ASSESSMENT AND STRENGHTENING PROGRAM – RURAL SUPPORT PROGRAM NETWORK (ASP – RSPN)

Internal Audit Manual of
Punjab Vocational Training Council

Dated: March 29, 2015

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Acronyms	Description
PVTC	Punjab Vocational and Training Council
COUNCIL	Council of Punjab Vocational and Training Council
BAC	Board Audit Committee
CIA	Chief Internal Audit
IAD	Internal Audit Department
IIA	Institute of Internal Auditors
AO	Area Office
ASP	Assessment and Strengthening Program
HO	Head Office
HR	Human Resource
IT	Information Technology
JD	Job Description
KPI	Key Performance Indicators
MD	Managing Director
MIS	Management Information System
MORA	Ministry of Religious Affairs
MOZU	Ministry of Zakat and Ushr
PPRA	Punjab Procurement Rules
PR	Purchase Requisition
PSDF	Punjab Skill Development Fund
RO	Regional Office
SOP	Standard Operating Procedures
TNA	Training Need Assessment
USAID	United States Agency for International Development
VTI	Vocational Training Institute

1. ORGANIZATION AND PURPOSE OF THE MANUAL

1.1 Purpose of the Audit Manual

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

This Audit Manual lays out what is expected of the internal auditors of the PVTC. It provides the standards by which the audits are to be conducted and provides guidance with regard to the methods and approaches to audit that can be applied by the auditors in carrying out their duties.

Once approved, this would formally establish framework for independent Internal Audit Function in PVTC as documented Policies and Procedures Manual not developed for Internal Audit Department, does not exist at present.

1.2 Custody of manual

This manual will remain in permanent custody IAD of PVTC. The manual is the property of PVTC and must be returned, when the IAD employee leaves the organization or is reassigned to another position, which does not require the use of the manual.

Copies of the manual must not be provided to any external party without the written approval of the CIA. However, access to this manual will not be restricted for such external parties if they are entitled in accordance with particular provisions of law for the time being in force.

1.3 Authority

This Manual shall become effective once it has been approved by the Board Audit Committee (BAC) and all subsequent changes to this Manual would require approval of BAC. This manual shall be reviewed by the CIA after every three (3) years (or earlier if necessary), CIA would suggest appropriate changes, if required. If after the review, no changes are deemed necessary, then a memo to that effect shall be prepared. The changed Manual or the “no change memo” shall be approved by the BAC.

1.4 Structure of the Manual

The Manual is intended for the use of staff employed in IAD in PVTC. It would serve as a common reference point for all the concerned, to assist in a common understanding of the principles of modern auditing techniques and terminology and to assist them in carrying out their work. The procedures and methodologies contained in the Manual comply with the International Standards for the Professional Practice of Internal Audit as set out by the IIA.

The standards have been adapted to make them relevant to the requirements of PVTC. To ensure that both the methodology and procedures remain consistent with best practice and reflect changes in both the legal and audit environment. The BAC on recommendation of the CIA is responsible for reviewing and where necessary amending, the contents of the methodology and procedures.

It is CIA responsibility to ensure that all amendments to the methodology and procedures are understood and incorporated into the Manual.

The Manual comprises two parts:

Part 1 –Attributes of Internal audit Function, Role of BAC, Scope, Code of Ethics, Professional Standards, Planning, Staffing Policies, Training Strategies, Relationship, Quality Assurance and guidance on the key policy matters and Internal audit frame work that affect the management and the work of IAD.

Part II – Audit Planning, Execution and Reporting: Performing an Audit which explains the steps that have to be followed while carrying out an audit. It also provides guidance on planning, execution, communication and follow-up.

Auditors are expected to apply these guidelines, approaches and techniques set out in the Manual.

2. AUTHORITY AND RESPONSIBILITY

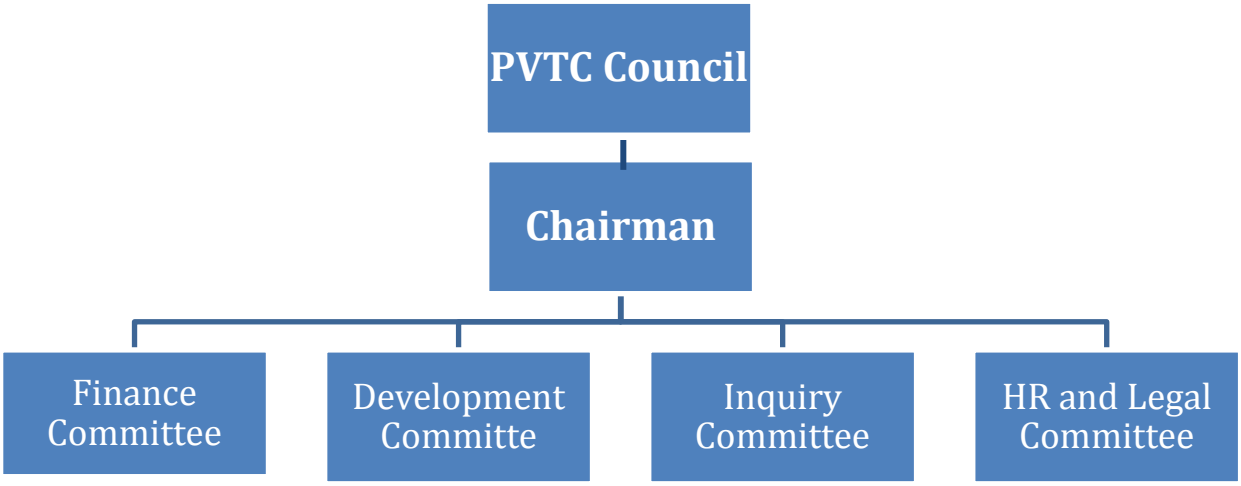
2.1 Governance and PVTC Council

PVTC Act, 1998 came into force as "it is expedient to provide for the establishment of the PVTC for setting up, regulation and management of VTIs in Punjab".

The overall power of PVTC Council as an authority, alongwith its duties are defines in the PVTC Act 1998, In order to ensure effective use of power and to discharge duties accordingly, delegation of authority and responsibility has been provided to different departments of the PVTC. PVTC Rules, 1998 has specifically authorized PVTC to exercise its powers and to take decisions, as necessary, in execution of relevant duties and functions of the PVTC. Following is the overall governance structure of the PVTC.

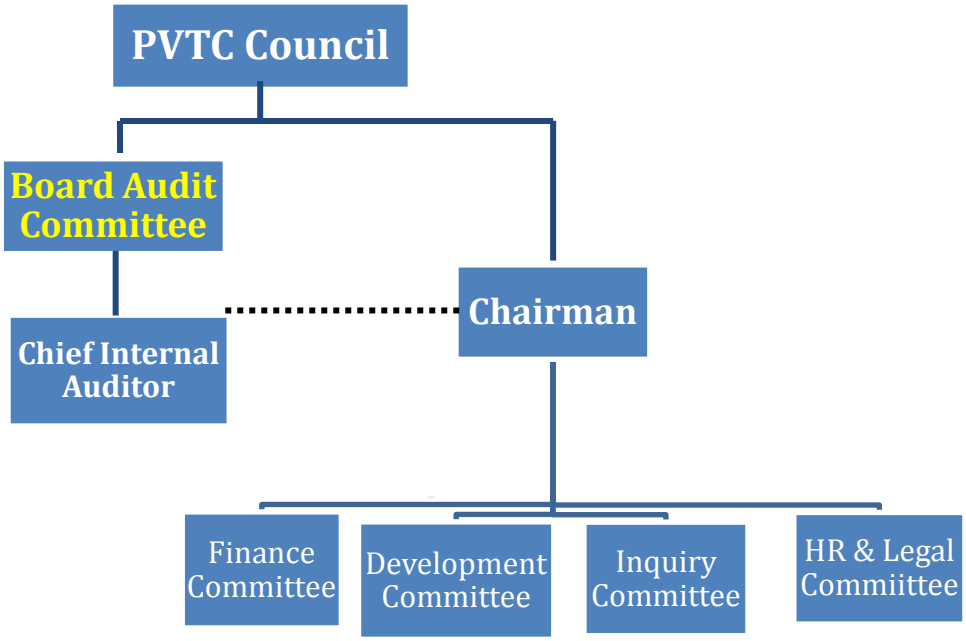
PVTC Council is the supreme body of the PVTC and it is responsible for establishment and administration of the VTIs alongwith preparation of necessary guidelines for District Boards of Managements, Tehsil Management Committee and the Institutes. Following is the existing overall structure of the PVTC.

Existing



Proposed

The existing governance structure does not provide for independent functional reporting of IAD and accordingly, it is proposed that the Internal Audit Department must functionally report to the Council through Board Audit Committee to fulfil its responsibilities, while administratively reporting remains to the Chairman PVTC.



2.2 Role of Board Audit Committee

The BAC would be holding the supervisory control of IAD and act as point of reference between the Council the IAD. The following are the key responsibilities of the BAC:

a. Recommending approving of Internal Audit Charter to the Council.
b. Approving Internal Audit Manual.
c. Approving appointment and removal of the CIA, including his remuneration.
d. Making appropriate inquiries of management and the CIA to determine whether there are scope or resource limitations.
e. Reviewing and recommending the financial statements for the approval of the Council.
f. Review and highlight the high risk issues raised by IAD to the BAC.
g. Approving strategic and annual audit plans.
h. Reviewing performance of the IAD with reference to approved annual work plan.
i. Reviewing the status of outstanding audit observations.
j. Overseeing hiring, performance and independence of the external auditors.
k. Oversight of ethics and complaints management.
l. Discussing risk management policies and practices with management.

The BAC would expect internal auditing to examine and evaluate the adequacy and effectiveness of the organization's systems of internal controls and quality of performance in carrying out assigned responsibilities. Internal auditing may be used as a source of information to the audit committee on frauds or irregularities.

Internal Audit plan, which at currently restricted to VTI's, is prepared on a monthly basis and there is no monitoring mechanism, to assess actual progress with the planned activities. It is proposed that BAC may be entrusted to assess performance of IAD with reference to the approved work plan, as required by International Standards for the Professional Practice of Internal Auditing issued by the IIA.

2.3 Definition of Internal Audit

Internal Audit is defined in the Internal Audit Charter of PVTC, as following:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Audits adds value not just by analysing and reporting what has happened, but also by being forward looking, by identifying areas where improvements can be made and by encouraging good practice. In this way it helps to promote improved standards of governance, better management and decision-making and a more effective use of the taxpayer‘s resources.

Internal audit helps an entity in achieving its goals by applying a systematic and disciplined approach in evaluating the entity‘s operations. It is done by:

- Planning audit activities through the identification and assessment of the nature and level of risk related to each activity in the entity;
- Assessment of the adequacy and efficiency of the financial management and control system with respect to:
  a. Risk identification, assessment and management by the Head of the entity;
  b. Compliance with laws and other regulations, operational guidelines, internal policies and contracts;
  c. Accurate, reliable, and complete financial and other operational information;
  d. Efficiency, effectiveness and economy of operations;
  e. Protection of resources and information, and
  f. Performance of tasks and achievement of goals.

- Providing recommendations to the PVTC for improvements in the financial management and control systems.

Operational framework for the work of IAD operates in accordance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing laid down by the IIA. Together these set the framework for how internal auditors should perform their duties and the way they should carry out their work.

2.4 Internal Audit Charter

The Internal Audit Charter of PVTC is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the IAD activity's position within the organization, including the nature of the CIA functional reporting, relationship with the BAC/ PVTC Council, access to records, personnel, and physical properties relevant to the performance of engagements and scope of internal audit activities. The approved copy of the Internal Audit Charter of PVTC is annexed.

2.5 Mission

The mission of the IAD is to provide an independent and objective assurance and consulting activity designed to add value to improve the operations of the PVTC. IAD assists PVTC to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and make recommendations for improving the effectiveness of the risk management, internal control and governance process.

For standardization in Internal Audit practices and policies, conformance with the IIA International Standards for professional practice of Internal Auditing is essential. The Standards have been used for guidance of IAD.
The primary objective of the IAD is to provide the PVTC with assurance as to the effectiveness and efficiency of the risk management, control and governance processes, with special references to the following aspects:

- Evaluate the efficiency, economy and effectiveness of PVTC's established operating and financial systems.
- Compliance with policies, procedures, regulations and relevant legislations, systems and processes and report its findings, observations and recommendations for improvements.
- Strengthen the risk management and internal control framework and advise management on how to improve the processes by which risks are identified and managed.
- Significant financial and non-financial information is accurate and reliable.

2.6 Scope of Internal Audit

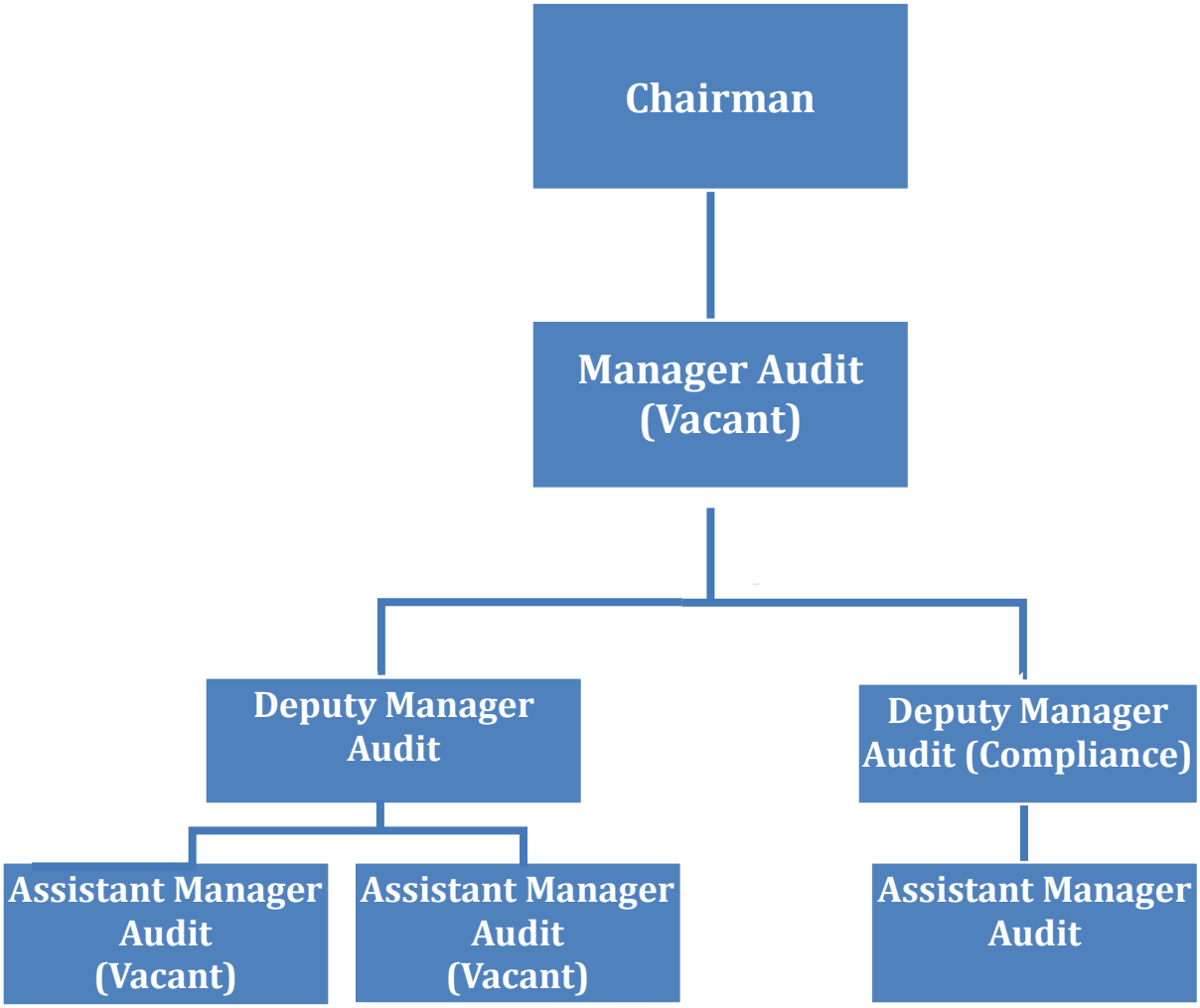
The scope of work for IAD encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the PVTC’s governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the stated goals and objectives. Major assignments include:

- Implementation of the approved audit plan and other special tasks or projects assigned by the BAC. The focus will be to assess whether the processes, procedures and systems of internal control within PVTC are adequate, reliable and effective.
- Unrestricted range of coverage of the PVTC operations, and the IAD should have sufficient authority to allow them access to such records, assets and personnel.
- Operation reviews of key processes and systems addressing effectiveness, efficiency and economy of operations of PVTC.
- Ensuring compliance with policies, procedures, applicable ordinance and regulations of PVTC.

- Follow up reviews on major issues ensuring timely implementation of corrective actions.
- Project audits on large scale projects, such as pre-implementation and post implementation reviews on new installation of critical IT systems.
- Investigations of suspected fraud and irregularities in PVTC.
- Any special assignments given by the BAC.

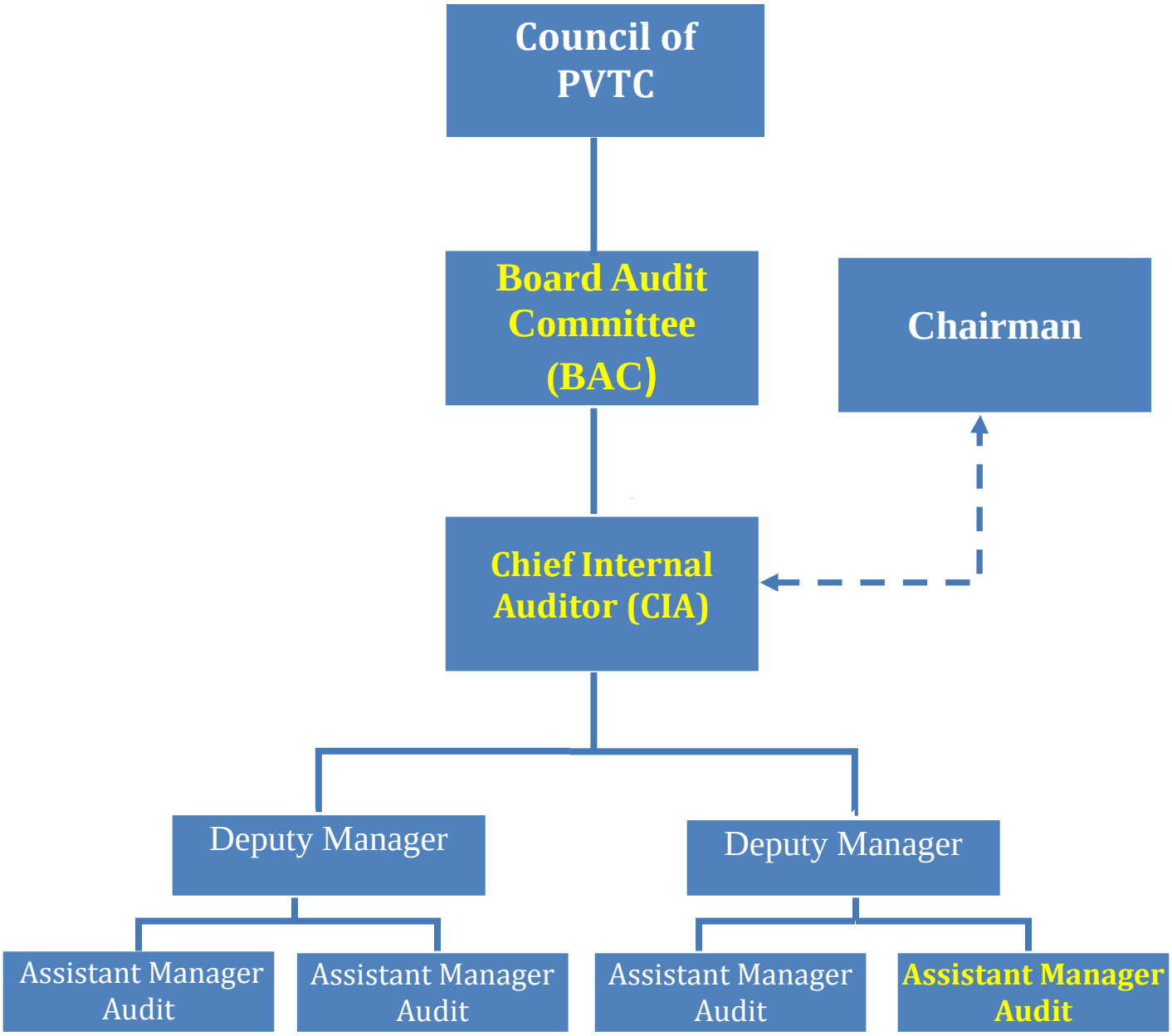
3. STRUCTURE OF INTERNAL AUDIT DEPARTMENT

3.1 Existing



3.2 Proposed

In the proposed structure, it is suggested that CIA will functionally report to BAC and administratively report to the Chairman to maintain independence of the internal audit function.



3.3 Duties and Responsibility of the Key Personnel

a. Chief Internal Audit
b. Manager, Internal Audit
c. Deputy Manager, Internal Audit

a. Chief Internal Auditor - Duties and Responsibilities

- Supervising the Internal Audit function including formulating and implementation of annual audit plan.
- Reporting of findings and observations to the BAC.
- The carrying-out of special investigations assigned by the Chairman/ BAC.
- Examination and evaluation of the adequacy and effectiveness of the internal control systems at various operations and activities of PVTC.
- The review of the application and effectiveness of risk management procedures and risk assessment methodologies.
- The review of the management and financial information systems, including the review of the accuracy and reliability of accounting records and financial reports.
- The evaluation of adherence to legal, regulatory and contractual requirements
- The evaluation of effectiveness of existing policies and procedures and give recommendations for improvements.
- Identifying opportunities for cost savings and making recommendations for improving cost efficiencies.
- Examining that resource are acquired economically, used efficiently and safeguarded adequately.
- Ascertain the extent to which PVTC assets are accounted for and safeguarded from losses.
- Liaising with the external auditors of PVTC in order that both external and internal audit functions could be carried out efficiently and effectively with minimum duplication of efforts.
- Act as Secretary of BAC, arrange meetings of the Board audit committee, prepare and circulate minutes of the meetings and
- Prepare the annual audit budget and work plan of the IAD.
- Issue instructions for smooth, effective and efficient working of the departments and take corrective action as necessary to ensure that approved plans and goals are met and that policies established by the PVTC are followed.
- Review of Internal Audit Manual and recommending changes, if required to BAC for approval.
- Perform any other task assigned by the Chairman/ BAC.

b. Manager, Internal Audit : (Team -A)

- Supervise the audit team and ensuring that audit is carried as per audit and operational plans, professional standards, deviations are clearly recorded and approval obtained from CIA.
- Performing Internal Audit at components in Headoffice including Fixed Assets, Investments, Procurement, HR and Payroll, Finance Function, Cash and Bank, Grant, Loans, income and expenditures.
- Co-ordinate with other Departments for the availability of documents and information for the conduct of internal audit.
- Review and document all procedures and audit steps duly performed with supporting evidence.
- Review and evaluation of adequacy of the internal controls by using ICQ's and reporting of observations.
- Checking compilation of the periodic financial statements from the underlying accounting records.
- Compilation of draft report after conducting necessary audit for the review of the CIA.
- Any other assignments given by CIA.

c. Manager, Internal Audit : (Team- B)

- Supervise the audit team and ensuring that audit is carried as per audit and operational plans, professional standards, deviations are clearly recorded and approval obtained from CIA.
- Performing Internal Audit at components at VTI's including Fixed Assets, Cash and Bank, MOZU Funds, Grant and Donation, Tuition Fees and expenditures.
- Co-ordinate with other Departments for the availability of documents and information for the conduct of internal audit.
- Review and document all procedures and audit steps duly performed with supporting evidence.
- Review and evaluation of adequacy of the internal controls by using ICQ's and reporting of observations.
- Checking financial information and reports generated from VTI's for their fairness, adequacy and completeness.
- Compilation of draft report after conducting necessary audit for the review of the CIA
- Compilation of draft report for the CIA.
- Any other assignments given by CIA.

4. THE JOB OF THE AUDITOR

The auditor is a professional with a special role to play in ensuring the integrity of the operations of the PVTC and safeguarding its assets. As such they must fulfil certain expectations with respect to performance of duties and ethical conduct. The auditor is employed pursuant to a set of formal conditions and should expect appropriate protection in the fulfilment of his or her responsibilities. These issues are outlined below.

4.1 Expectations

Auditors work in teams and perform their work in accordance with IIA Auditing Standards, which are described in detail in Chapter 5.The audit teams would fulfil a number of general expectations in performing their duties:

- At least one auditor within the audit team should be fully conversant with the rules and regulations concerning the accounts to be audited.
- The audit team should subject the PVTC to a complete and thorough check according to the audit programme within the constraints of the time available. Any failure to complete the prescribed audit programme must be reported clearly and fully to the CIA.
- Each auditor is expected to use professional judgment in carrying out all aspects of an audit programme.
- Although it is not the responsibility of the auditor to detect fraud, every auditor is expected to take appropriate action wherever a situation of fraud is suspected.

4.2 Code of Ethics

The purpose of this Code of Ethics in PVTC is to promote an ethical culture in the profession of internal audit. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance. It applies to all staff performing the duties of internal audit in PVTC. Any failures to comply with these ethical requirements could lead to disciplinary action being taken.

This Code of Ethics extends beyond the definition of internal auditing to include two essential components:

- Principles that are relevant to the profession and practice of internal auditing;

- Rules of Conduct that describe behaviour norms expected of internal auditors in respect of each of those Principles. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

Principle 1 – Integrity

The integrity of internal auditors in PVTC establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct for Internal auditors

- Shall perform their work with honesty, diligence and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

Principle 2 – Objectivity

Internal auditors of PVTC should exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct Internal auditors

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgement.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Principle 3 – Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct Internal auditors

- Shall be prudent in the use and protection of information acquired in the course of their duties.

- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Principle 4 – Independence, Objectivity and Impartiality

The internal auditor should have the independence in terms of organisational status and personal objectivity which permits the proper performance of his duties.

Rules of Conduct Internal auditors

- Independence is essential to the effectiveness of Internal Auditing. This independence is obtained primarily through organization status and objectivity and to maintain the independence of IAD from other PVTC departments and offices, its personnel shall report to the level where there is no direct influence on Internal Auditor activities.

- CIA will be reporting functionally to the BAC and administratively to the organization's Chief Executive Officer to facilitate functional independence. The CIA must confirm to the Board, at least annually, the organizational independence of the internal audit activity.

- IAD of PVTC have an unrestricted access of the organisation's operations, and authorized fully to access any records, assets and personnel as are necessary for proper fulfilment of his responsibilities. The structure for the internal audit function should be formally confirmed by the BAC and should have proper regard to the contents of this guideline; demonstrable independence of the function is crucial to its effectiveness.

- Internal Auditors should have an impartial, unbiased attitude, characterized by integrity and an objective approach to work, and should avoid conflicts of interest. They should not allow external factors to compromise their professional judgment. Objectivity is an independent mental attitude that means honesty, freedom from bias, using facts without distortions from personal prejudices.

- Objectivity and impartiality entails that the IAD itself seeks to avoid any conflict of interest. To this end, staff assignments within audit unit shall be rotated periodically.

- Impartiality requires that IAD is not involved in the operations of PVTC or in selecting or implementing internal control measures. However, as a subject matter expert, IAD may give recommendations for strengthening internal controls and can give opinions on specific matters related to internal control procedures as per the request of senior management.

- IAD shall be independent of the operational activities and everyday internal control application process.

- IAD unit shall exercise its assignment on its own initiative in all units, programmes and activities of PVTC.

- The performance of the CIA will also be evaluated by BAC.It is important for IAD to maintain an objective and independent position within PVTC, other than playing an advisory role, the IAD shall not be involved in management of the operations or functions of other divisions/departments. IAD shall exercise its assignment on its own initiative in all departments, offices and functions of PVTC.

Principle 5 - Competency

Internal auditors of PVTC should apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct Internal auditors

- Shall engage only in those services for which they have the necessary knowledge, skills and experience.

- Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality.
- Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

Principle 6 - Conflicts of interest

Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities that could influence or be perceived as influencing their independence and integrity.

Rules of Conduct Internal auditors

- Auditors should avoid relationships with managers and staff in the audited entity and other parties that may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.

- Auditors should not use their official position for private purposes and should avoid relationships that involve the risk of corruption or may raise doubts about their objectivity and independence.

- Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Neither should they divulge information that would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as means for harming others.

5. AUDIT STANDARDS

The purposes of the Internal Auditing Standards are to:

- Set out basic principles that represent the practice of internal auditing as it should be;
- Provide a framework for performing and promoting a broad range of internal audit activities which benefit and add value to the organisation;
- Establish the basis for the evaluation of internal audit performance, and
- Foster improved organisational processes and operations.

The Standards consist of Attribute Standards (the 1000 Series) and Performance Standards (the 2000 Series), and Implementation Standards.

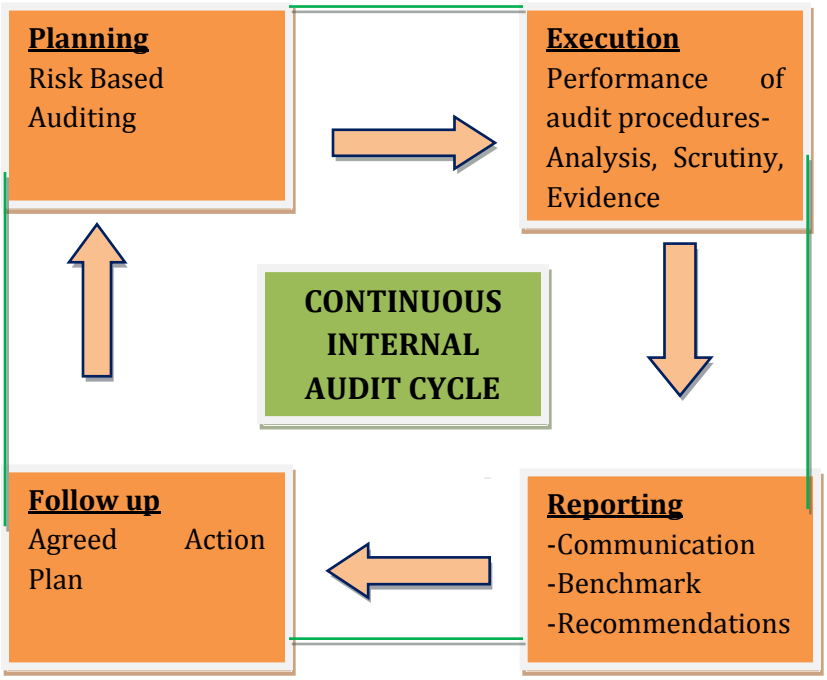
a. The **Attribute Standards** address the characteristics of organisations and individuals performing internal audit activities. They are:
   - Standard 1000 – Purpose, Authority and Responsibility;
   - Standard 1100 – Independence and Objectivity;
   - Standard 1200 – Proficiency and Due Professional Care; and
   - Standard 1300 – Quality Assurance and Improvement Program.

b. The **Performance Standards** describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards apply to internal audit services in general.
   - Standard 2000 – Managing the Internal Audit Activity;
   - Standard 2100 – Nature of Work;
   - Standard 2200 – Assignment Planning;
   - Standard 2300 – Performing the Assignment;
   - Standard 2400 – Communicating Results;
   - Standard 2500 – Monitoring Progress; and
   - Standard 2600 – Management‘s Acceptance of Risks.

IAD to expected work in accordance with these Standards.

6. THE AUDIT CYCLE

The IAD team has a professional duty to undertake each audit in a manner that ensures reliable and meaningful conclusions, which in turn lead to practical and useful audit recommendations. The auditor must therefore collect appropriate and sufficient evidence to arrive at such conclusions and recommendations. The efficient and effective collection of evidence depends on a clear audit plan. This audit plan should include a well-developed audit programme. There are primarily four steps in performing audits i.e. Planning, Execution, Reporting and Follow up, as illustrated below:



Planning

A diligently drawn-up audit plan helps in the efficient and effective conduct of audit.

Execution

Execution includes procedural content of audits e.g. analysis, scrutiny, evidence collection and documentation.

Reporting

Initial draft is prepared, management comments are taken and final report is issued.

Follow up

To proceed further management actions are viewed on audit findings and uncorrected observations or points are noted and may be considered again for inclusion in the next audit plan.

6.1 Audit Planning Process

The CIA is responsible for developing a risk-based audit plan and should prepare it to determine the priorities of the internal audit activity, consistent with the organisation‘s goals. He should start planning process with a thorough understanding of the business processes and the operating cycle. The principle activities carried out by PVTC and its operating cycle would be building block around whole process. Audits must be properly planned to ensure that appropriate and sufficient evidence is obtained to support the auditor’s opinion.

6.1.1 Risk Based Framework

Plan would be developed after taking into account the organization’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the CIA uses his/her own judgment of risks after consideration of input from BAC. The CIA must review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

- The IAD activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.
- The CIA must identify and consider the expectations of senior management, the board, and other stakeholders for internal / external audit opinions and other conclusions.
- The CIA should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.

6.1.2 Management Feedback and Review of Significant Information

CIA would often discuss with senior management to identify potential engagements. Changes in people, processes, or systems often generate audit project ideas. Various documents are reviewed, such as strategic plans, financial reports, budgets, consulting studies, etc. Further, the results of prior audits and resolution of open issues are considered. The preliminary plan of engagements is documented and prioritized. Audit resources and expertise are then considered and a final plan is presented to BAC.

6.2 Long Term and Short Term Planning

Planning is a key part of the audit process and comprises four stages.

Strategic Planning	Set out audit coverage for the strategic planning period – Normally three years.
Annual Planning	Based on the first year of strategic plan this basically set out details of the audit for current years.
Operational Planning	Detail resources need to achieve annual plan, review and update outlook during current year.
Individual Audit Plan	Term of reference and audit plan prepared for each unit.

6.3 Strategic Planning

The BAC is responsible for deciding what audit work is necessary to fulfill their mandate and under their direction, CIA produces a multi-year strategic plan for IAD activities.

It helps to identify the audit universe, provides an objective risk-based approach to defining IAD work enabling IAD to optimize the use of its resources and improve its effectiveness as a service to management.

In the early years of setting up IAD it may be necessary to take a more pragmatic and less time consuming approach to strategic planning, for example by grouping the auditable systems identified and/or by reducing the number of risk factors.

6.4 The Annual Plan

The annual plan, which is developed from the strategic plan, is prepared on an annual basis, and require approved by the BAC. It is based on the first year of the strategic plan and should provide additional detail, for example defining the tasks to be performed and identifying critical areas, setting target dates and allocating resources for the forthcoming year.

It must take account of any new developments. For example:

- have there been any changes in the organisation‘s activities which have not been reflected in the strategic plan?
- Is the original assessment of risk and priority still appropriate?
- Is the staff available now and are they more or less experienced than anticipated?
- Has there been any slippage in previous annual plans which must now be rescheduled, either into this annual plan or the strategic plan?

The following stages are involved in drawing up the annual plan:

- Establishing the staff and other resources available over the planning period. This involves identifying known absences, expected changes in staff and other commitments;
- Based on the re-appraisal above, select the appropriate audits from the strategic plan, consistent with the balance of available resource;
- Identify the man days, in direct time, needed for each audit; and
- Schedule the audits by months/quarters - ensuring that there are no inconsistencies. It is important to consider whether any audits must or must not be done at specific times.

The CIA should consider the strengths and weaknesses of the staff available and allow for the need to develop and train his or her staff. Team Leaders may be responsible for specific blocks of audits - either by function, location or programme. In such circumstances, the preparation of parts of the annual plan may be delegated to them but the CIA remains responsible for the overall coordination and consistency of the plan.

6.5 Operational Plan

The operational plan sets out the precise allocation of resources to specific audits and is an important management tool for the CIA. Progress against the plan (and against the overall annual plan) should be reviewed at least monthly to identify any shortfalls and to decide on the corrective action to be taken.

6.6 Individual Audit Plan

This phase primarily involves using the decisions made during the audit planning phase to update the audit programmes that will be used in the audit of units/ deprtments. It is also concerned with updating budgets, staffing requirements, the timing of the audit work, and the information to be obtained from the entity.

6.7 Planning Process

Individual audits must be properly planned to ensure that Appropriate and sufficient evidence is obtained to support the auditor's opinion;

6.7.1 Step 1 – Establish audit objectives and scope

Audit may have to fulfill multiple audit objectives, so it is important that the audit is well-planned in terms of audit objectives and audit scope.

The step also involves communicating with the management to ensure that they are fully aware of the audit objectives and audit scope.

6.7.2 Step 2 – Understanding the business

6.7.2.1 Information Requirements

Audit objectives are developed on the basis of an understanding of the operations/ business. However, the auditor does not need to have a complete understanding of all the activities. The auditor only needs to have a detailed knowledge of those aspects of business that relate to the audit.

The Planning Templates includes forms to help the auditor update his/her understanding of each of these knowledge areas.

Sufficient knowledge of these matters is required by the auditor to:

- assess materiality and audit risk;
- understand the internal control structure;
- determine components and understand how the various components and activities fit together;
- assess inherent risk and control risk;
- understand the substance of transactions, as opposed to their form;
- identify the nature and sources of audit evidence that are available;
- update audit programs;
- assess whether sufficient appropriate audit evidence has been obtained;
- assess the appropriateness of the accounting policies being used; and

- Evaluate the presentation of financial statements and the reasonableness of the overall results.

6.7.3 Step 3 – Assess materiality and audit risk

6.7.3.1 Materiality

Definition of materiality: When the auditor states that the financial statements "properly present, in all material respects", he/she is stating that the financial statements are not materially misstated. This introduces the concept of materiality.

Materiality can be defined as follows: "An error (or the sum of the errors) is material if the error (or the sum of the errors) is big enough to influence the users of the financial statements".

It may also noted that available audit resources should *not* be a factor in setting materiality. Materiality is determined with the users in mind, and it is up to the auditor to ensure that sufficient audit resources are available that are required to perform the required work.

The Planning Templates contains a form that can be used to assess the materiality amount.

Ultimately, the establishment of an appropriate materiality amount is a matter for the auditor's professional judgment. For this reason, it is normally *not* appropriate to use the same materiality amount for the audit of different components and should be calculated separately for each component. In addition if, based on the knowledge of the entity and an understanding of the circumstances, the auditor believes that the monetary amount determined by the above process appears unreasonable, additional relevant factors should be considered and the materiality amount revised accordingly.

6.7.3.2 Audit risk

Definition: The opinion paragraph of the standard unqualified auditor's report begins "In my opinion …" This means that the auditor is not stating that he/she is absolutely certain that the financial statements properly present the results of operations (i.e. they are not materially misstated). Rather, the auditor is stating that he/she has some degree of assurance that is less than 100% that the financial statements are not materially misstated. Generally accepted auditing standards (GAAS) refer to this degree of assurance as "reasonable assurance".

Using the audit risk and the materiality amount, when the auditor states, "In my opinion, these financial statements present fairly, in all material respects …", the auditor is stating, "I have x% assurance that the financial statements are not misstated by more than the materiality amount".

6.7.3.3 Risk Assessment

The audit should focus on the areas of greatest materiality, significance and risk. An understanding of the risk associated with each department is therefore critical to the development of an audit plan. The auditor should develop this understanding by conducting a risk assessment as part of planning an audit assignment.

In considering audit risk, there are three categories of risk that are normally considered: Inherent Risk, Control Risk, and Detection Risk. These are discussed below.

1. Inherent risk

This is the susceptibility to material/significant error or loss unrelated to any internal control system. Assessing inherent risk requires the evaluation of numerous judgmental factors, relating to the nature of the entity and its business environment taken as a whole.

This is done by asking what could go wrong and what would be the likely consequences. If the likelihood of occurrence is low and the significance of the error is low, the auditor need not be concerned. Where the likelihood is high and the significance is high, then inherent risk is high. In this situation, the auditor must be assured that either the internal controls are strong enough to detect and prevent such occurrences or the substantive audit coverage is sufficient to detect such occurrences with a high level of assurance.

2. Control risk

This is the risk that material/significant error or loss is not prevented or detected on a timely basis by the internal control structure. Control risk is a function of the effectiveness of the design and operation of the internal controls. In order to assess control risk, the auditor should obtain evidence to support the effectiveness of internal control policies and procedures in preventing or detecting material error or loss. The auditor should recognize that there are risks of error or loss that cannot be detected or prevented in a timely manner whatever the controls in place. Further, the auditor should recognize that the costs of certain controls cannot be justified when compared to the potential losses they are guarding against.

The auditor should identify and evaluate both the control environment and the effectiveness of the individual internal controls that are in place. Indicators of a positive control environment include:

- policies and procedures relating to internal controls and to the need for maintaining a proper control environment exist and are documented;
- an appropriate organizational structure with clearly identified roles and responsibilities relating to the administration of internal controls exists;
- staff are selected and trained to ensure their competence and dedication in key control positions;
- senior management is involved in identifying control risks and monitoring performance;

- actions are taken to correct any identified control deficiencies with an appropriate level of priority; and
- Management displays positive attitudes towards the maintenance of sound internal controls, such as: recognizing dedicated effort; positively responding to audits and reviews of controls; and taking disciplinary action in response to poor performance.

The auditor is referred to the Control Environment Worksheet in the Planning Templates. The auditor should determine how the controls are applied, assess their adequacy, and identify significant control gaps.

3. Detection risk

This is the risk of material/significant error or loss going undetected by the auditor's substantive audit procedures. It is a function of the effectiveness of the substantive audit procedures and audit effort.

Also, less experienced or less knowledgeable auditors are more likely to miss detecting errors than the experienced auditor. Therefore, without careful supervision, the employment of less experienced auditors increases detection risk.

Audit risk is a composite of these three risks. When planning an audit there is a trade off between the overall risk that the auditor will accept and the cost of the audit – the lower the overall risk that the auditor is prepared to take, the more extensive the required work and the more costly the audit becomes. Thus the risk assessment process is particularly important in determining the extent to which the audit will examine the systems, procedures, practices and transactions that govern matters at the lower end of the objective and control hierarchy.

6.7.3.4 Identification of Risk

The auditor needs to develop the ability to identify risks. This requires an understanding of what constitutes risk and how to recognize it. There is a set of steps that the auditor can take, but experience, imagination and judgment are also critical.

The steps to follow are:

- List the program objectives, assets to be safeguarded and other results that management need to achieve;
- Identify threats which could prevent achievement of these objectives;
- Rate the risks, with the probability of occurrence, assuming no management controls (the inherent risks);
- List controls and assurances which exist within the systems and practices in place (environment controls and internal controls);
- Identify missing controls and assurances;

- Identify risks that could occur even with the existing controls in place (control risk); and
- Recommend improved controls and assurances (based on an assessment of the trade-off of the cost of the controls against the potential savings of lost and waste without the new controls in place).

6.7.3.5 Indicators of Risk

There are certain indicators that can alert the auditor to potential risk situations. Analysis of data may produce information that does not look right. Managers are often aware of high-risk situations and will assist the auditor to identify areas needing examination. This is more likely if the manager sees the auditor as an ally rather than a critic and feels comfortable confiding with the auditor.

Some examples of risk that can be encountered are:

- Processing risk;
- Program risk;
- Regulatory risk; or
- Risk of fraud.

6.7.3.6 Factors affecting audit risk

To determine how much risk the auditor should accept that an unqualified opinion may be issued on financial statements that are materially misstated, the auditor would consider such matters as professional exposure, reporting considerations and ease of audit.

- Professional exposure
- Reporting considerations
- Ease of auditing

6.7.3.6 Determining audit risk

Even though the determination of audit risk is the auditor's responsibility and not the financial statement users, it may be prudent to discuss the factors affecting audit risk and the assessed level directly with the users. There are several reasons for this:

- One of the factors affecting the required level of audit risk is the extent to which the users rely on the entity's financial statements and audit report. If the users are placing extensive reliance on the financial statements, the auditor may wish to use a lower level of audit risk (i.e., obtain a higher level of overall assurance) than if the users are placing very little reliance on the financial statements. Discussing the level of audit risk with the users will provide the auditor with direct evidence with respect to this factor.
- Some of the users, such as government planners and managers as well as legislators, may be aware of special circumstances that could increase the auditor’s professional exposure risk. These may include circumstances of which the auditor is not aware.

The Planning Templates contains a form that can be used to assess audit risk.

6.7.4 Step 4 – Understand the entity's internal control structure

6.7.4.1 Definition and concepts of internal control

The internal control structure is defined as the plans and actions of an organization, including management's attitude, methods, procedures, and other measures that provide reasonable assurance that the following general objectives are achieved:

- Assets are safeguarded against loss due to waste, abuse, mismanagement, errors, fraud and other irregularities;
- Laws, regulations, and management directives are complied with; and
- Reliable financial and management data are developed, maintained and fairly disclosed in timely reports.

The internal control structure is therefore very important to the auditor.

Furthermore, an understanding of internal controls, and the weaknesses in internal controls, is often critical for the auditor to make recommendations for improvements. If the audit focuses only on individual transactions, the auditor can only conclude, when errors are observed, that these errors should be corrected. By examining the controls over these transactions, the auditor can identify the reasons that the errors occurred. Then the auditor can recommend that the weaknesses in the controls be corrected.

Hence, it is critical that the auditor examines *controls* not just *transactions*.

6.7.4.2 General standards for an internal control structure

Five general standards that would be followed are:

- Reasonable assurance.
- Supportive attitude.
- Integrity and competence.
- Control objectives.
- Monitoring controls.

6.7.4.3 Detailed standards for an internal control structure

In addition, six detailed standards that would be followed are:

- Documentation.
- Prompt and proper recording of transactions and events..
- Authorization and execution of transactions and events.
- Separation of duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions and events should be separated among individuals.
- Supervision.
- Access to and accountability for resources and records.

6.7.4.4 Responsibility for maintaining internal controls

Management is responsible for ensuring that a proper internal control structure is instituted, reviewed, and updated to keep it effective. It is then the responsibility of everyone in the entity to ensure that the internal control structure functions as it should.

6.7.4.5 The Elements of Control

There are five basic elements that make up a control structure:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

6.7.4.6 Categories of Controls

Controls can take different forms and serve different purposes. Different ways of categorising controls are:

- Input vs. output;
- Independent vs. interrelated;
- Manual vs. electronic;
- General vs. application;
- Documented vs. undocumented;
- Preventive vs. detective; and
- Compensating.

6.7.4.7 Limitations of internal control structures

Internal control can help an entity to:

- achieve its objectives;
- comply with laws and regulations;
- ensure reliable financial reporting; and
- prevent loss of resources.

No matter how well conceived and operated, an internal control structure can only provide reasonable – not absolute – assurance to management regarding the achievement of its objectives, etc. There are limitations inherent in all internal control structures. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes.

Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. In addition, the design of an internal control structure must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

6.7.4.8 Understanding and Examining Internal Controls

The auditor is expected to review the internal controls as part of the audit.

First, the auditor should review and document the systems and procedures in place to carry out the transactions and other activities of the operations. Normally, a description of the major systems and procedures should be maintained on the permanent audit file. In which case, the auditor should review the description of the system and identify whether there have been any changes to the system.

Next, the auditor should identify points in the accounting system, and in other systems being audited, where he/she would expect to find controls.

Then the auditor should identify and document the controls at these points and determine that the controls have been operating.

Finally, the auditor should assess the adequacy of the controls and conclude whether any controls are missing or ineffective. The auditor should make recommendations where, in the opinion of the auditor, the controls should be strengthened. These recommendations should be based on an appreciation of the risk of reduced performance, loss, damage or waste compared to the additional costs, if any, of implementing improved controls.

A Control Environment Worksheet is provided in the Planning Templates.

6.7.4.9 Documenting Our Understanding of Controls

The auditor should document the internal controls as part of the audit. A clearly documented description of the controls enhances the auditor's ability to assess the controls. Also, the documentation aids supervision of the audit and improves communications between members of the team. The documentation should form part of the working papers and should be included on the permanent file.

Methods of understanding the system and application of controls include:

- Narrative;
- Flowchart;
- Internal Control Questionnaire (ICQ); and
- Walk-through.

6.7.5 Step 5 – Determine components

6.7.5.1 Definition

Auditors normally do not plan audits for the financial statements as a whole. Rather, they divide the financial statements into parts and plan each part separately.

A component is a discrete item in the financial statements.

6.7.5.2 How to determine the components to be used

For a financial statement audit, the most logical way of dividing up the financial statements is to consider each line item in the financial statements to be a separate component.

"Line items" are each of the amounts reported in the financial statements, including amounts disclosed in the notes thereto.

The auditor selects the grouping that makes it the easiest to plan, perform and evaluate the audit work. The auditor will also perform some additional procedures to ensure that the amounts reported in the other groupings are also presented fairly.

6.7.5.3 Individually significant transactions and events

Individual significant transactions and events include:

- Very large transactions and events; and
- High risk transactions and events.

The auditor should audit 100% of these transactions and events.

Very large transactions and events are usually audited 100% because they are large enough that, should they be in error, the error could be significant. The auditor therefore does not want to risk failing to find an error in these transactions and events.

High risk transactions and events are those which, because of their nature, contain a high risk of being in error. They are often audited 100% because, while the error in each one of these transactions and events may not be significant, the high likely error rate in these transactions and events could result in a significant error in total.

Very large transactions are normally easy to find – the auditor should look for transactions and events exceeding a pre-determined amount.

High risk transactions can be more difficult to detect. The auditor should use his/her knowledge of the PVTC business to identify these transactions and events.

These transactions and events are normally not treated as separate components. Rather, they are audited as part of the work performed on other components. However, there may be some cases where it is advantageous to consider them to be a separate component. This could occur when the inherent risk or control risk associated with these transactions are significantly different from the risks associated with the other transactions contained in the component.

6.7.5.4 Using sub-components

There may be cases where the inherent risk and control risk for part of a component are significantly different than for the rest of a component. In these cases, the auditor may decide to split the component into sub-components – the one(s) with the higher risks and the rest of the component. Higher-risk sub-components will receive a higher level of audit examination than lower risk ones.

6.7.5.5 Related components and transaction cycles

Some components are related to other components. For example, an understatement of expenditures may also result in an understatement of liabilities and/or an overstatement of cash. Therefore, the audit of each of these components will provide the auditor with some assurance as to the fairness of the related components. To avoid doing more work than necessary, the auditor should take the assurance achieved from auditing the related components into account.

One way to do this is to consider transaction cycles – the flow of the transactions. For example, the purchase of a medical supply will result in a stock item that will either be in expenses for the year or in the year-end stock balance. The purchase will also result in a cash disbursement or a payable at year end.

The internal control questionnaire and audit programmes contained in the templates contain the "standard" components being covered, and use a transaction cycle approach for the tests of internal control. It must be stressed that the auditor needs to assess inherent risk and control risk for each component and specific financial audit or compliance with authority objective, as opposed to each transaction cycle and specific financial/compliance audit objective.

6.7.6 Step 6 – Determine financial audit and compliance with authority objectives, and error/irregularity conditions

6.7.6.1 Specific financial audit objectives

Having divided the audit into components, the next step is to define what we mean by "properly presents" in the audit certificate. To do so, the auditor needs to consider what he/she would consider to be an error.

For a financial statement audit, a component is considered to be in error if:

- it is not valid (the asset or liability does not exist or the revenue or expenditure has not occurred);
- the asset, liability, revenue or expenditure is not complete;
- the transactions have not been carried out in proper compliance with relevant laws, regulations and administrative rules;
- the asset or liability is not properly valued or is misclassified, or the revenue or expenditure is not properly measured or is misclassified; or
- the financial statement presentation is not proper.

The templates make use of these specific financial audit objectives.

6.7.6.2 Related compliance with authority objectives

Reviewing compliance with laws and regulations is very important. Decision makers need to know if the laws and regulations are being followed, whether they are having the desired results and, if not, what revisions are necessary.

In conducting audits, a test should be made of compliance with applicable laws and regulations. Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgement in determining those laws and regulations that might have a significant impact on the audit objectives."

Auditing standards requires the auditor to "design audit steps and procedures to detect errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits."

In deciding which laws and regulations should be examined as part of a financial audit, the auditor should deal with those laws and regulations that might have a significant impact on the financial audit objectives.

In addition, the auditor needs to consider whether there are any related compliance with authority objectives. In this case, because compliance objectives relate to controlling what has been spent, as opposed to ensuring that the spending is complete, there are no related compliance objectives.

6.7.6.3 How error conditions and compliance irregularities are used to develop audit programmes

The error conditions/compliance deviations provide the auditor with guidance as to which audit procedures should be included in the audit programme.

6.7.7 Step 7 – Assess inherent risk and control risk

Inherent risk and control risk may differ by component and audit/compliance objective. As a result, the auditor may have a large number of different inherent and control risk valuations to deal with.

It is tempting to combine different risks by using a weighted approach. However, this approach is not recommended as it fails to meet the standards for generally accepted auditing standards.

6.7.7.1 Inherent risk

Inherent risk is the chance of material error occurring assuming that there are no internal controls in place. "Material error" may be one error or the sum of multiple smaller errors.

Inherent risk is evaluated at this stage to determine how much testing of internal controls and substantive testing (analytical procedures and substantive tests of details) the auditor needs to perform to achieve the desired level of assurance. In general, the greater the inherent risk, the greater the audit effort required.

Inherent risk is assessed assuming that there are no internal controls in place. As such, it is assessed in a hypothetical environment.

Factors affecting inherent risk include:

- The nature of the component.
- The extent to which the items making up the component are similar in size and composition.
- The volume of activity. Competence of the staff processing the transactions.
- The number of locations.
- The accounting policies being used.
- Factors that could affect the risk of fraud.

It can be seen from the above that evaluation of inherent risk is based primarily on the auditor's knowledge of the entity and its environment. This knowledge would have been acquired primarily in Step 2 of the process – updating the understanding of the business.

The assessment of inherent risk will be subjective, and will require the use of professional judgment. It would therefore be appropriate to have the most experienced and knowledgeable individuals on the audit team make the assessment of inherent risk. These should be the individuals with the greatest knowledge of the entity being audited.

Inherent risk may differ by component and by specific financial audit objective. For example, the risk of cash being improperly valued is low, but the risk of cash not being complete may be quite high.

Inherent risk needs to be assessed throughout the audit. For example, if inherent risk is assessed as "low" at the general planning phase but numerous errors are found during the fieldwork phase, then the assessment of inherent risk may need to be revised.

The Planning Templates includes an Inherent Risk Assessment Form that can be used to assess inherent risk.

6.7.7.2 Control risk

Control risk is the chance that the entity's internal controls will not prevent or detect material error and is directly related to the effectiveness of the internal control structure.

Control risk is evaluated at this stage as it establishes a limit on the amount of assurance that the auditor can obtain from tests of internal control.

Much of the work required to assess control risk would have been performed as part of updating the understanding of the entity's internal control structure.

Control risk is also affected by the factors that could affect the risk of fraud – particularly management fraud. This is because management can often override the internal controls that have been put in place. As discussed above, the auditor needs to use a questioning mind and stay alert for evidence that contradicts or brings into question the reliability of documents or management's representations.

Control risk may differ by component and by specific audit objective and related compliance with authority objective. For example, entity management may have devised very good controls over the payment process to ensure the validity and measurement of expenditures, but may have paid less attention to the completeness of those expenditures.

In general, the control environment and the controls that collect, record, process and report often have a pervasive effect on many components, financial audit objectives and related compliance with authority objectives. The controls that enhance reliability are the ones that are most likely to differ by component and by specific audit objective.

Control risk needs to be assessed throughout the audit. For example, if control risk is assessed as "low" at the general planning phase but numerous internal control deviations (improperly

approved supplier invoices, for example) are found during the fieldwork phase and then the assessment of control risk may need to be revised.

The reason for presenting "Resulting Assurance" as an amount "up to" a percentage limit is that, unlike inherent assurance, control assurance must be earned. The auditor should not rely on the internal controls unless tests demonstrate that the controls are not only in place, but are also working.

To place moderate reliance on the internal controls the auditor must do a fair amount of testing of internal controls. The auditor may decide that it is more efficient to place only limited reliance on the internal control structure and instead do extensive analytical procedures and use a large sample for substantive tests. In this case, even though the auditor may have been able to obtain a control assurance of 50%, the auditor may decide to do only enough tests of internal control to support a 20% level of assurance. The auditor would then set control risk at 80%.

It has been noted that control risk is assessed at this stage as it limits the amount of assurance the auditor can obtain from his/her tests of internal control. Assume that, in the above illustration, the auditor wants to place a lot of reliance on the internal control structure. Because control risk was assessed at 50%, it is not possible for the auditor to obtain more than a moderate level of assurance from the internal controls.

Put more simply, it is not possible to place a lot of reliance on a poor internal control structure.

Regarding the amount of time required to perform multiple assessments, it is true that the level of effort will be greatest when first assessing each control risk. Once the various controls have been assessed, the auditor would only need to consider the impact of changes in the nature of the acttivities, the results of the previous year's audit, and so on, as opposed to repeating the entire exercise from scratch.

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The Planning Templates contains a Control Risk Assessment Form that can be used to assess control risk.

6.7.8 Step 8 – Determine mix of tests of internal controls, analytical procedures and substantive tests of details

6.7.8.1 Introduction

Financial audit procedures are usually broken down between tests of internal control and substantive tests supplemented with compliance with authority tests.

Tests of internal control are used to gain assurance that specific controls within the entity's internal control structure are operating effectively, and are therefore helping to reduce the chance of material error existing in the accounting information.

Substantive tests are procedures used to gain direct assurance as to the completeness and accuracy of the data produced by the accounting systems. They are often broken down between analytical procedures and substantive tests of details.

Audit procedures that provide both assurance with respect to internal controls and substantive assurance are often referred to as "dual purpose" tests.
Compliance with authority procedures are used to determine whether staff has fulfilled the administrative requirements of all applicable rules, regulations and legislation.

6.7.8.2 Tests of internal control

Tests of internal control include:

- Inquiries of appropriate entity personnel;
- Observation of policies and procedures in use;
- Walk-through procedures; and
- Selecting a sample of transactions and verifying that the appropriate control procedures were followed.

The first three procedures are the same as were used to update the understanding of the internal control structure. The work done at that stage will have already provided some assurance with respect to the internal control structure.

With respect to sampling, if the auditor wishes to place high reliance on a specific internal control, it is normally necessary to test the control throughout the entire year. If, on the other hand, the auditor only wishes to place moderate reliance on the control, it may be sufficient to select a sample of transactions to an interim date (say, the first 8 months of the year), and then to use inquiries, observations and walk-through procedures to ensure that there have been no changes made to the internal control structure between the interim date and the year-end date.

If the auditor only wishes to obtain limited reliance on a particular internal control, then sampling is often not required at all –inquiries, observations and walk-through procedures may provide all of the required assurance.

GAAS do not permit the auditor to obtain all of his/her assurance through tests of internal control – some substantive testing must always be performed. This is because the ability of the internal control structure to prevent or detect material error is subject to practical limitations, such as:

- Members of management may be in a position to override specific internal controls.
- Collusion can circumvent internal controls that depend on good segregation of duties to be effective.
- Inexperienced entity officials may not perform their control procedures properly. There is always a possibility of human error.
- Internal controls are often designed to address transactions arising from the normal course of the entity's activities. They may not cover transactions of an unusual nature, or arising from new activities.
- Management may not be prepared to devote the resources that would be required to prevent or detect all errors. Rather, management normally requires that the internal controls be cost-effective. This means that the benefits of having the controls must exceed their costs.

6.7.8.3 Analytical procedures

Analytical procedures are techniques used by the auditor to:

- Form expectations as to what the recorded amounts should be by studying the relationships among elements of financial and non-financial information;
- Compare those expectations with the recorded amounts; and,
- Draw conclusions about entity operations, inherent risk and control risk, and the completeness and accuracy of the recorded amount.

Analytical procedures are an efficient and effective way to obtain audit assurance. As a result, they should be performed on every audit.

Analytical procedures may be used in all phases of the audit to achieve various objectives, for example:

Planning phase:

- To obtain knowledge of the entity's business operations;
- To identify unusual items and explore areas of potential high inherent risk; and
- To obtain some degree of audit assurance.

Fieldwork phase:

- To obtain the planned degree of audit assurance.

Evaluation phase:

- To assess the internal consistency and overall reasonableness of the financial statements using the auditor's knowledge of the entity; and
- To obtain some degree of audit assurance.

The auditor can derive various levels of assurance from analytical procedures depending on how rigorously the analytical procedures are designed and performed.

There are several different types of analytical procedures, as follows:

- General reviews for reasonableness.
- Comparative analysis.
- Predictive analysis.
- Statistical analysis.
- Overall verification procedures.

The Planning Templates contains an Analytical Procedures Assessment Form that can be used to assess the amount of assurance that the auditor can derive from the different categories of analytical procedures.

6.7.8.3 Substantive tests of details

Substantive tests of details include such procedures as physically inspecting an asset, checking transactions recorded in the books and records to supporting documentation, and confirming amounts with third parties.

The auditor usually tests a sample of transactions as opposed to verifying 100% of them.

Substantive tests of details can involve more than sampling. There are often specific transactions and events that the auditor wants to examine. These could be:

- Very large transactions and events; or
- High risk transactions and events.

These transactions and events are often referred to as "individually significant transactions and events". They are often audited 100% because they are large enough that, should they be in error, the error could be significant. The auditor therefore does not want to risk failing to find an error in these transactions or events.

Auditors often audit 100% of the individually significant transactions and events, and audit a sample of the remaining transactions.

6.7.8.4 Compliance with authority tests

The first step for the auditor is to work with entity management to identify the rules and regulations that apply to the entity. Of these, the auditor will determine which authorities are most significant and will design tests to check compliance.

6.7.8.5 The audit risk model

The audit risk model is a useful way to tie together all of the various sources of audit assurance.

The basic theory behind the audit risk model is that, for errors adding up to more than materiality to remain in the accounts at the end of the audit (audit risk - AR), all of the following must have happened:

- The errors must have occurred in first place (inherent risk - IR);
- The internal controls must have failed to prevent or detect the errors (control risk - CR); and
- The auditor's substantive procedures (analytical procedures and substantive tests of details) must have failed to detect the errors (detection risk - DR).

Basic probability theory states that, if two events are mutually exclusive (the occurrence of one is not affected by the occurrence or non-occurrence of the other), then the probability of both events occurring is the probability of the first event occurring times the probability of the second event occurring.

All of the events in paragraph, as defined, are mutually exclusive, and all must occur before errors adding up to more than materiality remains in the accounts at the end of the audit. We therefore have the following formula:

AR = IR x CR x DR; where:
AR = Audit risk;
IR = Inherent risk;
CR = Control risk (achieved); and
DR = Detection risk.

The reason for qualifying the control risk as being "achieved" is because the auditor needs to validate his/her control assurance. What goes in the risk model is the converse of the achieved assurance.

The audit risk model is often expanded upon to split detection risk (DR) into two parts. This is done for two reasons:

1. Analytical procedures are often effective and efficient at obtaining audit assurance. As a result, they should normally be performed on every audit. The assurance to be achieved from these procedures needs to be reflected in the risk model;

2. The auditor often performs more than one substantive test of detail to obtain the required assurance with respect to each specific financial audit objective and related compliance with authority objective. To link the risk model to the confidence level to be used for one key substantive test of details, these other substantive tests of details need to be considered separately.

It is done as follows:
AR = IR x CR x DR
= IR x CR x OSPR x STDR; where:
AR = Audit risk;
IR = Inherent risk;
CR = Control risk (achieved);

OSPR = Other substantive procedures risk, being the risk that the auditor's analytical procedures, and all substantive tests of details expect one key substantive test of details, will fail to detect material error; and

STDR = Substantive test of details risk, being the risk that one key substantive test of details will fail to detect material error.

The reason for splitting out one key substantive test of details in this manner is that the formula can be rearranged as follows:

$$STDR = \frac{AR}{IR \times CR \times OSPR}.$$

The resulting STDR is the converse of the confidence level that the auditor will use for his/her substantive sample. For example, if STDR is determined to be 15%, the auditor will use an 85% confidence level for his/her sampling procedures.

6.7.8.5 Considering the assurance achievable from each audit step

Auditors are not required to develop the detailed audit programs during the Planning Phase. However, the auditor should give some consideration to the types of procedures, and the assurance that can be derived from each procedure, in order to make a reasonable determination of the optimum combination of sources of audit assurance.

The amount of assurance that can be derived from each procedure depends on the nature of the test and the evidence that will be collected. The auditor should have a sound understanding of:

- The nature of evidence;
- What constitutes appropriate quality and quantity of evidence; and
- The most appropriate methods of collecting evidence.

6.7.9 Documenting strategic planning decisions

6.7.9.1 The need to document planning decisions

The auditor's documentation, in the form of audit files, is collectively referred to as the "working papers".

Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.

It should be noted that the documentation of the audit planning phase should not wait until the detailed planning steps are complete. The work done in each step of the audit planning phase should be fully documented as soon as the work has been completed.

AUDIT PLANNING TEMPLATES

DESCRIPTION	REFERENCE
Business Profiling	IAP-01
Business Plans and Outlook	IAP-02
Internal and External Factors that can affect Business	IAP-03
Internal And External Oversight Institutions/Department	IAP-04
List of Auditable Locations	IAP-05
List of Bank Accounts	IAP-06
List of Authorized Signatories	IAP-07
Accounting System and Accounting Records	IAP-08
Significant Audit Areas	IAP-09
Significant Accounting Policies	IAP-10
Points Brought Forward from Previous Audit	IAP-11
Audit Planning Memorandum	IAP-12
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Materiality Assessment Form	IAP-16
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Internal Control Questionnaire	IAP-18
Control Risk Assessment Form	IAP-19
Analytical Procedures Assessment Form	IAP-20
Sources of Audit Assurance Form	IAP-21
List of Applicable Laws and Regulations	IAP-22
High Value Items Selection Form	IAP-23
Key Items Selection Form	IAP-24
Points for Attention at Next Audit	IAP-25
Audit Planning Checklist	IAP-26

IAP-01

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
BUSINESS PROFILING

1. Principal Address:
2. Status of the Entity:
3. Principal Activity:
4. Major Services:
5. District Coverage:
6. Major Beneficiaries:
7. Funding from Government:
8. Donor /Funding agencies:

   (Material covenants of funding agreement, Funding Allocated, Outcomes, deliverables, and project timeframe)

GUIDANCE

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

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
BUSINESS PLANS AND OUTLOOK

Strategic business plan:

Annual budget:

Analysis and review of financial statements:

Major cost centres:
(employees related costs/zakat distributions/other types, etc.)

Main reports, frequency and authorities:

Important information and statistics:
(organogram/organizational structure, total number of schools, circle-wise clustering of schools, total number of students etc.)

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

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANING BUSINESS
INTERNAL AND EXTERNAL FACTORS THAT CAN AFFECT BUSINESS

Factors impacting job market (PVTC strategy):
(market based training are being imparted to the beneficiaries by the PVTC)

Training need assessment:
(Individual appetite, market need and trainings available)

Sustanability and future funding commitments:

Institutional certifications as certified trainer:

GUIDANCE

The auditor's objective is to obtain sufficient appropriate audit evidence to provide reasonable assurance that financial statement items affected by external matters outside control of management such as the economy that can affect the business are fairly presented within the context of the financial statement taken as a whole. To do so, the auditor will need to understand the external factors that could affect the audited entity's financial position. The auditor should list external factors that may have an impact on the performance of the operational activities of an auditee. The auditor should use professional judgment to decide what these factors are. They may include:

- Economic trends and conditions affecting input costs.
- Variation in budgets.
- Timing of project completion and carry over into subsequent financial years.
- Local interventions or events that might have an impact on project progress.
- General financial indicators and trends

PUNJAB VOCATIONAL TRAINING COUNCIL
INTERNAL AUDIT DEPARTMENT
INTERNAL AND EXTERNAL OVERSIGHT INSTITUTIONS/DEPARTMENT

PVTC Council
(Minutes of Council to Be Reviewed)

BAC
(Minutes of BAC)

Regulator
(Directions and Observations from Govt. of Punjab and Other Regulatory Agencies).

External Audit
(Audit Reports and Management Letters)

Internal Audit
(Outstanding Observation Matrix May Be Referred.)

GUIDANCE
All those material directions/observations impacting the affairs of PVTC may be tabulated and accounted for by IAD.

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
LIST OF AUDITABLE LOCATIONS

1. Main Accounting Office
2. Regional Offices
3. Area Offices
4. VTI's

GUIDANCE

The auditor should list all locations that collect, records, process and report financial information of PVTC.

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
LIST OF BANK ACCOUNTS

1. Head Office
2. Regional Offices
3. Area Offices
4. VTI's

GUIDANCE

The auditor should list all the names, addresses, and account numbers of all bank accounts maintained and operated by PVTC.

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
LIST OF AUTHORIZED SIGNATORIES

Financial Power

1. Head Office
2. Regional Offices
3. Area Offices
4. VTI's

GUIDANCE

The auditor should list all the names of personnel, who are authorized to approve, certify and authorize collection, processing and reporting of financial information.

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
ACCOUNTING SYSTEM AND ACCOUNTING RECORDS

1. Head Office
2. Regional Offices
3. Area Offices
4. VTI's

GUIDANCE

The auditor should the accounting records maintained for collection, recording, processing and processing of accounting information. Append a description of the system and related Accounts and Financial Authorities and their functions and responsibilities.

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
SIGNIFICANT AUDIT AREAS

Significant Financial Statement Components	Critical Audit Areas Y/N
• Property and equipment • Income receivable • Advances • Prepayments • Interest accrued • Taxation • Investments • Cash and Bank balances • Trade and other payable • Loans • PVTC Fund • Grant for establishment/ rehabilitation of VTI's • Salaries, wages and Other benefits • Printing and Stationery • Utilities • Insurance • Repair and Maintenance • Laboratory Consumables and • Petroleum, Oil and Lubricants • Others	

GUIDANCE

The auditor should list critical audit areas/ significant financial statement components (including individual significant transactions and events) and their impact on the financial statement of the PVTC. For each identified significant component, the auditor can then plan the audit for specific financial audit objectives.

The list of significant component given above is for illustrative purposes only. The list should be updated to reflect the actual components to be used on any given audit.

PUNJAB VOCATIONAL TRAINING COUNCIL
UNDERSTANDING BUSINESS
SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition:

Accounting for liabilities and commitments:

Accounting for Government Grants:

Fixed Assets – Valuation and Depreciation:

Investments and Interest Receivable:

Loan and Interest Payable:

Others:

GUIDANCE
The auditor should list significant accounting policies and changes thereto.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
POINTS BROUGT FOWARD FROM PREVIOUS AUDIT

Point No.	Details	Report Reference	Subsequent Position (Action/ Clearance)

Guidance

The purpose of this template is to highlight matters that should be taken into account when planning the following year's audit. The auditors should record expected development in the PVTC activities that may require changes in the audit planning, such as:

- Changes in the PVTC structure, particularly those affect the accounting process;
- Changes made in the control environment and systems, such as changes to reflect new accounting model and installation of new computer information system applications;
- Changes in the accounting policies; and
- Changes to reporting requirements.

This template can also be used to document practical suggestions for changes to the next year's audit. All audit staff are encouraged to suggest improvements in the audit plan and procedures. Suggestions might refer to:

- Sources of audit assurance;
- Specific audit procedures;
- Specific documents to examine or the sources of specific documents;
- Changes in audit timetable; and
- Work that PVTC's accounting personnel could perform but would help the audit team and reduce the audit time.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
AUDIT PLANNING MEMORANDUM

The audit team is required to prepare and file in the Planning File a Planning Memorandum. The audit planning memorandum should comprise a concise easy to understand summary of important factors and decisions made during the general detailed planning phases. Emphasis should be placed on changes that have been made to the previous year's plans.

The audit planning memorandum should not duplicate all of the details set out elsewhere in the planning file, the permanent file or in the audit programs.

The brief description of the general contents of the audit planning memorandum is set out below for information purposes.

Background Information

This includes changes to the nature of the PVTC's business that are especially important to the audit. These could include a summary of major changes to:

- The nature of PVTC business (its mandate, its significant revenues and expenditures etc.);
- The structure of the PVTC (additions of divisions, etc);
- The accounting followed; and
- The internal control structure, computer systems, etc.

Audit Strategy

This summarises key planning decisions, emphasising changes made to the previous year's assessments, approaches, etc.. Key decisions to be included would normally include

- Overall audit objective and audit scope;
- Materiality, planned precision and audit risk;
- Whether inherent risk that has generally been assessed high, medium or low;
- Significant changes to the nature, timing and extent of the audit procedures, such as:
    - ✓ Changes in the general amount of assurance from analytical procedures;
    - ✓ Changes in the sampling approach for either test of controls or substantive tests;
    - ✓ Changes in the nature or extent of the work to be performed at an interim date; and
    - ✓ Changes in the work being performed to satisfy the related compliance with authority objectives.

Administration

Provide a general timetable and overall budget with any significant changes made to the timetable and budget from the previous year.

Memorandum on Post-Planning Changes

As the execution and compliance phases of the audit proceeds, it may be necessary to amend the planned scope of the audit work. This may result from gaining a better understanding of the business activities, from

unexpected external development or from determining a better mean of achieving the audit objectives as the audit progresses.

Should the change in the planned scope be relatively minor, such as one that requires the addition of only or two audit procedures to an existing audit program, the auditor should be able to make the change without needing to go through a formal approval process. If, however, the matter is more significant, such as one that calls for the development of new audit programs or a re-consideration of the sources of audit assurance, the auditor should discuss the situation with his/her supervisor. The auditor should then prepare an addendum to the audit planning memorandum. This addendum should follow the same review and approval process as is used for the audit planning memorandum itself.

In addition, if the matter requires the auditor to pursue an area of investigation substantially outside of the initial audit scope, it would be appropriate to brief officials on the change of scope.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
IMPORTANT DATES

Task	Planned Date	Actual Date	Comments
Start Planning			
Complete Planning			
Start Interim Audit			
Complete Interim Audit			
Start Final Audit			
Complete Final Audit			
Issue Audit Opinion			
Issue First Draft of Audit Report			
Issue Final Audit Report			
Issue First Draft of Memorandum of Observations			
Issue Final Memorandum of Observations			

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
TIME BUDGET

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
INFORMATION REQUESTED FROM OFFICIALS

Information Requested	Date Required	Date Received
Financial Statements:		
1.		
2.		
Lead Schedules:		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
List of Specific Transactions:		
11.		
12.		
13.		
14.		
15.		
Reconciliations:		
16.		
17.		
18.		
19.		

20.		
Analytical Procedures and Other Analysis		
21.		
22.		
23.		
24.		
25.		

Guidance

It is management's job to ensure that the financial statements, and the supporting books and records, are complete and accurate. To do so, management should be preparing its own analyses of the account balances, reconciling accounts, preparing lists of specific assets and liabilities making up various account balances, checking the year-end cut-off, doing searches for unrecorded transactions, etc.

As part of this work, it will not be unusual for entities to issue formal year-end instructions to their own personnel.

1. Review the Entity Instructions that entity officials have prepared;
2. Identify additional information that could reduce the auditor's own audit effort and that it would be reasonable to expect entity officials to complete;
3. Prepare a list of this additional information; and
4. Submit it to entity officials.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
MATERIALITY ASSESSMENT FORM

Applicable	Factor	Base Amount	Percentage	Materiality Amount (Base Amount *Percentage)
	Percentage of total expenditure (usual range is 2%)			
	Percentage of total revenue (usual range is 2%)			
	Percentage of pre-tax income (usual range is 10%)			
	Percentage of Council fund (1% is usually suggested)			
	Percentage of assets (0.5% often suggested)			
	Other Information (base amount) (please specify)			

Note: Materiality amount to be used (select the lowest amount from the Materiality Amount column above)

Guidance

This form is to assist the auditor in determining an appropriate materiality level for the audit.

The following points needs to be noted:

1. The auditor first notes which factor s are applicable to the PVTC. This would be done by identifying :
   a. The probable users of the financial statements; and
   b. The information (base amounts) in the financial statements that are epected to be the most important to each of the users (e.g. total expenditure, income).

   The auditor identifies factors that are applicable then inserts “x” in the first column besides the factor.
2. For each applicable factor, the auditor determines the highest percentage by which each of the applicable base amounts could be misused without being material. This amount is inserted in the “Percentage” column.
3. The auditor then multiples the estimate of the base amount by the appropriate percentage and inserts the results in the “Materiality Amount” column.
4. In the event that more than one base amount could be applicable, the auditor would then need to determine an overall amount. This is normally the lowest of the materiality amount as determined for each of the applicable factors.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
INHERENT RISK ASSESSMENT FORM

Factor	High	Medium	Low
1. The nature of the component. • Susceptibility to loss • Susceptibility to fraud			
2. The extent to which the item making up the component are similar in size and nature. • Consider: The more homogeneous the components, the lower the risk.			
3. The volume of activity. • Consider: If a lot of transactions are being processed, the chances of an error occurred may be higher than if only a few transactions are being processed.			
4. Capability of staff processing the transactions. • Consider: If the staff is experienced and take their jobs seriously, there is probable lower inherent risk than if the staff are inexperienced or careless.			
5. The number of location. • Consider: Entities operating out of a single location with centralized accounting system may have a lower inherent risk than those operating out of many locations, each with own accounting system.			
6. The accounting policies being used. • Consider: Many components have a lower risk of error when the cash basis of accounting is being used than when accrual basis of accounting is being used.			

Note: Inherent risk assessment for listed components, specific financial objectives and related compliance with authority objectives.

Guidance

1. Inherent risk should be used for each financial audit objective and each related compliance with authority objective for each component.
2. Inherent risk is assessed in a hypothetical environment that assumes that there are no internal controls in place.

3. The form calls for the auditor to assess various factors as “high”, “medium” or “low” risk. After all the factor are assessed, the auditor determines, using his/ her professional judgement, the inherent risk for the specific financial audit objective or related compliance with authority objective being considered. In this respect the normal guidelines are as follows:
    a. High Inherent Risk 60%
    b. Moderate Inherent Risk 50%
    c. Low Inherent Risk 40%
4. The assessment for each specific financial audit objective or related compliance with authority objective is not necessarily an average of the assessment for each of the factors listed in the form. For the specific financial audit objective or related compliance with authority objective being considered, one of the factors may be much more significant than the other.
5. While an assessment needs to be made for specific financial audit objective or related compliance with authority objective for each component, the form is designed to permit auditor to list more than one specific financial audit objective. This is because the auditor’s assessments of the various factors will likely be the same for several different objectives and components.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
INTERNAL CONTROL QUESTIONNAIRE

Check in box: Yes: ✓ No: **X** NA: **NA**

Q.	Controls	Yes/No/ NA	Done By[1]:	WP Ref[2].
A	**Control Consciousness** 1. Is strategic business plan developed for PVTC? 2. Is the annual budget prepared for PVTC? 3. Are budget revision approved by an authorized person before being entered into the accounting system? 4. Are Budget reports distributed among the department as a management tool? 5. Are there any follow up reviews in place of monthly and annual budget flexed to the activity levels achieved? 6. Does the management take prompt action to address budget variances? 7. Is there clear management accountability for the establishment and maintenance of appropriate and sufficient internal controls? 8. Do employees have a clear understanding of their responsibilities and authorities? 9. Is there an atmosphere of commitment and responsibility (ensuring that tasks are completed on time, low levels of errors and mistakes, flexible allocation of tasks, low absenteeism)? 10. Are the controls being applied at all times? 11. (Throughout the year, during staff shortages, for all situations / transactions) 12. Are here clear procedures and directives and are there management procedures to ensure that they are complied with such as: a) Communication of what is acceptable / unacceptable behaviour; b) Employee evaluations that provide feedback on their performance; and c) Promotions and other rewards consistent with employee performance? (By verbal enquiry and observation conclude on breadth and depth of the controls in place and evaluate the overall level of control consciousness)			

[1] The name/initials of the auditor who undertook the work
[2] Cross referenced to the working papers that contain the details on which the auditor has formed an opinion about the controls.

B	**Organisation** 1. Is the organisation of the entity clearly defined in terms of: a) Functions and delegated authority? b) Responsibility for decision making? c) Responsibility for establishing responsibilities? d) Segregation of duties? e) Rotation of officers in key control positions? f) Limitations on authority? 2. In particular, are the following operating functions performed independently of one another within the entity: a) Accounts and internal audit? b) Recording of receipts and collection of money? c) Approval/authorisation and issue of payment? d) Recording of expenditure and issue of payment? e) Recording and safeguarding of assets? 3. Are segregation of duties maintained during staff absence (By verbal enquiry and observation check that the above functions are actually performed independently). 4. Does the entity have a current organisation chart? 5. Does the entity maintain current job descriptions?			
C	**Competence of personnel** 1. Are the job openings advertised widely to attract the highly qualified applicants? 2. Is the selection process designed to hire the best candidates for the position? 3. Is the recruitment based on the pre-approved organization chart? 4. Does the procedures for selecting staff ensures that staff selected for positions in the following key control areas are competent: a) Accounting; b) IT systems; c) Other areas responsible for internal controls, and d) Management e) Audit f) Planning and Evaluation. 5. Do staffs in the different areas get adequate trainings? 6. Is the compensation packages designed to attract and retain qualified staff 7. Does staff in the following areas have a clear understanding of the work and their responsibilities 8. Procedures for assessing staff and providing feedback and rewarding good performance. 9. Are surveys made to periodically to benchmark compensation?			

D	**Management policy and operating style** 1. Are policies and procedures clearly written and communicated throughout applicable areas within the organisation? 2. Is there adequate computer information system documentation to? a) Determine the extent of computerisation in the entity. b) Understand the computer information system. c) Identify key controls in the computer information system {Segregation of duties (inputs, programming, data processing and storage) / Physical access to terminals, hardware, etc. / Access to files, data, etc. (via password controls, for example)}. (Obtain a copy of the computer information system documentation and to determine whether it contains the information noted above) 3. Do the Head of Entity meet frequently to? a) Update control policies and procedures. b) Review entity's performance. c) Take appropriate action on performance reviews. (Note the frequency of such meetings under each of the above activities and enquire about timeliness of these meetings.) 4. Are the minutes of such meetings prepared and signed on a timely basis? (Read minutes of meetings and make extracts of matters affecting presentation of financial information and other matters concerning operational activities, financial statements and budgets) 5. Does Chairman of PVTC maintain adequate control over the day-to-day financial operations by? a) Preparing budgets and financial statements on timely basis. b) Reviewing the results on a monthly basis and analysing significant fluctuations. (Enquire and discuss control procedures that are followed in the preparation and analysis of budgets and financial statements with the Head of Entity and determine whether the budgets and financial statements contain any information or unusual and abnormal fluctuations that would affect our audit.) 6. Does the Chairman set performance indicators and benchmarks for planned performance? (Assess completeness of indicators/benchmarks by ensuring that all significant financial components, physical targets and reporting dates have been identified.) 7. Has the Head of Entity established planning and reporting systems that set forth the entity's plan and the results of actual performance? 8. Does the planning and reporting system in place? a) Adequately identify variations from planned performance on a timely basis.			

	b) Adequately communicate breaches from and weaknesses in the control system to the Head of Entity. (Review changes in key performance indicators and enquire about significant fluctuations and their impact on yearly financial statements and review the reports on breaches and weaknesses and consider the impact of the findings on the scope of audit examination.) 9. Does the Head of Entity? a) Adequately investigate variances on a timely basis. b) Take appropriate and timely corrective action. (Review significant variances in monthly reports/financial statements and evaluate the actions taken.) 10. Does the entity have established policies for developing and modifying accounting systems and control procedures? (Review the policy document and assess whether the policies are adequate and consistent with the delegation of financial powers rules, and update the information base in the permanent file.)			
E	**Management override:** 1. Are there potential dangers of management override that render controls inoperative? 2. Are there systems that record any situation where management override occurs? (Evaluate the risk of management override that could occur without detection.)			
F	**Reporting** 1. Are adequate management reports? a) Prepared regularly b) On a timely basis c) Distributed to the appropriate management d) In appropriate level of detail for the different levels of management e) Using proper cut-off procedures; and f) Reconciled to the accounting records. 2. Are management reports used to monitor financial and operational performance and check on the reliability of financial data through? a) Comparison with targets (budgets and operational goals); and b) Follow up on variation reports and unusual items. 3. Are actions taken in response to financial and performance reports?			
G	**Protection of assets and records:** 1. Is there adequate physical security over?			

	a) Cash; b) Valuable documents (cheques / securities / contracts), and c) Assets. 2. Are there adequate methods to prevent unauthorised access to? a) Records (accounting records / employee files / tax records / confidential commercial information). b) Computer terminals, and c) Software controls and routines. 3. Is there adequate physical protection of? a) Manual records. b) Computer hardware and systems, and c) Computer back up records. 4. Is there a written disaster recovery plan? 5. Is there a records retention policy? 6. Are key documents properly maintained? (Record of decision / minutes of meetings / supporting analysis for management decisions)?			
H	**Finance Function:** 1. Internal Controls and segregation of duties- General Ledger 2. All the financial transactions will be recorded in the computerized GL that includes Data Entry, Posting/ Verification, Editing and system administration. 3. Are all financial transactions promptly entered into software? 4. Are the source documents maintained to provide audit trails? 5. Is there record retention policy that satisfies statutory and audit requirements? 6. Have the accounting records been audited in last five Years. 7. Are journal entries approved, including a review of supporting documents. 8. Data Integrity and Security. 9. Defining date and authority of monthly closing. 10. Check that Transactions are approved as per Authority Matrix. 11. Does the employee responsible for reconciling accounts also perform any of the following functions: • Initiate transactions • Authorize transactions • Record transactions • Reconcile transactions to the GL Is there a formal plan of organization under which responsibilities for closing the GL and financial statement worksheets are clearly defined?			

I	**Investment Function:** 1. Whether the rules and regulations governing the company permit for investment by the PVTC? 2. Are there any restrictions or limitations or any such investments? 3. Do the flow chart exists that documents investment processing and identify control procedure? 4. Does investment income earned get recorded on timely basis? 5. Are investment guidelines formally established and periodically reviewed? 6. Have a committee been formed of relevant people to make the investment decision? 7. Are investment certificates and interest coupons are properly safeguarded? 8. Are securities released from the vault only upon authorization and only to authorize personal of investment only? 9. Does Vault have two custodians or not?			
J	**Procurement Function:** 1. Ensure that procurement of goods and services are authorized in the budget by the PVTC Board. 2. Procurement requests raised and duly approved as per delegation of authority. 3. Procurement Policy exists to ensure that goods and services are procured on competitively at an arm length basis. 4. Payable to vendor/ payment is appropriately recorded. 5. Were demands for stores received from different wings/units clubbed together so as to reap the benefits of bulk buying? 6. Was cost benefit analysis done to establish justification for procurement? 7. Are Goods and services inspected upon delivery for conformance with purchase order?			
K	**Internal audit function:** 1. Does the entity have an internal audit function? 2. Does the internal audit function have an audit manual that describes objectives, procedures and guidelines for the conduct of internal audit at the federal, provincial and district levels? 3. Are the internal auditors independent of the activities they audit? 4. Do the internal auditors report directly to the Head of Entity or any other senior officer not directly involved in the day-to-day management activities? (Obtain a copy of the internal audit manual and assess its relevancy, usefulness, and comprehensiveness. Obtain an organisational chart of			

	the internal audit functions and conclude as to whether it ensures independence of the internal audit function.) 5. Is the internal audit functions adequately staffed in terms of: a) Number of employees? b) Training? c) Experience? (Obtain a list of the current internal audit staff. For several key employees, obtain a summary of their employment history and the training that they have had over the previous 3 years.) 6. Obtain and review a few of the internal audit working papers and audit reports. (Based on the above procedures, conclude as to the adequacy of the training and experience.) 7. Do the internal auditors review and document the internal control structure and perform tests of controls? 8. If yes, review the internal audit file and obtain a copy of the document describing control structure and the nature, extent and timing of the audit testing. Assess the extent to which reliance can be placed on the work performed. 9. Do the internal auditors perform substantive tests of the transactions and account balances? (If the answer is "Yes" review the internal audit file and consider the nature, extent and timing of the audit work performed. Assess the extent to which reliance can be placed on the work performed.) 10. Do the internal auditors render written reports on their findings and conclusions? 11. Does Head of Entity take adequate and timely actions to correct conditions reported by the internal audit function? (Review management's response to the recommendations made by the internal auditors and the actions taken.) 12. Does the internal audit function follow up on corrective actions taken by management? (Review the internal auditor's assessment of the corrective actions taken, and consider the impact on the nature, extent and timing of our audit tests and procedures.)			

Note:

For all **X** must provide explanations/elaboration/implications

For all ✓ Working Papers should show what tests, data and analysis led the auditor to be satisfied that controls were satisfactory

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
CONTROL RISK ASSESSMENT FORM

Factor	High	Med.	Low
Control Environment: A. Control consciousness. B. Organization. C. Competence of personnel. D. Management policy and operating style. E. Management override. F. Reporting. G. Protection of Assets. H. Finance function I. Investment function. J. Procurement Function. K. Internal Audit Function.			

Control risk assessment for the entity as whole is	
Control risk is the converse of the amount of assurance that the auditor wishes to achieve from his/her tests of internal control. The amount cannot be lower than the actual control risk.	

Guidance

1. Control risk is assessed for each audit objective for each component.
2. The form calls for the auditor to assess various factors as "high", "moderate" or "low" risk. After all of the factors are assessed, the auditor determines, using his/her professional judgment, the control risk for the audit objective being considered. In this respect, the normal guidelines are as follows:

   - High control risk 80%
   - Moderate control risk 50%

- Low control risk 20%

3. The assessment for each audit objective is not necessarily an average of the assessments for each of the factors listed on the form. One of the factors may be much more significant than the other factors.
4. The internal control questionnaires (ICQs) are completed at the planning stage to assist in the determination of control risk. The extent to which they would need to be completed is a matter of professional judgement. If the control environment and the control systems have not changed since the previous year, and if the auditor has tested these systems in the previous year, then the auditor may be able to assess control risk without completing the ICQs at the planning stage. If, on the other hand, there have been significant changes to the control environment and the control systems, then the auditor may need to complete the ICQs at the planning stage.
5. Once the auditor assesses control risk for each audit objective for each component, he/she needs to consider whether it would be cost-effective to rely on the internal controls. The auditor records, on the last row of the form, the converse of the amount of assurance that he/she wishes to obtain from the internal control structure.
6. While an assessment needs to be made for each specific audit objective for each component, the form permits the auditor to list more than one audit objective, and component on each form. This is because the auditor's assessments of the various factors will likely be the same for several different objectives and components.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
ANALYTICAL PROCEDURES ASSURANCE FORM

Component(s)		
Audit Objectives (s)		
Circle Procedure Type	CA PA SA OVP CA = Comparative Analysis PA = Predictive Analysis SA = Statistical Analysis OVP = Overall Verification Procedure	
Describe Procedure: (e.g. compare components value with previous year)		
Describe expected results: (e.g. this year = last year +/- 10%		

Guidance

This form is to guide the auditors in assessing the amount of assurance that can be obtained from applying a particular analytical procedure. The following points should be noted when completing the worksheet:

1. The amount of assurance needs to be assessed for each financial audit objective and each related compliance with authority objective for each component.
2. The auditor first notes the category of analytical procedure that he/ she intend to use – comparative analysis, predictive analysis, etc.
   For example, if the auditor intends to use comparative analysis, the auditor should circle the "CA" at the top of the form and complete the rest of the rows in the rows in that column.
3. After all the factors are evaluated, the auditor determines, using his/ her professional judgement, the amounts of assurance to be obtained for the specific financial audit objective or related compliance with authority objective being considered.
4. The assessment for each audit objective not necessarily an average of the assessments for each of the factors listed on the form. For the specific financial audit objective or related compliance with authority objective being considered, one of the factors may be much more significant than the other factors. For example, if the relationship is not considered plausible, then no assurance is warranted from the analytical procedures.

5. This form permits the auditor to list more than one audit objective, and component on each form. This is because the auditor's assessments of the various factors will likely be the same for several different objectives and components.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
SOURCES OF AUDIT ASSURANCE FORM

Risk Category	Applicable Risk Factor
Inherent Risk (IR) (from Inherent Risk Form)	
Control Risk (CR) (from Control Risk Form)	
Other Substantive Procedures Risk (OSPR) (based on Analytical Procedures Assurance Form)	
Resulting Substantive Tests of Details Risks	

Audit Risk (AR) (from Audit Risk Assessment Form)	

IR*CR*OSPR*STDR (Should be equal to AR)	

Guidance

This from is to guide the auditor in determining the sources of the audit assurance to be used for each audit objective for each component.

The following points should be noted:

1. The amounts to be inserted for Audit Risk (AR) should be the amount determined from the Audit Risk Assessment Form. The same risk is used all for components and all audit objectives.
2. The amounts to be inserted for Inherent Risk (IR) should be the amount determined from the Audit Risk Assessment Form.
3. The amounts to be inserted for Control Risk (CR) should be the amount determined from the Audit Risk Assessment Form.
4. The amounts to be inserted for Other Substantive Procedures Risk (OSPR) should be the amount determined from the Analytical Procedures Assurance Form.
5. The amounts to be inserted for Substantive Tests of Detailed Risk (STDR) should calculated using the following formula.

   STDR = AR/ (IR*CR*OSPR)
6. The auditor should review the results and amend the risks if he/ she believes that the sources of assurance, as determined above, are not the most cost effective for the audit objective being considered

e.g., the resulting STDR determined in point no.5 may be very high and the auditor may have determined that reliance on internal controls for the specific financial audit objective or related compliance with authority objective being considered is not as cost effective as substantive test of details. The auditor may then decide to increase control risk and decrease STDR for specific objective being considered.

6. While the assessment in Points 1 to 5 will have been made for each audit objective for each component, the form permits the auditor to list more than one audit objective, and component on each form. This is because the auditor's assessments of the various factors will likely be the same for several different objectives and components.

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
LIST OF APPLICABLE LAWS AND REGULATIONS

Law/ Regulations	Reference to General Compliance Checklist

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
HIGH VALUE ITEMS SELECTION FORM

List Items meeting Selection Criteria	Working Paper Reference
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	

Guidance

The auditor should determine on what basis an individual item will be considered to have a "high value". Then the auditor should select the items meeting the chosen criteria.

- Items over a selected value (high value) Rs._____
- Items exceeding selected percentage of population value (state percentage) _____%
- Others describe _____

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
KEY ITEMS SELECTION FORM

List Items meeting Selection Criteria	Working Paper Reference
11. 12. 13. 14. 15. 16. 17. 18. 19. 20.	

Guidance

The auditor should review the trail balance and financial statements to identify key items for substantive tests of details.

- Unusual or non-recurring transaction identified by management.
- Items with negative value (e,g, assets accounts with negative values, liabilities accounts with debit values, etc.)
- Others describe _____

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
POINTS FOR ATTENTION AT NEXT AUDIT

Point No.	Narration	File Ref.	Subsequent Action/ Clearance

Guidance

The purpose of this schedule is to highlight matters that should be taken into account when planning the next year's audit. The auditors should expect development in the operational activities that may require changes in the audit planning, such as

- Changes in the organizational structure, particularly those that affect the accounting process;
- Change in control environment and control systems, such as changes to reflect new accounting model and installation of new computer application system application;
- Changes in accounting policies; and
- Changes in reporting requirements.

This schedule can also be used to document practical suggestions for changes to the next year's audit. All audit staff are encouraged to suggest improvements in the audit plan and procedures. Suggestions might relate to:

- Sources of audit assurance (e.g. increased or decrease reliance on internal controls);
- Specific audit procedures;
- Specific documents to examine or the sources of specific documents;
- Changes in audit timetable; and

PUNJAB VOCATIONAL TRAINING CENTER
AUDIT PLANNING TEMPLATES
AUDIT PLANNING CHECKLIST

Description	Yes/ No/ N/A	Working Paper Ref.
Information Gathering: 1. Have we obtained all the information required to plan the audit? 2. Have we reviewed the previous year's working papers files, with particular attention to: a. The points for attention for next audit? b. Unresolved audit observations from previous year's audit? c. Problems encountered during the previous year's audit? d. Other matters? 3. Have we performed an overall review for reasonableness on the most recent set of interim financial statements?		
Understanding of Business: 1. Has sufficient work been performed to update information base on PVTC: a. Strategic plans? b. The users of services? c. The legislative authorities affecting the operations? d. Organizational structure? e. Nature of activities? f. The size (e.g. total revenue and expenditure) g. Budget allocations h. The type of transactions and documents PVTC has? i. The accounting system in place? j. Accounting principles and procedures? 2. Have the planning file been updated to reflect the current understanding of the business and implication on our audit?		
Materiality: 1. Has the Materiality Assessment Form been completed?		
Audit Risk: 1. Has the Audit Risk Assessment Form been completed?		
Understanding of internal control structure: 1. Have we obtained a sufficient knowledge of the internal control structure to: a. Asses control risk?		

b. Determine the cost-effectiveness of relying on internal controls?		
Significant Components: 1. Have we considered all of the various grouping in the financial statements to ensure that: a. Our audit work will provide us with sufficient assurance with respect of all the amounts recorded in the financial statements? b. The grouping that we are using for the components result in the most cost-effective grouping to plan, perform and evaluate the audit risk? 2. Have we identified individually significant transactions and events that should be treated as separate components? 3. Have we considered related components and transaction cycles when considering sources of audit assurance? 4. Have we updated "Significant Financial Statement Components" portion of the "Understanding of Business"?		
Inherent Risk and Control Risk: 1. Has the Inherent Risk Assessment Form been completed for each of the significant components and for each of the specific financial audit objective and related compliance with authority objectives? 2. Has the Control Risk Assessment Form been completed for each of the significant components and for each of the specific financial audit objective and related compliance with authority objectives?		
Analytical Procedures: 1. Has the "Planning" portion of the Analytical Procedures checklist been completed? 2. Has the Analytical Procedures Assurance Form been completed?		
Sources of Assurance: 1. Have we considered the available sources of audit evidence relating to each specific financial audit objective and each related compliance with authority objectives? 2. Has the Sources of Assurance Form been completed for each specific financial audit objective and each related compliance with authority objectives? 3. If the sources of assurance includes tests of internal controls, have we: a. Identified and documented key controls on which we intend to rely? b. Documented the audit planning memorandum, specific instructions on the size of the samples required and sampling method to use? 4. If the sources of assurance include substantive tests of details does the audit planning memorandum include the specific instructions on the size of the samples required and sampling method to be used? 5. Does the audit plan aim to achieve the most efficient and effective sources		

of audit assurance?		
Audit Administration: 1. Have detailed staffing requirement been determined based on the audit approach and sources of the assurance to be used? 2. If specialists to be used, have they been contacted to confirm their role and availability? 3. Have an overall time budget been prepared and has the budget been allocated to the staff assigned to the work? 4. Have all the important dated been determined? 5. Has the request for information been submitted to the officials? 6. Have all the important dated been discussed with official s of the concerned departments to ensure that they produce all the required financial statements, lead schedule and other documents' at the time of the audit.		
Documentation: 1. Is the permanent file complete and update? 2. Have all required sections of the planning file been completed and properly approved? 3. Have the Internal Control Questionnaire (ICQ) been completed to the extent required in the audit? 4. Has the Audit Planning Memorandum been drafted, highlighting major planning considerations and decisions? 5. Have audit programs been prepared for all significant financial statement components? 6. Do the audit programs includes, for all significant components: a. Procedures designed to provide sufficient assurance with respect to all significant error conditions for each specific financial audit objective and each related compliance with authority objectives? b. Appropriate follow-up/bridging work when: • Substantive audit testing of assets and liability components is to be performed in advance of the year-end. • Key internal controls are to be tested at the interim visit?		

7. STAFFING POLICIES

Having good staff is the success of internal audit that is why particular emphasis is given to recruiting high calibre people and to training and developing them. The CIA should discuss and agree internal audit recruitment and training needs with the BAC/ Chairman.

The CIA is responsible for ensuring that the staff appointed to Internal Audit have the necessary background and personal attributes to work effectively in IAD and that they have or will be able to acquire, the knowledge and skills needed to carry out the work of IAD. In order to do this the CIA will need to be actively involved in the selection of audit staff.

The CIA must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Moreover, he has to make sure that

- The training requirements of internal audit are identified, co-ordinated and kept under review;
- Adequate training programmes are available for all internal audit staff, and
- Internal auditors do actually receive appropriate tuition and the practical experience necessary to enable them to carry out their work effectively.

7.1 Training Strategy and Plan

The training strategy should encompass all the training needs of Internal Audit and take account of any specific requirements arising from the annual work plans. In developing the training plan and strategy, the CIA will consider:

- The audit work strategy;
- The annual audit Plan;
- The outcome of current skills/staff development interviews;
- Gaps in current skills levels identified using the skills matrix;
- The individual objectives of each member of staff and their need for continuing professional development;
- Relevant legislation and internal standards;
- The training budget;
- Sources of training;
- The organisation‘s training strategy and
- Any project and specialist work to be undertaken.

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7.2 Establishing the Training Budget

Once the training need and potential sources of training are known, it is essential to relate them to the funds available. If the existing training budget is insufficient the CIA should prepare a case to support an appeal for additional funding, or at least re-evaluate the way in which the current budget is being spent.

Based on this training strategy the CIA will prepare an annual training plan. Its purpose is to ensure that staff receive the training and practical experience they need to enable them to carry out their audit duties effectively. This plan will divide the training activities to be undertaken by individual staff members into a number of training categories (e.g. management skills, information technology, audit techniques, and professional development).

Finally the training program needs to be managed. This should be done in conjunction with PVTC HR Manual.

7.3 Career Development

In the longer term the CIA should also consider the career development needs of each member of the audit team. This includes both development within IAD and development for positions in other sectors and units. This is essential if staff is to be motivated and retained in IAD. To assist in this each person in IAD will keep records of their individual training plans and achievements, and this will be reviewed annually with the CIA.

8. RELATIONSHIPS AND ADVICE BY MANAGEMENT

Relationships with management, staff, external auditors, and other review agencies must be centred on the need for mutual confidence and understanding of the role of IAD. They could extend professional advice on the requests made by the management without giving an outlook that they are engaged in the decision making.

8.1 Relationship with Management

Management and staff at all levels must have complete confidence in the integrity, independence, and capability of Internal Audit. This should be reflected and maintained in good working relationships between auditors and audited.

The CIA is responsible for consulting with management of the organisation in preparing and updating the Audit Needs Assessment, the Audit Strategy and the Annual Audit Plan.

The CIA should maintain regular contact with senior management in the organisation, by means of regular meetings and six monthly reports on Internal Audit activities. As a general rule all audit staff are encouraged to make contact with line management at the appropriate level during the course of planning and conducting an audit assignment. Unless the CIA decides otherwise, Auditors should normally feel free to contact staff up to Head of Department or equivalent level in the course of their work. Above that level, the CIA should be consulted beforehand. The CIA would maintain contact with Heads Department in respect of:

- Discussion and review of assignments which it is proposed to include in the Annual Audit Plan, before the program is finalized by the CIA;
- Keeping abreast of organisational and systems developments in the organisation, and
- Gaining a fuller understanding of the operational problems facing Heads of Department in order to help identify areas of potential audit interest.
- Making the arrangements to set up individual audit assignments. This will involve:
- Notifying management of any pre-audit planning work which is to be undertaken;
- Discussing audit terms of reference with the client and confirming them in writing;
- Providing, where necessary, periodic oral progress reports to the client, and
- Holding an exit meeting with the client to discuss audit findings, conclusions, and potential recommendations.

8.2 Requests by Management for Advice and Guidance

IAD will be approached for advice on a wide range of matters, often on an informal basis. Whilst it is important that Internal Audit should be seen to be responsive and helpful to such requests, it should not be done in a way that may jeopardize the independence and objectivity of IAD. Staff must exercise professional judgement and caution to avoid giving the impression that IAD is participating in the PVC decision process.

8.3 Coordination

The CIA must share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

When dealing with ad hoc requests for advice and guidance:

- IAD staff must promptly inform CIA of any request by management;
- Written guidance should only be given by the CIA;
- If oral advice is given on the spot by an auditor it is important to make it clear that it is purely informal advice, and should not be taken to reflect Internal Audit‘s official view on the matter.

9. QUALITY ASSURANCE POLICIES

The IIA Standards stress the importance of quality and continuous improvement in internal audit. It is the CIA‘s responsibility to develop and maintain a quality assurance (QA) programme that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This involves defining the appropriate standards and level of quality for audit outputs and then establishing comprehensive procedures which will ensure that this level of quality is achieved and maintained.

The most significant aspect of internal and external auditor’s relation is how to be more efficient, effective and economical by using, sharing and exchanging their knowledge, expertise and experience of PVTC. However, the important aspect of the objective is cost effectiveness by avoiding duplication of effort but without compromising quality standards.

Question and Answer takes place at two levels:

- Level One involves internal assessments to ensure that individual audits are carried out to an acceptable level of quality; and
- Level Two involves broader external reviews of the full range of audit tasks to establish that laid down policies and procedures are adhered to and that they actually do ensure that work is carried out to an acceptable level of quality.

9.1 Internal assessments

Each audit needs to be supervised and reviewed in order to ensure that the quality of audit work is maintained and that the coverage and timing of the audit is in line with the audit plan. The CIA is responsible for ensuring that individual audits are adequately resourced and properly supervised throughout and should review each audit on an ongoing basis. The specific arrangements for supervising and reviewing individual audits are very important.

9.2 External assessment

In addition to assessing the quality of individual audits it is important to obtain independent assurance that the internal audit policies and procedures for carrying out audits are being adhered to and that they are achieving their objectives. It is also important to obtain assurance about the processes for the way the internal audit function is being managed.

10. OVERVIEW OF THE MAIN TYPES OF AUDIT

The main types of audit that may be carried out by internal audit include Systems audit, Compliance audit, Performance audit, Financial audit and Information technology audit.

10.1 Systems Audit

Systems Audit is the structured analysis and evaluation of the extent to which systems of internal control ensure that objectives of organisation will be achieved.

In PVTC systems audit involves:

- Analysing the PVTC systems in an assessment of audit need. This enables internal auditors to see systems in the proper perspective of their relative risk and materiality to the PVTC, which parts of the PVTC they impact upon and the relationships between different systems.
- Assessing how internal controls are operating within PVTC, so that a view can be formed on whether reliance can be placed on the system to help management achieve its objectives;
- Providing management of PVTC with assurances that systems are doing what they were designed to do;
- Making constructive and practical recommendations to strengthen PVTC systems and manage identified risks; and
- Using the findings of the audits of individual systems of PVTC to feed into an overall assurance on the adequacy of controls.

10.2 Compliance Audit

An alternative approach to Systems Based Audit is Compliance Audit. It is frequently adopted by external audit and is available to the internal auditor where he/she feels it is appropriate.

The main objective of Compliance Audit in PVTC is to confirm the accuracy and correctness of the records and assets of the PVTC and to ensure compliance with all relevant statutes and regulations. It usually involves large sample sizes in order to comply with the auditor's standard on appropriateness of evidence and may incur a large commitment of auditor time.

A compliance audit will normally involve the following stages:

- Identifying all accounting records;
- Selecting audit objectives;
- Designing tests to substantiate records;
- Arriving at conclusions and an opinion.

10.3 Performance Audit:

Performance audit – also referred to as Value for Money Audits (VFM), Management Audit or Operational Audit – is the assessment of whether public resources are used in a way which achieves the organisation‘s objectives in an economical, efficient and effective manner.

It is an objective and systematic examination of evidence in order to provide an independent assessment of the performance of a government organisation, program, activity, or other function. It is intended to provide information to improve public accountability and facilitate decision-making by those responsible for overseeing or initiating corrective action. Performance audits can be very complex and should not be done by inexperienced audit staff.

The benefits of performance audits include:

- Improving specification of the goals of policies and the ways of achieving particular policies;
- Improvement of the impact of programs and policies;
- Increasing outputs;
- Minimisation of costs and growth of revenues or benefits;
- Improvement of management performance, the level of internal control and the level of accountability;
- Provision of an independent overview of the area/results/impact;
- Development of assessment criteria for use in planning and managing future programs and activities;
- Drawing the attention of management to a problematic area;
- The ability to identify best practice in one part of an organisation and adopt it in other relevant areas.

10.4 Financial Audit

In internal audit financial audit is normally limited to evaluating the financial systems of an organisation. The IAD interest is not the accounting reports and figures as such, but rather the controls which ensure the quality and accuracy of accounting information and of financial reporting.

Financial audits includes

- The audit of financial and accounting statements and reports which are intended to provide reasonable assurance about whether the financial statements of PVTC present fairly the financial position, results of operations and cash flows, whether they have been prepared in accordance with generally accepted accounting principles; and
- Financial related audits which include determining whether:
  - ✓ Financial information of PVTC is presented in accordance with established or stated criteria,

- ✓ The PVTC has adhered to specific financial compliance requirements, or
- ✓ The internal control structure relating to financial reporting and/or safeguarding assets is suitably designed and has been implemented in an appropriate and effective way in PVTC.
- ✓ Financial related audits of PVTC may, for example, include audits of the following items:
  - Segments of financial statements; financial information (for example, statement of revenue and expenses, statement of cash receipts and disbursements, statement of fixed assets); budget requests; and variances between estimated and actual financial performance;
  - Internal controls over compliance with laws and regulations, such as those governing bidding for, accounting for, and reporting on grants;
  - Internal controls over financial reporting and/or safeguarding assets, including controls using computer-based systems;
  - Compliance with laws and regulations; and
  - Allegations of fraud.

10.5 Information Technology Audit

Information Technology (IT) Audit is the application of auditing skills to the technological aspects of business processes. It embraces the independent review and testing of practices and procedures related to:

- The secure provision of business processing;
- The processes for planning and organising IT, and developing and acquiring new systems and facilities; and
- The economy, efficiency, and effectiveness of the use and exploitation of Information Technology facilities.

All auditors are expected to be familiar with the basic concepts of internal control as applied to Information and Communication Technology (ICT) business systems and processes within the organisation. The audit of controls in such systems will normally form part of the standard systems audit. However, the increasing complexity and diversity in the application of technology means that more specialised IT skills will be needed for the review of specific activities.

IT Auditors provide advice and support to other auditors in respect of IT strategies, planning, organisation and policies.

AUDIT EXCUTION-PART II

11. CONDUCTING AUDIT THROUGH RISK BASED APPROACH

We have discussed in Part I of the manual the framework, attributes of the internal audit function and planning process, whereas herein the emphasis is how the IAD will execute its activities.

11.1 Risk Based Audit Approach

The CIA would establish risk-based plans to determine the priorities of the internal audit activity to effectively plan and achieve the goals set by the BAC. The CIA is responsible for developing a risk-based plan and takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization.

Since presently risk framework does not exist, the CIA uses his/her own judgment of risks after consideration of input from BAC. Subsequently when risk frame work is in place in PVTC that would act as underline document for planning purpose. The plan must be adjusted, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

11.2 Risk Based Audit Process

The processes of risk-based auditing encompasses the attributes of business knowledge, macro-risk assessment, strategic audit planning and detailed risk assessment necessary to effectively and efficiently deploy audit resources. If performed correctly, these processes will allow the IAD to focus on the areas of risk proportionate to the potential exposure to PVTC. The cycle of continually assessing risk, efficiently planning audit activities and effectively performing, delivering and reporting audit activities can result in overall lower risk for the PVTC.

11.3 Risk Based Audit Outlook

Risk based auditing is an important tool in the internal auditor's toolbox, risk-based auditing effectively serves the three primary roles

- To provide feedback on the adequacy of internal control in PVTC, to provide a source of information for monitoring risk and to provide identification.
- To validate that the internal control environment in PVTC is functioning as planned, assets are adequately safeguarded and organization is operating in conformance with established policies.

- Is the same as the focus of a traditional audit, both processes includes communicating the results of the control assessment to executive management and the BAC. The difference between the two processes is the focus on the scope of the audit procedures designed to achieve these goals, which is set through the risk-assessment and audit-planning processes.

The risk-based approach includes formal annual planning, updating the plan before audit segments begin and periodic feedback to the BAC regarding report content expectations.

The audit scope is adjusted based on all of these factors and gives IAD a keen ability to understand and react quickly to management and BAC concerns regarding risk and audit coverage.

12. UNDERSTANDING THE BUSINESS ENVIRONMENT OF PVTC

The key to effective risk-based auditing is for the IAD to begin the planning process with a thorough understanding of the business process for the area under review. In combination with feedback from Chairman and BAC, business objectives are reviewed and specific risks that could cause management not to meet those business objectives are identified moreover controls established by management to mitigate these risks are evaluated.

These business objectives, risks and controls should also be reviewed in relationship to the entity wide business objectives, risks and controls to assist in developing comprehensive corporate decisions. A thorough understanding of risk, business and specific to a business process/ operations allows the internal auditor to focus on key risk factors.

In context of PVTC, risks includes liquidity, operational, Grants, legal/regulatory, strategic and reputational risk as well as performance risk measurement, human resource management and ethics/integrity. PVTC is engaged in providing demand driven skill training to deserving youths and assist graduates in their placement for permanent rehabilitation. Training is provided to cater for demands of industrial, agriculture, health and service sector based on market demands through Training Needs Assessments (TNA). PVTC is primarily utilizing zakat funds for this purpose, however self-finance evening courses and donor funded training programs are also carried out.

Income in substantially generated from the training services provided to the students and sources includes MOZU scholarship, Self-finance, Donor financed, Grants and Donations, Return on Investments and Saving accounts and other Income. While cost is primarily categorized into Salaries, wages and Other benefits, Printing and Stationery, Utilities, Insurance, Repair and Maintenance, Laboratory Consumables and Petroleum, Oil and Lubricants

The assets are materially composed of Property and equipment, Income receivable, Interest accrued, Tax receivable, Investments and Cash and Bank balances whereas the significant liabilities includes trade, other payable and loans.

13. PRELIMINARY RISK ASSESSMENT

The purpose of the preliminary risk assessment is to determine the level of risk and adequacy of controls in the various functional processes of a business unit. The assessment focuses on the business profile, management structure, organizational changes, and specific concerns of management and the BAC to determine the areas of greatest risk. It also serves to aid the IAD in evaluating the control design to determine the desired audit scope.

At PVTC risk-based auditing approach will be used, a process that uses audit planning, risk assessment, analytical review, internal controls review, and selection of audit procedures. The risk assessment determines how well each PVTC's function's controls are designed to mitigate inherent risk. At the conclusion of this assessment, the IAD evaluates the results and assigns a low, moderate, or high risk rating to the individual business processes or functions.

Risk factors are categorized into three broad categories: financial, business, and operational risk. These categories are then weighted to determine aggregate risk. For example, Treasury functions would be weighted more heavily in financial risk, whereas sustainability would be more heavily weighted in operational risk. An understanding of these risk definitions is required to effectively review the associated risks and control requirements.

The procedures for Preliminary Risk Assessment have already been discussed in quite details in the Planning section and Templates are also attached.

14. DEVELOPING STRATEGIC AUDIT PLAN

Based on the preliminary risk assessment that places the auditable business processes within a risk matrix based on low to high risk, a three-year audit plan is established. With certain adjustments based on BAC input or regulatory requirements, low- risk areas would be audited every 3 years, moderate-risk areas audited every other year, and high-risk areas audited every year. The three-year audit plan should be revisited each year during the update phase of the risk assessment process and adjustments should be made based on new or changed risk factors. This methodology allows the internal auditor flexibility in a changing risk environment.

IAD conducts audit at VTI level but no Internal Audits carried out for HO, RO and AO operations. The Strategic Audit Plan would enable IAD would to cover all aspects of the operations of the PVTC based on detailed risk assessment exercise to assess effectiveness and operations of the internal controls environment and activities.

ILLUSTRATION – THREE YEAR AUDIT PLAN FOR PVTC

Audit Cycle/Area	Aggregate Risk from Risk Assessment Matrix	Audit Frequency (1, 2, or 3 year rotation)	Year 2015	Year 2016	Year 2017
OPERATIONS					
High Portfolio VTI's	M	2	X		X
High Risk VTI's	H	1	X	X	X
Tuition Fee and Income Receivable	H	1	X	X	X
TREASURY MANAGEMENT					
Securities	M	2	X		X
Cash Management	H	1	X	X	X
Asset/Liquidity Management	M	2	X		X
Bank Account Management	H	1	X	X	X
Short Term Investments	M	2	X		X
Interest Calculation	M	2	X		X

ACCOUNTING AND FINANCIAL REPORTING					
General Accounting	H	2	X		X
Financial Reporting	H	2	X		X
GRANTS FOR ESTABLISHING AND REHABILITATION OF VTI'S	H	1	X	X	X
PROCUREMENT AND TRADE PAYABLES	M	2	X		X
HUMAN RESOURCES AND PAYROLL	H	3	X	X	X

High (H); Medium (M); Low (L): Risk categories

This audit cycle/area is based on the analysis of Financial Statements (Annexure Attached).

15. COMPLETE THE SECONDARY RISK ASSESSMENT

In this stage, which is performed during the scheduled audit, the IAD determines the effectiveness of the control design. Through in-depth interviews, walk-throughs, and other observations the internal auditor determines whether or not the controls established by management are in fact operating as designed.

The secondary risk assessment allows the internal auditor to more accurately tailor the audit approach to current risks by providing for alteration of the audit plan. For example, in the preliminary risk assessment the internal auditor may have noted that there were adequate segregation of duties and physical controls in place. Based on these circumstances, the preliminary risk assessment could have placed the overall risk for the area at the moderate level. If the internal auditor learns during the secondary risk assessment, that segregation of duties and physical controls were not actually in place, the overall risk for the area could be elevated to the high level.

16. AUDIT PROGRAMS

Set of procedures (evidence – gathering steps) that an auditor believes is necessary to perform to obtain reasonable assurance that the financial statements are not affected by material misstatements.

An audit program is a set of policies and procedures that dictate how an evaluation of a business is done. This generally involves specific instructions as to what, and how much, evidence must be collected and evaluated, as well as who will collect and analyse the data and when this should be done. These types of programs are used to check up on things like a business performance, finances, economy, and efficiency, and are generally tailored to a specific business or purpose.

16.1 Purposes of Audit Program

The underling objectives of the audit programs are to

- Guide audit staff in audit work
- Provide evidence of proper planning and recording of audit work to be done
- Provide the basis for coordinating and supervising audit work and
- Controlling the time spent Audit programs are important because they standardize the data collection and evaluation process. By setting out a specific list of steps to be followed and data to be collected, the program ensures that auditors collect all the information they need in an efficient manner while under appropriate supervision.

Keeping the process standardized also means that all the data collected can be used to make useful comparisons between businesses, departments, and previous years inspections, since the same set of data is collected each time. Additionally, having a program like this in place will makes sure that any problems are discovered and promptly reported to the correct official. Main components of audit program will include the objectives, procedures and conclusion of each audit work performed.

16.2 Advantages of Audit Programme

Supervision of work: The CIA can judge the efficiency of his audit team with the help of all audit programs. He is in a position to know the progress of the work. He can see at any time that what part of the work has been completed and what remains to be done.

Division / distribution of audit work: The division of audit works is very useful for the audit staff for maintaining the difference of works among various staff of IAD according to their ability and skill so that the work is divided to get better results.

Systematic uniformity of work: Audit program helps in settling all the things in advance, so the systematic uniformity of work is necessary to achieve the desire.

Basic instrument for training: Audit program is infect a training instruments for the audit staff and also very useful for the new auditors. It provides training and guidance to them. So it is rightly called the basic instrument for training for the staff at the time of need.

16.3 Execution of the Internal Audit Program

After making adjustments to the audit scope based on the results of the secondary risk assessment, the audit plan is finalized and audit fieldwork can begin. A standard audit program guides the audit process and determines which audit procedures should be performed based on the secondary risk assessment rating. Naturally, the higher the risk assessment, the more detailed the audit procedures to be performed.

The following audit program is an example of Treasury functions, using low (L), medium (M), or high (H) risk as the basis for the audit scope.

Audit Program: Treasury Function

Risk	Audit Procedures:	WP Ref.	Done By
M/H	Confirm the opening balances from the previous year audited accounts.		
H	Obtain reconciliations between General Ledger and Investment Register. Review the reconciling items, if any and investigate the unusual items.		
M/H	Obtain the agreement/ specific instruction regarding the investments, issued by the State Bank of Pakistan (SBP).		
M/H	Review that surplus funds and maturing investments are invested/ reinvested in timely manner so as to avoid any delay.		
H	Ensure that investments are compliant with statutory provision provided in Income Tax Ordinance 2002, providing tax exemption to PVTC.		

M/H	Ensure that interest income from the investment is in accordance with the rate specified in the agreement.		
M/H	Ensure that amount of surplus funds and investments period are determined through cash flow statement to get optimum yield.		
H	Ensure that funds are invested on arm length basis and competitive mark-up rates are obtained.		
M/H	Ensure that interest income is accurately accounted for and also ensure that neither the interest income is understated nor overstated.		
M/H	Ensure that income accrued at the accounting date has been subsequently received.		
M/H	Ensure that investments are properly disclosed in the financial statements.		
M/H	Ensure segregation of responsibilities exist between calculating amount and period of surplus funds, investing function, validation of mark-up income and recording of mark-up income in books of accounts.		
M/H	Physically verify the 20% of the investment instruments and review calculation of mark-up income for 20% of the investments.		

During audit fieldwork and prior to the exit meeting, all potential audit issues should be fully discussed with operating personnel and line management. This exiting as you go process serves three valuable purposes.

- It allows the internal auditor to ensure the facts are accurate, which prevents unnecessary audit work and strengthens the internal auditor's credibility.
- Operating personnel and line management can begin correcting problems, which will positively demonstrate to senior management their ability to address issues. This also helps to prevent any surprises at the formal exit interview.

- If there are disagreements with items other than facts, such as the overall risk or the recommended solution, the internal auditor is aware before the formal exit and can react accordingly.

17. Conducting the Audit

17.1 Introduction

By the end of the planning phase and after completing the detailed activity and resource planning work, the auditors will have updated the:

- Permanent file;
- Planning file;
- Audit planning memorandum;
- Audit programs;
- Staffing requirements, and the staff to be assigned to each component of the audit;
- Budget requirements;
- Timing considerations; and
- List of information to be obtained from entity officials.

The following sections of this Chapter introduce the conceptual basis for the auditors' work of testing and sampling transactions, collecting and evaluating evidence, and maintaining working paper files.

17.2 Compliance Testing

In conducting the audit, the first step is to evaluate the effectiveness of internal controls. This is done through compliance testing. During the planning phase, the auditor would have assessed the appropriateness of internal controls and made an initial judgment as to the extent to which the auditor can rely on the internal controls when deciding on the sample sizes to take for detailed testing of transactions.

To determine how well internal controls are being applied, the auditor should test the controls with a sample of transactions. The sample taken for compliance testing will usually be part of the sample required for substantive testing.

17.3 Substantive Testing

For financial audit purposes, substantive testing is required to determine how much assurance can be placed on financial assertions. Some testing is by analysis and other procedures but most assurance is provided through detailed testing of sampled transactions.

17.3.1 Substantive Analysis

Substantive analysis is a means of deciding whether financial data appear reasonable and acceptable and therefore may allow the auditor to conduct less detailed testing of transactions. The extent of reliance on substantive analysis procedures depends on the following factors:

- Materiality of items involved in relation to the financial information taken as a whole;
- Other audit procedures relating to the same audit objectives;
- The likely level of precision and reliability that can be obtained from the analysis;
- Results of the evaluation of internal controls. If the internal controls are assessed as weak, more reliance should be placed on tests of detailed transactions than on analytical procedures.

17.3.2 Tests of Details

Tests of details are the application of one or more of the following audit techniques to individual transactions that make up an account balance:

- Recomputation;
- Confirmation;
- Inspection; and
- Cut-off tests.

Selecting items for tests of details. Normally only a proportion of the items within an account is tested even though the auditor wants to conclude about the account as a whole. This is done by:

- Selecting key and high value items; or
- Taking a representative sample; or
- A combination of both.

17.3.3 Substantive Sampling

It is important to ensure that whatever sampling is chosen, an estimate of the total level of errors in the population can be deduced from the sample on a scientific basis. Without having a scientifically selected sample that is sufficient and representative, no assurance on the financial statements can be concluded and no projection of other quantitative concerns can be concluded.

In implementing a substantive sampling plan, the following need to be considered:

- Decide what is to be tested;
- Define the sample and select the sample;
- Audit the sample items; and
- Evaluate and interpret the results.

17.3.4 Management of Sample

The CIA should personally ensure the proper selection of the required sample and follow up to check that this sample was the one used in the field.

Reliable audit results depend on having an unbiased and representative sample. Any changes to that sample can possibly invalidate the conclusions to be derived from the sample.

17.4 Evidence

The auditor requires evidence to support all information presented in the audit report. Even the background description of the entity and generalised statements about the organisation must be supported by appropriate evidence. The final audit report must be able to withstand all challenges and the auditor must be able to demonstrate his/her professionalism in the way the audit is carried out and in the presentation and contents of the final report.

17.4.1 Attributes of Evidence

To support the auditors' findings, conclusions and recommendations the evidence must be:

- Sufficient;
- Relevant;
- Reliable; and
- Objective.

17.4.2 Types of Evidence

Evidence can take the form of observation, documentation, analysis, interview responses, and confirmation through interview or written response. Evidence can be classified according to the following:

- Documentary;
- Observational;
- Physical;
- Oral; or,
- Analytical.

17.5 Matters to deal with during course of audit

Auditors need to obtain and record relevant, reliable, sufficient and convincing audit evidence to support their audit findings, conclusions and recommendations. In the process of obtaining this evidence, auditors often need to deal with matters that require the use of professional judgment.

17.5.1 Unanticipated matters

Although the audit programmes are approved at the detailed planning stage, the auditor performing the work should not assume that the programmes cannot be changed. The auditor is likely to encounter matters not anticipated in the audit plan.

The auditor should also be alert for matters arising during the fieldwork phase that indicate changes may be required to the general planning parameters. For example, the audit approach may call for high reliance on the internal control structure. However, if the auditor's tests of internal control reveal a larger than expected number of internal control deviations, then the sources of assurance, and the nature, extent and timing of the auditor's substantive tests, may need reconsideration.

To detect matters such as these, the auditor should not be blind to evidence beyond the audit programme. The auditor needs to be on the lookout for these unanticipated matters, and to consider their implications for the audit.

17.5.2 The substance of the transaction

Auditors should be satisfied with the nature, adequacy and relevance of audit evidence before placing reliance upon it. One aspect of this is to consider the substance of a particular transaction that is being supported by the documentary evidence.

There may be a significant difference between the form of the transaction and its substance. For example, a bribe may be disguised as a commission, or a purchase may be disguised as a long-term lease. The auditor needs to ensure that the documentary evidence is clear enough to determine the real substance of the transaction.

17.5.3 Inadequately supported transactions

Inadequately supported transactions often reflect missing documents. They may also indicate the entity's accounting or control system does not call for the documentation that the auditor would consider appropriate.

When a document is missing, the auditor should make a reasonable effort to locate it. If the document cannot be found, the auditor should consider if other evidence exists to support the transaction.

Sometimes the auditor will not be able to find relevant, reliable, sufficient and convincing audit evidence to compensate for the missing documentation.

17.5.4 Conflicting audit evidence

Conflicting audit evidence occurs when the auditor receives evidence regarding a particular balance, transaction or event that is not consistent with other evidence. Examples of conflicting audit evidence are when:

- The auditor's analytical procedures indicate that material error exists in a particular component, while substantive tests of details indicate that there are no errors in the component.
- One entity official provides the auditor with information or an explanation that is inconsistent with the information provided by another entity official.
- The auditor identifies what appears to be a material error and asks entity officials to investigate. The officials respond with an analysis or explanation indicating that no error exists.

The first step the auditor should take is to re-evaluate the evidence received. The auditor should maintain an open mind, and guard against assuming that the initial findings are the only interpretation of the situation. Evidence should be evaluated objectively, and alternative interpretations of the evidence should be considered.

Where the auditor receives conflicting information from officials, the auditor should determine whether:

- there are legitimate reasons why the two officials would have provided different information or explanations; and
- the information or explanations received from each individual are reliable.

It may be appropriate for the auditor to seek corroborating information or explanation from a third or even a fourth individual to determine which of the two original providers of the information or explanation appears to be incorrect.

Where subsequent analysis by the entity management does not support the auditor's estimate of error, the auditor should audit the entity's analysis and supporting documentation to determine if the further analysis:

- deals directly with the matter at hand;
- was sufficient and appropriate, and done correctly; and
- explains why the auditor's original estimation of the error was not correct.

Until the conflicting audit evidence is satisfactorily resolved, the auditor should not take any assurance from any of the affected audit procedures.

17.6 Cause and Effect Analysis

Wherever possible, the auditor should determine the underlying cause(s) of an observed weaknesses or error. Normally, there is at least one major underlying cause for the weakness or error, such as:

- Inexperienced individual carrying out the transaction;
- Insufficient training of that individual;
- Lack of proper systems and procedures;
- Insufficient management involvement / scrutiny; or
- Unclear accountability.

It is usually a matter of judgment as to which factor, or combination of factors, is generally regarded as the underlying cause(s).

These underlying causes need to be addressed by entity management to obtain long-term improvement of the operations. The auditors' recommendations for improvement should address these items.

The auditor needs to identify the actual, or potential, effect of the observation. Wherever possible, the auditor should seek examples of the effects resulting from a weakness observed. However, such evidence may not be readily available. If this is the case, the auditor should be able to demonstrate the risk associated with the continuation of the current situation. The risk should be plausible and convincing to management. If not, the auditor will likely find it difficult to get management support for recommended changes to reduce or eliminate the weaknesses observed.

Cause and effect analysis can be difficult. Sometimes clear relationships between observations and the underlying causes cannot be proved. This is where the auditor's knowledge, experience and communication skills are important. Management needs to have confidence in the auditor to accept the recommendations for change.

If the underlying causes of weaknesses are not addressed, the auditor can expect to note the same problems each time the area is audited. Except to the extent required as part of a follow-up audit, there is no point in repeating audits and coming up with the same observations. Either the weaknesses are too small to matter, in which case the auditor should not be concerned with the issues, or there is need to correct the problems.

Cause and effect analysis ensures that we direct our effort towards the areas that matter and produce meaningful and significant audit observations. This analysis also ensures that we understand the underlying causes, so that we can develop recommendations that address the most important areas. These need to be addressed in the audit report.

Cause and effect analysis requires the auditor to:

- identify the fundamental cause(s) of the deficiency. This is important in developing a basis for recommending remedial actions. Often there is more than one cause and the auditor's challenge is to determine which ones are the most relevant.
- assess and quantify the effect, or the potential effect, of the deficiency. Quantifying the effect of a problem is an important step in determining the significance of the deficiency. In many cases, the effects can only be described in terms of risks as opposed to actual losses, or other negative effects, that have occurred.

17.7 Developing Conclusions and Recommendations

In theory, the auditor compares an actual finding with an expected finding (the accounting standard or audit criterion) and identifies any deviations.

When the auditor discovers an unanticipated weakness in a particular transaction, he/she should determine whether this is a single occurrence or part of a pattern.

Conclusions should focus on significant issues. These are generally concerned with:

- Inefficient or ineffective operations, or examples of not achieving intended results; and,
- Failures to measure and report on the efficiency of operations and the effectiveness of the programmes.

Issues relating to these concerns should have been identified during the planning stage of the audit.

The auditor should avoid any implication of deceit in dealing with the management of the entity. If the audit objective(s) state one thing and the auditor focuses on issues that are unrelated, entity management has reason to be concerned. As far as possible, the auditor should have identified during the planning stage what needs to be examined. A well-planned audit should not require the auditor to stray far beyond the plan. On the other hand, the auditor should be careful not to conduct the audit in a mechanical manner, ignoring anything that does not fit within the precise structure of the audit programme.

17.7.1 Significant Findings and Conclusions

In developing conclusions, the auditor must be able to identify the key matters for management attention. Details of the findings should be used only to support these key conclusions. These

details may need to be communicated to lower levels of management to help them address the errors.

In developing findings, the auditor needs to:

- Determine the frequency of the identified weakness. This is important in assessing whether the deficiency is an isolated instance or represents a systemic or general weakness;
- Assess the significance of the weakness, in terms of frequency and impact;
- Develop one or more examples, for inclusion in the report, to clearly illustrate the nature of the deficiency;
- Clearly communicate the actual or potential impact of the identified deficiencies; and
- Determine whether management is aware of the deficiency and if corrective action is underway. A deficiency that is being corrected is less significant for reporting purposes than a previously unknown and unresolved deficiency.

These steps are necessary to determine reporting strategy and to ensure fairness and balance of the report.

Development of Recommendations. As the auditors clear findings with the different levels of management within the entity, they should explore potential recommendations. Recommendations that are supported by management are much more likely to get implemented than those that are simply the opinions of the auditor.

Recommendations should address the underlying causes of errors or deficiencies. The auditor must focus on the underlying weaknesses in controls, or other causes of the errors, to increase the likelihood that management will take steps to prevent further errors from occurring.

When developing recommendations, the auditor should consider:

- The most significant causes of the weaknesses observed (through cause and effect analysis) and what needs to be done to strengthen the management framework to correct the underlying cause(s);
- The feasibility and cost of adopting a recommendation (i.e., the benefits of a recommendation should outweigh the cost of implementing it);
- Alternative courses for remedial action; and
- Effects, both positive and negative, that may arise if the recommendations are adopted.

17.8 Keeping entity officials informed

To successfully complete the fieldwork, the auditor should:

- Have effective communication skills, both oral and written; and
- Establish and maintain good working relationships with entity officials.

Except in the case of a fraud, or suspected fraud, the auditor should strive to conduct a “no-surprises audit”. This means honest communications and keeping entity officials aware of the progress of the audit and the findings to date. The auditor should ensure that the findings about

an area of audit are not reported to a more senior manager before the manager at the lower level has been informed of the findings and given an opportunity to rebut, correct or explain.

17.9 Documenting the work performed

Auditors would adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.

The content and arrangement of the working papers reflect the auditor's proficiency, experience and knowledge.

Adequate documentation is important for several reasons. It will:

- serve as evidence of the auditor's compliance with the Auditing Standards;
- help to ensure that delegated work has been satisfactorily performed;
- increase the efficiency and effectiveness of the audit;
- help the auditor's professional development;
- serve as a source of information for preparing reports;
- provide information to answer enquiries from entity officials, the Legislature and its committees, or from any other party;
- assist in the planning of the audit for the following year; and
- help auditors in the following year to perform their work.

17.9.1 Documentation standards

The auditor should diligently document all the work that has been performed. The working papers should provide a record of the nature, extent and timing of the audit procedures performed, and the results of those procedures. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently ascertain what work was performed to support the conclusions.

To achieve this objective, the fieldwork, evaluation and reporting files should include:

- evidence that all of the planned audit work was performed;
- an indication as to who performed the audit procedures and when they were performed;
- evidence that the work performed by lower level staff was supervised and reviewed;
- copies of communication with experts and other third parties;
- copies of letters or notes concerning audit matters communicated to or discussed with the entity; and
- copies of the auditor’s reports.

17.9.2 Standards for working paper files

Every working paper should clearly show:

- the name of the audit entity and audit area;
- the period covered by the audit;

- the date the work was performed;
- initials of the preparer;
- the source from which information or explanations were obtained;
- cross-references to schedules, notes and other documents that support the working papers;
- cross-references of all amounts and other information in the audit report to the working papers supporting the amounts and information;
- evidence that the audit procedures were performed;
- an explanation of any penciled in notations that appear on the working paper; and
- the date and initials of the reviewer.

17.10 Custody and maintenance of working paper files

Working paper files are confidential and are not for general disclosure. However, they should be shared with other auditors as appropriate and be available for any independent review.

Access to the working paper files should be controlled and secure. Audit files should be kept for the length of time specified by PVTC file retention policy.

17.11 Quality assurance

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff.

17.11.1 Supervision

Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.

The CIA must ensure that the audit is carried out efficiently, effectively, and with a high standard of professional competence. This requires auditors to be properly supervised during each audit assignment.

17.11.2 Review of working paper files

At the completion of each section of the audit work, the supervisor should review the work performed.

This should include a thorough review of the working paper files to provide further assurance that the matters noted above are adequately dealt with.

17.11.3 Time reporting and monitoring

The purpose of supervision and review is not only to ensure that the work is being done to the required standards. It is also to ensure that the work is being performed efficiently, within budget, and will be completed by the required deadline date.

All variances from the audit budget should be explained. This process will not only help the supervisor to evaluate the auditor's work during the current year, but could also help the auditor to:

- Set the budget for the following year; and
- Refine the optimum combination of tests of internal control, analytical procedures and substantive tests of details.

18. CONDUCT A FORMAL EXIT MEETING

A formal exit meeting should be conducted with both operating and senior management prior to leaving the field to present issues noted during the audit, as well as best practice suggestions for improving controls, efficiency, and operational performance. Minor exceptions or findings can be discussed verbally, and may not be included in the audit report.

The formal exit meeting is also an opportunity for the internal auditor and management to discuss recommendations for improvement and to clear any factual issues that are still in question. The internal auditor should be sure to give management credit for actions already taken and offer consultative advice on those issues that are unresolved.

19. REPORTING AND COMMUNICATION

After the exit meeting, a report draft is issued to operating management to solicit corrective action plans. The draft report should include findings, implications and recommendations by the IAD alongwith requesting for response from the management against each finding.

Observations/ findings are ranked as high, moderate, or low risk. High risk indicates management should immediately remedy the situation to prevent significant risk of loss, moderate risk indicates that timely remedy by management is suggested and low risk indicates that there does not appear to be an immediate risk but improvements are still possible. The report is issued in draft form to allow continued communication between the IAD and operating management in the areas of relative importance of the audit results and recommended solutions.

At this phase of the process, there should be no disagreements as to the facts in the report as these should have been agreed to during the fieldwork and exit meeting stages. Management action plans ("MAP") should document specific actions to address the findings and recommendations, with management assignments of who is responsible for the plan and a date indicating when the actions should be concluded. In reviewing MAP, the IAD should determine that the identified risk will be adequately addressed and the completion timetable is reasonable.

Audit Report stating instances of material non-compliances (Annexure-) is issued, alongwith Memorandum of Observations, addressed to the Chairman, Managing Director and Head of Department. The comments of concerned department are incorporated verbatim in the Memorandum of Observations. The high risk observation and critical audit findings should also presented to BAC on the quarterly meetings or whenever the meeting will be arranged.

The CIA should regularly meet BAC in person to discuss the audit reports and solicit any necessary feedback. The IAD will periodically provide a monitoring report to Chairman and the BAC so they can utilize this to track critical internal audit findings, follow up on the results and review at a glance the effectiveness of risk management and the resolution of all significant findings. Follow-up reporting should continue until the issue is satisfactorily resolved. This communication is often the source of changes in audit scope to address risk changes.

Annexure

PUNJAB VOCATIONAL TRAINING COUNCIL
BALANCE SHEET AS AT JUN 30, 2014

	2014	2013	Variance Amount	Variance %age
Property and equipment	337,538,555	353,952,821	(16,414,266)	-5%
Long term deposits	1,113,525	1,050,875	62,650	0%
	338,652,080	355,003,696	(16,351,616)	-2%
CURRENT ASSETS				
Fee income receivable	673,254,230	592,836,536	80,417,694	11%
Advances	7,403,621	2,901,546	4,502,075	1%
Short term prepayments	3,569,357	3,677,775	(108,418)	0%
Interest accrued	23,673,260	5,345,838	18,327,422	3%
Other receivables	6,622,560	5,354,720	1,267,840	0%
Taxation - net	23,916,598	17,937,398	5,979,200	1%
Short term investments	682,036,000	682,036,000	-	0%
Cash and bank balances	1,193,164,138	587,621,726	605,542,412	87%
	2,613,639,764	1,897,711,539	715,928,225	102%
CURRENT LIABILITIES				
Trade and other payables	318,594,556	244,119,907	74,474,649	11%
Short term loan	25,000,000	25,000,000	-	0%
Interest accrued on long term loan	212,500	106,250	106,250	0%
	343,807,056	269,226,157	74,580,899	11%
NET CURRENT ASSETS	2,269,832,708	1,628,485,382	641,347,326	92%
Long term loan	85,000,000	85,000,000	-	
	2,523,484,788	**1,898,489,078**	**624,995,710**	
			-	
Fund balance	1,800,887,739	1,804,799,128	(3,911,389)	
Grant for establishment / rehabilitation of VTIs	722,597,049	93,689,950	628,907,099	
	2,523,484,788	**1,898,489,078**	**624,995,710**	

PUNJAB VOCATIONAL TRAINING COUNCIL
INCOME STATEMENT AS AT JUN 30, 2014

	2014	2013	Variance Amount	Variance %age
Income				
Tuition fee	963,277,236	900,484,994	62,792,242	7%
Grants and donations	75,988,173	307,141,852	(231,153,679)	-75%
Return on saving accounts	40,527,522	26,926,349	13,601,173	51%
Return on investments	70,153,920	84,369,312	(14,215,392)	-17%
Other income	15,097,940	9,036,509	6,061,431	67%
	1,165,044,791	1,327,959,016	(162,914,225)	-12%
Expenditure				
Salaries, wages and other benefits	879,300,472	858,035,534	21,264,938	2%
Depreciation	95,690,962	104,107,711	(8,416,749)	-8%
Utilities	31,939,002	28,382,742	3,556,260	13%
Laboratory consumables	29,462,768	32,378,889	(2,916,121)	-9%
Repairs and maintenance *	21,684,055	29,644,280	(7,960,225)	-27%
Insurance	21,554,455	15,747,501	5,806,954	37%
Printing and stationery	15,980,791	12,773,350	3,207,441	25%
Petrol, oil and lubricants	12,239,842	11,756,992	482,850	4%
Liveries and uniform	10,554,624	12,423,936	(1,869,312)	-15%
Postage and telephone	10,529,325	9,299,305	1,230,020	13%
Conveyance	9,738,628	9,769,575	(30,947)	0%
Security expenses	8,881,998	7,648,722	1,233,276	16%
Rent, rates and taxes	7,413,024	6,838,242	574,782	8%
GIZ stipend	6,570,301	6,682,000	(111,699)	-2%
Publicity and advertisement	5,230,408	3,874,022	1,356,386	35%
Training and teaching material	5,008,617	5,670,367	(661,750)	-12%
Examination fee	4,574,674	4,150,755	423,919	10%
Miscellaneous	3,558,286	14,498,663	(10,940,377)	-75%
Auditors' remuneration	2,300,000	2,300,000	-	0%
Entertainment expenses	1,808,348	1,871,585	(63,237)	-3%
Office supplies	1,267,401	1,387,001	(119,600)	-9%
Bank charges	932,194	781,019	151,175	19%
Newspapers, books and periodicals	514,683	543,078	(28,395)	-5%
Legal and professional charges	462,735	612,210	(149,475)	-24%
Receivables written off / other loss	-	-	-	0%
STTI charges	-	-		0%
Supplies and services charges	-	-		-
Provision for doubtful MOZU fee receivable	(18,241,413)	139,508,767	(157,750,180)	-113%
	1,168,956,180	1,320,686,246	(151,730,066)	-11%
Excess of income over expenditure	**(3,911,389)**	**7,272,770**	**11,184,159**	**154%**

AUDIT PROGRAMS TEMPLATES

DESCRIPTION	REFERENCE
Property and Equipment	IAT-01
Deposits	IAT-02
Advances	IAT-03
Prepayments	IAT-04
Other Receivable	IAT-05
Tax Refundable	IAT-06
Investments	IAT-07
Cash and Bank Balances	IAT-08
Trade and Other Payable	IAT-09
Loans and Accrued Markup	IAT-10
Grant for Establishment/ Rehabilitation of VTIs	IAT-11
Tax Payable	IAT-12
Tuition Fees and Fees Income Receivable	IAT-13
Grants and donations	IAT-14
Other income	IAT-15
Utilities	IAT-16
Laboratory Consumables	IAT-17
Repair and Maintenance	IAT-18
Insurance	IAT-19
Publicity and Advertisement	IAT-20
Printing and Stationery	IAT-21
Bank charges	IAT-22
Security Expenses	IAT-23
Postage and telephone	IAT-24
Liveries and Uniform	IAT-25
POL	IAT-26
Conveyance	IAT-27

Rent, Rates and Taxes	IAT-28
Training and Teaching Material	IAT-29
Other expenditure	IAT-30
Review of Financial Statements	IAT-31
Finance Function	IAT-32
Legal and Compliance Function	IAT-33
Procurement Function	IAT-34
Payroll and HR Function	IAT-35
Budgeting Function	IAT-36
MER Function	IAT-37
MOZU Funds	IAT-38

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AUDIT PROGRAMS

S. No	Control Description	Risk	Test Description	Performance of Control Self Assessment	Adherence to Controls Tested	Working Papers Reference	Deficiencies (Brief Description)	Risk Type	Material? (Y/N)	Response and responsibility assigned
IAT-01: PROPERTY AND EQUIPMENT										
1	The risk that underlying accounting record is not fairly maintained.		Review reconciliations, for each category of fixed assets, between General Ledger and Fixed Assets Register (FAR) and check reconciling items, if any.							
			Ensure that the fixed asset register is appropriately maintained and test items provided in the FAR to the items in the General Ledger and vice versa on sample basis							
			Obtain list of obsolete fixed assets and review that appropriate provision is made.							
2	The risk that Capital expenditure is not duly authorized.		Review additions in the fixed assets and ensure that these carry necessary authorization in the CAPEX budget approved by the PVTC Council.							
			Capex requests are raised and duly approved as per delegation of authority.							
			Fixed assets purchase has not been bifurcated to avoid delegation of authority for CAPEX.							

3	The Risk that depreciation is not fairly and accurately charged.		Review depreciation charged in the FAR and ensure that the depreciation charged during the year is accurate and in accordance with the depreciation rates. Check/calculate the percentage of loss (if any) on assets disposal. If it is reasonably high, evaluate if the rates of depreciation need a revision.							
4	The risk that unauthorized movement of Fixed Assets from one location to another.		Review the transfer of fixed assets from one location to other is authorizedas per delegation of authority matrix.							

5	The risk that assets are lost/ misappropiated.		Ensure that physical reconciliation will be carried out at quarterly intervals and related record will be kept by the administration deartment. Review reports and look for feedback on the suggested actions/ recommendations.							
			Select sample (10% in each category, locationwise) and trace them to the accounting records and vice versa and verify them by their underlying details. Record any item, which appears to be idle or in a poor condition to identify items possibly requiring a provision (vehicles & computers)							
			Carry out a physical inspection of selected fixed assets and trace them to the accounting records and vice versa and verify them by their underlying details. Record any item, which appears to be idle or in a poor condition to identify items possibly requiring a provision (vehicles & computers). Sample should be based on materiality.(i.e. approximately 25% of sample must be verified)							

6	The risk that assets are not properly disposed off.		Disposal is supported by a valid invoice and has been properly authorized.							
			Competitive process is adopted for disposal.							
			Book value and accumulated depreciation for the assets have been eliminated from the fixed assets accounting records.							
			Profit or loss on disposal has been correctly computed and recorded.							
			Disposal has been accounted for in the correct accounting period.							
			Price at which assets has been sold appears reasonable.							
			Cash, if applicable, has been realized accurately.							
7	The risk to business loss in shape of assets lost/ damaged / misappropriated is duly mitigated.		Ensure that the assets are adequately insured. Review the relevant insurance policies for the amount insured and confirm that the insurance is charged appropriately.							
8	The risk that fixed assets are not appropriately disclosed in the financial statements.		Ensure that fixed assets are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-02: DEPOSITS										
1	The risk that deposits are not fairly recorded.		Obtain a comparative summary of Long Term Deposits. Trace totals to the general ledger and the previous audit's working papers.							
			Scan the detailed listing of deposits and investigate significant unusual items (e.g., credit balances and items of prepayments/ advances in nature).							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed deposits records in the general ledger.							
2	The risk that deposits are not appropiatly authorized.		Trace selected recorded deposits on the listing to supporting documentation (e.g. agreements, invoices, receiving reports, supplier statements) to determine the accuracy of the listing.							
			Test extensions and postings on the supporting documentation. If invoices have not been received, the deposits may be determined by comparison with price lists, earlier invoices for identical goods, standard costs, or other suitable evidence.							

3	The risk that deposits may not be recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date. Determine whether selected invoices, debit (credit) memoranda, or other items identified in the disbursement records relate to the period before the balance sheet date and should be recorded in the accounts							
4	The risk that vendor do not exisits.		Circulate selected balances for direct confirmation from the vendors							
5	The risk that fixed assets are not appropriately disclosed in the financial statements.		Ensure that fixed assets are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-03: ADVANCES										
1	The risk that advances are not fairly recorded.		Obtain a comparative summary of advances. Trace totals to the general ledger and the previous audit's working papers							
			Scan the detailed listing of advances and investigate significant unusual items (e.g., credit balances and items of prepayments/ deposits in nature).							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed advances records in the general ledger.							
			Trace selected recorded advances on the listing to supporting documentation to determine the accuracy of the listing.							
2	The risk that advances are not appropiatly authorized.		Deposts are paid in accordance with approved procedures and generally accepted Business practices.							
			Advances are made as per the authority matrix.							

3	The risk that advances may not be recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date. Determine whether selected invoices, debit (credit) memoranda, or other items identified in the disbursement records relate to the period before the balance sheet date and should be recorded in the accounts							
4	The risk that vendor do not exists.		Circulate selected balances for direct confirmation from the vendors							
5	The risk that Deposits are not appropriately disclosed in the financial statements.		Ensure that Deposits are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-04: PREPAYMENTS										
1	The risk that prepayments are not fairly recorded.		Obtain a comparative summary of prepayments. Trace totals to the general ledger and the previous audit's working papers.							
			Scan the detailed listing of prepayments and investigate significant unusual items (e.g., credit balances and items of advances/ deposits in nature).							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed prepayments records in the general ledger.							
			Trace selected recorded prepayments on the listing to supporting documentation (e.g. agreements, invoices, supplier statements) to determine the accuracy of the listing.							
			Review that prepayments are appropriately segregated in long and short term period. Moreover, expense for the period is fairly adjusted.							
2	The risk that prepayments are not appropiatly authorized.		Prepayments are made as per Authority matrix.							
3	The risk that vendor do not exists.		Circulate selected balances for direct confirmation from the vendors.							

4	The risk that prepayments may not be recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date. Determine whether selected invoices, debit (credit) memoranda, or other items identified in the disbursement records relate to the period before the balance sheet date and should be recorded in the accounts							
5	The risk that Prepayments are not appropriately disclosed in the financial statements.		Ensure that Prepayments are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-05: OTHER RECEIVABLE										
1	The risk that other receivables are not fairly recorded.		Obtain a comparative summary of other receivables. Trace totals to the general ledger and the previous audit's working papers.							
			Scan the detailed listing of other receivables and investigate significant unusual items (e.g., credit balances and items of advances/ deposits in nature).							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed other receivable records in the general ledger.							
			Trace selected recorded other receivables on the listing to supporting documentation (e.g. agreements, invoices, supplier statements) to determine the accuracy of the listing.							
2	The risk that other receivable are not appropiatly authorized.		Approvals are made as per Authority matrix.							
3	The risk that vendor do not exists.		Circulate selected balances for direct confirmation from the vendors.							

4	The risk that other receivables may not be recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date. Determine whether selected invoices, debit (credit) memoranda, or other items identified in the disbursement records relate to the period before the balance sheet date and should be recorded in the accounts							
5	The risk that Other Recevables are not appropriately disclosed in the financial statements.		Ensure that Other Receivables is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-06: TAX REFUNDABLE										
1	The risk that Tax Refundable to PVTC is not fairly recorded.		Obtain a comparative summary of Tax refundable. Trace totals to the general ledger and the previous audit's working papers.							
			Scan the detailed listing of Tax refundable and investigate significant unusual items (e.g., credit balances and items of long outstanding in nature)							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed of records in the general ledger.							
			Trace selected items on the listing and review underlying documents to determine the accuracy of the listing.							
			Inquire about potential sources of unrecorded tax refundable, e.g.Receipts from P&D Dept. Government of Punjab,bills, bank statements etc.							
2	The risk that Tax Refundable to PVTC may not be of the refundable nature.		Ensure that tax deducted is refundable in nature and not full and final liability as per Income Tax Ordinance 2000. Moreover, review opinion of the tax advisor on the matter.							

3	The risk that Tax Refundable may not be recorded in the correct accounting period.		Examine tax records for the period after the balance sheet date. Determine whether selected receipts, debit (credit) memoranda, or other items identified in the accounting records relate to the period before the balance sheet date and should be recorded in the accounts							
4	The Risk that Tax Refundable may not have been correctly calculated.		Review assessments order and tax computations to certain the correctness of the amount of Tax Refundable							
5	The risk that Tax Refundable to PVTC may not be appropriately disclosed in the financial statements.		Ensure that Tax Refundable is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-07: INVESTMENTS										
1	The risk that investments are not fairly recorded.		Obtain reconciliations between General Ledger and Investment Register. Review the reconciling items, if any and investigate the unusual items.							
			Obtain the agreement/ specific instruction regarding the investments, issued by the State Bank of Pakistan (SBP).							
			Confirm the opening balances from the previous year audited accounts.							
			Ensure that investments are compliant with statutory provision provided in Income Tax Ordinance 2002, providing tax exemption to PVTC.							
			Ensure that interest income is accurately accounted for and also ensure that neither the interest income is understated nor overstated.							
2	The risk that surplus funds may not be invested in timely manner and delay results in loss of income to PVTC.		Ensure that amount of surplus funds and investments period are determined through cashflow statement to get optimum yield.							
			Review that surplus funds and maturing investments are invested/ reinvested in timely manner so as to avoid any delay							

3	The risk that optimum yield on the surplus funds may not accruing		Review that surplus funds are invested competitively and best rates are negotiated. Review that investment period is based and determined on the market outlook.							
4	The risk that Investment are not appropriately authorized.		Check the additions made during the year and 20% of the selected transactions should be checked for requisite approvals as required under delegation of authority matrix.							
5	The risk that Investments may not be recorded in the correct accounting period.		Examine Investments records for the period after the balance sheet date. Determine whether the investments relating to the period before the balance sheet is not recorded in the correct accounting period..							

6	The risk that investment may have lost or misappropriated		Select sample (10% of investments) and trace them to the accounting records and vice versa and verify them by their underlying details.							
			Physically verify the 20% of the investment instruments and review calculation of markup income for 20% of the investments.							
			Correlate the markup income on investment with the funds invested.							
7	The risk that Investments are not appropriately disclosed in the financial statements.		Ensure that Investments are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-08: CASH AND BANK										
1	The risk that cash and bank balances have not been completely reported in the books of accounts.		Obtain list of Bank Accounts maintained at Headoffice, regional offices and VTI's (new, existing and closed during the year) Check that bank accounts exist in the name of PVTC and authorized signatories are approved as per delegation of authority matrix. Obtain direct confirmations form the Banks on the opening of new accounts of PVTC							
2	The risk that bank accounts, opening of new accounts and closing of existing accounts, may not be carry necessary authorization. Moreover the changes in cash limits may not be appropriately authorized.		Review that addition of new accounts, closing of old accounts and cash limits carry authorization as per the delegation of authority matrix.							
3	The risk that cash/ bank balance may not be recorded in the correct accounting period.		Review material receipts in the subsequent period and check the the accounting period to which they relate. In case of PLS account, confirm that the interest earned has been accounted for.							

4	The risk that Bank Balances may not exist as reported in the books of accounts.		Confirm the closing balances directly from banks .							
			Obtain bank reconciliations and perform the following procedures: - Check the calculations. - Investigate about unusual items of reconciliation. - Check the subsequent clearance. - If the cheque is outstanding more than six months whether they should be added back to bank balance and the corresponding liability reinstated. (note the fact only). - Ensure that the reconciliations are made on monthly basis.							
5	The risk that cash in hand may have been misappropriated/ lost/ unauthorized paid.		Review Cash Book and perform cash count to confirm the existence of cash in hand.							
6	The risk that losses due to cash lost/ theft/ misappropriation may not be covered.		Verify insurance limit of the cash at PVTC and ensure that it has not been breached throughout the year by analyzing the cash book							
7	The risk that Cash and Bank assets are not appropriately disclosed in the financial statements.		Ensure that Cash and Bank Balances are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-09: TRADE AND OTHER PAYABLE										
1	The risk that trade and other payable are not fairly recorded.		Check opening balance with audited accounts/ Trial Balance							
			Obtain a comparative summary of trade accounts payable balances. Trace totals to the general ledger and the previous audit's working papers							
			Scan the detailed listing of accounts payable and investigate significant unusual items (e.g., debit balances and old unpaid invoices).							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed accounts payable records with the control account(s) in the general ledger.							
2	The risk that vendors are not authorized		Check that new vendor is authorized as per delegation of authority matrix							

3	The risk that trade and other payable may not be recorded in the correct accounting period.		Identify and test the adequacy of procedures for cutoff of period-end accounts payable.							
			Test extensions and postings on the supporting documentation. If invoices have not been received, the liability may be determined by comparison with priced purchase orders, suppliers' price lists, earlier invoices for identical goods, standard costs, or other suitable evidence.							
			Examine files of unmatched receiving reports or unmatched or unpaid vendor invoices, files of pending claims and credits for returned goods to determine if the liability for goods and services received and credit for valid claims and returns made before the balance sheet date is properly recorded.							
4	The risk that Trade and Other Payble are overstated and may not exist.		Obtain direct confirmation of selected accounts from vendors and check reconcilations, if differences exist.							
			Consider key performance indicators and management information that would indicate unusual fluctuations in purchases or return patterns, before and after period-end and, if present, review for possible cutoff errors.							

5	The risk that Trade and Other Payable are not appropriately disclosed in the financial statements.		Ensure that Trade and Other Payable are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-10: LOANS AND ACCRUED MARKUP										
1	The risk that Long term and short term loans and accured Markup are not fairly recorded.		Check opening balance with audited accounts/ Trial Balance							
			Obtain the loan agreements/ approval letter of Government of Punjab and make extracts of material terms and conditions. Ensure that these are in accordance with the PVTC's policies							
			Obtain and review loan reconciliation made by PVTC with Government of Punjab.							
			Review that markup for the period is appropriately recorded in the books of accounts.							
2	The risk that Loans and Accured Markup may not be recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date. Determine whether items identified in the disbursement records relate to the period before the balance sheet date and should be recorded in the accounts							
3	The risk that markup on the loans is not completely recorded.		Review mark-up calculations, validate rate of markup and the number of days.							
			Verify rate of interest from the approval letter issued by the Government of Punjab							
4	The risk that Loans are not appropiatly authorized.		Review minutes of PVTC Council for the approval of the Council							
			Ensure that Loans are authroized per the authority matrix.							

5	The risk that Loans and Accrued Markup are not appropriately disclosed in the financial statements.		Ensure that Loans and Accrued Markup are disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-11: TAX PAYABLE										
1	The risk that Tax Refundable to PVTC is not fairly recorded.		Obtain a comparative summary of Tax Payable. Trace totals to the general ledger and the previous audit's working papers.							
			Scan the detailed listing of Tax Payable and investigate significant unusual items (e.g., debit balances and items of long outstanding in nature)							
			Test the mathematical accuracy of the detailed listing.							
			Examine support for any significant adjustments made throughout the period by the F&A dept. in reconciling detailed of records in the general ledger.							
			Trace selected items on the listing and review underlying documents to determine the accuracy of the listing.							
			Inquire about potential sources of unrecorded tax payble, e.g.withholding tax from salaries, vendors, bills etc.							
2	The risk that Tax Refundable to PVTC may not be of the refundable nature.		Ensure that tax deducted is deposited in time as per Income Tax Ordinance 2000.							
3	The risk that Tax Refundable may not be recorded in the correct accounting period.		Examine tax records for the period after the balance sheet date and determine whether items identified in the accounting records relate to the period before the balance sheet date and should be recorded in the accounts							

4	The Risk that Tax Refundable may not have been correctly calculated.		Review assessments order to certain any delay noted by the Tax Authorities.							
5	The risk that Tax Refundable to PVTC may not be appropriately disclosed in the financial statements.		Ensure that Tax Refundable is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-12: GRANT FOR ESTABLISHMENT AND REHABLITATION OF VTI'S										
1	The risk that Grants for Establishment and Rehabilishments are not fairly recorded.		Check opening balance with audited accounts/ Trial Balance. Scan account and investigate significant unusual items (e.g., debit balances). Examine support for any significant adjustments made throughout the period by the F&A dept. in Grant for Establishment/ Rehabilitation of VTIs in the general ledger.							
2	The risk that Grants is not appropriately spent.		Ensure that Grant has been spent in accordance with the term and conditions specified in the contract/ agreement/ authority letter from Government of Punjab.							
3	The risk that Grant funds are not correctly reported		Review reconciliation with P&D dept., Govt of Punjab from amount of funds received during the period.							
4	The risk that Grant funds are not appropriately disclosed in the financial statements.		Ensure that Grant is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-13: TUTION FEES AND FEE RCEIVABLE										
1	The risk that tuition fee and fee receivable are not fairly recorded.		Obtain a comparative summary of Tuition Fees and Fees Receivable, trace totals to the general ledger and the previous audit's working papers							
			Scan the detailed listing and investigate significant unusual items (e.g., debit balances etc).							
2	The risk that Tution Fees may not have been completely recorded and misreported.		Obtain enrolment data and fee schedule and perform a reasonableness test of reported tuition and fee income based on the number of students and the fee schedule. If variance is greater than ten percent, investigate for possible reasons.							
			If reasonableness test was not met or reasons were unidentifiable, obtain tuition records maintained and perform the following to the extent considered necessary:							
			a. Ascertain if the tuition records appear complete. (i.e. Do the records appear to be representative of the number of students per class rosters or other enrolment data?) If not, attempt to ascertain at least one student/family for which the tuition records are not found, and inquire about this to responsible individuals. If no explanation is given, discuss matter with supervisor.							

			b. Select a judgmental sample of payment per the tuition records and trace back to a funds receipts/ bank deposit.							
			c. Select a sample from the bank deposit/ receipts and trace to postings in the tuition records.							

3	The risk that tuition fee and fee receivables may not be recorded in the correct accounting period.		Identify and test the adequacy of procedures for cutoff of period-end Tution Fees receivable. Correlate the Tution fees with the student trained during the period to ascertain its reasonableness. Moreover, check whether any fees received in advance is acccordingly recorded.							
4	The risk that Tution Fees is not recognized in accordance with revenue recognition policy of PVTC.		Ensure that Tution Fees is recognized to the extent to students trained during the period.							
5	The risk that Tution Fees and Fees Receivable are not appropriately disclosed in the financial statements.		Ensure that Tution Fees and Fees Receivable is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

iat-14: GRANT AND DONTIONS										
1	The risk that Grants for Establishment and Rehabilishments are not fairly recorded.		Obtain a comparative summary of Graant received during the period, trace totals to the general ledger and the previous audit's working papers Scan account and investigate significant unusual items (e.g., debit balances).							
2	The risk that Grants/ Donations is not appropriately spent.		Ensure that Grant has been spent in accordance with the term and conditions specified in the contract/ agreement/ authority letter from Government of Punjab.							
3	The risk that Grant funds are not correctly reported		Review reconciliation with P&D dept., Govt of Punjab and Donors from whom funds were received during the period.							
4	The risk that Grant funds marked for assets are utilized toward operating expenes.		In case Grant funds were meant for assets, review for any operational expenditure met out of it. Moreover, check assets management and verify existence of assets created out of grant funds and maintenance of records.							
5	The risk that Grant funds are not appropriately disclosed in the financial statements.		Ensure that Grant is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-15: OTHER INCOME										
1	The risk that Other Income is not fairly recorded.		Obtain a comparative summary of Other Income, trace totals to the general ledger and the previous audit's working papers							
			Scan the detailed listing and investigate significant unusual items (e.g., debit balances etc).							
			Select 20% of the transactions and trace them to the underlying records to ensure the authorization and fairness of the amounts booked.							
			In case of sale of assets, check calculations to ensure that income on sale of assets is correctly workout. Check 20% of the transactions with the underlying records and review the computations.							
			Review potential sources of any sale/servies, that could have generated Other Income for PVTC and check that income is duly recorded.							
3	The risk that Other Income is not be recorded in the correct accounting period.		Identify and test the adequacy of procedures for cutoff of period-end receivable against Other Income.							
5	The risk that Other Income is not appropriately disclosed in the financial statements.		Ensure that Other Income is disclosed in the financial statements in accordance with the accounting pronouncements applicable to PVTC.							

IAT-16: UTILITIES										
1	The risk that utilities are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries etc).							
			Test selected transactions for underlying documentations i.e. bills are stamped "paid" by bank, bills are in the name of landlord, in case of variation, the same needs to be validated.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that utilities cost is unreasonably high		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that utilities are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date. Determine whether selected bills, debit (credit) memoranda, or other items identified in the disbursement records relate to the period before the balance sheet date and should be recorded in the accounts							
4	The risk that utilities are not appropiatly authorized.		Check that bills are approved as per Authority Matrix.							

IAT-17: LABORATORY CONSUMABLES										
1	The risk that Laboratory Consumables are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. bills, receipts of goods, stock register, material variation in the closing inventory, if any and its impact on expense for the period.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Laboratory Consumable cost is unreasonably high		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Laboratory Consumables are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether material consumed relates to the period before the balance sheet date and should be recorded in the accounts							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably recorded.							
4	The risk that Laboratory Consumables are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAT-18: REPAIR AND MAINTENANCE										
1	The risk that Repair and Maintenance Cost is not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. bills, receipts of goods, stock register, log books.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Repair and Maintenance cost are unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Repair and Maintenance cost is not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether Repair and Maintenance cost relates to the period before the balance sheet date and should be recorded in the accounts							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably recorded.							
4	The risk that Repair and Maintenance Cost is not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAT-19: INSURANCE										
1	The risk that Insurance Cost is not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. bills, Insurance Policies.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Insurance cost are unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Insurance cost is not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any insurance cost relates to the period before the balance sheet date and should be recorded in the accounts							
			Check Insurance Policies to ensure that end of period expense is reasonably recorded.							
4	The risk that Insurance cost is not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

5	The risk to business loss in shape of assets lost/ damaged/ misappropriated is duly mitigated.		Check insurance policies for adequacy of risks covered, calculations and underlying assertions i.e. valuation of vehicles, employees database, valuations of equipment							

IAT-20: PUBLICITY AND ADVERTISEMENT										
1	The risk that Publicity and Advertisement cost is not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries). Test selected transactions for underlying documentations i.e. bills, Purchase Order. Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Publicity and Advertisement cost are unreasonably high.		Check that actual expenditure is within the limits of the approved budget. Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Publicity and Advertisement cost is not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts Check bills of media agency to ensure that end of period expense is reasonably recorded.							
4	The risk that Publicity and Advertisement cost is not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAT-21: PRINTING AND STATIONERY										
1	The risk that Printing and Stationery cost is not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries). Test selected transactions for underlying documentations i.e. bills, GRN, Purchase order etc. Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Printing and Stationery cost are unreasonably high.		Check that actual expenditure is within the limits of the approved budget. Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Printing and Stationery cost is not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Printing and Stationery cost is not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAT-22: BANK CHARGES										
1	The risk that Bank Charges are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. Bank statements, schedule of bank charges etc.							
2	The risk that Bank charges are unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Bank charges are not recorded in the correct accounting period.		Examine Bank statements for material accounts after the balance sheet date, determine whether any bank chanrges relates to the period before the balance sheet date and should be recorded in the accounts							
4	The risk that Bank charges are not appropriately authorized.		Check that Bank charges are approved as per Authority Matrix.							

IAS-23: SECURITY EXPENSES										
1	The risk that Security expenses are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries). Test selected transactions for underlying documentations i.e. bills, Purchase order etc. Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Security expenses are unreasonably high.		Check that actual expenditure is within the limits of the approved budget. Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Security expenses are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Security expenses are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAS-24: POSTAGE AND TELEGRAM										
1	The risk that Postage and Telegram expenses are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries). Test selected transactions for underlying documentations i.e. bills. Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Postage and Telegram expenses are unreasonably high.		Check that actual expenditure is within the limits of the approved budget. Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Postage and Telegram expenses are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Postage and Telegram expenses are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAS-25: UNIFORM AND LIVERIES										
1	The risk that Uniform and Liveries expenses are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. bills, Stock Register, GRN, Purchase Order.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Uniform and Liveries expenses are unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Uniform and Liveries expenses are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts							
			Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Uniform and Liveries expenses are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAS-26: POL										
1	The risk that POL expenses are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries). Test selected transactions for underlying documentations i.e. Log Books, bills. Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that POL expenses are unreasonably high.		Check that actual expenditure is within the limits of the approved budget. Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that POL expenses are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that POL expenses are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAS-27: CONVEYANCE										
1	The risk that Conveyance expenses are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. approval of travel plan, tickets, travel policy.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Conveyance expenses are unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Conveyance expenses are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts							
			Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Conveyance expenses are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAS-28: RENT, RATES AND TAXES										
1	The risk that Rent, Rates and Taxes are not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. Rent Agreements, Taxes challans etc.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Rent, Rates and Taxes are unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Rent, Rates and Taxes are not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts							
			Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Rent, Rates and Taxes are not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAS-28: TRAINING AND TEACHING MATERIAL										
1	The risk that Training and Teahing cost is not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries). Test selected transactions for underlying documentations i.e. Bills, GRN, Stock Register etc. Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that Training and Teahing cost is unreasonably high.		Check that actual expenditure is within the limits of the approved budget. Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that Training and Teahing cost is not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that Training and Teahing cost is not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAT-30: OTHER EXPENDITURE										
1	The risk that expnditure is not fairly recorded.		Scan account and investigate significant unusual items (e.g., credit balances, material adjusting entries).							
			Test selected transactions for underlying documentations i.e. Bills, GRN, Stock Register etc.							
			Check file of bills payable and disbursements to ensure that end of period expense is reasonably accrued							
2	The risk that expenditure is unreasonably high.		Check that actual expenditure is within the limits of the approved budget.							
			Check that actual expenditure is reasonable as compared with the prior period spending							
3	The risk that expenditure is not recorded in the correct accounting period.		Examine disbursements records for the period after the balance sheet date, determine whether any bills/ payments relates to the period before the balance sheet date and should be recorded in the accounts							
			Check bills of vendors to ensure that end of period expense is reasonably recorded.							
4	The risk that expeniture is not appropriately authorized.		Check that bills are approved as per Authority Matrix.							

IAT-31: REVIEW OF FINANCIAL STATEMENTS

S. No.	Procedure	Ref No.	Remarks
1	Check that financial statements are in agreement with the Trail Balance/ books of accounts.		
2	Review grouping of accounts balance is done appropriately.		
3	Ensure that accounting policies are appropriately and consistently applied and in case of deviation discuss them with management.		
4	Check that financial statements comply with the International as well as national accounting standards applicable to PVTC.		
5	Assess the impact of outstanding audit observations of Internal Audit department on the financial statements under review and bring them in the notice of BAC.		
6	Assess the impact of outstanding audit observations of external auditor's opinion on the financial statements under review and bring them in the notice of BAC, if case IAD opinion differs.		

IAT-32: FINANCE FUNCTION

S. No.	Procedure	Ref No.	Remarks
1	Internal Controls and segregation of duties- General Ledger • Approval before Data Entry • All the financial transactions will be recorded in the computerized GL that includes Data Entry, Posting/ Verification, Editing and system administration • Filing and Record keeping • Data Integrity and Security		
2	Authorities and approvals for General Ledger • Authorizing Account Codes • Opening a period end in GL (month) • Defining date and authority of monthly closing • Access to GL		
3	Functional Review Treasury Does the employee responsible for reconciling accounts also perform any of the following functions: • Initiate transactions • Authorize transactions • Record transactions • Reconcile transactions to the GL		
4	Functional Review Payroll Do the same employees responsible for preparing payroll for processing also perform any of the following duties: •Modify the Employee Master File •Approve the payroll •Generate payroll checks •Distribute payroll checks •Receive final payroll reports (e.g. payroll registers) for review and approval		
5	Functional Review Bank Reconciliations Does the employee responsible for preparing bank reconciliations also have any of the following cash receipt		

	or disbursement responsibilities: • Receive cash receipts • Prepare cash deposits • Generate or print checks • Execute or authorize wire transfers • Sign checks •Have access to blank check stock •Review and approve the bank reconciliations		

IAT-33: LEGAL AND COMPLIANCE FUNCTION

S. No.	Procedure	Ref No.	Remarks
1	Review compliance status of PVTC Ordinance 1997		
2	Review compliance status of Income Tax Ordinance 2000		
3	Obtain representation from Legal Counsel		
4	Review that impact of legal cases on the PVTC including the financial statements		
5	Check that contingencies are fairly reported in the financial statements.		

IAT-34: PROCUREMENT FUNCTION

S. No.	Procedure	Ref No.	Remarks
1	Ensure that procurement of goods and services are authorized in the budget by the PVTC Board.		
2	Check goods/ services are classified in the proper head of accounts and vouch them on sample basis, also verify that for evaluation of the completion of the transaction the following documents and record for each item are maintained with the voucher. • Item is approved in the budget. • Procurement requests raised and duly approved as per delegation of authority. • Newspaper advertisement (for item exceeding certain limit). • At least 3 bids. • Comparative statement. • Purchase Orders. • Goods Receiving Notes (GRN). • Payable to vendor/ payment is appropriately recorded.		
3	Were excessive, fraudulent or infructuous purchases avoided by taking into consideration important aspects e.g. consumption during last 3-5 years, during current year, average rate of consumption, available stocks, outstanding dues/supplies, past consumption pattern, average life of equipments/items etc?		
4	In making forecasts, did the indenting department only consider "True issues" i.e. actual consumption excluding inter-transfer adjustments, non-recurring issues etc?		
5	Were there cases of purchases less than the actual requirement that might have adversely affected the progress of works and resulted in subsequent procurement at additional and may be higher costs?		
6	Were demands for stores received from different wings/units clubbed together so as to reap the benefits of bulk buying?		

7	Were requirements intentionally bifurcated/split so as to avoid approval from higher authorities?		
8	Was obsolescence factor taken into account by ensuring that the equipment to be purchased conformed to the latest specifications and technology available in the market?		
9	Were the specifications drawn up with emphasis on factors like efficiency, optimum fuel/power consumption, use of environmental friendly materials, reduced noise and emission levels, low maintenance cost etc?		
10	Did the specifications take care of the country's mandatory and statutory regulations, if any, applicable for the goods to be purchased?		
11	Was cost benefit analysis done to establish justification for procurement?		
12	Were requirements prioritized so as to ensure optimum utilization of scarce resources?		
13	Was there rush of expenditure on procurement at the close of the financial year or fictitious booking merely with the view to utilizing budget grants?		
14	Was Rate analysis done in a realistic and objective manner on the basis of prevailing market rate, last purchase prices, economic indices for raw material/labour and other input costs etc.?		

IAT-35: PAYROLL AND HR FUNCTION

S. No.	Procedure	Ref No.	Remarks
1	Obtain the list of employees of PVTC (officer and above) with their respective designation and signature. File the above in the audit file.		
2	Obtain monthly reconciliations of gross salary and check the calculations. Ensure that new joiners and leavers are appropriately authorized.		
3	Obtain monthly reconciliation of net salary and check the calculations and review movements.		
4	Select any 10% employees from salary sheet and prepare a spreadsheet from their salary slips of any month chosen on random basis. Verify the completeness and accuracy of the statement.		
5	Ensure that the personal files are adequately updated and maintained for the sample selected in test # 2.		
6	Confirm the basic salary of the samples from their personal files.		
7	If the employee has availed any type of staff loan, confirm it and ensure that its recovery of installment is being made appropriately from the salary.		
8	Authenticate the figures reported in the returns from the accounts.		
9	Compare the total manpower expenses of the current year with that of the last year, and investigate for the increase greater than 10% and document the findings & deviations from procedures.		
10	Check that withholding tax is deducted correctly and timely deposited. Moreover, statements of tax deducted are submitted to authorities on time.		

11	Ensure that compliance is made with the statutory provisions related to employees benefits e.g. EOBI, Gratuity etc.		

IAT-36: BUDGETING FUNCTION

S. No.	Procedure	Ref No.	Remarks
1	Check the minutes of the meeting of the PCTV Council of the necessary approval and observations, if any.		
2	Check the methodology and approach used in the preparation of budget.		
3	Check the reasonableness of the underlying assertions and calculations used in the ascertaining the amounts.		
4	Review whether data has been accumulated by each cost centre and thereafter consolidated.		
5	Review that financial figures corroborates with the operational plan of the PVTC and fairly reflect the strategic plan.		
6	Review the controls budgetary outlay and test their reasonableness.		
7	In case additional budget limits were required, have appropriate approvals were obtained.		

IAT-37: MER FUNCTION

S. No.	Procedure	Ref No.	Remarks
1	Check the reasonableness of the goals and target defined in the strategic plans.		
2	Review the actual results and draw assurance on the reasonableness of the financial and non-financial data.		
3	Check the methodology and basis used for ascertaining the outcomes i.e. Intermediate effects of outputs		
4	Check the methodology and basis used for ascertaining the Impacts i.e. Long-term effects on identifiable population groups		
5	Review whether Result Based Framework is used to assess the outcomes and impacts of the interventions made by PVTC.		

REPORTING TEMPLATES

PUNJAB VOCATIONAL TRAINING CENTER
REPORTING TEMPLATES
AUDIT REPORT

The Chairman PVTC
The General Manager Services
The Deputy Manager

AUDIT REPORT ON ABC DEPARTMENT

We have audited ABC Department for the period from July 2013 to Jun 2014

We have conducted our audit in accordance with the generally accepted practices which require that we plan and perform the audit to obtain the reasonable assurance about whether the Department has complied with the requirements of applicable covenants and report any non-compliance thereon.

Material instances of non-compliances are failures to follow the requirements or violations of the covenants that cause us to conclude that aggregation of non-compliances resulting from these failures are deemed to be material.

The results of our tests disclosed following instances of material non-compliances that are required to be reported as under
1.
2.
3.
4.
5.

MEMORANDUM OF OBSERVATIONS is annexed herewith and comments of unit are incorporated verbatim.

Internal Audit Department
MM, DD, YEAR

PUNJAB VOCATIONAL TRAINING CENTER
REPORTING TEMPLATES
MEMORANDUM OF OBSERVATIONS TEMPLATE

The Chairman PVTC
The General Manager Services
The Deputy Manager

MEMORANDUM OF OBSERVATIONS ON ABC DEPARTMENT

1. INTRODUCTION AND BACKGROUND

2. AREA OF OBSERVATION

a. Findings and observations

b. Implications

c. Recommended course of action

d. Management response

3. CONCLUSION