



**Pakistan Institute  
of Public Finance Accountants**

# **Model Solutions**

**Audit & Assurance (PS)  
CGA | PMAD | PRAD**

**Summer Exam-2023**

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**Q.1.** The audit plan should include:

- (a)
1. A clear statement of the audit objective(s);
  2. Statement of the magnitude of operations (expenditures, revenues, assets, personnel) and for an attest audit, the significant line items and accounts in the financial statements and significant financial statement assertions;
  3. Summary of significant issues and results of an initial risk assessment;
  4. Proposed audit scope, including:
    - a. Type(s) of audit activity (attest, compliance, effectiveness of internal controls, safeguarding of assets, fraud investigation, value-for-money, IT systems, or some combination thereof);
    - b. locations to be visited;
    - c. functions, activities, systems and procedures to be examined;
    - d. aspects of performance to be covered;
    - e. audit methods and tests; and
    - f. Samples selected or methods of selecting samples.
  5. Budget and schedule;
  6. Audit steps; and
  7. Assigned audit responsibilities.

**Q.1.** The primary purpose of the checklist is to give assurance to the person signing the audit opinion (the Auditor-General, the Deputy Auditor General (Senior) or the responsible Deputy Auditor General) that:

- a) The Director and the Director General have reviewed the working paper files;
- b) The audit work is complete;
- c) Sufficient appropriate audit evidence has been obtained to support the auditor's opinion;
- d) All matters that should be reported are included in the opinion;
- e) Either:
  - (i) An unqualified opinion can be issued; or
  - (ii) The auditor's opinion contains all of the required reservations; and
- f) The auditor's opinion can be signed and released.

A secondary purpose of the audit completion checklist is to act as final review document (supervision instrument) that the Director and the Director General can use to assure themselves that all of the critical planning, fieldwork, evaluation and reporting procedures have been completed satisfactorily.

**Total Marks    15**

**Q.2. Tests of Details**

- a Tests of details are the application of one or more of the following audit techniques to individual transactions that make up an account balance:
- a) Re-computation;
  - b) Confirmation;
  - c) Inspection; and
  - d) Cut-off tests.



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**Re-computation** provides strong evidence of the arithmetical accuracy of the tested operations. It cannot, however, by itself provide evidence as to the existence, completeness, accuracy or authorization of components of the computation and should therefore be supplemented by other procedures directed to those assertions.

**Confirmation** generally provides strong and documented evidence from an external source. Confirmation procedures are used for example to confirm cash at banks or amounts owing by creditors. DAGP should maintain control over the confirmation letters, mailing procedures and any exceptions throughout the process in order to minimise any interference by the entity's management.

**Inspection** procedures are applied both to assets (to obtain evidence about existence) and to documentation (vouching as to the accuracy of a recorded transaction, such as the date, party, quantity, unit price, description, total amount and signature of authorisation). Inspection of assets provides evidence of physical existence but does not normally provide evidence as to ownership, completeness or valuation of the inspected assets. The collection of further evidence relating to these can often be designed to be tied into the physical inspection procedures.

**Cut-off** procedures are tests of transactions occurring close to the cut-off date to ensure that the transactions are recorded in the correct accounting period.

**Q.2.** The Auditor-General is responsible for deciding what audit work is necessary to fulfil his mandate. Under his direction, DAGP produces a multi-year strategic plan for DAGP audit activities. The audits included in the strategic plan will include:

- (a) Mandatory and centrally led. These are audits required by DAGP's mandate to be performed each year, where the work performed by an individual directorate is part of a larger audit. An example of such an audit is the annual audit of the financial statements of the Federation.
- (b) Not mandatory and centrally led. These are audits where DAGP's mandate does not require that they be performed each year, and the work performed by the directorate is part of a larger audit exercise. An example of this type of audit could be a government-wide audit of contracting.
- (c) Mandatory and not centrally led. Those audits that are required by DAGP's mandate to be performed each year, where the work is not part of a larger audit. An example of such an audit is the annual audit of the financial statements of a specific commercial entity or a foreign-aided project for which the directorate is required to issue an audit opinion

**Total Marks    15**

**Q.3.** **External confirmation** – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

**Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank"



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confirmation request may result in lower response rates because additional effort is required of the confirming parties.

**Negative confirmation request** – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Negative confirmations provide less persuasive audit evidence than positive confirmations.

Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present:

- a) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
- b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
- c) A very low exception rate is expected; and
- d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

**Non-response** – A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

**Exception** – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party

**Q.3. Factors to consider when designing confirmation requests include:**

**b**

- Specific identified risks of material misstatement, including fraud risks.
- The layout and presentation of the confirmation request.
- Prior experience on the audit or similar engagements.
- The method of communication (for example, in paper form, or by electronic or other medium).
- Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.
- The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).

**Total Marks 15**

**Q.4. Scope limitation.** A scope limitation occurs when the auditor has not been able to apply all the tests and procedures considered necessary in the circumstances and, as a result does not have sufficient appropriate audit evidence to form an opinion as to whether the financial statements give a true and fair view, in all material respects, in accordance with the government's accounting principles.

**Q.4. Scope limitations may arise in a number of situations, including:**

**b**

- a) circumstances beyond the control of the entity or the auditor, such as the destruction of accounting records in a fire;
- b) a limitation imposed by the entity, such as refusing to allow the auditor to perform certain audit procedures; and
- c) a limitation created by the entity, such as or a failure to maintain adequate accounting records or internal control structures.



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When the auditor has a scope limitation, the reporting objective is to inform the reader that the auditor:

- a) has been unable to perform specific tests and procedures and obtain certain audit evidence; and, as a result,
- b) is unable to determine whether or not there has been a departure from the government's accounting principles that materially affects the financial statements.

***Departure from government's accounting principles.***

A departure from the government's accounting principles occurs when there is:

- a) An inappropriate accounting treatment, such as the failure to record certain assets or liabilities that are required to be disclosed by the government's stated accounting policies;
- b) An inappropriate valuation of an item in the financial statements, such as recording fixed assets at an appraised value;
- c) A failure to disclose all of the information required, such as not segregating expenditures into all the categories that are called for by the government's accounting principles.

***Uncertainty.*** An uncertainty normally involves a significant contingency or other event that is primarily dependent on future developments or future decisions by parties other than entity officials.

For example, the government may have guaranteed loans to third parties who are now experiencing financial difficulties. In these circumstances, the auditor (and entity officials) might not have sufficient information to determine what amount, if any, the government may ultimately be required to pay.

When the auditor has an uncertainty, the reporting objective is to inform the reader that he/she has been unable to determine what adjustments, if any, might be needed to the financial statements.

**Total Marks    15**

**Q.5.** The following is a brief summary of the accounting structure of the Government of Pakistan:

- a**
  - a) Federal government. The Controller General of Accounts (CGA) has primary responsibility for the completeness and accuracy of the Federation's financial statements. Reporting to the CGA, the Accountant General Pakistan Revenues (AGPR) is responsible for the centralized accounting and reporting of federal transactions. Additionally, the AGPR is responsible for the consolidation of summarized financial information prepared by federal self-accounting entities.
  - b) The AGPR receives accounts and reports from the sub-offices of the AGPR, district accounts officers, principal accounting officers of self-accounting entities, federal treasuries and the State Bank of Pakistan/National Bank of Pakistan. The AGPR, in turn, provides annual accounts to the CGA.
  - c) There are AGPR sub-offices in each of the provinces that act as the district accounts officers in respect of federal government transactions.
  - d) Provincial governments. The CGA also has primary responsibility for the completeness and accuracy of the financial statements of the provincial governments.
  - e) Reporting to the CGA, the accountant general of each province is responsible for the centralized accounting and reporting functions within his/her respective province.
  - f) District governments. Each province is divided into districts. The district coordination officer of each district is the principal accounting officer of that district. The district coordination



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officer is supported by executive district officers who, in turn, supervise offices headed by drawing and disbursing officers.

- g) Principal Accounting Officers (PAOs). Each ministry and department has a PAO. For the self-accounting entities, the PAOs have been delegated authority to maintain their own accounts. They provide monthly accounting data to the AGPR and to the accountant generals.
- h) District Accounts Officers (DAOs). The DAOs are responsible for the accounting functions of the districts. They have authority to pre-audit bills, issue payments, and record government transactions at the district level. They receive reports from the drawing and disbursing officers and bank scrolls from the State Bank of Pakistan/National Bank of Pakistan. They report district and provincial transactions to the Accountant General responsible for the province in which their districts are located. They also report federal transactions to the AGPR.
- i) Departmental treasuries. Departmental treasuries are established to record specific accounting transactions such as income and sales taxes and customs duties.
- j) Drawing and Disbursing Officers (DDOs). The DDOs are responsible for the accounting, cash and personnel functions of specific entities. They submit bills for pre-audit to the district accounts officers, and report to the district coordination officer of each district. They also report to the principal accounting officer of his/her entity.

**Q.5. Debt Internal Control Questionnaire**

**b Key Control Questions:**

- (a) Is there adequate separation of duties?
- (b) Are there controls in place to ensure that the terms and conditions of the debt agreements are appropriate?
- (c) Are there procedures to ensure that the entering into the debt agreement was properly authorized?
- (d) Are there procedures in place to ensure all payments are made on time, do not incur penalties and are correct according to the agreements?
- (e) Are there controls to ensure the correct amount of instalment payments (according to the related agreements) are made?
- (f) Are there procedures to ensure the correct calculation of Principal and Interest components of the payments?
- (g) Is the calculation of outstanding debt at end of the audit period correct?
- (h) Are there procedures to ensure proper tracking of due dates of every debt and appropriate scheduling of individual debts?
- (i) Are there controls to ensure that no payments are made without being properly authorised by sanctioning officer?
- (j) Are there controls to ensure all payments relating to interest on debt (or other expenditures such as penalties) are correctly and accurately reflected in the General Ledger on a timely basis?

**Total Marks 15**

**Q.6. Processing Risk.**

- a Errors can occur inadvertently, especially in situations such as the following:
  - a) A new government programmes where there is little experience in administering it, or the



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entity has taken over responsibilities for a new function and the previous administrators are no longer involved.

- b) New systems or procedures are introduced, especially a new computerised system.
- c) There have been recent changes in management or there is a high turnover of staff (in other words, there is a poor corporate memory), particularly if administrative procedures are poorly documented.
- d) There are unclear responsibilities.

If the process involves large transactions, the risk of inadvertent loss or waste can be serious.

**Programme Risk.** Certain government programmes are particularly susceptible to significant losses, either intended (fraud) or unintended (the result of poor administration).

Examples of programmes that should be given a careful assessment of risk are:

- a) Loans or guarantees, which, by their very nature, usually place the government at risk.
- b) Programmes delivered by means of contracts, especially where there are unclear terms and conditions, insufficient specifications / performance requirements.
- c) Research and development projects, where often the results are difficult to predict (especially non-standard software development).
- d) Programmes with vague outputs or outcomes, where in return for the government's expenditures, the benefits are difficult to identify.

Large expenditures in programmes of such nature should be a high priority for the auditor to examine.

Another aspect of risk relating to programme performance is the risk that adverse publicity can arise. The danger of criticism of a programme can be out of proportion with the potential or actual loss occurring due to some weakness in the administration of the programme. There is often a trade-off between the economic and efficient management of a programme and the cautious avoidance or mistakes that can lead to embarrassment. The auditor should be sensitive to this and be able to judge what appropriate levels of control are.

**Regulatory risk.** One means of implementing government policy is through regulatory activities. The usual purpose of regulations is to protect the public – whether this is health protection, ensuring fair trade practices, transportation safety, or other law enforcement.

Failures in a government's regulatory programme can occur at various points within the regulatory system. For example, regulatory risk can derive from:

- a) inadequate laws;
- b) inadequate inspection/detection (insufficient resources available; untrained inspectors; poor supervision of the inspectors);
- c) inadequate penalties or other deterrents;
- d) poor records and inadequate statistics; and/or
- e) Environmental factors outside of the regulatory process that impact on the effectiveness of the regulatory programme.

The impact of regulatory weaknesses on government operations can be significant, although not as obvious as misappropriations of funds, waste or loss of monies. For example, the non-collection of taxes can represent a huge loss to the government. Therefore the auditor must focus on regulatory activities just as much as on expenditures.





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**Q.6.** These conditions are often present in various ways in the public sector. These include:

**b**

- a) Incentive or pressure (placed on or perceived by management or employees giving them a reason to commit fraud) – public sector employees are often under pressure to deliver high quality services with few resources and to meet budget expectations. This may be especially relevant in tough economic conditions where there is pressure to maintain user charges and tax rates, resulting in incentives to overstate revenues and understate expenditures. There may also exist incentives to spend the available budget by the end of the financial year;
- b) Opportunity (characteristics or circumstances related to an entity allowing for the perpetration of fraud) – a difficult recruitment environment or a lack of sufficient qualified personnel may be more prevalent in the public sector. Such situations may often result in deficiencies in internal control creating the opportunity for fraud. The widespread use of

high volume, low value cash transactions in certain public sector entities such as cash transactions at police departments or health clinics may add to those risks. Although monetary values may be small, such situations may lead to violation of public trust, expectations and accountability; and

- c) Rationalization or attitude (Behavior, character or ethical values that allow individuals to justify their reasons for committing fraud)- generally lower salary levels in the public sector compared to the private sector may lead employees to believe that they can justify misuse of funds. As above, this may violate principles of public trust, expectations and accountability.

**Total Marks    15**

**Q.7. The Elements of Control**

**a**

There are five basic elements that make up a control structure:

- a) Control environment;
- b) Risk assessment;
- c) Control activities;
- d) Information and communication; and
- e) Monitoring.

**Control environment.** The control environment sets the tone for an organisation, influencing the control consciousness of the staff. It relates to:

- a) Management's philosophy and operating style, including the specific way in which staff are supervised and controlled;
- b) The organisation structure;
- c) Methods of assigning authority and responsibility;
- d) Human resource policies and practices;
- e) Management's and staff's integrity and ethical values;
- f) Management's and staff's commitment to competence;
- g) Management's reaction to change and outside influences; and
- h) Existence of an internal audit unit.

**Risk assessment.** Risk assessment is the identification and analysis of relevant risks to the achievement of objectives. Management needs to identify these risks in order to know the areas in which the internal control structure needs to be particularly strong. Conversely, risk assessment may indicate areas where risks are low, and therefore where the entity does not need to design



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elaborate internal control structures.

**Control activities.** Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address the identified risks.

Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities such as:

- a) Proper authorisation of transactions and activities;
- b) Physical control over assets and records;
- c) Independent checks on performance; and
- d) Adequate segregation of duties.

**Information and communication.** Pertinent information must be identified, captured and communicated in a form that enables people to carry out their responsibilities.

To have pertinent information for accounting purposes, the entity needs to have adequate documents and records. It also needs to have prompt and proper recording of transactions and activities. This, in turn, requires a good accounting system, and a good system of communication within the organisation and with customers, suppliers, and other government entities.

**Monitoring.** Monitoring by management involves the ongoing and periodic assessment of internal control performance to determine if controls are operating as intended, and are modified when needed. Summary information should be monitored and spot checks made on the quality and timeliness of the information on selected transactions.

**Q.7. Random Selection**

- b** Random selection ensures that all items in the population have an equal chance of selection, e.g. by use of random number tables or computerized generator

**Systematic Selection**

Systematic selection involves selecting items using a constant interval, the first interval having a random start. When using this method, the auditor must be sure that the population is not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

**Haphazard Selection**

Haphazard selection is an alternative to random selection, as long as the auditor is satisfied that the sample is representative of the whole population. This method requires care to guard against making a selection that is biased. It should not be used if statistical sampling is being carried out.

**Total Marks    20**

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