MODULE 5 | INTERNAL CONTROLS, AUDIT, DAC AND PAC

Preparing for Audit and Answering Audit Observations

20

LECTURE

Practical hospital governance in Punjab, Pakistan

Show what happened and what the rules required.
Support every important statement with evidence.

AUTHOR

Dr Qurban Hussain Khan

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SELF-STUDY PDF

Make the audit file explain the transaction

For the Medical Superintendent (MS): prepare records, test the facts and send a clear, supported reply.

- Understand the legal role of external audit.
- Produce records and explain genuine gaps.
- Separate an observation from an established loss.
- Prepare a supported reply and follow-up plan.

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 complete response file with a checked calculation, indexed evidence and an action tracker.

Module 5 | Presentation 2 of 4. Allow 45-60 minutes with exercises. All explanations are on the pages; check the cited sources before live use.

Know the constitutional basis

The Auditor-General of Pakistan (AGP) has a constitutional role. The hospital must understand the applicable audit mandate.

Provision	Plain meaning	Practical implication
Article 169	AGP functions and powers are determined by the law described in the Article.	Identify the legal basis of the audit.
Article 170(2)	AGP audits government accounts and bodies established by, or under the control of, government; AGP determines the nature and extent.	Autonomous status alone does not remove a hospital from this audit framework.
Article 171	Provincial audit reports go to the Governor for laying before the Provincial Assembly.	An unresolved matter can enter legislative scrutiny.

Article 170(1) also provides for the prescribed form, principles and methods of government accounts.

Sources: **C1**: Arts. 169-171

Give lawful access to records and explanations

Section 14 of the Auditor-General's Ordinance 2001 deals with record access and cooperation during audit.

What audit may require

- Inspection of accounts offices and relevant accounts, books, papers and other records.
- Relevant records at the place directed, and information or explanations needed for the audit.

What the officer in charge must do

- Provide facilities and records, and answer requests as fully and promptly as reasonably possible.
- Obstruction may attract disciplinary action under the applicable Efficiency and Discipline Rules.

Working method: log each request, identify the record holder and track production. Do not treat the record log as a reason to delay access.

Sources: **A1**: s. 14(1)-(3)

Do not confuse three different functions

The same transaction can be checked at different stages for different purposes.

Function	Main purpose	What it does not replace
Accounts / payment checks	Record transactions and check a claim before or during payment under the applicable system.	The hospital's duty to confirm the facts and lawful authority.
Internal audit	Review controls and risks within the approved institutional arrangements.	Management ownership of controls or the external audit mandate.
External audit	Independent examination under the applicable legal mandate, leading to audit findings or opinions.	The hospital's daily control system, or a court or disciplinary inquiry.

Working distinction: a passed bill or an earlier internal check does not prove that every part of a transaction was lawful.

WORKING METHOD | Illustrative material is identified in the text.

Understand what kind of audit is being conducted

Read the audit notice and scope. One engagement may examine more than one issue.

Audit type	Central question	Hospital example
Financial attest	Are the financial statements properly presented under the applicable reporting framework?	Whether reported expenditure and balances have adequate support.
Compliance with authority	Were the applicable laws, rules and prescribed procedures followed?	Whether a purchase had proper approval and followed the procurement rules.
Performance / value for money	Were resources managed economically, efficiently and effectively?	Whether funded equipment was used to deliver the planned service.

A correct total in the accounts does not answer a question about lawful approval or service performance.

Sources: **A2**: Auditing Standards and Types of Audit, p. 3

Three questions about an expensive machine

Teaching example: a machine was purchased, installed and entered in the asset register. Performance still needs evidence.

1

Economy

Was the required quality obtained at a justified cost, including running and maintenance costs?

2

Efficiency

Was the machine used well, given available staff, time, consumables and maintenance support?

3

Effectiveness

Did it help deliver the service and results for which it was purchased?

Use comparable periods and explain downtime, case mix and constraints. A low purchase price alone does not establish value for money.

TEACHING CASE | Illustrative material is identified in the text.

When the audit notice arrives

Working method: assign responsibility immediately while maintaining routine patient services.

1	**Read the notice**	Confirm the audit period, scope, office, visit dates and the records requested.
2	**Name a coordinator**	Identify the responsible record holders and the officer who will approve the hospital's replies.
3	**Preserve the records**	Secure paper files, system reports, relevant emails and logs. Stop routine disposal of records needed for the case.
4	**Track the dates**	Record the actual response deadlines and internal review dates. Escalate obstacles before the deadline.

The coordinator organises access. The coordinator does not choose which inconvenient records audit may see.

WORKING METHOD | Illustrative material is identified in the text.

Maintain the core evidence throughout the year

Working checklist: adapt it to the hospital's legal framework, accounting system and audit scope.

01 Authority

Delegations, approvals and applicable orders.

02 Money

Budget, releases, accounts and reconciliations.

03 Purchases

Tender, evaluation, award and contract files.

04 Delivery

Inspection, acceptance, stock and asset records.

05 People

Sanctioned posts, appointments, attendance and pay.

06 Service

Workload, equipment use, outputs and follow-up.

Punjab Financial Rules, rule 2.32(a), requires clear and complete records that can support enquiries into transactions.

Sources: **F2**: r. 2.32(a)

Use a record-production log

This is a working tool, not a substitute for the official record request or acknowledgement.

Field	Example entry	Why it is useful
Request reference	Audit request 07; received 6 October.	Links the response to the exact request.
Record and period	Invoice 44 and payment evidence for August.	Prevents incomplete or wrong-period production.
Record holder	Accounts officer; stock record with store officer.	Shows who must retrieve each part.
Production evidence	File index, pages supplied and receipt date.	Shows what was provided and when.
Outstanding action	Bank confirmation awaited; owner and due date.	Keeps the unresolved part visible.

If originals leave custody, record the authorised transfer and return. Keep a readable working copy where permitted.

WORKING METHOD | Illustrative material is identified in the text.

Deal honestly with a missing record

A missing file is a problem to investigate. It is not permission to reconstruct an approval as though it were original.

1	**State the gap**	Identify the exact missing item, last known holder and search already made.
2	**Secure other evidence**	Seek authorised copies from the issuing office, accounts system, bank, supplier or linked departmental file.
3	**Label the evidence**	Mark a duplicate, later confirmation or reconstructed schedule accurately, with source and preparation date.
4	**Report and complete**	Inform the competent authority, address custody failures and send the available reply while tracing the balance.

Never backdate, invent a signature or replace a lost document silently. A later explanation cannot prove that a missing earlier approval existed.

WORKING METHOD | Illustrative material is identified in the text.

Provide secure access to confidential and digital records

Working method: protect information while meeting the lawful audit request. Seek a documented arrangement for sensitive material.

Protect the record

- Preserve the source system, report date, selected period and filters. Retain the original export and access log.
- Use approved secure transfer or supervised access. Keep patient identifiers and personnel details away from public presentation files.

Keep access complete

- Explain any genuine legal issue promptly through the competent authority and agree the access arrangement with audit.
- Do not withhold relevant records merely by labelling them confidential. Do not silently remove rows, attachments or inconvenient entries.

A presentation summary may use anonymised data. The authorised audit team may need the underlying records to verify it.

Sources: **A1**: s. 14; access arrangements here are a working method

Break the observation into separate questions

An audit observation states a concern requiring an answer. Read the entire paragraph and its annexures.

Question	What to identify
What was required?	The cited law, rule, order, contract term or other audit criterion.
What is said to have happened?	The transaction, period, people or system and the evidence described.
What amount is involved?	The exact basis, units, dates, rates and arithmetic.
What is the alleged effect?	Missing support, irregularity, overpayment, loss, delay or weak performance.
What action is requested?	Record production, explanation, recovery, correction, inquiry or another action.

Working method: answer each part separately. A reply about delivery alone does not answer an objection about missing approval.

WORKING METHOD | Illustrative material is identified in the text.

Do not treat every audit amount as a proven loss

Use the actual wording and evidence. The category affects the reply and the action required.

Description	What must be established
Records not produced	What is missing and what can now be verified. The full transaction value may be under question.
Irregular expenditure	Which authority or procedure was breached. A procedural breach can exist even if goods were received.
Overpayment / recovery	What was actually paid beyond entitlement, with a supported calculation and lawful recovery process.
Suspected fraud / corruption	Specific facts requiring proper referral or inquiry. An audit objection is not itself a criminal conviction.

Equally, do not dismiss a serious finding as a mere technicality. Report established facts and use the proper process to determine responsibility.

WORKING METHOD | Illustrative material is identified in the text.

Check the amount before writing the defence

Working method: prepare a calculation that another officer can reproduce from the attached records.

Check the basis

- Separate contract value, billed value, paid value, disputed value and recoverable value.
- Match quantities, rates, units, tax treatment and the correct period. Identify duplicate lines and any part already adjusted.

Check the evidence

- Trace payment to the authorised accounts record and bank or treasury evidence, as applicable.
- Explain differences with documents. Do not assume that a smaller amount cancels the underlying breach or ends the audit issue.

Show both the original audit amount and the hospital's verified analysis. Request correction where justified; do not quietly rewrite the observation.

WORKING METHOD | Illustrative material is identified in the text.

Match the records across the transaction

One document rarely proves authority, delivery, payment and use by itself.

Record	What it can support	What to compare it with
Approval / contract	Who approved what, within which terms.	Delegation, budget and final order.
Invoice	What the supplier has claimed.	Contract rates and accepted quantity.
Receipt / acceptance	What was delivered and accepted.	Inspection, serials, batches and stock entry.
Payment record	What was paid, when and to whom.	Passed claim, bank / treasury and ledger.
Issue / use record	Where goods went and whether the service used them.	Stock balance, asset location or service log.

An invoice does not prove delivery. A stock entry does not prove lawful procurement. A cheque copy alone does not prove final settlement.

WORKING METHOD | Illustrative material is identified in the text.

Use one clear response sheet for each observation

Working format: keep the official paragraph number unchanged and attach a numbered evidence index.

Identification	Audit year, paragraph number, title, transaction period and amount stated by audit.
Rule and facts	Applicable requirement; dated sequence of verified events; points accepted and points disputed.
Amount	Original amount, calculation, corrections sought, confirmed recovery and balance still outstanding.
Action	What is completed, what remains, responsible officer, due date and any approval still required.
Evidence / request	Annexure and page references for each major claim; the precise decision or further verification requested.

A reply should enable a reviewer to follow the facts without having to ask the author to explain missing links.

WORKING METHOD | Illustrative material is identified in the text.

Admit a real defect and challenge a factual error

An accurate reply can accept one part of an observation and disagree with another part.

Where audit is correct

- State the defect plainly. Explain the verified cause without using workload or staff shortage as an automatic excuse.
- Give the lawful corrective action, evidence of progress, responsibility process and measure to prevent recurrence.

Where audit is mistaken

- State the exact point of disagreement and the supporting record, rule or calculation.
- Ask for the appropriate correction or verification. Avoid personal criticism of audit staff or unsupported claims that the case is already settled.

Useful reply: "Delivery is supported by Annexures B-D. The missing prior approval remains a separate issue and has been reported for lawful action."

WORKING METHOD | Illustrative material is identified in the text.

An unsupported payment is examined

All hospital names and figures in this example are invented. They do not state RIC finances, actual market prices or a legal spending limit.

Audit concern	The supporting delivery file was not produced. Audit questioned a payment of Rs 1,000,000.
Contract	500 supply units at Rs 2,000 each. Payment was due only for accepted units. No advance or partial-delivery exception applies.
Verified payment	The accounts record and bank evidence confirm that Rs 1,000,000 was paid.
Records later found	Signed receipt and inspection records support only 480 accepted units. There was no later delivery or other adjustment.
Question	How much of the payment is supported by accepted supply, and what amount requires recovery action on these facts?

The case tests one quantity-and-payment issue. It does not establish that every procurement requirement was met.

TEACHING CASE | Illustrative material is identified in the text.

Show the calculation and the cross-check

Teaching case: all figures use the same contract rate. There is no separate tax or retention adjustment in this example.

Check	Calculation / evidence	Result
Contracted quantity	500 units x Rs 2,000	Rs 1,000,000
Accepted supply	480 units x Rs 2,000	Rs 960,000
Quantity cross-check	80 units issued + 400 in closing stock = 480; no opening stock or other movement.	Agrees with accepted supply.
Overpaid amount	Rs 1,000,000 paid - Rs 960,000 supported	Rs 40,000
Unfulfilled quantity	500 contracted - 480 accepted	20 units

Confirm the source documents and physical balance. An agreeing spreadsheet is not enough if the underlying receipt or stock evidence is unreliable.

TEACHING CASE | Illustrative material is identified in the text.

Write the reply without overstating the result

Teaching reply: the facts have been checked and the hospital now submits the missing evidence.

Audit amount	Rs 1,000,000 was questioned because the delivery support was not produced.
Evidence supplied	Annexure A: contract. B: receipt and inspection. C: stock and issue reconciliation. D: accounts and bank evidence.
Verified position	Accepted supply supports Rs 960,000. The remaining Rs 40,000 was overpaid on the stated contract terms.
Action / status	Lawful recovery action has started. Custody and payment-check failures are being examined. Attach actual orders and progress evidence.
Request to audit	Verify the supplied evidence and the revised analysis. The hospital is not claiming that submission alone settles the paragraph.

A supported answer narrows the issue. It does not erase the earlier record failure or remove the need to establish responsibility.

TEACHING CASE | Illustrative material is identified in the text.

Prove recovery, not only an instruction to recover

A demand notice shows that money was requested. A verified receipt and accounting entry show that money was recovered.

Working evidence chain

- Retain the lawful recovery basis, demand or adjustment approval, receipt reference and actual amount received.
- Confirm credit to the correct authorised account, reconcile the accounts entry and seek the verification required for the audit case.

Continue the teaching case

- Established overpayment: Rs 40,000. Verified recovery: Rs 25,000. Outstanding balance: Rs 15,000.
- Show these three figures separately. A recovery order for Rs 40,000 is not evidence that Rs 40,000 has been recovered.

For payments into the Treasury, Punjab Financial Rules, rule 2.4, requires comparison of the receipt with the cash-book entry.

Sources: **F2**: r. 2.4; example and evidence chain are teaching methods

Distinguish correction from lawful regularisation

Better documentation cannot make an unlawful transaction lawful. Each remedy needs the proper legal basis and authority.

Correct what can be corrected

- Produce genuine missing evidence, correct an authorised accounting error, complete a lawful recovery and fix the failed control.
- Preserve the original record and a dated trail of each correction. Report a loss through the applicable process when required.

Check the power before seeking approval

- Retrospective approval or regularisation is possible only where the applicable law permits it and the competent authority grants it.
- A request is not an approval. Recovery does not automatically erase misconduct, and an audit reply does not create a write-off power.

Where personal responsibility, fraud or negligence may be involved, use the applicable inquiry and decision process; do not decide it by informal negotiation.

Sources: **F2**: rr. 2.33-2.35; remedies must follow the applicable law

Apply the actual reply deadline

Different notices and procedures may carry different deadlines. Enter the applicable date in the response register.

A specific Punjab rule

- Punjab Financial Rules, rule 2.30, addresses objections communicated by the Accountant-General, directly or through the Treasury Officer.
- It requires a reply within a fortnight, or a letter explaining delay. An unresolved part should not hold back the rest of the statement.

Apply it within its scope

- Do not treat that rule as a universal 14-day period for every external audit notice, DAC meeting or PAC direction.
- Check the actual governing instruction and notice. If time is inadequate, seek an extension promptly; a request is not an agreed extension.

Working method: complete record collection, technical checking and approval before the external deadline, and retain proof of submission.

Sources: **F2**: r. 2.30 and note; current applicable directions must also be checked

The approving officer should check six things

Working checklist before signing a reply or forwarding it through the department.

01 Direct answer

Every part of the observation has a response.

02 Correct rule

The cited provision applies to this institution and date.

03 Verified facts

Claims match dated, readable supporting records.

04 Checked figures

Amounts, units and any recovery reconcile.

05 Honest status

Completed action and pending action are separate.

06 Follow-up owner

Remaining tasks have owners and real due dates.

Never certify that a record was checked, an amount was recovered or an action was completed unless the evidence supports that statement.

WORKING METHOD | Illustrative material is identified in the text.

Prepare the handover for DAC

DAC means Departmental Accounts Committee. Audit paragraphs and departmental replies are discussed there. Use this working checklist.

01 Observation

Exact paragraph, audit year and amount.

02 Approved reply

Current signed version and earlier correspondence.

03 Evidence index

Numbered annexures and original-record locations.

04 Amount sheet

Audit figure, verified analysis and recovery status.

05 Pending points

What is disputed, missing or awaiting approval.

06 Action tracker

Named owners, deadlines and supporting evidence.

An internal note saying "replied" is not a formal decision that the paragraph has been settled. Record the actual decision and any conditions.

Sources: **A3**: p. 86; checklist is a working method

Prevent the same finding from returning

Working method: an audit reply should lead to a change that can be checked in routine work.

1	**Find the failed check**	Was the problem missing authority, poor custody, a wrong calculation, weak inspection or a system access failure?
2	**Assign a practical fix**	Set the responsible role, evidence to retain and escalation route. Avoid creating a form that nobody checks.
3	**Test the next cases**	Review later transactions to see whether the new check was actually used and whether it prevented the problem.
4	**Report the result**	Tell the competent authority what improved and what remains unresolved, including repeat failures.

A training session or circular is an input. Evidence that the control now works is the result the MS needs.

WORKING METHOD | Illustrative material is identified in the text.

Three short decisions for the MS

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

1. Recovery claim

The audit reply says Rs 80,000 was recovered. The file contains only a letter directing the supplier to pay.

Can the reply state that recovery is complete?

2. Missing approval

A valid invoice and receipt prove delivery, but the purchase had no required prior approval. A clerk proposes a backdated note.

What should the MS do?

3. Balance due

A verified overpayment is Rs 90,000. Confirmed and accounted recovery is Rs 35,000. A further Rs 20,000 is promised.

What recovery and outstanding balance should be reported?

Write the decision, supporting evidence and next action. Assume no other valid adjustment has occurred.

Answers and reasons

Compare your decisions with the evidence and the stated facts.

1. Do not certify recovery from a demand letter.

The letter proves a request for payment only. Obtain actual receipt and account-credit evidence, reconcile the entry and complete required verification. Until then, report recovery as pending.

2. Reject the backdated record and report the real position.

Preserve the genuine delivery evidence. Acknowledge the approval defect, identify responsibility through the proper process and seek only a remedy that the law permits. Do not invent earlier authority.

3. Report Rs 35,000 recovered and Rs 55,000 outstanding.

Rs 90,000 - Rs 35,000 = Rs 55,000. A promise of Rs 20,000 is not a receipt. If it is later received and verified, the outstanding balance becomes Rs 35,000.

The quality of a reply depends on its truth, evidence and follow-through, not on how strongly it claims that everything is settled.

Prepare one complete audit-response pack

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

Response sheet

State the requirement, verified facts, amount, reply and action for one observation.

Evidence index

Attach or list each source record. Match it to the exact claim it supports.

Action tracker

Separate completed work from pending recovery, missing evidence, approval and control changes.

Review question: could another officer understand the case, reproduce the figures and take the next action without asking you for missing facts?

Next: Lecture 21 - Preparing for DAC and Following Up Decisions.

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.

C1

Constitution of the Islamic Republic of Pakistan

National Assembly, Fourteenth Edition, 2025. Articles 169, 170 and 171 cover the audit mandate, accounting directions and submission of audit reports.

National Assembly of Pakistan | **Official source**

A1

Auditor-General's Ordinance 2001

Sections 7-8, 12-14 and 17 address audit, receipts, stores, record access and the extent of detailed checking. Read with amendments and the Constitution.

Auditor-General of Pakistan | Official text also hosted by National Assembly | **Official source** | **National Assembly text**

A2

Auditor-General of Pakistan: Annual Report 2019-20

Section "Auditing Standards and Types of Audit", printed page 3. Used for the distinction between financial attest, compliance and performance audit, not for current statistics or office-holders.

Auditor-General of Pakistan | **Official source** | **Official publications**

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.

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**

A3

Guidelines for Civil Audit Punjab

Department of the Auditor-General of Pakistan. Printed page 86 describes DAC discussion, minutes and further reporting. Used for the process, with current instructions and the actual meeting notice.

Auditor-General 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.