

## Supplemental Table of Standards and Gaps

Standards	Present Position	Options for Improvement
<b>I. Public Sector Accounting</b>		
<b>A. Assessment of the National Public Sector Accounting Environment</b>		
<p>Timely, relevant, and reliable financial information is required to support all fiscal and budget management, decision-making, and reporting processes.</p>		
<b>(I) The Accounting Law</b>		
<p>1. For reliability, the requirements for public sector accounting and reporting should be specified by law, cover all government-owned entities, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements and lay down timetables for the publication of audited annual accounts.</p>	<p>The Constitution of Pakistan delineates the authority of the Auditor General of Pakistan (AGP) to prescribe the form, principles, and methods of accounts of the Federation and of the Provinces with the approval of the President. Under these conferred powers, the Auditor General endorsed the Accounts Codes (Volume I to IV) as the accounting conduct. Currently the New Accounting Model (NAM)<sup>38</sup> is being implemented with the use of SAP R/3 applications.</p> <p>The New Accounting Model covers the accounting guidance related to the budget sector (the federal, provincial and district governments), self-accounting entities and development projects.</p> <p>The accounts-maintenance and the audit functions have been separated through assigning the accounts maintenance to the Controller General of Accounts (CGA) through the CGA Ordinance, 2001.</p>	<p>The public sector accounting is undergoing a comprehensive reform sponsored by the PIFRA project of the World Bank. There is a need to maintain the existing momentum of activities.</p>
<p>2. Compliance with IPSAS for non-commercial bodies and IAS for commercial bodies is needed for consistent transparency.</p>	<p>Developing a new financial reporting and accounting model in 1999 sought guidance from the provisions of the financial procedures given in the Constitution of Pakistan, the generally accepted accounting standards as suggested in INTOSAI Accounting Standards; IFAC-issued Guidelines for</p>	<p>A committee should be set up to review and steer the process of implementation of IPSAS on a continuous basis. This may involve adoption of the Cash Basis IPSAS to start with and then gradually adopt the Accrual Basis IPSAS as per the guidance given in the IFAC Public Sector Committee's Study No. 14 relating to</p>

<sup>38</sup> The New Accounting Model is a set of 7 books, including the Accounting Principles Manual, Accounting Policies and Procedures Manual, Chart of Accounts, Accounting Guidelines, Accounting Procedures for Self-Accounting Entities, Book of Forms and Financial Reporting Manual.



Standards	Present Position	Options for Improvement
	<p>Governmental Financial Reporting, best practices followed in other countries, and essential aspects of the existing system. However, a specific direction to apply IPSAS is neither given in the CGA Ordinance nor in the New Accounting Model.</p> <p>There are serious deliberations in progress to move fully toward IPSAS. The adoption of IPSAS-2 cash flow formats<sup>39</sup> of cash flow statement as recommended in the Cash Basis IPSAS is a positive step toward this objective. The NAM Financial Reporting Manual provides for such reports, which to a large extent comply with the reporting requirements under the Cash Basis IPSAS, including many optional disclosure requirements. However, there are certain deficiencies like non-disclosure of payments/receipts by third parties on behalf of the reporting entity that need to be identified and resolved before the implementation of NAM reporting framework is completed.</p>	<p>transition toward the accrual basis of accounting.</p> <p>The institutional and individual capacities are lacking in both the public sector financial management agencies, as well as the executive/ service delivery formations. These are being overcome through implementation of a comprehensive capacity development program mainly sponsored by the PIFRA. The PIFRA project is supporting the implementation of NAM through the application software which is being gradually rolled out to various districts accounts offices and other sites. Initially the idea is to expand technology-driven financial management throughout the country while keeping the functionality simple and using the cash basis of accounting. Early efforts have resulted in more than 41 productive sites out of 127. This is indicative of the fact that the PFM reforms have entered into an advanced stage of implementation with envisioned benefits. The ADB also assists in improving the accounting and financial management of externally financed development projects (and particularly the implementing agencies involved in the earthquake rehabilitation and reconstruction). Steadily the efforts would be redirected toward vertical development through expanded functionalities and integrated financial reporting.</p>
<b>(2) Education and Training of Public Sector Accountants</b>		
<p>3. For reliability, the curriculum requirements for the accounting qualifications</p>	<p>The Audit and Accounts Training Institute (AATI) is a countrywide network providing the essential training in public</p>	<p>While the AATI's long-run focus is on specialized training and continuing professional development, the strategy</p>

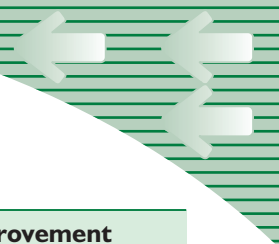
<sup>39</sup> Notification of financial reporting policy dated June 29, 2005, which states that the adoption of the IPSAS-2 cash basis of financial reporting as part of the annual finance accounts reporting with effect from FY2005-06 and the trial run of implementation of the policy for FY2004-05. The same has been confirmed for implementation by the CGA office in July 2005.



Standards	Present Position	Options for Improvement
<p>of public sector accountants should accord with internationally recognized standards of accounting training as established in the International Education Standards for Professional Accountants (IES).</p>	<p>financial management to both accounting and executive arms of the government. The AATI conducts long-term courses for staff and probationers which lead to PIPFA Certification<sup>40</sup> and short term courses for professional development. In case of probationers, the Federal Public Service Commission (FPSC) conducts the independent examinations. In addition, there are many civil servants from the Pakistan Audit and Accounts Service who have earned masters or higher degrees from foreign or local universities.</p> <p>The AATI is seeking exemptions from other professional bodies [including the UK Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants of Pakistan (ICAP), and Institute of Cost and Management Accountants of Pakistan (ICMAP)] on the basis of FPSC exams and/or Pakistan Institute of Public Finance Accountants (PIPFA) exams. Arrangements are also underway with identified reputable tuition providers for passing the remaining exam papers of these bodies as a measure to encourage audit and accounts staff to opt for these professional qualifications.</p>	<p>to professionalize the staff in audit and accounting agencies of Pakistan through IES-compliant professional qualifications is appreciable.</p>
<p>4. For reliability, public sector accountants should be provided with continuing professional training requirements that accord with internationally recognized standards of accounting training.</p>	<p>AATI has revitalized its syllabi and learning methodologies through the technical assistance provided under the PIFRA and is now geared toward teaching of practical application areas, including the IPSAS. The AATI has developed a comprehensive annual training program and is striving to achieve set targets for the first year.</p> <p>To work in public sector accounting, a</p>	

<sup>40</sup> PIPFA, a professional body of accountants, is a joint initiative of the Auditor General of Pakistan, ICAP, and ICMAP and an associate member of IFAC.





Standards	Present Position	Options for Improvement
	<p>candidate must meet the minimum academic requirements, a graduate with commerce/accounting background. The civil servants who are recruited through the Federal Public Service Commission are also given one-year probationary training in AATI and exams conducted by FPSC; successful completion earns them membership in the PIPFA.</p> <p>The Government of Pakistan prescribes a minimum mandatory 12 days per year for in-service training.<sup>41</sup> For accounting and auditing staff, these requirements are being mainly met by the AATI.</p>	

### (3) Code of Ethics for Public Sector Accountants

The INTOSAI Code of Ethics covers integrity; independence, objectivity, and impartiality; professional secrecy; and competence. The IFAC Code covers integrity, objectivity, independence, confidentiality, technical and professional standards, competence and due care, and ethical behavior.

<p>5. For reliability, public sector accountants should be required to adhere to the principles laid down in a code of ethics that are at least in accord with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.</p>	<p>INTOSAI Code of Ethics was adopted by the Auditor General of Pakistan<sup>42</sup> and is to be followed by the staff that do audits or are responsible for maintenance of accounts. The same has been included in the AATI syllabus.</p> <p>One paragraph (21) relating to political neutrality has been deleted, apart from minor changes of nomenclature that have been made generally to substitute 'SAI' with 'the Auditor General of Pakistan.'. Para 21 is deleted since public servants in Pakistan are not allowed to participate in political activities.</p>	<p>As such, the code of ethics is part of the overall guidance provided by the head of the organization to the staff members, for which non-compliance may lead to trial of action in accordance with Efficiency and Discipline Rules of Government of Pakistan. However, the code of ethics should be made a part of staff contracts or separately signed by employees as a legally enforceable document. Since the INTOSAI Code was designed for auditors, the CGA should review the ICAP Code for use by CGA accountants.</p>
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### (4) Public Sector Accountant Arrangements

<p>6. For timeliness, relevance and reliability, there should be a professionally qualified Chief Financial Officer (CFO) function to be responsible to</p>	<p>With the exception of a few departments where the accounts have been departmentalized, the country follows a regime of centralized accounting through the accounts offices keeping accounts of</p>	<p>The funding should be arranged to establish the internal audit units as per staffing and operational plan developed under PIFRA to enable an effective internal audit function as a fourth pillar of</p>
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<sup>41</sup> Establishment Division O.M. No 1/6/2002.OP.II, dated 5-4-2002.

<sup>42</sup> Some adaptations and deletions were made by a committee constituted for the purpose by the Auditor General of Pakistan while issuing the Code of Ethics and Auditing Standards of INTOSAI.



Standards	Present Position	Options for Improvement
<p>the Principal Accounting Officer (PAO) for maintaining systems of internal financial controls that manage risks, and for preparing regular financial accounts for each government entity.</p> <p>7. The CFO should also be responsible for the maintenance and management of the chart of accounts, to ensure the most appropriate technological support for financial management practices, manage training and education needs for financial management, report on key performance indicators, and assist program managers to develop an effective financial approach to the delivery of expected outcomes,</p>	<p>all departments in their regional jurisdiction. The principal accounting officer is generally supported by a budget officer from within that line agency.<sup>43</sup></p> <p>Out of about 10,000 staff posted in the accounts offices, 921 (173 gazetted) are employed by the federal government. Remaining staff come mainly from the treasury services under the provincial finance departments.</p> <p>Under PIFRA, a comprehensive plan has been developed to initiate the internal audit function in government agencies for which a center of excellence is envisaged within the CGA office. As a starting point chief audit officers have been posted in 15 federal ministries. Main initiating responsibilities of the chief audit officer are internal audit/control, reconciliation of accounts, coordination with regard to Departmental/Public Accounts Committees, and financial propriety of expenditure and receipts. The ADB through a technical assistance in relation to emergency assistance project would initiate an internal control unit for implementing agencies involved in the rehabilitation and reconstruction activities. The same internal control unit is planned to be strengthened over time to become a Center of Excellence in Internal Auditing for all federal government offices.</p>	<p>governance.</p> <p>The CFO functions and internal auditing within each government entity should be strengthened.</p> <p>Duality of control in accounting offices should be resolved.</p>

## B. Assessment of National Public Sector Accounting Standards

Financial reporting must be adequate to meet the accountability demands of stakeholders

### (I) Framework for the Preparation and Presentation of Financial Statements.

<p>8. National accounting standards should accord with international standards to provide consistency.</p>	<p>The Government has not explicitly adopted IPSAS.</p> <p>The Auditor General of Pakistan has the</p>	<p>Formal adoption of IPSAS would enable the customization of the NAM financial reporting formats in compliance with relevant IPSAS (moving from the cash</p>
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<sup>43</sup> Usually the Secretary of a Ministry or head of the line department is the principal accounting officer.



Standards	Present Position	Options for Improvement
<p>The responsibility for establishing the national accounting standards for the public sector should be well-defined to provide reliability.</p>	<p>Constitutional mandate to prescribe the form, principles, and methods of accounts of the Federation and of the Provinces with the approval of the President. The Auditor General has a similar role for any authority or body established by the Federation or the Province subject to provisions of the relevant legislation. The NAM sets the national standards of accounting and financial reporting.</p> <p>The accounting firm, Pricewaterhouse Coopers, analyzed differences between the IPSAS and the New Accounting Model in 2004. Currently NAM is being implemented using the cash basis of accounting and would gradually move toward the accrual basis.</p>	<p>basis in the short term to accrual basis in the longer term).</p> <p>A statement of cash receipt and payment as per the Cash Basis IPSAS can be prepared using existing information from the accounting records.</p> <p>There is a need to state the accounting policies and the basis on which the accounts are prepared.</p>

## (2) Preparation and Presentation of Financial Statements on the Cash Basis.

<p>9. Financial statements presented in the IPSAS standard</p>	<p>Earlier to the New Accounting Model, the Combined Accounts Codes were applied; gradually the budget sector is being converted to the NAM Chart of Accounts, posing a challenge to conversion to the NAM reporting framework. While a number of accounting sites have yet to be upgraded to the SAP R/3 accounting system, other sites which are productive lack some functional aspects relating to pensions, general provident fund, fixed assets, etc. This limits the ability of the Auditor General to prepare financial reports on NAM formats. Therefore, for the time being, the government accounts are presented using the old formats of the Finance and Appropriation Accounts.</p> <p>In the existing format of Finance and Appropriation Accounts, there are departures from the Cash Basis IPSAS. As a result, important information is not presented and disclosed.<sup>44</sup></p>	<p>The existing Finance and Appropriation Accounts incidentally provide partial information as required under Cash Basis IPSAS; however there are considerable departures to be resolved for full compliance. Aggregation of all SOEs into the accounts is likely to occur in the longer term.</p> <p>The presentation of the financial position and annual operations of the government can be considerably improved. The disclosure of required information as per IPSAS should be made integral to the government systems. There is a need to comply with the disclosure of the treatment of foreign currency. Errors in the accounts affecting the accuracy of financial information should be immediately reconciled and rectified.</p>
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<sup>44</sup> There are negative balances appearing in the Finance and Appropriation Accounts, the cash balance appearing in the financial statements is not reconciled with the bank, and receivables appearing from bodies which no longer exist. The overall format of the Finance and Appropriation Accounts is not user-friendly.



Standards	Present Position	Options for Improvement
	Although the authorization date is mentioned on the accounts, it is not clear as to when these financial statements become accessible to the general public or media.	

### C. Assessment of Accounting and Auditing in State-Owned Enterprises

#### Financial Statements should comply with IAS and IFRS.

10. The financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity or a statement of recognized gains and losses, and (d) cash flow statement [IAS 1.8]

The financial statements should present fairly (or give a true and fair view of) the financial position, financial performance and cash flows of the entity. [IAS 1.13]

The financial statements should be prepared on the accrual basis of accounting [IAS 1.27]

The financial statements should be prepared using the accounting policies established by the International Accounting Standards. [IAS 1]

Under the Companies Ordinance 1984, it is obligatory for all listed companies to present their financial statements in accordance with IAS/IFRS.<sup>45</sup> These companies are required to be audited by a chartered accountant under the Companies Ordinance. ICAP issues IFAC International Standards of Auditing (ISA) for mandatory use by its members. Upon receipt of ISA from the IFAC, the exposure draft is sent to ICAP members for comments. These comments are returned for consideration by IFAC. When the final standard is issued by IFAC/IAASB, ICAP adopts the standard. The ISAs are adopted in Pakistan without any modification.

For non-listed companies, the implementation and enforcement of IAS/IFRS is being finalized. The enforcement paradigm of ISAs for the audit of non-listed companies is less stringent than that for the listed companies. There is no Public Sector Enterprises Monitoring Board as established in other countries. Such an organization (a Board as well as an Experts Advisory Cell) did exist in Pakistan during the 1970s-90s, which was disbanded subsequently. There is a Corporate Finance Wing in Ministry of Finance, whose responsibility is to do such monitoring. It is weak and hence

It should be mandated by law that the financial statements of SOEs should be prepared in accordance with the IAS/IFRS.

The Deputy Auditor General (Commercial) Audit is responsible for auditing the public sector enterprises which is an under resourced institution. There is a dire need for specialized training in areas like IAS/IFRS, ISA, and using the work of other auditors.

There is an opportunity for the Commercial Audit Wing of the DAGP (after strengthening) to monitor SOE for IAS/IFRS compliance.

<sup>45</sup> The Report of Observance of Standards and Codes, Audit & Accounts for Pakistan, World Bank, 2005, provides the implementation status of IAS/IFRS and related issues.





Standards	Present Position	Options for Improvement
	<p>monitoring is poor. Under the capacity-building project it is to be strengthened, but the program is yet to start. Strengthening this Wing in MoF would be more sensible than re-introducing a Board.</p> <p>A review of a sample of SOE financial statements which are audited by chartered accountants indicate that the audit reports generally contained either significant qualifications or emphasis of matter paragraphs modifying the audit opinion. In addition, SOEs which are not incorporated under the Company Law, do not usually apply IAS/IFRS in accounting and financial reporting.</p> <p>For public sector enterprises whose financial statements are not audited by chartered accountants, IAS/IFRS are not generally followed, and financial statements are generally audited after a long delay.</p> <p>There is little involvement of the DAGP in selection of the external auditors of these SOE.<sup>46</sup> The DAGP while conducting regularity or performance audit does not have access to the qualifications in the audit report on the financial statements. The DAGP is neither provided with the management letter given by the external auditors to the SOE nor given access to financial audit working papers. Thus, serious issues relating to the use of public funds are not subjected to legislative scrutiny by the Public Accounts Committee.</p>	

<sup>46</sup> A requirement for getting approval of selected auditors (chartered accountants) is in many cases not observed. Even with compliance, in practice management finalizes the selection of the audit firm which also puts into question the independence of these auditors.



Standards	Present Position	Options for Improvement
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## II. Public Sector Auditing

### A. Assessment of the Public Sector Auditing Environment

Effective scrutiny by the legislature through comprehensive, competent external audit enables accountability for the implementation of fiscal and expenditure policies.

The environment for an effective 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 also includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the SAI functions is integral to providing information for improving the overall PFM system but the action must be within the executive branch under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing is necessary for the SAI 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 action is taken for reform. It also requires public presentation of the audit reports to ensure public support for effective action.

#### (I) Statutory Framework

11. Statutory auditing requirements should be established by legislation.	<p>Legislation exists: The Constitution of Pakistan, 1973 (as stands amended); and the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.</p> <p>There is an Audit Code which lays down the basic principles of auditing in lieu of the Constitutional provisions and the Auditor General Ordinance 2001.</p> <p>The Auditor General adopted INTOSAI Auditing Standards in 2002 with minor adaptations. These standards form the basis of the auditing methodology and process for the DAGP which is further explained in the Procedure for Certification Audit of Appropriation and Finance Accounts. Recently the Auditor General approved the new Financial Audit Manual which will gradually replace the current procedures.</p>	
12. The SAI should have the authority to conduct a full range of audits for all government owned or controlled entities including	<p>Yes, AGP has full authority for auditing all budget sector receipts and expenditures from all government accounts including the defense expenditures.<sup>47</sup></p> <p>The AGP has the authority to audit any</p>	The proposed review of the Auditor General's Ordinance 2001 to resolve jurisdictional issues may also look into providing for a specific AGP mandate in relation to economy, efficiency, and

<sup>47</sup> There are minor exclusions of practice relating to receipts kept as local funds or so called non-public funds by some institutions.



Standards	Present Position	Options for Improvement
<p>regularity, financial, and performance audits. (INTOSAI Lima Declaration Sections 18-19)</p>	<p>entity or body established by the government or which has received a loan or grant; however there are some exclusion clauses in the Constitution, as well as in the Auditor General's Ordinance 2001.</p> <p>Article 169(b) of the Constitution limits the powers and functions of the AGP 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 Auditor General's Ordinance pose certain conditions on the AGP powers and function in relation to the audit of the public sector enterprises.</p> <p>These jurisdictional limitations are under review. A committee of the Auditor General, Finance Secretary, and Law Secretary are looking at potential revision of the Auditor General's Ordinance to remove the restrictive or exclusionary clauses. The Public Accounts Committee of the Parliament is pursuing this issue.</p> <p>The Auditor General's Ordinance 2001 specifies the following types of audits:</p> <p style="padding-left: 40px;">Section 7, Certification audit (accounts).</p> <p style="padding-left: 40px;">Section 8, Regularity audit.</p> <p style="padding-left: 40px;">Section 9, Audit of authorities having loans or grants from public money.</p> <p style="padding-left: 40px;">Section 12, Audit of receipts.</p> <p style="padding-left: 40px;">Section 8 &amp; 9, Receipts and Expenditures (includes authorities and bodies substantially financed by loans and grants).</p>	<p>effectiveness of utilization of public funds along the lines of model legislation.<sup>48</sup></p> <p>All commercial SOEs, registered by the Securities and Exchange Commission of Pakistan, should be subject to world-class audits by qualified firms selected by and reporting through the Auditor General. In this way the Auditor General need not do the audits directly, but can ensure proper coverage and reporting.</p>

<sup>48</sup> Model Law developed by the UNDP Program for Accountability and Transparency (PACT) and A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004, Section 32 & Section 55.



Standards	Present Position	Options for Improvement
	<p>Section 10, Study reports; Performance, governance, debt management, or environment. audits are covered under this section.</p> <p>Section 15, Audit of companies and corporations established under the public sector (PTCL, PPAF, etc).</p> <p>Note: Section 22 gives the Auditor General, the powers to make regulations with the prior approval of Federal Government for furthering the purpose of the Auditor General's Ordinance.</p> <p>There is no explicit mention of the proprietary, efficiency, effectiveness, and economy in the Auditor General's Ordinance, yet many of the senior staff categorized this as the main objectives of the DAGP.</p>	
<p>13. The legislation should set out penalties in the event of noncompliance with the auditing requirements, and these penalties should be applied appropriately.</p>	<p>There is no liability suggested by the law against the Auditor General for not doing the annual audit.</p> <p>Section 14 of the Auditor General Ordinance applies to any person or authority hindering the audit functions of the Auditor General regarding inspection of accounts. This person shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, as applicable. Section 14 does not mention who would initiate such an action (possibly the Auditor General, Public Accounts Committee, Principal Accounting Officer or any other body). Therefore the implementation of this section may be problematic.</p> <p>In case of any hindrance or problem, generally the Public Accounts Committee issues directions to the executives to comply with the auditing requirements. This process is lengthy</p>	<p>Resolve vagueness in Section 14 of the Auditor General's Ordinance 2001 regarding the enforcement of action (whether the executive or Public Accounts Committee must initiate action). The Auditor General should have specific powers to initiate action against persons who refuse to provide auditable accounts and relevant records to DAGP staff.</p> <p>Specific provisions in the Auditor General's Ordinance 2001 should be made for making the audit reports public in line with the ACCA's model legislation as follows:<sup>49</sup></p> <p>(1) 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.</p>

<sup>48</sup> A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004 – Section 38





Standards	Present Position	Options for Improvement
	<p>and subject to many delays thereby reducing the effectiveness of the provision and rendering the Auditor General without recourse.</p> <p>In addition, the legislative scrutiny is not supported by the public scrutiny due to non-dissemination of audit reports and government financial statements.</p>	<p>(2) The Auditor General may make his/her reports publicly available in electronic format on the Internet.</p> <p>(3) The Auditor General shall provide copies of his/her published reports to the government archivist, all public and university libraries in relevant locations, the National Broadcasting Corporation, and the press.</p> <p>(4) 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.</p>
<b>(2) Setting Auditing Standards</b>		
<p>14. The government should have adopted the INTOSAI Auditing Standards and the IAASB International Standards for Auditing for public sector entities. (ISA 200.5 and INTOSAI Auditing Standards I.0.14)</p>	<p>The Auditor General has adopted the INTOSAI Auditing Standards with some minor adaptations. These standards have been used as the basis of the Audit Manual, in which Chapter 4 clearly mentions that the INTOSAI Auditing Standards are considered the general framework for the auditing methodology and procedures. Although the Audit Manual does not mention specifically International Standards on Auditing, the overall approach and methodology is consistent with the these standards.</p> <p>INTOSAI recognizes that the INTOSAI Auditing Standards are broad in nature and that the IFAC ISAs provide a further level of detail for public sector audit guidance. It is working with IFAC in the longer term to develop practice notes to assist with implementation in the public sector of each ISA. Therefore, prescribing the ISAs as the applicable auditing standards in addition to the INTOSAI auditing standards in an explicit manner would ensure that the relevant developments in the auditing process are learnt and applied on a continuous basis.</p>	<p>The International Standards on Auditing should also be formally adopted, preferably through legislation.</p> <p>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. The Auditor General, as an active INTOSAI member, usually subscribes to the declarations of the international organization for implementation as per the local setup and environment; therefore the INTOSAI Auditing Standards have been adopted with minor modifications.</p> <p>The adoption process consisted of an in-depth review of the INTOSAI Code of Ethics and Auditing Standards by a committee of senior officers established by the Auditor General. There is a need for a similar committee to review and adopt the International Standards on Auditing for use on a continuous basis. The committee might also be represented by local professional bodies. The Institute of Chartered Accountants</p>



Standards	Present Position	Options for Improvement
		of Pakistan is already running a process for ISA adoption. The adoption process might start with inputs given at the exposure draft stage and continue through to issuing practical guidance on local application of international standards.
<b>(3) Code of Ethics</b>		
15. The INTOSAI Code of Ethics should have been fully adopted by the SAI (IFAC ISA 200.4 and INTOSAI Code of Ethics 4), communicated to all staff and applied.	The INTOSAI Code of Ethics was adopted by the Auditor General of Pakistan in 2002. The Code must be followed by all staff who are doing audits or are 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 suitable with the local setup and environment.	Improved monitoring for the code is needed.
<b>(4) Accountability in the SAI</b>		
16. There should be an accountability process in the SAI. (INTOSAI Auditing Standards I.0.20)	Any DAGP staff, being government public servants, who are caught in misconduct, would be subject to the Efficiency and Discipline Rules of the Government of Pakistan. In such a case the inquiry officer exercises the powers of a Civil Court to establish the guilt.	
17. There should be clear responsibility in the SAI for (i) advising on internal finance, keeping proper financial records and accounts, and maintaining systems of internal control; and (ii) for ensuring compliance with laws and regulations	A Manual of Standing Orders of the Auditor General regulates the internal procedures of the organization. The Manual is being updated. In the existing structure of the DAGP, the administrative and functional issues are all delegated to the Additional Auditor General (Administration).  The Inspection, Regulation, Vigilance and Monitoring of Training Wing, an independent branch of the DAGP under a Deputy Auditor General, is a type of internal audit unit that conducts inspections of all activities, including in-field audit offices.	



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18. The SAI should prepare an annual report on its operations and performance that is separate from its reports on its audits. It should provide an objective, balanced and understandable account of activities and achievements, and details of financial position and performance.	It is the intended good practice of the DAGP to prepare an annual report each year, but other priorities interrupt meeting the schedule. The last annual report was published for 2002. A report for the year 2004 is under preparation.	The Auditor General should prepare and disseminate an annual corporate plan, as well as the annual performance report of the DAGP in a timely manner.
19. The SAI should prepare a corporate plan or equivalent.	The Corporate Audit Plan (2001-2002) contained the vision and mission translated into an annual audit plan. A 3-year plan is under process.	
20. The SAI should undergo peer review or independent performance audit.	The DAGP does not undergo a peer review or independent performance audit; nor does any independent external body audit its activities. However, there are interlocking arrangements for audits within the field audit offices which provide peer review assurance within the organization.	The DAGP should undergo an accountability mechanism in sync with that suggested under the ACCA-proposed legislation for SAIs, involving review by the Public Accounts Committee of annual corporate plans and annual reports.
<b>(5) Independence provided by the Legislation</b>		
<p>21. Legislation needs to be adequate for the following core principles of SAI independence if the SAI is to provide effective external scrutiny:</p> <ol style="list-style-type: none"> <li>(1) The existence and de-facto application of an appropriate and effective constitutional and legal framework.</li> <li>(2) The independence of the SAI Heads, including security of tenure and legal immunity in the normal discharge of their duties.</li> <li>(3) A sufficiently broad mandate and full discretion in the discharge of SAI functions.</li> <li>(4) Unrestricted access to information.</li> <li>(5) The obligation to report on their work.</li> <li>(6) The freedom to decide on the content and timing of their reports and to publish and disseminate them.</li> <li>(7) The existence of effective follow-up mechanisms on SAI recommendations.</li> <li>(8) Financial and managerial autonomy and the availability of appropriate human, material and monetary resources.</li> </ol> <p>(Core Principles of SAI Independence, INTOSAI Sub-committee on SAI Independence, 2004)</p>		
22. The legislation should spell out in detail the extent of the SAI independence. (INTOSAI Lima Declaration Section 5)	The Constitution guarantees the protection of service of the Auditor General of Pakistan. Once appointed, the Auditor General can only be removed by a Supreme Judicial Council and a majority vote in the Parliament.	Adopt IFAC Code of Ethics procedures for enhanced independence requirements in the environment of rotation of assignments and nominal dependency for logistics on some of the auditees.
23. The legislation should	Similarly, the expenditures of his office	

<sup>48</sup> A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004 – Section 38



Standards	Present Position	Options for Improvement
<p>assure the independence of the SAI Heads and “Members” (in collegial organizations) and that there is security of tenure and legal immunity in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)</p>	<p>(being the charged expenditures) are not subject to vote in the Parliament and therefore avoid any general cuts in the grants.</p> <p>Section 19 of the Auditor General's Ordinance 2001 gives the Auditor General full power to incur expenditures within the budgetary provisions. Being the head of a civil service cadre (i.e., Pakistan Audit and Accounts Service), the Auditor General has independence in personnel management.</p> <p>The separation of audit and accounts has to some extent resolved the independence issue. However, the rotations of assignments, including deputations to other departments and back to audit offices, need to be reviewed.</p> <p>The AGP independence as a whole and the DAGP's effectiveness at financial accountability is ensured by the overall stature of the Auditor General through its constitutional mandate; protection of term; financial and human resource independence; exercise of authority over type, schedule and duration of audit; powers to examine records; direct liaison with the parliamentarians in the Public Accounts Committee; INTOSAI representation, etc.</p> <p>However, the accountability process after the audit involving legislative scrutiny and implementation of PAC's recommendations/ directives by the executive is lengthy and needs considerable improvements. An audit observation tracking system is being implemented under PIFRA II which would improve the post-audit accountability system. Similarly, the audit reports and certified accounts are not made public immediately after being laid to the parliament; therefore public</p>	





Standards	Present Position	Options for Improvement
	<p>scrutiny based on the audit findings cannot be exercised. The application of a Code of Ethics, rotation of staff among the field offices, and continuous training ensures that the AGP personnel do not develop too close a relationship with the entities that they audit. In addition, the close audit supervision ensures that the field audit staff does not mingle with the clients. However, the dependence on the auditee organizations for the provision of logistics sometimes can affect the highest level of independence.</p>	
<p>24. The SAI's constitutional/statutory/legal framework should ensure that it has available sufficient human, material and monetary resources. (INTOSAI Lima Declaration Section 7)</p>	<p>The fact that the Auditor General is head of the Pakistan Audit and Accounts Service ensures independence in human resource planning and development. The recruitment of civil servants is done through the Federal Public Service Commission. The annual budget is approved as a charged expenditure and can only be discussed in the Parliament but not subject to voting. The Auditor General has full powers for incurring expenditures out of the approved budget. The direct liaison with the Parliament also ensures that Auditor General justifies the expenditure.</p>	<p>Some limitations are evident. The audit law should be more powerful in the areas of the AGP's budget and personnel powers.</p>
<p>25. A fixed term must be long enough to survive changes of government and avoid pressures concerning re-appointment impinging too early in the term of office of the SAI office holder. A single non-renewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on SAI Independence, 2004)</p>	<p>The Auditor General is appointed by the President of Pakistan and his oath administered by the Chief Justice of Pakistan. The termination of AGP services before expiry of the term follows the same procedures as removal of a Supreme Court judge from office (i.e., through the Supreme Judicial Council and endorsement by the Parliament). Therefore, even the appointing authority does not have termination powers.</p> <p>The AGP term is 5 years or the attainment of 65 years of age by the incumbent, whichever is earlier. During this term, the Auditor General can carry</p>	<p>The term is short by international standards.</p>



Standards	Present Position	Options for Improvement
	<p>out the mandate without fear of retribution. If terminated, re-appointment is not allowed before the expiry of two years after vacating office, thereby limiting any bargains for re-appointment.</p>	
<p>26. The legislation should ensure that the Head of the SAI is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition/disposal policies and procedures. The SAI should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)</p>	<p>The AGP is empowered to investigate the use of public monies or assets by a recipient regardless of its legal nature at least for the first year (Section 9 of AGP Ordinance 2001). The continued use of these public funds may go beyond the scope of the Auditor General due to the jurisdictional issues relating to audit of the public sector enterprises.</p> <p>The fact that the Auditor General is head of the Pakistan Audit and Accounts Service ensures independence in human resource planning and development. The recruitment of civil servants is done through the Federal Public Service Commission. The AATI is an internal system for initial training and continuing professional development of staff. For new posts creation, the Auditor General has to negotiate with the Ministry of Finance.</p>	
<p>27. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)</p>	<p>The Section 14 of the AGP Ordinance 2001 ensures that the Auditor General has access to all offices having accounts and other related documents and indicates how to deal with any person hindering the audit functions.</p>	
<p>28. The legislation should give the SAI the right and obligation to report on their work. (INTOSAI Lima Declaration Section 16)</p> <p>The legislation should give the SAI the right and obligation to report effectively on its work, and the freedom to decide on the content and timing of its</p>	<p>Article 171 provides that the Auditor General shall submit the reports to the President who shall cause them to be laid before the Parliament. The Parliament sends these reports to the Public Accounts Committee for detailed scrutiny. There has never been an amendment in the audit reports after being submitted to the President.</p>	<p>Section 7 narrates the minimum audit requirements for the certification of annual accounts. The Auditor General has to plan keeping in view the resources in hand, how much time can be allocated to other types of audits in a year, in addition to the mandatory certification of accounts.</p> <p>PIFRA is trying to achieve an integration of the financial certification and regularity</p>





Standards	Present Position	Options for Improvement
<p>reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)</p>	<p>Section 7 relates to the Certification Audit which assigns responsibility to the Auditor General to certify the accounts on the basis of his audit for each financial year and present his notes, comments, or recommendations in relation with those accounts. The law does not specify the timeline for submission of the certified annual accounts. Similarly, the law does not require the Auditor General to submit an annual report on its performance.</p> <p>There is ample time before submission to the President for the executive to resolve any audit observations through (Special)/ Departmental Accounts Committees or simply by administrative action as recommended in the Audit Information Report.</p> <p>The audit reports purportedly become public after these are discussed by the Public Accounts Committee; but the mechanism is unclear. This gap analysis report was refused access to any recent reports because they were not public. As the Public Accounts Committee is often not in session and discussions are held years after the event, this method of publication of audit reports substantially varies from international standards and is considered unsatisfactory.</p> <p>The study team was unable to establish what audit reports were public. The law does not specify when the Auditor General is free to publish and disseminate its reports to the public and what should be the mechanism of dissemination. The senior audit staff generally perceives it as the function of the legislature.</p>	<p>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.<sup>51</sup></p>

<sup>51</sup> There is a disconnect /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 separately 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 stakeholders.



Standards	Present Position	Options for Improvement
<p>29. To the extent the findings of the Supreme Audit Institution's findings are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility. (Lima Declaration Section I I.2)</p>	<p>This primary responsibility of follow-up of actions is with Public Accounts Committee secretariat which is closely coordinated by the Auditor General for compliance of its part of directives/recommendations.<sup>52</sup> The Auditor General does not have any statutory power for imposing sanctions directly.</p> <p>An Assistant Auditor General (PAC) maintains the record of the follow up of audit observations and actionable points emanating from the PAC deliberation on the audit reports. Lately, the ADM Plus software has been procured for recommendation tracking. Holding mock / pre-PAC preparation is noted for properly addressing the observations and recommendations.</p>	<p>There are many audit observations and findings that have not received action.</p>
<p><b>(6) Qualifications and Skills of the Auditor</b></p>		
<p>The SAI needs qualified accountants to sign audit opinions. Auditors must have adequate professional expertise and technical knowledge to carry out audits.</p>		
<p>30. The syllabi of the government's and SAI's accounting schools should cover all areas recommended by the International Federation of Accountants' educational standards (IES)</p>	<p>There is an elaborate system of training the accounting and auditing staff at different hierarchical levels through the AATI, and higher academic and professional qualifications at local and foreign universities and professional training bodies. The Auditor General has developed a comprehensive training plan with the help of foreign consultants. PIPFA courses have become mandatory for Audit Officers. Syllabi of AATI probationers have been revamped. The substantial portion for funding in PIFRA II is for training in auditing and accounting.</p>	<p>The AATI should continue to review its syllabus to cover all areas recommended by IFAC IES. There is a need to build the number of staff with ICAP qualifications.</p>
<p>31. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima</p>	<p>The academic criteria used for recruitment and promotion of auditors: For assistant audit officer – B-Com is the minimum qualification.</p>	<p>These arrangements are not adequate to meet international standards for auditing annual accounts and signing audit opinions. Further upgrading of the AATI</p>

<sup>52</sup> Although the Public Accounts Committee writes the word 'directives' for its decisions but 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.



Standards	Present Position	Options for Improvement
Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)	For audit officer – PIPFA. For civil service – 9 months' professional course at AATI, leading to PIPFA qualification. FPSC conducts the final examination.	courses and the promotion criteria for senior audit staff is needed.
<b>(7) Training</b>		
32. The SAI should operate a continuing professional development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)	The annual training plan of AATI provides many opportunities for the continuing professional development of staff. The plan encompasses more than 50 different short courses or workshops. There is also a requirement of mandatory training of 12 working days <sup>53</sup> as applicable to civil servants in BPS 17 & 18. There is also a mechanism of allocating certain training days in each annual audit plan for the sake of time-budgeting. Finally, rigorous capacity-building exercises are being identified, designed, and delivered as part of PIFRA II.	PIFRA II reform process should be continued in relation to the capacity-building of auditing staff.
<b>(8) Audit Competence</b>		
33. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)	Audit manual development was outsourced under PIFRA to foreign consultants who developed the guidelines and methodologies with the help of the Accounting Policy Wing which would be responsible for future maintenance and updating of these manuals.  The DAGP through PIFRA procured audit department management system for audit planning and implementation. Audit planning, risk assessment, personnel management, and recommendation tracking are various modules. Audit Command Language has been acquired for computer-aided audit techniques and applied on the transaction data in SAP R/3 systems in accounting offices.	An action plan for implementation of new Financial Audit Manual should be developed for auditing the financial statements of federal and provincial governments and implemented in sync with the capacity-building and computerization activities.

<sup>53</sup> Establishment Division O.M. No 1/6/2002.OP.II, dated 5-4-2002.



Standards	Present Position	Options for Improvement
<b>(9) Quality of the Audit</b>		
<p>34. The SAI should have the quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)</p> <p>35. Quality control procedures should cover:</p> <p style="padding-left: 20px;">Direction: Assistants to whom work is delegated need appropriate direction.</p> <p style="padding-left: 20px;">Supervision: covering the following functions during the audit: (a) monitor the progress of the audit, (b) become informed of and address significant accounting and auditing issues, and (c) resolve any differences of professional judgment between personnel and consider the level of consultation that is appropriate.</p> <p style="padding-left: 20px;">Review: The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.8-220.17)</p>	<p>There is quality supervision at the field audit office level where the Director General personally certifies the quality of audit reports. There is further review for quality assurance at the Deputy Auditor General level. Finally the Quality Assurance Review Committee at the DAGP reviews all audit reports before their release.</p> <p>The new Audit Manual (Chapter 5 to Chapter 15) describes in detail the procedures for direction, supervision, and review of audit work.</p>	<p>The audit documentation and report writing skills need to be improved.</p>





Standards	Present Position	Options for Improvement
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**B. Assessment of Public Sector Auditing Standards and Practices**

Results from the audits should hold the executive to account for fiscal and expenditure policies and their implementation.

<b>(I) Planning</b>		
<p>36. The planning process should collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates, develop an understanding of the accountability relationships, determine whether appropriate action has been taken on previously reported audit findings and recommendations, assess risk, and determine materiality. (IFAC ISA 300.6-300.9)</p> <p>The planning process should identify the scope of the audit, and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)</p> <p>The planning process should review the internal audit of the audited entity and its work program, identify key management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)</p> <p>The planning process should</p>	<p>The certification audit procedures suggest that the audit staff should prepare work flow, procedure diagram, or systems outline; and list the main accounting areas in order to familiarize themselves with the audited entity. However, this does not delve into the risk assessment and determination of materiality levels which are more or less pre-defined by the procedures.</p> <p>The procedures define the overall objectives of the certification audit and the objectives of each of the six audit areas: establishment costs, contingencies, pensions, receipts, general provident funds, and accounts compilation. However, the objectives are not further refined in accordance with the risk of understatement, overstatement, or misstatement that can be associated with any of the audit areas; and audit tests are not accordingly tailored.</p> <p>The internal audit function is evaluated as part of the regularity audit. However, since the internal audit in government departments is in its infancy,<sup>54</sup> the certification audit does not put considerable reliance on the internal audit.</p> <p>Planning documents formally prepared do not identify the specific risks; however the consideration of complaints, newspaper cuttings, and problems experienced during previous audits, together with the value judgment, use of</p>	<p>The new audit methodology manual should introduce more comprehensive planning requirements based on the specific objectives of the audits.</p> <p>Engagement of chartered accountants as part of the audit teams for conducting of certification audit can be very helpful in skill development. The memorandum of understanding between the Auditor General and the ICAP may be used for procuring such services with quality assurance support from the ICAP.</p>

<sup>54</sup> Internal Audit Plan and Internal Audit Manual was developed under PIFRA I, and chief audit officers posted in 15 ministries have been given exposure training.



Standards	Present Position	Options for Improvement
<p>highlight special problems foreseen when planning the audit. (ISA 300.10)</p> <p>The planning process should prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed fieldwork. (ISA 300.10)</p> <p>The planning process should identify staff requirements and a team for the audit. (ISA 300.11)</p> <p>The planning process should familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (ISA 300.7)</p>	<p>hindsight, and threshold for materiality are envisaged at the planning stage of audit under the new Financial Audit Manual.</p> <p>The audit plan, which allocates the human resources available to various audit assignments, is prepared annually.</p> <p>For the certification audit, the accounting entities, including the Accountant General and District Accounts Offices, provide the majority of auditable documents supporting the financial statements. Initial discussions with them give the auditor the required understanding as to how the accounts have been compiled.</p>	
<b>(2) Supervision</b>		
<p>37. The process of supervision should ensure that the members of the audit team have a clear and consistent understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)</p>	<p>The Director Audit or Deputy Director Audit initially briefs the audit team usually comprising the audit officer and assistant audit officer before sending them to the auditee. Later the Director / Deputy Director supervises the team on site, the frequency of which varies depending on a number of factors. The Deputy Director Audit is often part of the exit meeting with the auditee sharing the Audit Information Report.</p>	<p>Improved working paper guidance and technology combined with more effective supervision and independent quality review processes are needed.</p>
<p>38. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the SAI. (INTOSAI Auditing Standards 3.0.3b)</p>	<p>The supervision process generally emphasizes the findings of the audit team and documentation of the audit evidence; however, lesser emphasis is placed on the overall assurance levels achieved and referencing and sequencing of the audit working papers.</p>	<p>There is a need for more guidance on the audit testing to be undertaken and the functions of supervision. Working papers need to be more structured.</p>



Standards	Present Position	Options for Improvement
<p>39. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.0.3c)</p>	<p>The audit team usually keeps the Deputy Director or Director Audit informed of significant developments in the field.</p>	
<p>40. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations and opinions. (INTOSAI Auditing Standards 3.0.3d)</p>	<p>Only the tenable audit observations are printed. The Quality Assurance Committee is an important forum where each audit observation is reviewed from the auditee's standpoint and dropped if found weak.</p>	<p>There is obvious opportunity to use the results of regularity audit while planning and conducting the certification audit and also to conduct the regularity checks as part of the compliance testing procedures during the certification audit. Efforts are underway through PIFRA to integrate the certification audit (Section 7) and the regularity audit (Section 8) into one certification audit product through implementation of the Financial Audit Manual.</p>
<p>41. The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.0.3e)</p>	<p>The process of audit supervision takes the audit findings through the quantification of the most likely error (by extrapolation of the known errors) which may lead to a qualified audit certificate issued by the Auditor General.</p>	<p>The audit process should be risk-based allowing sufficient flexibility to the auditors to articulate and apply appropriate audit procedures on intelligently selected samples and to arrive at correct audit conclusions.</p>
<p>42. The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)</p>	<p>The audit reports generally include the audit conclusions, recommendations, and opinions; but these are divided into both the regularity audit and certification audit. The audit certificate on the financial statements points to the regularity audit reports, among other audit reports, as covering the significant aspects of financial governance, or economical, efficient, and effective utilization of public resources. However, there is no formal linkage at the working level between the certification audit and the regularity audits conducted by the Auditor General.</p>	<p>A stakeholders' workshop was held where representatives of Public Accounts Committee and auditees were also present and deliberated generally on all issues relating to the audit process. To take the process forward, there is need for more focused workshops to identify the most critical issues and come up with concrete recommendations for resolution.</p>
<p>43. The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)</p>	<p>As the highest forum of supervision, the Quality Assurance Committee, consisting of senior officers of DAGP, ensures that the audit report includes the audit conclusions, recommendations, and opinions, as deemed appropriate.</p>	
	<p>The Quality Assurance Committee emphasizes that only the tenable audit</p>	





Standards	Present Position	Options for Improvement
	<p>observations are printed. Each audit observation is reviewed from the auditee or audience standpoint and dropped if found weak. This sometimes may lead to removal of loosely drafted paragraphs without consultation with the audit staff having exact knowledge of the observation.</p> <p>The process—from communication of the Audit Information Report to creation of advance or draft paragraphs then resolution of these through DAC/ SDAC before submission of printed reports to the Public Accounts Committee—provides ample opportunity for the executive/auditee to resolve the audit observations. On this basis only properly identified, documented, and unresolved audit observations are brought to the attention of the most senior SAI officers for reporting. However PAC assessments have shown substantial numbers of unjustified audit observations so there are major flaws in the process.</p> <p>Risk assessment procedures for the certification audits, as well as identifying formations for regularity audit, does not take into account the results/findings of the previous audits.</p> <p>The audit review process feeds-back into process improvement through the FAPC Wing, which keeps reminding the field audit offices about the qualitative changes in formats, evidence gathering, and the broad policy toward impact-oriented audit reports.</p>	
<b>(3) Internal Controls</b>		
<p>44. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to</p>	<p>The certification audit procedures presently in use prescribe the compliance checklists for each audit area based on the government systems/ procedures, but does not encourage</p>	<p>The new audit methodology and process should be rolled out immediately to improve the process of environmental risk assessment, compliance testing, and sampling procedures; and the</p>



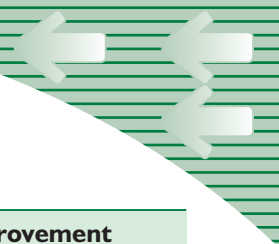


Standards	Present Position	Options for Improvement
<p>identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. (ISA 315.2)</p> <p>After obtaining an understanding of the accounting and internal control procedures, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)</p> <p>The auditor should document in the audit working papers: (a) conclusions reached about susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity's accounting and internal control procedures; and (b) the assessment of control risk. (ISA 315.122-123)</p> <p>The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (ISA 330.23)</p> <p>When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion,</p>	<p>identification of a lower number of critical controls that impact the contents of the financial statements leading to a flexible design of substantive procedures and innovative selection of samples for these.</p> <p>The compliance checklists for each audit area cover the assertions of existence and operation of internal controls. Since the checklist is based on the prescribed government procedures the effectiveness assertion is assumed.</p> <p>The auditor assesses the control risk for each identified control and thereby identifies the risk of likely error in the form of proportion of departures ascertained. However the compliance procedures are not based on systematic environmental assessment and evaluation of the entity's accounting and internal control systems. Instead the control tests are based on the predefined checklists as part of the audit procedures for six key audit areas.</p> <p>The failure to obtain sufficient appropriate audit evidence for any material financial statements assertion leads to qualifications in the auditor's opinion.</p> <p>At the conclusion of the fieldwork the audit team shares with the auditee an Audit Information Report identifying all observations for management comments.</p>	<p>implementation of the Financial Audit Manual should not be coupled with the implementation of New Accounting Model</p>



Standards	Present Position	Options for Improvement
<p>the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)</p> <p>The auditor should make management aware in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control procedures, which have come to the auditor's attention. (ISA 315.12)</p>		
<b>(4) Compliance with Laws</b>		
<p>45. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)</p> <p>The auditor should perform testing and other procedures to help identify instances of non-compliance with those laws and regulations where non-compliance should be considered when preparing financial statements. (ISA 250.18-250.19)</p> <p>Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, the auditor should evaluate the</p>	<p>In certification audit, compliance with the legal and regulatory framework is ensured to an extent only. Whereas regularity audit, due to its wide scope and greater coverage, provides greater assurance in relation to compliance with laws and regulations.</p> <p>The management designs the systems, and an auditor independently assesses those systems and provides feedback to the management. The auditor does not obtain written representations as to whether the management has disclosed to him all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements.</p> <p>There is no formal procedure for granting discharge to an auditee after the successful completion of a formation under his control. The auditee remains accountable despite the fact that the external audit obtained substantial assurance regarding the state of affairs and the financial statements. For instance, the special audits can cover</p>	<p>Certification audit is required to provide assurance to adequate levels of materiality. Greater assurance from compliance (regularity) audit is not required. If the Auditor General wishes to undertake audits aimed at ensuring that expenditures are properly controlled, then such audits should be designed on modern principles.</p>





Standards	Present Position	Options for Improvement
<p>entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance. These evaluations should be used to report to management on defects in the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)</p> <p>The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250.23)</p> <p>The SAI should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a "discharge". If not other processes are needed to resolve irregularities.</p>	<p>more than one previous year while tracing any future incident and thereby probe into any specific matter well after the conclusion of the annual audit.</p>	
<b>(5) Evidence</b>		
<p>46. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)</p> <p>When obtaining audit</p>	<p>The results of the compliance tests do have an impact on the sample size for the substantive procedures, however the results of the compliance tests are not used to tailor the selection of sample transactions based on identified pattern of errors.</p>	<p>The new Financial Audit Manual should be implemented immediately discarding these mechanical procedures.</p>



Standards	Present Position	Options for Improvement
<p>evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial statement assertions. (ISA 500.12)</p>		
<p>47. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.5)</p> <p>When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)</p>	<p>The Auditor General's Ordinance 2001 under Section 13 specifically entitles the Auditor General to audit the accounts of stores and stock kept in any government office, however the scheduling of the certification audit does not allow for the presence at the physical inventory counts. The regularity audit generally covers the physical inspection of assets and inventories procured if existing at the time of the audit.</p> <p>In accordance with the procedures for the certification audit Step 4 of the Final Accounts Examination, the Auditor General assesses the type of audit certificate as unqualified, qualified, disclaimer, or adverse, depending on the nature and quantum of the disagreement/uncertainty.</p>	
<b>(6) Analysis of Financial Statements</b>		
<p>48. In regularity (financial) audit, and in other types of audit when applicable, the auditor should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1) Analysis of financial</p>	<p>The Finance and Appropriation Accounts are prepared following the combined Accounts Codes. A policy decision has been made to adopt the IPSAS – 2, cash flow statement standard with effect from FY2005-06 and to test run this by FY2004-05. The accounting policies are not disclosed in the Finance and Appropriation Accounts. The conversion to the NAM financial reporting framework would take time. The</p>	<p>The certification audit should consider the appropriateness of the financial reporting and compliance with Cash Basis IPSAS and should report all material departures in the audit report. The adoption of Cash Basis IPSAS would improve the AGP's ability to do meaningful and reliable financial analysis.</p>





Standards	Present Position	Options for Improvement
<p>statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether:</p> <p>(a) financial statements are prepared in accordance with acceptable accounting standards;</p> <p>(b) financial statements are presented with due consideration to the circumstances of the audited entity;</p> <p>(c) sufficient disclosures are presented about various elements of financial statements; and</p> <p>(d) the various elements of financial statements are properly evaluated, measured and presented.</p> <p>(ISA 200.2-200.12)</p>	<p>auditor's ability to perform and use the various analysis of the financial statements is hampered when the financial statements only reflect the recording and disclosure of mere transactions and lack the meaningful and reliable information in respect of assets or liabilities balances.</p>	
<p><b>(7) Reporting on Financial Statements</b></p>		
<p>49. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)</p> <p>There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)</p>	<p>This exists but not in a proper form.</p> <p>There is no specific reference to the reporting framework. The only mention relates to the provisions of Section 5(a) of the Controller General of Account Ordinance 2001 read with the Article 169 of the Constitution.</p> <p>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</p>	<p>The IPSAS and New Accounting Model should be identified as the relevant financial reporting framework in the audit certificate. The audit certificate should completely comply with the specimen formats given in the audit manual / procedures being followed.</p>



Standards	Present Position	Options for Improvement
<p>The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly) in all material respects. (ISA 700.17)</p>	<p>and accurate in all material aspects.”</p>	
<p>50. The SAI should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in systems of financial control or accounting. (ISA 700.17)</p>	<p>The certification audit report does mention the other AGP reports covering aspects of financial governance or economical, efficient, and effective utilization of the 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.</p>	<p>All the referenced AGP reports mentioned in the audit certificate on the financial statements should be reattached to the audit certificate.</p>
<p><b>(8) Reporting on Fraud</b></p>		
<p>51. The SAI should report fraudulent practices or serious irregularities discovered by the auditors. (INTOSAI Auditing Standards 4.0.7) ISA 240 establishes standards and provides guidance on the auditor's responsibility to consider fraud and error in an audit of financial statements. The standard requires that – when planning and performing audit procedures and evaluating and reporting the results thereof – the auditor consider the risk of material misstatements in the financial statements resulting from fraud or error.</p>	<p>The Auditor General on specific request can provide information to the government agencies, including the National Accountability Bureau and the legislature, about a specific incident of fraud.</p> <p>Audits focus on examining transactions for discrepancies and regulatory breaches, and much of the reporting seems to relate to fraudulent behavior and suggesting recoveries without digging out the facts in detail.</p>	<p>Forensic audit training is needed. The Supreme Audit Institution does not focus on fraud in a sufficiently systematic way. ISA 240 requires the auditor to obtain information that is used to identify the risks of material misstatement due to fraud; and evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. ISA 240 also requires the auditor to inform management of the auditee and the Board, if there is one, of any fraud and the 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.</p>





Standards	Present Position	Options for Improvement
<b>(9) Reporting on Compliance</b>		
<p>52. With regard to regularity audits, does the auditor prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations? (INTOSAI Auditing Standards 4.0.7)</p>	<p>Reports submitted to the Parliament:</p> <ul style="list-style-type: none"> <li>Annual Regularity Audit</li> <li>Special Audit Reports</li> <li>Performance Audit Reports</li> <li>Environmental Audit Reports</li> <li>Governance Audit Reports</li> <li>Procurement Audit (Proposed)</li> <li>Third Party Validations</li> </ul> <p>Foreign Aided Projects – Financial Statements Certification.</p>	<p>The general tendency is for the audit to cover and report on all issues confronting an organization instead of emphasizing issues as compliance type and other most critical issues. The audit report can add significant value if the auditors focus on more critical issues with impact on the organization</p>

