Auditor General that conducts inspections of all activities, including field audit offices. It is the intended good practice of the Office of the Auditor General to prepare an annual report each year, but other priorities interrupt meeting the schedule. The last annual report was published for 2002. The Corporate Audit Plan (2001-2002) contained the vision and mission statement that was reinterpreted into the annual audit plan. An annual report for the year 2004 is still under preparation and a 3-year plan is in the process of being written. The Office of the Auditor General does not undergo peer review or an independent performance audit, nor does any independent external body audit its activities. However there are interconnected arrangements for audits within the field audit offices that provide peer review assurance within the organization. The Office of the Auditor General should undergo an accountability mechanism in line with that suggested under the proposed legislation for Supreme Audit Institutions involving review of the annual corporate plan and annual report by the Public Accounts Committee.³¹ The Office of the Auditor General should prepare and disseminate its annual corporate plan, as well as the annual performance report of its office in a timely manner.

(6) Qualifications and Skills for the Auditors

48. **The AATI should continue to review its syllabus in order to cover all areas recommended by IFAC-issued International Educational Standards (IES).** In an effort to meet the AATI and higher academic and professional qualifications, an elaborate system of training of accounting and auditing staff at different hierarchical levels exists at local and foreign universities and professional training bodies. The Auditor General has developed a comprehensive training plan. The PIPFA qualification has become mandatory for audit officers. The syllabi of AATI probationers have been revamped. A substantial portion of funding in PIFRA II has been earmarked for auditing and accounting training. All these factors contribute to the enhancing of the qualifications and skills of the auditors. The AATI should ensure that all IES-recommended areas are covered by all training providers and in all training material.

(7) Training

49. **Despite good training opportunities available for auditing staff, further upgrading is needed.** The AATI annual training plan provides many opportunities for their continuing professional development. The training plan encompasses more than 50 different short courses or workshops. Civil servants are required to take 12 working days of mandatory training.³² Allocating certain training days in each

³¹ A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004, Part VIII.

³² Establishment Division O.M. No 1/6/2002.OP.II, dated 5-4-2002.



annual audit plan is good practice for time budgeting. Rigorous capacity-building exercises are being identified, designed, and delivered as part of PIFRA II. There are currently too few auditors with ICAP qualifications in the Office of the Auditor General. These auditors must have adequate professional expertise and technical knowledge to carry out the certification audits and to recommend that the Auditor General sign audit opinions. The current AATI arrangements are not yet adequate to meet international standards for auditing annual accounts and signing audit opinions. Further upgrading of AATI courses and of promotion criteria for senior audit staff is needed.

(8) Auditor Competence

50. **The new Financial Audit Manual should be implemented.** The development of a new Financial Audit Manual for auditing the financial statements of federal and provincial governments was outsourced to foreign consultants under PIFRA. The consultants have developed the guidelines and the methodologies with the help of the Accounting Policy Wing, which would be responsible for future maintenance and updating of the Manual. In addition, the Office of the Auditor General through PIFRA procured an audit department management system with modules for audit planning and implementation, risk assessment, personnel management, and recommendation tracking.³³ An action plan for implementation of the new Financial Audit Manual is needed for an effective FY2004-05 and FY2005-06 audit. The implementation of the new Financial Audit Manual should be linked to the capacity-building and computerization activities.

(9) Quality Assurance

51. Audit documentation and report writing for quality assurance needs improvement. Supervision occurs at the field audit office level where the Director General personally certifies the quality of audit reports; there is further review at the Deputy Auditor General level for quality assurance. Finally there is a Quality Assurance Review Committee at the Office of the Auditor General of Pakistan, which reviews all audit reports before their release. This process needs to be supported by formal mechanisms and adequate working papers as per ISA 220, Quality Control for Audit Work. The new Financial Audit Manual (Chapters 5 to 15) describes in detail the procedures for direction, supervision, and review of audit work. The World Bank's project team was not able to review recent audit reports because they had not been made public. Therefore, scrutiny of this important area is incomplete and inadequate in this assessment.

B. Auditing Standards as Practiced

52. The diagnostic questionnaires have collected information about the current arrangements for the audit methodology and the apparent gaps in the country in the following areas:

³³ The Audit Command Language software has been acquired for computer-assisted audit techniques and applied on some transaction data in SAP R/3 systems in accounting offices.



audit planning,
audit supervision,
reviewing internal controls,
reviewing compliance with laws,
ensuring adequate audit evidence is collected,
analyzing whether the financial statements accord with accounting standards,
preparing audit opinions,
reporting on fraud, and
reporting on compliance.

Out of this exercise came recommended activities that will help bring local standards in line with international standards.

(1) Audit Planning

53. **The planning process should collect information about the audited entity.** Certification audit procedures suggest that the audit staff prepare work flow, procedure diagrams, or systems outlines, and list the main accounting areas in order to be familiarized with the audited entity; however, this does not include risk assessment and determination of materiality levels, which are more or less pre-defined by the procedures. The procedures define the objectives of each of the six audit areas: establishment costs, contingencies, pensions, receipts, general provident funds, and accounts compilation. The objectives are not refined in accordance with risks of understatement, overstatement, or misstatement that can be associated with any of the audit areas; and audit tests are not accordingly articulated. Internal audit function is evaluated as part of the regularity audit. However, since internal audit in government departments is in its infancy,³⁴ the certification audit does not place reliance on the internal audit.

54. **Engagement of chartered accountants, as part of the audit teams for conducting of certification audit, can build skills.** The planning documents currently prepared do not identify specific risks. The new Financial Audit Manual should introduce more comprehensive planning requirements based on the specific objectives of the audits. Engagement of chartered accountants as part of the audit teams for conducting certification audit can be very helpful in skill development. The memorandum of understanding between the Auditor General of Pakistan and the Institute of Chartered Accountants of Pakistan may be utilized for procuring such services with ICAP quality assurance support. The Government's response to the draft report noted that in addition to these interactions the DAGP is partnering with the international bodies INTOSAI, ACCA, and IIA.

³⁴ An Internal Audit Plan and Internal Audit Manual were developed under PIFRA I, and chief audit officers posted in 15 ministries have been given the exposure training.



(2) Audit Supervision

55. **When implementing the new Financial Audit Manual, the supervisory staff—including the Director and the Deputy Director—should test and demonstrate the new audit methodologies in the presence of field audit teams.** The current supervision process generally concentrates on reviewing the findings of the audit team and documentation of the audit evidence, and referencing and sequencing of the audit working papers; less emphasis is placed on involvement in the field work and on the overall assurance levels achieved. The shift should be made toward the risk-based audit approach. In the risk-based audit approach, the auditor minimizes risk through applying judgment in the design and conduct of field testing in order to provide the required assurance that the financial statements provide a true and fair view.

(3) Reviewing Internal Management Control Procedures

56. **The new audit methodology and process should be rolled out immediately to improve environmental risk assessment, compliance testing, and sampling.** The existing certification audit procedures are mechanical and do not provide the requisite flexibility to the auditor to exercise judgment and innovation in achieving a higher degree of assurance. The techniques used for compliance testing and sampling need improvement. For example, the results of compliance testing have limited impact on the sample size for the substantive procedures, and the results of the compliance testing are seldom used to tailor the selection of sample transactions based on an identified pattern of errors. Therefore, the new audit methodology should be rolled out as early as possible without waiting for the implementation of the New Accounting Model and computerization of the accounting systems. An audit methodology should answer the following points:

What is the audit confidence level?

What are the requirements for audit planning, audit work papers, and audit reporting?

How is audit materiality determined, and what is an acceptable level of audit risk and confidence?

How is an appropriate mix of audit work developed to address the audit risks?

57. The audit should be completed by a process that provides information on how audit errors are summarized and evaluated against audit materiality.

(4) Audit Evidence

58. **The new Financial Audit Manual provides details of the audit programs and documentation guidelines.** Audit evidence is crucial to an effective audit. Current practice produces audit evidence that is poorly documented, filed, and referenced. The Financial Audit Manual offers guidelines that would help improve the capture and documentation of the audit evidence. The Financial Audit Manual should be implemented.



(5) Analyzing Financial Statements

59. **The transaction-based financial statements provide some limited scope for financial analysis that is useful for the audit.** The auditor's ability to perform and use the various analyses of financial statements is hampered when these lack meaningful and reliable information with respect to assets or liabilities balances. However, analysis of the ratios of one expenditure head to another head, comparison of variations of expenditures over time, and relationships among financial and non-financial information (e.g. number of staff to payroll) can provide useful indicators of possible errors.

(6) Reporting on Financial Statements

60. **There should be a reference to the financial reporting framework used when preparing financial statements (including identifying the country of origin of the framework when the IAS framework is not used).** There is no specific reference to the reporting framework in any procedures in use in Pakistan. The only mention relates to the provisions of Section 5(a) of the Controller General of Account Ordinance 2001 when read with the Article 169 of the Constitution. The IPSAS should be identified as the relevant financial reporting framework in the audit certificate once the accounts are prepared in this form.

61. **The audit certificate should completely comply with the specimen formats given in the Financial Audit Manual and procedures being followed.** The opinion paragraph gives an expression that the financial statements “can be relied upon.” This is not consistent with the specimen audit reports given in the Procedures for the Certification Audit, which requires stating that “the accounts are complete and accurate in all material aspects.”

62. The audit report should be a stand-alone document giving complete assurance on the financial statements and should not refer to other reports. The certification audit report makes mention of the other AGP reports covering aspects of financial governance or economical, efficient, and effective utilization of public resources, which are submitted separately to the President. These reports provide information relating to weaknesses in the system of financial control or accounting, in addition to those mentioned in audit comments annexed to the audit certificate. The details of all such referenced AGP reports mentioned in the audit certificate on the financial statements should be reattached to the audit certificate for a complete analysis.

(7) Reporting on Fraud

63. **Forensic audit training is needed.** The Supreme Audit Institution does not focus on fraud in a sufficiently systematic way. Much of the reporting seems to relate to fraudulent behavior and to suggest recoveries without detailing the facts. The ISA 240, The Auditor's Responsibility to Consider Fraud and Error



in an Audit of Financial Statements, requires the auditor to obtain information that is used to identify the risks of material misstatement due to fraud; to evaluate the design of the entity's related controls, including relevant control activities; and to determine whether they have been implemented. The auditing standard also requires the auditor to inform the auditee's management and the Board, if there is one, of any fraud and failure in internal control that led to the fraud. The auditor's report should identify the action that the entity is taking about the fraud. The Auditor General on special request may cooperate with other government agencies, like the National Accountability Bureau, on specific incidence of fraud.

(8) Reporting on Compliance

64. **The audit should be understood as a tool for gradual improvement in the control systems and processes over time.** The general tendency is for the audit to cover and report on all compliance issues confronting an organization instead of emphasizing the most critical issues. The audit report can add significant value if the auditors focus on more critical issues with impact on the organization and recommend ways to resolve those issues.

