



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Accounting, Reporting, Pre-Audit and Internal
Audit System of Local Governments (Updated)
(Application)**

**LFA
May Exam-2026**

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Q.1.
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No. of HV/day	Dis. saved	Total Dist. Saved	Consump. /liter	Tot. HSD Saving/day	Rate	Saving /day.Rs	Annual saving Rs
2,000	20	40,000	10 km/liter	4,000 p.day	375	1,500,000	54,7500,000
LT. Vehicles	20	40,000	12 km/lite	3333.33333	255	850,000	310,250,000
						T. Saving/Annum	857,750,333

Project Cost	Annual saving	Break even period	
2,000,000,000	587,750,000	2,000,000,000/ 857,750,000	2.33 years

Q.2.

Audit Para - <u>Loss of Rs. 1,000,000/- due to Non-imposition of penalty on contractor</u>	Departmental Reply
In Union Council Bahadur Garh District D.G Khan, a work “Boring and Fixing of 100 Water Hand Pumps” amounting to Rs. 10,000,000/- was let out to M/s BYD Company on 15.08.2025. The anticipated date of completion of work was 14.11.2025. The work was completed on 31.03.2026 and total payment was released to contractor Rs. 13.000,000/- Following is Audit observation: As per Clause 5 of agreement, in case of non-completion of work in anticipated period, 10% penalty on Contact cost can be imposed. In this case, no penalty of Rs. 1,000,000/- on contracting firm due to late completion of work. Thus a loss Rs.1,000,000/- was occurred due to non-recovery of penalty amount from the contractor.	In this connection, it is clarified that, due to law & order situation and kidnapping cases in rural areas, the contractor executed the work slowly. He intimated the Engineer In-charge about the deteriorated law & order situation; the Contractor’s labor force and machinery was unsafe. The Engineer in-charge granted him various extensions. The Engineer in-charge is competent authority, to grant extensions of time limits in emergent conditions. After above clarification, it is requested that the Audit Para may kindly be settled. -Sd- Chairman Union Council Bahadur Garh District D.G Khan,

Q.3. Pre-audit is a proactive, transaction-level check conducted *before* payments or actions are finalized to ensure compliance and accuracy. Conversely, internal audit is a broader, independent, and periodic review of systems, risks, and controls to evaluate overall operational effectiveness. While pre-audit focuses on immediate prevention, internal audit focuses on strategic improvement.

Key Differences Between Pre-Audit and Internal Audit

Timing: Pre-audit occurs *before* a transaction is completed. Internal audit occurs *after* transactions have been processed, typically on a scheduled or surprise basis.



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Purpose: The goal of pre-audit is to prevent errors, fraud, or incorrect payments. The goal of internal audit is to provide assurance, identify risks, and improve governance.

Nature: Pre-audit is preventative and considered a part of the day-to-day accounting operations. Internal audit is detective, providing independent evaluation.

Independence: Pre-auditors often work closely with the finance team, which can compromise independence. Internal auditors maintain high independence by reporting directly to the board.

Scope: Pre-audit usually involves checking supporting documents (invoices, vouchers). Internal audit reviews processes, policies, and internal control systems.

Summary Table

Feature	Pre-Audit	Internal Audit
Timing	Before transaction finalization	Ongoing/After transaction
Nature	Preventive	Detective & Advisory
Independence	Lower (operational focus)	Higher (reports to board)
Focus	Specific documents/payments	Systems & Process controls
Primary Goal	Accuracy & compliance check	Risk management & value addition

- Pre-audits can sometimes act as a "first line of defense," whereas internal audit serves as a more independent "third line of defense".

- Q.4.**
1. Send all the ambulances to Government workshop for inspection and issue of Road Unworthy Certificate.
 2. Form a Motor Condemnation committee, comprised of three officers two officers from District Health Authority and One officer from Local Government Department
 3. Schedule a meeting of Vehicle Condemnation Committee
 4. After meeting, record minutes of meeting recommendation for condemnation and auction
 5. Send minutes to Secretary Health Department for approval of condemnation.

- Q.5.**
- | Audit Para | Departmental Para |
|--|---|
| <p><u>Non-Maintenance of Dead Stock Register</u></p> <p>During the Audit scrutiny of the Accounts records of the District Council, Rahimyar Khan, it was noticed that the District Council has dead stock material worth Rs. 250,000,000/- among them 1. Furniture 2. Tools & Plants, Cupboards, Machinery, computes,</p> | <p>We are thankful to the Audit for devoting the attention to our lacunae.</p> <p>Strict instructions have been issued to the Accounts and Store section staff about the completion of Dead stock register in two</p> |



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Fax machine etc But dead- stock was found incomplete since last three years. The Controlling officer is required at the end of a year, to verify physically all the articles, and material etc., and record certificate thereof about the accuracy of all the material. In this case, neither physical verification of material was conducted, nor Dead stock register was completed. In absence of Dead Stock register, the possibility of pilferage of articles cannot be ruled out. Audit desires to complete it now and got the irregularity condoned with the orders of the competent authority.	week time and make compliance of all audit observations. After condoning the irregularity, the record will be sent to Audit for verification and settlement of Audit Para. -Sd- Chief Officer District Council, Rahimyar Khan
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- Q.6.** A pre-audit is an internal review or examination of financial records, transactions, or processes before they are formally recorded, paid, or undergo an official external audit, acting as a proactive "dress rehearsal" to catch errors, ensure compliance, verify documentation (like contracts and invoices), and fix issues early, thereby preventing fraud and streamlining the final audit process. It's essentially a preventive control, checking "what's next" to ensure everything is in order before finalization, contrasting with a post-audit which reviews finalized transactions.

Pre-Audit checks on salary bill

Pre-audit checks on salary bills are designed to ensure accuracy, compliance with regulations, and the legitimacy of payments before funds are released. Key pre-audit checks include verifying employee status, authorized pay rates, attendance records, and proper tax deductions.

Here are the specific pre-audit checks applied to a salary bill:

1. Verification of Employee Data (Existence & Validity)

Active Status: Ensuring the salary is only paid to active employees and not "ghost" employees.

New Joinees/Leavers: Verifying that new employees have proper appointment letters and that departed employees are removed from the payroll.

Master Data Check: Confirming that employee IDs, designations, and bank account details are correct.

2. Validation of Attendance and Time Records

Timesheet Verification: Matching hours worked against recorded timesheets or clock-in data.

Leave Management: Checking for proper approval of paid/unpaid leave and ensuring leave deductions are correctly applied.

3. Accuracy of Calculations (Arithmetic & Rates)

Rate Verification: Ensuring pay rates align with employment contracts or authorized salary scales.



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Gross-to-Net Check: Re-performing calculations for gross salary, deductions, and net pay.

Variable Pay: Checking bonuses, commissions, and reimbursements for authorized approval.

4. Statutory Compliance and Deductions

Tax Compliance: Ensuring accurate withholding of Income Tax (TDS/PAYE), Provident Fund (PF), Employee State Insurance (ESI), or Professional Tax.

Court-Ordered Deductions: Validating that garnishments or wage attachments are accurate and legally required.

5. Procedural and Authorization Checks

Budgetary Approval: Confirming that the total salary bill is within the approved budget.

Authorization Hierarchy: Ensuring the payroll report is authorized by a senior, authorized official (e.g., HR or Finance Manager) before bank transfer.

Separation of Duties: Verifying that the person preparing the payroll is not the same person authorizing the payment.

- Q.7** An effective and efficient internal control system safeguards assets, ensures reliable financial reporting, promotes operational efficiency, and guarantees compliance with laws and regulations. It minimizes risks through structured organizational planning, clear segregation of duties, and continuous monitoring

Core Pillars

These systems are typically built on five recognized components:

Control Environment: Sets the foundation by establishing an organization's ethical culture, management integrity, and governance structure.

Risk Assessment: Proactively identifies, analyzes, and manages risks that threaten organizational objectives.

Control Activities: The specific policies and procedures (e.g., approvals, reconciliations, verifications) put in place to mitigate identified risks.

Information & Communication: Ensures relevant, accurate, and timely data is shared across all levels of the organization.

Monitoring: Regular evaluations and internal audits that ensure the controls are functioning as intended and adapt to evolving threats.

Features of Effectiveness

To be deemed highly *effective*, an internal control system must be:

Preventive and Detective: It stops errors and fraud from happening in the first place, while also having mechanisms to quickly uncover anomalies if they do occur.

Comprehensive: Encompasses all levels of the business—from frontline daily transactions up to



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executive reporting.

Compliance-Driven: Strongly aligns with statutory regulations, mitigating the risk of financial penalties.

Features of Efficiency

To be considered *efficient*, the system must operate without bottlenecking workflow:

Cost-Effective: The cost of implementing and maintaining the controls does not outweigh the risks or losses they are designed to prevent.

Streamlined: Procedures and documentation requirements are simple, eliminating task duplication and authority conflicts.

Adaptive & Automated: Leverages technology to reduce manual burdens, allowing business processes to run smoothly while providing a robust audit trail.
