MODULE 5 | INTERNAL CONTROLS, AUDIT, DAC AND PAC

Internal Controls in Hospital Administration

19

LECTURE

Practical hospital governance in Punjab, Pakistan

Protect money, stores and records.
Make each important check visible.

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SELF-STUDY PDF

Make controls part of normal hospital work

For the Medical Superintendent (MS): know who may act, what must be checked and what evidence must remain.

- Separate management controls from audit.
- Identify weak points in money and stock handling.
- Use independent checks and clear records.
- Correct failures and verify that the correction works.

OFFICIAL SOURCE

A principle tied to a named law, rule or official manual.

WORKING METHOD

A practical control or teaching format to adapt to the authorised system.

TEACHING CASE

An invented hospital example. Amounts are for learning, not spending authority.

Study output

A simple control map, one checked reconciliation and an action record for a weak control.

Module 5 | Presentation 1 of 4. Allow 45-60 minutes with exercises. All explanations are on the pages; check the cited sources before live use.

Find the rules and orders that apply

A government hospital, an autonomous institution and a public company may have different accounting and approval arrangements.

Departmental framework

- Punjab Public Financial Management Act 2022, section 40, provides for Finance Department guidelines and departmental internal control manuals.
- Section 39 assigns finance, accounts and internal control functions to the departmental Finance and Accounts Unit. Identify the instructions that reach your hospital.

Institutional framework

- Check the hospital's governing law, valid delegations, fund rules and approved procedures. The 2003 medical institutions framework applies only to institutions within its scope.
- The Accounting Policies and Procedures Manual (APPM) has a stated scope. Apply the authorised accounting system and later instructions; do not assume every hospital is identical.

An MS should obtain the actual applicable orders. A local checklist may support them but cannot replace or amend them.

Sources: **F1**: ss. 39-40, 48 | **F4**: s. 1.4 | **F6**: ss. 13-15

What is an internal control?

An internal control is a check built into work to reduce the chance of an error, misuse, loss or unsupported decision.

Before or during the work

- Confirm that the right officer approved the transaction, the funds are available and the goods or service are actually needed.
- Limit access to money, stores and systems. Separate tasks so that one person cannot control every part of a transaction.

After the work

- Compare records with independent evidence, such as a bank statement, physical count or receiving department's confirmation.
- Investigate differences, correct the cause and check that the new arrangement works. A signature alone does not show what was checked.

Controls reduce risk. Errors, collusion and deliberate bypassing can still occur, so checks and follow-up remain necessary.

Sources: **F4**: ss. 2.3.2-2.3.3

Management, internal audit and external audit differ

Do not transfer management responsibility to the auditor.

Function	Main purpose	Hospital example
Management control	Prevent or detect a problem in normal work.	A second officer checks the cash count or payment evidence.
Internal audit	Review risks, controls and records within the approved audit mandate.	An audit team tests whether receipt controls are working.
External public audit	Independent public audit under the constitutional and legal framework.	The Auditor-General examines government accounts and transactions.

Article 170(2) assigns the stated public audit to the Auditor-General, who determines its extent and nature. Internal checks do not replace it.

Sources: **F4**: s. 2.3.2.8 | **F7**: arts. 169-171

Ask six questions about each important process

Use these questions for cash, payroll, purchases, stores, equipment and financial reporting.

01 What can fail?

Describe the specific error, loss or misuse.

02 Who acts?

Name the responsible post and its authority.

03 Who checks?

Identify a suitable person separate from the task.

04 What is checked?

State the records, quantities or decisions to compare.

05 What is kept?

Keep dated evidence of the result and any difference.

06 Who follows up?

Name the officer who resolves and verifies exceptions.

Choose a frequency that meets the applicable rule and the actual risk. Do not describe a suggested local review period as law.

WORKING METHOD | Illustrative material is identified in the text.

Authority and funds are separate checks

A budget amount does not itself authorise every purchase, contract or payment.

Check	Question to answer	Evidence
Purpose	Is this an authorised hospital purpose?	Approved service need and relevant budget head.
Power	May this officer approve this action and amount?	Current delegation and any conditions.
Funds	Are funds available after existing obligations?	Budget, releases and commitment records.
Performance	Has the contractual payment condition been met?	Contract, inspection and acceptance evidence.
Payment	Is the claim correct, unpaid and properly approved?	Checked invoice, deductions and payment record.

Section 33 requires sanctioned and authorised expenditure from the named public funds. PFR 2.10 also requires competent sanction and funds.

Sources: **F1**: s. 33 | **F2**: r. 2.10(b) | **F4**: ss. 4.2.6, 4.5

Separate tasks that could conceal one another

Segregation of duties means that different people perform incompatible parts of a transaction.

Useful separation

- The person requesting a purchase should not alone order it, certify delivery, change the stock record and arrange payment.
- The cashier should not be the only person who records receipts, checks bank deposits and explains missing collections.

Apply the actual requirements

- APPM 13.2.1 separates ordering, approval and receipt functions. Section 2.3.2.8 identifies separation in receipts, expenditure and payments.
- Where APPM 4.2.6.1 applies, the claim approver must differ from the sanctioning officer and the Drawing and Disbursing Officer (DDO).

Use the approved institutional arrangement. A committee title is not a substitute for identifying who actually checked each fact.

Sources: **F4**: ss. 2.3.2.8, 4.2.6.1, 13.2.1

A staff shortage needs a documented solution

A small team may need extra independent review. It does not gain permission to ignore a mandatory separation of duties.

Work within lawful limits

- Map the overlapping tasks and identify the exact rule or order. Seek a competent staffing or approval arrangement where the required separation cannot be met.
- Do not let a temporary arrangement become an undocumented permanent practice. State its owner, scope and review date.

Add practical safeguards

- Use a second authorised reviewer, controlled access, independent bank evidence and selective physical checks as the risk requires.
- Keep evidence of what the reviewer examined. If a control is mandatory, an extra informal check does not waive it.

Escalate an unresolved control gap with a specific decision request. Continue essential services through authorised arrangements.

WORKING METHOD | Illustrative material is identified in the text.

A simple risk and control map

Teaching format: use one row for one specific risk. Add the named owner, frequency and action date in your local register.

Risk	Control	Evidence of the check
Collected fees are missing	Compare authorised receipts, collection totals and bank credits.	Signed comparison and explained differences.
The same invoice is paid twice	Search the payment record using supplier and invoice details.	Earlier-payment check linked to the claim.
Stores are issued without record	Require authorised issue evidence and physical checks.	Issue voucher, recipient and count record.
Pay continues after departure	Compare HR changes with the payroll change record.	Approved order and payroll confirmation.
A former user can alter records	Remove obsolete access and review user rights.	Approved access list and dated change log.

Write controls so another officer can repeat them. "Ensure compliance" does not tell the officer what to do.

WORKING METHOD | Illustrative material is identified in the text.

Check a purchase claim before payment

Use the required payment route. These practical checks connect procurement, receipt, accounts and approval.

01 Approval

Find the competent sanction and available funds.

02 Contract

Check the approved terms, rates and payment conditions.

03 Receipt

Confirm quantity, quality and acceptance by authorised staff.

04 Amount

Check arithmetic, eligible deductions and the net amount.

05 Payee

Verify supplier identity and bank details independently.

06 Prior payment

Check that the same claim has not already been paid.

A genuine invoice is not proof of delivery. A delivery note is not always proof that contractual acceptance tests were passed.

Sources: **F2**: r. 2.32(a) | **F4**: ss. 4.2.6, 4.5.3-4.5.4

Follow each receipt from collection to the bank

Use the authorised fee schedule, exemption policy, collection point and institutional fund arrangements.

At collection

- Issue the authorised receipt and keep a complete record. Account for used, cancelled and unused receipt numbers or their electronic equivalents.
- For permitted public collections under APPM, the receiving officer is accountable; public and private money must remain separate.

After collection

- Match collections to recorded deposits and actual bank credits. Investigate gaps, late credits, unusual cancellations and refunds.
- APPM requires government receipts to be deposited without delay. Retaining receipts to meet expenditure needs specific government permission under its framework.

An institution's valid law or fund rules may govern retained income. Establish that authority before treating collections as money available to spend.

Sources: **F4**: s. 5.2.2 | **F6**: s. 14

Reconciliation means explaining every difference

Compare two independent records for the same account and period. A reconciliation is not merely copying one total into another report.

1	**Collect**	Obtain the books, bank statement and supporting receipts or payments.
2	**Match**	Compare individual amounts, dates and references; identify items in only one record.
3	**Explain**	Separate genuine timing items from errors, unauthorised items and unexplained differences.
4	**Resolve**	Make authorised corrections, track pending items and have another officer review the result.

Apply the prescribed account-specific timetable. The four steps are a working explanation, not a new statutory reporting schedule.

WORKING METHOD | Illustrative material is identified in the text.

A difference may have a valid explanation

Invented example: the same hospital account and date. Assume all book entries are correct and the two timing items below are verified.

Book balance	PKR 500,000 in the hospital's cashbook bank column.
Bank balance	PKR 470,000 on the bank statement.
Deposit not yet credited	Add PKR 80,000: entered in the books and supported by a genuine deposit record.
Cheques not yet presented	Subtract PKR 50,000: issued and entered in the books, but not yet paid by the bank.
Adjusted bank balance	470,000 + 80,000 - 50,000 = PKR 500,000, matching the books.

Confirm later clearance. Do not use unexplained "timing differences" to conceal old missing money or unsupported payments.

TEACHING CASE | Illustrative material is identified in the text.

Cash in hand needs a physical count

A bank reconciliation checks bank records. It does not prove how much cash is physically in the hospital safe.

What the Punjab rules say

- Where PFR 2.2 applies, cash transactions are entered as they occur and checked. The head of office personally verifies the month-end cash balance, subject to the stated absence arrangement.
- Rule 2.3 sets the last working day for counting; if that is not possible, count on the first working day of the next month before disbursement.

What the check should show

- Record the date, counted amount, book balance and difference. Identify the counter and reviewer under the authorised arrangement.
- Investigate discrepancies and follow the rules for correction and reporting. Keep custody, keys and handovers clear; never mix private money with official cash.

Check the stated rule exceptions and any separate approved system. Do not replace a required count with a signed statement based only on the book.

Sources: **F2**: rr. 2.2-2.3 | **F4**: s. 5.2.2.8

Stores records must match actual goods

A stock balance is reliable only when receipts, issues, returns and authorised adjustments are supported.

Control each movement

- Check goods on receipt against the valid order, quantity, quality and condition. Record the responsible receiver and acceptance decision.
- Use authorised requisitions and signed issue evidence. Record transfers between stores and wards on both sides so stock does not disappear between locations.

Count and investigate

- APPM 13.3.6 requires stock balances to be checked regularly, at least once a year, within its applicable framework; it also requires independent verification arrangements.
- Record condition as well as quantity. Investigate differences and permit record adjustments only through the authorised officer and supporting evidence.

High-value, fast-moving or easily removed items may need more frequent checks as a local control. A count does not itself authorise a write-off.

Sources: **F4**: ss. 13.3.2-13.3.6

Calculate the shortage before deciding its cause

Invented example: all entries refer to the same consumable, unit, store and cut-off date.

Available in the records	Opening balance 3,000 units + receipts 1,500 = 4,500 units.
Expected closing stock	4,500 - recorded issues of 3,200 = 1,300 units.
Physical stock	The independent count finds 1,220 usable units. Assume no separately held stock.
Difference and value	1,300 - 1,220 = 80 units short. At the assumed PKR 400 per unit, the value is PKR 32,000.
Next action	Recount, check timing and documents, secure evidence and report through the applicable process.

The figures establish an unexplained shortage in this case. They do not, by themselves, establish theft or identify the responsible person.

TEACHING CASE | Illustrative material is identified in the text.

Know where each important asset is

Use the approved asset register and physical checks. A hospital needs a record of both the asset and the officer responsible for it.

01 Identity

Record a unique number, description and serial number.

02 Acquisition

Keep the purchase or transfer record and recorded value.

03 Location

Record the ward, office, store or outside service location.

04 Custodian

Name the responsible post and record handovers.

05 Condition

Record working, idle, damaged or under-repair status.

06 Movement

Approve and record transfers, disposal and removal.

APPM 13.4 requires asset records and authorised changes. Do not copy an old monetary threshold into a current hospital policy without verification.

Sources: **F4**: ss. 13.4.1-13.4.2

Check payroll changes before money moves

Working review: compare the authorised HR record with payroll. Apply the relevant service rules and the approved payroll process.

01 Person and post

Confirm the employee and authorised appointment.

02 Entitlement

Use the valid pay-fixation and allowance orders.

03 Changes

Check joining, transfer, leave, retirement and other orders.

04 Bank details

Verify changes through a controlled, independent check.

05 Deductions

Apply only the legally authorised deductions or recovery.

06 Exceptions

Investigate duplicate records, unusual changes and arrears.

An attendance anomaly calls for verification and the lawful process. It is not permission for an arbitrary salary deduction or penalty.

Sources: **F4**: ss. 4.6.1, 4.6.5-4.6.6

Digital records need controlled access

These are working controls to apply through the approved IT and administrative arrangements.

01 Named users

Use individual accounts that identify who acted.

02 Limited rights

Give each user only the access needed for the role.

03 Changes

Approve and record access and master-data changes.

04 Departures

Remove obsolete access when roles or employment end.

05 Audit trail

Preserve logs showing important actions and changes.

06 Recovery

Keep protected backups and test authorised recovery.

A system report is evidence only if its source, period, completeness and reliability are understood. Protect confidential data during review.

WORKING METHOD | Illustrative material is identified in the text.

Keep a record another officer can understand

Punjab Financial Rules 2.32(a) require clear, complete records that can support enquiry into the transaction.

The transaction file

- Link the need, authority, budget, order, delivery evidence, claim, approval, payment and accounting entry using clear references.
- Keep the original record, dates, responsible officers and approved versions. A later explanation should identify its evidence.

The control record

- Show what was compared, who checked it, the result, any difference and the follow-up. A stamp marked "checked" may be insufficient to explain the work.
- Correct records through the authorised process and preserve the trail. Never backdate a check or replace missing evidence with a false certificate.

Follow applicable retention rules and any audit, inquiry or litigation hold. Preserve relevant records while an issue remains open.

Sources: **F2**: r. 2.32(a) | **F4**: ss. 16.2-16.3

A written procedure is only the starting point

A control can be well designed on paper and still fail in daily use.

Check the design

- Could the prescribed check detect or prevent the identified error? Does the checker have authority, enough information and independence?
- For example, a cashier's own summary cannot independently prove that all collected money reached the bank.

Check actual operation

- Select real transactions and repeat the check using the source records. Observe a count, trace a payment or compare the payroll change with its order.
- Record the cases selected and the limits of the review. A few correct examples do not prove that every transaction is correct.

Use a proportionate sample and expand it if a concrete problem appears. Record facts before drawing conclusions about the whole system.

WORKING METHOD | Illustrative material is identified in the text.

Close the problem, not just the correspondence

Working action register: one row for each control weakness. Keep evidence of completion and a later check.

Field	What to record
Finding	The specific failure, affected period and supporting evidence.
Immediate protection	How further loss or service disruption is being limited lawfully.
Correction	The cause, action required, responsible post and target date.
Verification	Who checks the correction and what proof is required.
Closure or escalation	Whether the fix works, what remains unresolved and who must decide.

A promise, training session or circular is not proof of a working correction. Test a later transaction or repeat the physical check.

WORKING METHOD | Illustrative material is identified in the text.

Respond promptly to suspected loss or serious failure

Protect the service and the evidence. Keep facts separate from allegations and follow the applicable reporting and inquiry procedure.

Act on the facts

- Confirm the immediate risk, preserve original records and prevent further unauthorised use through a lawful, proportionate step.
- For office losses covered by PFR 2.35(2), report at once through the immediate departmental superior to the Head of Department, stating the steps taken.

Keep the legal process clear

- PFR 2.33 addresses personal responsibility for loss caused by fraud or negligence, including another person's loss where one's own action or negligence contributed.
- A later complete report sets out the nature and extent of the loss, control failures and recovery prospects. Responsibility and recovery require the applicable competent process.

Do not wait for the next routine meeting to report a covered loss. Do not infer guilt merely from an unexplained difference.

Sources: **F2**: rr. 2.33-2.35

Give internal audit a useful, clear role

Use the institution's approved mandate, reporting line and applicable orders. This slide describes a working approach, not a universal hospital charter.

What management should provide

- Access to relevant records, a clear description of the process and truthful explanations. Agree how serious findings reach the proper authority.
- A plan that directs attention to important risks, repeated failures and major changes. Record management's response and action owner.

What management must retain

- Responsibility for running controls, deciding lawful corrective action and producing reliable accounts. The reviewer should not merely approve their own daily work.
- The duty to respond to external public audit through the authorised route. A favourable internal review does not remove an external audit observation.

The APPM identifies separate accounts and audit functions and regular internal and external post-audit. Later lectures cover formal audit replies, DAC and PAC.

Sources: **F4**: s. 2.3.2.8 | **F7**: arts. 169-171

Give the institutional head a short control report

Working management report: show the unresolved risk, the officer responsible and the next decision required.

01 Money

Cash differences and unreconciled bank items.

02 Payments

Duplicate claims, unsupported bills and overdue valid dues.

03 Stores

Shortages, expiry risks and incomplete stock checks.

04 Payroll

Unresolved changes and suspected duplicate payments.

05 Systems

Obsolete access and unexplained record changes.

06 Actions

Overdue corrections and failures that have repeated.

Use the approved reporting route to the Executive Director, governing body or department. Report evidence and action, not only reassuring percentages.

WORKING METHOD | Illustrative material is identified in the text.

Test three control decisions

Write your answer and the reason before turning to the next page.

1. One officer

The same officer collects fees, records collections and prepares the only bank comparison. All columns total correctly.

What weakness remains, and what check is needed?

2. A stock difference

Expected stock is 900 units. The count finds 850. Each unit is recorded at PKR 600.

What is the difference, and what can you conclude?

3. A closed action

A department says its duplicate-payment problem is closed because a new instruction has been issued.

What evidence is needed before closure?

Explain the control, the evidence and the limits of your conclusion. The examples are invented.

TEACHING CASE | Illustrative material is identified in the text.

Answers and reasons

Use the evidence, the calculation and the actual source of authority.

1. The check is not independent.

One person can conceal missing collections across the records. Arrange an authorised independent comparison of receipts, deposits and bank credits, and review any required separation of duties.

2. Fifty units, with a recorded value of PKR 30,000.

900 - 850 = 50; 50 x 600 = 30,000. Recount and check documents and timing. The difference requires investigation and applicable reporting; it does not alone prove theft.

3. Evidence that the control now operates.

Check later claims against the payment record, inspect dated reviewer evidence and test the treatment of duplicates. Verify the result and any remaining cases before recording closure.

Control quality depends on the actual check, reliable evidence and follow-up. Correct arithmetic alone does not establish a lawful transaction.

Review one hospital process from start to finish

Use a non-confidential real case or the invented examples in this lecture.

Map the work

Choose receipts, a payment, stores or payroll. Identify each step, responsible post and approval.

Test a control

Use the relevant source records. Repeat one independent check and record the result.

Improve and verify

Describe one gap, the action owner and target date. State how another officer will verify the correction.

Reviewer question: can I see the risk, the applicable requirement, the actual check and the evidence that it worked?

Next: Lecture 20, Preparing for Audit and Answering Audit Observations.

WORKING METHOD | Illustrative material is identified in the text.

Sources and continued use | 1

Select a source title or its official-source link to open the document.

F1

Punjab Public Financial Management Act 2022

Punjab Act XXXVII of 2022. Sections 33 and 39-40 address expenditure authority, departmental finance functions and internal controls. Section 48 preserves existing financial rules until changed.

Government of Punjab | Punjab Laws | **Official source**

F2

Punjab Financial Rules, Volume I

Officially hosted compilation. Relevant rule numbers appear on the slides. Older amounts, forms and office descriptions must be checked against current amendments and applicable orders.

Punjab Finance Department | Copy hosted by Excise Department | **Official source**

F4

Accounting Policies and Procedures Manual (APPM)

Government of Pakistan manual, issued 13 February 1999; official academy copy. Apply its stated scope, subsequent changes and the authorised provincial or institutional accounting system.

Auditor-General of Pakistan | Pakistan Audit and Accounts Academy | **Official source** | **CGA manuals**

Educational material by Dr Qurban Hussain Khan. Source editions are stated; verify later amendments and applicable institutional orders before live use.

Sources and continued use | 2

Select a source title or its official-source link to open the document.

F6

Punjab Medical and Health Institutions Act 2003

Act IX of 2003. Sections 13-15 address delegation, institutional funds, budget and accounts. Apply only where the institution is governed by this framework and its valid rules.

Government of Punjab | Health Department | **Official source**

F7

Constitution of the Islamic Republic of Pakistan

National Assembly official compilation, Fourteenth Edition, 2025. Articles 169-171 establish the constitutional framework for the Auditor-General, public audit and submission of audit reports.

National Assembly of Pakistan | **Official source**

Educational material by Dr Qurban Hussain Khan. Source editions are stated; verify later amendments and applicable institutional orders before live use.