



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Internal Audit
Framework**

PMAD

Summer Exam-2025

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Q.1.

Categorization of Audit Reports: 4.2. The Audit/Review/Inspection report (in duplicate) will be sent by the LAOs to AT Section of CLA (DP) for categorization of the objections. These reports will be thoroughly scrutinized to ensure that the items included therein have been correctly categorized. The final decision on categorization will be by CLA (DP). The final categorization of objections included in the audit / review / inspection reports will base on the following criteria:

I - Category “A”

- (a) Losses (Cash/Stores) due to any reason upto Rs. 30,000/- 01
- (b) Minor Procedural irregularities. 01

II - Category “B”

- (a) Cash / Stores losses due to theft, fraud or neglect and due to other Causes from Rs.30,001/- to 100,000/- 01
- (b) Major Procedural irregularities.
- (c) Items of financial irregularities and procedural lapses requiring Govt. Sanction / sanctions of higher authorities. 01

III - Category “C”

- (a) All losses other than those noted against I & II above. 01
- (b) Direct embezzlement / misappropriation and fraud cases. 01

Criteria and procedure for reporting objections in GSA report:

- (c) Items considered fit for inclusion in GSA report. Normally objections having financial effect over Rs 500,000 are reported as GSA items. Remarks of the executive authorities will be obtained before inclusion of a case in the GSA Report. However, if the executive fails to respond within three working weeks the matter will be reported to the O/O MAG for inclusion in the GSA report. 04

NOTE:(One file on yearly basis for each LAO will be opened to record copies of categorized Review reports and these reports will be entered in Audit Progress Register Part-I (containing new cases) and APR Part-II (containing outstanding items more than one year) maintained in audit section to ensure their speedy settlement.)

(Reference: OM Part XII/ Responsibilities of Audit Section/ Categorization of Audit Report)

Q.2.

Inspection of Accounts Section (UA):

The L.A.Os will carry out periodical inspection of the Accounts Section (Unit Accountant) of the units in order to see: 02

- (a) That the Accounts Section of the Unit is properly accommodated.
- (b) That the records are kept neat and tidy.
- (c) That the prescribed registers (vide Annexure ‘A’ to Instructions for Unit Accountant) are properly maintained, particularly the Demand and the Payment Issue Registers and the registers of L.P.Cs to be issued.
- (d) That the books of regulations required to be maintained by the U.A. have been correctly kept and corrected up-to-date.
- (e) That the articles of Dead Stock in possession of the Unit Accountant agree with a inventory of the Dead Stock.
- (f) The L.A.O. will also enquire into the general relations between the Accounts Section and the Unit. Any complaint against or irregularities on the part of the U.A. will be investigated and, if necessary, brought to the notice of DCLA (DS)/CLA (DS) by L.A.O. confidentially.

(Topic: LAO Hand Book-II/ Preamble Para Inspection of Account section (UA))

Q.3.

CASH LEDGER AND SUBSIDIARY ACCOUNTS of Arsenal and Ordnance depots: The L.A.O will see that:-

- Cheques issued by C.M.A. are not accounted for until receipt of an intimation from the Bank that the amount has been credited to the accounts
- Whenever cash, cheque, etc., is received or paid, the appropriate accounts on the credit side of P.A.F.O. 1887 are posted immediately, in addition to its entry, being posted on the debit side of the cash ledger in "cash" or "Bank" column as necessary;
- The rules regarding the transactions by cheques contained in rule 36 et. seq., Financial Regulations, Part-I are observed;

Rules regarding the transactions by cheques contained in rule 36 of FR. Vol I:

The following general rules, affecting cheques, are prescribed, namely:--

- a. Cheques are payable at any time within three months after the month of issue and to ensure payment after that period, a fresh cheque should be obtained by surrender of the un-cashed cheque.
- b. Cheques drawn in favour of a Government servant must be made payable "to order" only. Those drawn in payment of personal dues shall, as a general rule, be crossed but an uncrossed cheque may be issued on written request at the risk of the payee. In the case of personal claims of civilian gazetted servants the payment shall be made by crossed cheque. Those drawn in favour of persons not in Government employ may be made payable to "bearer" when the issue in these terms is requested. No advice of the issue of a cheque is necessary. The amount of all military cheques should be expressed in figures and words (in words for the amount of rupees only).
- c. (1) Cheques drawn in favour of Government officers and departments in settlement of Government dues should always be crossed 'A/C payee only not negotiable'.
(2) Unless it is inconvenient to the payee, all cheques should be crossed, crossing being done by adding the words "A/C payee only" instead of the general crossing "& W." All cheques in favour of Government officers will if sent by post, be registered. In the case of cheques in favour of private individuals, they should be delivered either in person or through a Government officer; when it is necessary to send such cheques by post, they will be sent by registered post acknowledgement due, and a declaration should be obtained from the payee in writing that he accepts the risks involved.
- d. In the case of units /formations, cheques for amounts due will be crossed and marked "A/C payee only" and together with PAF (CMA) 223 sent direct to the Bank or Treasury by the controller of accounts for credit to unit's or formation's current accounts. At the same time, a detailed statement will be sent to the unit or the formation concerned. For this purpose all units and the formations in question should open a current account with the State Bank of Pakistan or National Bank of Pakistan where such bank exists, otherwise in a local treasury.
- e. The supply of cheque books, for the purpose of operating bank account will be made by the Bank itself but in respect of personal deposit account with civil treasuries, cheque books should be obtained from civil Accountant General.
- f. In no case should payment be demanded from bankers, and expenses incurred for the purpose of drawing cash until and intimation of the receipt of the cheque and credit of its value to the account concerned, is received from the Bank or Treasury except when there is sufficient credit in the particular fund account. The intimation slip issued by the Military Accounts Department is no authority for either drawing cash or posting and completing ledger accounts in advance.

g. When claims are submitted to Controllers of Accounts for cheques to be issued which have merely to be passed on to the creditors, the memorandum forwarding the claim should clearly indicate "Forward cheques direct to The Controller of Accounts will then forward the cheque direct to the firm or person whose bill is to be settled and intimate to the unit or formation that this has been done.

h. In the case of units and formations which are located in a station where there is no local branches of the State Bank of Pakistan or the National Bank of Pakistan or a civil Treasury, the above rule would not apply and cheques should, therefore, be sent to them direct.

j. With the exception of local payments for less than Rs. 10.00 and out station payments less than RS. 100/- in value in each case, which should be made in cash, all payments must be made by cheque.

i. Cheque books must be kept under lock and key in the personal custody of the drawing officer who, when relieved, will take a receipt for the number of blank cheques made over to the relieving officer, whose specimen signatures should be forwarded to the bank/treasury officer concerned by the relieved officer. 27

m . The loss of a cheque book or blank cheque forms should be notified promptly to the bank/treasury officer with whom the disbursing officer concerned has a drawing account. Every officer should notify to the bank/treasury upon which he draws the number of each cheque book as he brings it into use.

n. When an officer sends a cheque or Government draft to a bank/treasury not for cash payment, but to be credited in the bank/treasury accounts, he must endorse it as follow: "Place the amount to credit of Government Military receipt".

o. Cheque drawn on the bank or any of its branches should be addressed to the bank itself and not to any officer thereof, eg, National Bank of Pakistan, Karachi.

p. If a Disbursing Officer is informed that a cheque drawn by him has been lost he will address the bank/treasury officer drawn on and forward the following certificates for completion and return:-
"Certified that cheque No _____ dated _____ for Rs- _____ reported by the _____ to have been drawn by him on this bank/treasury in favour of _____ has not been paid, and will not be paid if presented hereafter".
Bank/Treasury, _____ Bank/Treasury Officer. The _____ 19".

Note: If the cheque has not been cashed, the bank/treasury officer will sign and return the certificate, and the Disbursing Officer will then cancel the original cheque and a fresh cheque may be issued.

q. Alterations in cheques should be attested by the full signature of the Drawing Officer and not by initials only.

r. If a cheque is issued by Government in payment of any sum due by Government, and that cheque is honoured on presentation to Government's bankers, payment shall be deemed to be made if:-

(1) The cheque is handed over to the payee or his authorised messenger, on the date it is so handed over.

(2) It is posted to the payee on the date when the cover containing it is put into the post. Note: Cheques marked as NOT payable before a certain date should NOT be charged to the account until the date on which they become payable.

(Reference /Topic: LAO Hand Book II / Arsenal and ordnance depots)

Q.4. GENERAL RULES FOR THE CONDUCT OF LOCAL AUDIT:

The following principles apply, in general, to the local audit of all store accounts: - It should be seen:

- a) That the accounting Procedure followed by units does not differ from that prescribed by the rules;
- b) That all receipts and issues of stores by units and transfer of stores between depots and/or consuming units have been duly accounted for in the store ledgers and returns, etc of the parties concerned;
- c) That stores issued for consumption or use do not exceed the scales authorised in regulations and equipment tables
- d) That all losses and damages are dealt with under the orders of the competent financial authority, in accordance with Financial Regulations
- e) That the balance of stores (other than A.S.C., stores and supply Depots, where stock limits are not to be checked in local audit) shown in store ledgers, etc do not exceed authorized limits and that suitable action is taken for the disposal of surplus or un-authorised stores.
- f) That payment issues are made only to be entitled Personnel in accordance with authorized scales vide Rule 499 et seq A.R .Vol-I(rules)and necessary recoveries are promptly effected and the amounts credited to government.

(Topic: LAO Hand Book –I/ General Rules for conduct of local audit)

Q.5.

The audit of all sanctions and orders issued by the Chief of Staff, the Auditor-General or the Military Accountant General devolves on the Controllers concerned and such audit must be carried out before audit is conducted on the transactions arising from such sanctions and orders.

While conducting the audit of sanctions to expenditure, it should particularly be seen that Govt. sanctions exist in the following cases:

- (i) In exceptional event of Lump-sum provisions being made for certain categories of expenditure which could not be finally cleared at the time of budget discussions; these categories of expenditure will be cleared as soon as possible after the budget allocations are made.
- (ii) Re-appropriation from “New” expenditure to “other than new” expenditure.
- (iii) Re-appropriation from Capital Heads to Revenue Heads.
- (iv) Re-appropriation to “pay and allowances of personnel”.

Note-1: Delegation of powers by the Chief of Staff is done with the approval of Ministry of Defence.

Note-2: No audit is necessary by Controllers on grants sanctioned by the Chief of Army Staff from his grant for unforeseen expenditure. A pre-audit of these sanctions is carried out by the Military Accountant General.

(Reference/ Topic: Military Audit Code/ Sanctions and orders audit / Para 8)

Q.6.

IN THE CASE OF REGISTER OF MEASUREMENT BOOK:

- 1) See that it is kept in accordance with para 334 of the Regulations for the M.E.S.
- 2) See that books over 10 years old for date of completion of works have been destroyed.
- 3) See that the sanction of C.F.A. exists in respect of any missing books.
- 4) See that a census is taken of all the measurement books, in use by G.Es and S.D.Os and check it with the register once a year.
- 5) Notice causes of delay in setting contracts claims between the dates of measurement and submission of bills.

IN THE CASE OF REGISTER OF APPROVAL TO WORKS (P.A.F.W-1816)

- 1) See that it is posted upto date
- 2) See that sanction of C.F.A. exists in respect of every sanction.

IN THE CASE OF MUSTER ROLLS (P.A.F.W. 2255)

- 1) See that there is evidence that the record of attendance is checked by responsible officers.
- 2) See that the quantity of work done by the labour employed is entered in sufficient detail either in measurement books or in separate progress reports.
- 3) See that cost of labour is not so largely in excess of the value (at current rates) of the work done as to indicate either loss to Government or need for closer financial control.

(Reference/ Topic: MAC/ Appendix III/ General Instructions for the Audit of MES Expenditure)

Q.7.

- a** As per Military audit code under the head Audit against propriety, the statement is incorrect as the correct statement is “Public money should not be utilized for the benefit of a particular person unless the amount of the expenditure is **insignificant** or a claim could be enforced in the court of law.

Q.7.

- b** As per Military audit code under the head Audit of receipts and recoveries general rules, the statement is correct.

Q.8. SELECTION OF VOUCHERS:

- a** The vouchers to be test checked and the ledger entries should be selected personally by the LAO immediately prior to the commencement of the test check and his selection orders should be recorded by him in clear terms. If, at the time Local Audit is due to commence, the LAO is away from the station, he should intimate this selection by post to the AAO in time to reach him the day before the commencing day of the audit. The AAO should keep the orders confidential. A precise record of the particular vouchers, items or accounts selected and the method adopted for their selection will be kept to enable any independent authority (like External Audit) to identify and review every item selected by the Military Accounts Department.

The method of selection should be random, so that the particular method cannot possibly be pre-supposed by the store-keeping staff or by the local Audit Staff. Occasionally, the same formula of selection may be adopted in two consecutive visits (or months).

Q.8. **33 per cent of 'E' vouchers** or purchase vouchers for test linking will be selected
b

Q.8. **RECEIPT VOUCHERS**

c Possible methods for **selecting 33 per cent of 'E' vouchers** or purchase vouchers for test linking into consignee ledgers and returns would be as follows:

- 1) Select every third voucher on each schedule commencing from serial No. 1 or 2 or 3.
- 2) Select every alternate voucher commencing from any specified serial Number of each schedule till you get the required number, viz., 1/3rd of the total number 67 of items in the schedule, if necessary (to get 1/3rd of the total) on reaching the end of the schedule, restart at the beginning.
- 3) Select the required number (1/3rd of the total) by taking all consecutive numbers commencing from a specified serial Number of the schedule (and recommencing at the beginning again, if necessary, to complete the total number required).
- 4) Select the first 2 (or 3 or 4 or 5) items, omit the next 2 (or 4 or 5) then select the next 2 (or 3 or 4 or 5) and so on till you get the required number.
- 5) Select the first 2 (or 3), omit the next 4 (or 6), then take the next 2 (or 3) and so on.
- 6) Select 16-2/3 per cent of the total number of vouchers according to method No.1 above, and the remaining 16-2/3 per cent according to method No.2 above etc.
- 7) As an exception to general rule, in the case of big vouchers containing a large number of items may be selected.

(Reference: OM Part XII/Audit Procedures)

Q.9. **OUTSTATION REPRESENTATIVES ACCOUNTS:-**

a a) **Steps to verify the accuracy of cash book transactions:**

- In addition, where local administrative orders required that extracts of the monthly Cash Book should be sent to the circle office and that one copy thereof should be returned by the circle officer to the outstation representatives duly endorsed, the L.A.O should compare the certified extract relating to the month selected for test check, with the Cash Book to ensure that the extract shows the complete transactions for the month.
- It should be seen that the receipts (P.A.F.A. 175) are issued under the signature of the M.E.Os Agent and as soon as a book is complete, it is returned to the circle office for record.
- Ensure that the method of check applied to the cash book is consistent with the inspection guidelines outlined in Para 12 which is summarized below:

12. CASH BOOK (P.A.F.A. 125):- One completed month's transactions will be selected for detailed check in each inspection. The general instructions contained, in section I and II, so far as these are applicable in respect of receipts and disbursements of money will be followed. In addition, the following checks should be exercised in the month's accounts selected for detailed check:-

RECEIPTS:-

(i) Verify from the counter-foils of official receipts issued in P.A.F.A. 175 the receipt entries in the Cash Book and ensure that unauthorized receipts forms are not used or temporary receipts are not passed.

(ii) See that all realizations for which receipts were issued during the month were credited in the Cash Book on the due date.

(iii) Trace the individual credits, other than those already checked under para 7(c), 14,15(d) and 16(b) into the M.E.O's Land Revenue Register or Register of Contract or the Account Sale Register or the Register of Security Deposits.

(iv) See that nothing in the nature of a private fund is maintained since all receipts and expenditure are required to be passed through the Government Accounts.

(v) See that the M.E.O has endorsed a certificate of correctness of entries (receipts and payments) made by a clerk or other Assistant during his absence on tour.

PAYMENTS:-

See that all realizations of revenue are paid promptly into the Treasury and the Treasury receipt is forwarded to the C.M.A. without delay.

1. In the case of refund of the cost of survey and demarcation (Rule 20(2) C.L.A. Rules) verify from the original lease that the amount refunded is correct.
2. As regard refunds of security deposits verify the correctness of the amount refunded by reference to the security deposit register.

Q.9. Addressing the issue of missing and outdated registers:**b**

- Since the activities of outstation representatives are depicted in the circle accounts, it is not essential to apply detailed and meticulous inspection to the registers maintained by M.E.Os outstation representative, but it should be seen generally that the requisite registers (e.g. stock register for garden tools, tree guards, accounts sale register for sale of wood, etc), are maintained, that they are posted up-to-date and that the collection of revenue is not seriously in arrears.
- If any register is missing or outdated, instruct the out station representative to update and maintain them properly.
- Conduct a general review of revenue collections to ensure there are no serious arrears.

Q.9. Recommendations for improving compliance:**c**

- Ensure that extracts of the monthly cash book are regularly sent to the circle office and properly endorsed before being returned to the outstation representative.
- Establish a routine check to verify that all receipt books (P.A.F.A. 175) are promptly signed, completed and returned to the circle office.
- Conduct periodic training and refresher sessions for outstation representatives on proper financial record keeping and compliance with LAO hand book guidelines.

(TOPIC: LAO Hand Book Part-II/ MLC revenue collection offices (para 23 and 12))
