



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Performance Auditing
(Application)**

AGP | PG | Public Sector | KPG

May Exam-2026

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Q.1. GENERAL REQUIREMENTS FOR PERFORMANCE AUDITING

- a**
- Independence and ethics
 - Intended users and responsible parties
 - Subject matter
 - Confidence and assurance in performance auditing
 - Audit objective(s)
 - Audit approach
 - Audit criteria
 - Audit risk
 - Communication
 - Skills
 - Supervision
 - Professional judgment and scepticism
 - Quality control
 - Materiality
 - Documentation

Q.1. Items 1.10 to 1.14 Chapter-1 of Performance Audit Manual (PAM) of DoAGP]

b

Q.2. 1. AUDIT OBJECTIVES

The main objective of performance audit was to evaluate / assess whether the objectives of the project as envisaged in PC-I were achieved or not?

Moreover, audit sub-objectives were to evaluate the project on the criteria of Economy, Efficiency and Effectiveness in the following areas:

1. Whether the aspect of Economy was duly adhered to in incurring expenditure during construction and operation phase of the project
2. Whether the project succeeded in achieving its core objectives efficiently and effectively
3. Whether the risks regarding payment to the contractors and the consultants was ascertained
4. To determine time and cost overrun of the project as compared to 1st revised PC-I of the project, and
5. To ascertain effectiveness of environmental measures undertaken
6. during execution of the project

2. EXPECTED MAJOR AUDIT FINDINGS

1. Non-achievement of objective of the project to generate annual energy of 5,150 Gigawatt hours
2. Non-achievement of objective regarding establishment of water rights on River Neelum / Kishenganga
3. Abnormal time overrun of nine (09) years and cost overrun – Rs.338, 944 million
4. Increase in payback period of the project from five (05) years to twelve (12) years
5. Non-earning of revenue as per Clean Development Mechanism



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6. Reduction in annual generation and serious environmental issues due to improper environmental studies at planning stage
7. Loss of revenue due to non-approval of reference tariff by NEPRA
8. Non-conducting of inquiry for collapse in Tail Race Tunnel
9. Loss on account of payment of cost of import of own energy to the CPPAGL
10. Non-execution of punch list items by the contractor
11. Non-supply of complete spare parts by the contractor
12. Unjustified excess payment to the contractor without determining actual quantities of raw stone aggregate
13. Non-recovery of cost of un-executed work of telecommunication system from the contractor
14. Non-recovery of unspent amount of advance payment from the contractor due to non-construction of 11KV overhead line
15. Undue benefit to the contractor due to non-reinstatement of the
16. Non-indemnification of insurance claim lodged for loss sustained due to collapse in Tail Race Tunnel

3. RECOMMENDATIONS

In view of the major audit findings, following measures are recommended to improve project management practices:

1. Justify non-achievement of objectives of the project to generate annual energy of 5,150 Gigawatt hours and to establish water rights on River Neelum/ Kishenganga for Pakistan;
2. Strictly adhere to the mandatory provisions laid down in the Manual for Development Projects, so that timely completion of projects within approved budget could be ensured;
3. Make efforts for earning revenue through sale of carbon credits under Clean Development Mechanism (CDM);
4. Conduct an afresh environmental study to address the environmental issues of Muzaffarabad;
5. Expedite the matter with Planning Commission for initiation of Third Party Validation (TPV) of cost of the project in order to obtain the actual tariff from NEPRA without further delay;
6. Finalize the International Panel of Experts report and ascertain the causes of collapse in Tail Race Tunnel (TRT) to fix the responsibility;
7. Finalize all pending contractual issues including delivery of spare parts and completion of punch list items in order to conclude the contract;
8. Ensure all pending recoveries from the contractor;
9. Pursue the matter with the concerned insurance company for early indemnification of insurance claim.

Q.3. $FV = PV \cdot (1+r)^t$

a

$$10000 \cdot (1+0.12)^5$$

$$10000 \cdot (1.12)^5$$

$$10000 \cdot 1.76 = 17600$$



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Q.3.
b $PV = FV * \frac{1}{(1+r)^t}$

$$PV = 5000 * \frac{1}{(1+.10)^8}$$

$$PV = 5000 * \frac{1}{(1.10)^8}$$

$$PV = 5000 * \frac{1}{2.14}$$

$$PV = 5000 * 1 / 2.14 = 2336$$

Present Value (PV) of amount to be received 08 years from now

Q.4. Total Fuel Consumption/Number of Cars $5000/20 = 250$ liters

Deviation from Mean/Number of Cars $700/20 = 35$

Deviation from Mean Squared/Number of Cars $32750/20 = 1637.5$

Square root of Variance $1637.50 = 40.5$ liters

Q.5. Name of Field Audit Office

Director General xxxxxxxxxx

Government of Pakistan

Subject Area to be covered

- Bulk Procurement of Oil from abroad
- Bulk Procurement of Oil from Local Oil Field(s)
- Distribution of Oil, and other products,
- Inventory Management (Oil product and others)
- HRD, and Reservoirs located at different places in company by the respective Terminal(s)/Depots.

Theme

Theme is Procurement, Inventory management, distribution of oil product and HRD and Sub theme is its departments where these matters are related to.

Back ground of the subject.

Being an State Owned Entity it is the prime responsibility of the company to reserve the stock at least for a period of 02 months or more for the country need and particularly for the defense purpose. The company also to monitor the inventory of oil and other products as well.

Some basic facts materiality and risk areas.

The material is generally imported from abroad in bulk quantity on which huge foreign exchange consumed. The procurement of some important materials like oil products along with quantity and price during last five years will be examined in Performance Audit. There is strong need to



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evaluate the procurement procedure especially with reference to Public Procurement and other relevant government rules. Mostly material is procured from abroad while some time material is procured from local market as spot purchases.

Executive Departments involved.

The raw material is procured by the respective departments of Oil Company by adopting prescribed procedure and Finance Department, Inspection Department, Insurance Department, Store Department and Secretariat of BOD are also involved.

Reasons for selecting the theme.

The above mentioned departments are selected keeping in view its importance. These departments procure the raw material in bulk quantity for further distribution to the retail outlets. As regards HRD and the reservoirs these also perform key role in the oil company

Potential risks if the theme is not selected.

- The departments are to be checked whether they are working within the prescribed manual/Standard Operating Procedure (SOPs) made for the purpose
- Whether the tendering process is not delayed
- The oil reservoirs are in healthy condition and are supplying frequently to the oil installations/depots for further transportation to the retail outlets
- The inventory control and physical safeguard are being properly monitored
- The quality of procured item is not of an appropriate standard

Objective, Scope and approach of SAI's audit.

- A review of Economy, efficiency and effectiveness of selected departments of the oil company whether public procurement and inventory management process and laid down rules / regulations are effective and efficient. Ensure that the procurement made economical and in fair and transparent manner.
- Determine the factors responsible for the failure /delay in supply of material in time.
- Risk management strategies adopted by the organization in the departments.
- Examine/evaluate the contracts/agreements signed for various purposes.

Audit Criteria

- Procurements and distribution of oil product from oil installations located in different areas and to analysis the discrepancies and anomalies arrived at in appointment and promotion in HRD.
- Storage of oil product in reservoirs and to examine whether any dumping and storage of petroleum products are being carried out in the company.
- Price management
- Financial controls and accounting system of the department concerned
- Evaluation of the overall performance of the selected department

Q.6. Solution: Template along with Guidance Notes on Performance Audit as Circulated by the Department of the Auditor General of Pakistan (DoAGP)]
