



**Pakistan Institute  
of Public Finance Accountants**

# **Model Solutions**

**Audit & Assurance (PS)  
(Application)**

**AGP | PG | Public Sector**

**Summer Exam-2024**

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## **Summer Exam-2024**

### **Audit & Assurance (PS) (Application)**

#### **Q.1. 7.1.1 FAM**

##### **Overall audit objectives**

Each audit will be designed to address one or more of the following objectives:

- Expressing an opinion on financial statements;
- Expressing an opinion regarding compliance with authorities;
- Testing compliance with authority or controls on selected transactions with no opinion being expressed; and
- Evaluating operational performance.

To express an opinion on financial statements the auditor needs to design audit procedures to obtain a reasonable level of assurance that the financial statements are not materially misstated. This means reaching a conclusion as to whether the account balances are valid, are complete, are properly valued, etc.

For compliance with authority work where an opinion is being expressed, the auditor will design audit procedures to obtain a reasonable level of assurance that the selected transactions in a given period are in compliance with applicable statutes and regulations. The types of irregularities that the auditor should look for will reflect the objectives of the compliance audit.

For compliance with authority audit work where there is no expression of an opinion the auditor need not plan the audit to obtain a specified minimum level of overall audit assurance.

Where the audit is to evaluate operational performance the auditor is concerned with economy, efficiency and effectiveness the auditor will develop specific audit objectives and conclude on the management framework and/or level of performance.

In summary, the nature and extent of the work that the auditor needs to perform will vary according to the objectives of the audit. Therefore, a first step in the planning process is to determine the objectives for the year.

#### **Q.2.**

Total of MLE, BP and PGW	7,743,540	3,920,890
(Less): "Opposing" MLE	670	(3,140,980)
Net UEL in component	7,742,840	779,910

#### **Q.3.**

1. Issue Audit Inspection Report to Chairman CDA and its Principal Accounting Officer (PAO) Secretary, Interior, Govt. of Pakistan Islamabad.
2. Send Letter to PAO for DAC meeting.
3. Record DAC meeting minutes.
4. Issue Draft Audit para
5. Convert Draft Audit Para into Audit Para for printing in to book form "Audit Report of the D.G Federal Works Audit, Islamabad."
6. Either AGP or D.G Works Audit will submit, Book of "Audit Report of the D.G Federal Works Audit, Islamabad." To President of the Islamic Republic of Pakistan.
7. President will forward said Audit Report to Speaker National Assembly.
8. Speaker will forward the Audit Report for deliberations in to the PAC Meeting, Where MNAs, PAO of the Ministry along with his concerned officials and AGP Team will discuss the serious Audit Paras and fix responsibilities upon the officials at fault and suggest appropriate action to make the losses at good and suitable disciplinary actions against culprits.



## **Summer Exam-2024**

### **Audit & Assurance (PS) (Application)**

#### **Q.4. 12.2 Unqualified auditor's opinion on financial statements**

The auditor's report on a set of financial statements is referred to as the "auditor's opinion", even though the report is often entitled "Auditor's Report". This differentiates the report from other audit reports, such as reports dealing with compliance with authority and performance matters. These other reports are discussed in a subsequent section

Paragraph 4.0.9 of DAGP's Auditing Standards states, "An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion shall indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 4.0.14) or a disclaimer (paragraph 4.0.15) of opinion."

This Auditing Standard contains several important messages. First, the auditor expresses one opinion on all of the financial statements, as opposed to having a separate opinion on each financial statement. Second, and probably more important, it is critical that the readers receive an unambiguous message.

For the readers to receive an unambiguous message from what is normally a very short report, it is important that:

- The auditor adopts a standard wording for an unqualified opinion, and only deviates from that standard wording when a reservation of opinion is being expressed; and
- Any reservations of opinion is very clearly expressed.

When expressing a reservation of opinion the auditor should not issue an opinion that deviates only slightly from the standard wording, as the message could be ambiguous. There is a danger that casual readers will read it as an unqualified opinion. Even readers who are familiar with the standard content of an audit opinion might not be able to determine whether or not the deviation is intended to be a reservation of opinion.

#### **When to give an unqualified opinion**

As discussed in Paragraph 4.0.10 of DAGP's Auditing Standards, "an unqualified opinion is given when the auditor is satisfied in all material respects that:

- the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- the statements comply with statutory requirements and relevant regulations;
- the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- there is adequate disclosure of all material matters relevant to the financial statements."

An example of a standard unqualified auditor's opinion is contained in the Standard Audit Working Paper Kit.

To fully comply with paragraph 4.0.8 of DAGP's Auditing Standards, the unqualified opinion should contain:

- A title;
- An addressee;
- A signature and a date; and

Three standard paragraphs – an introductory paragraph, a scope paragraph and an opinion paragraph - which contain material that satisfies the other disclosure requirements of paragraph 4.0.8 of DAGP's Auditing Standards.



## **Summer Exam-2024**

### **Audit & Assurance (PS) (Application)**

**Q.5. 7.4.5 FAM**

The Elements of Control

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

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

These are controls that detect errors that occur at earlier control points.

As a general rule, a control over output can act as a compensating control for a weak input control. For example, a control to review the list of cash disbursements to ensure that there are no missing cheque numbers can compensate for a weak control over the input of the disbursements.

**Q.6. 8.7.1 to 8.9 FAM**

***Documenting the detailed planning decisions***

**The need for documentation**

Paragraph 3.5.5 of DAGP's auditing standards requires: "*Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.*"

The general and detailed planning decisions are documented primarily through:

- An updated permanent file;
- An updated planning file;
- An updated audit planning memorandum; and
- Updated audit programmes.

**Updated permanent file**

The permanent file contains information that can be useful to the auditor for several assignments. A sample index for a permanent file is contained in the Standard Audit Working Paper Kit.

As is illustrated in the working paper kit, the information that is often found in the permanent file includes:

- The role of the entity, its vision and mission statements, and its most recent corporate plan;
- Copies of relevant government legislation, regulations, guidelines and other rules affecting operations;
- Organisation charts;
- Chart of accounts;
- Summary of accounting principles used by the organisation;
- Copies of long-term contracts/leases;
- Copies of loan agreements, schedules of amortization for debts and special assets;
- Extracts of minutes;
- Special remuneration conditions for senior officers; and
- Reports to management and management's response.

Policies and procedures manuals may be in the permanent file if they are brief or, alternatively, a copy should be kept on the auditor's premises.

***Updated planning file***

The planning file contains support for all of the planning decisions that have been made. The usual content of these files is illustrated in the Standard Audit Working Paper Kit.



## **Summer Exam-2024**

### **Audit & Assurance (PS) (Application)**

- As is illustrated in these guidance materials, the information that is often found in the planning file includes Support for the work performed and the decisions made at each step of the general and detailed planning processes. This would include the work performed to update the planning decisions made in previous years
- An updated audit planning memorandum. See below.
- Updated budgets, staffing requirements, timing considerations, information required from the entity, etc. resulting from the detailed planning process.

#### **Updated audit planning memorandum**

This document is usually included in the planning file. It summarizes the key planning decisions that have been made, with emphasis on the changes that have been made to the previous year's plan.

The usual content of an audit planning memorandum is illustrated in the Standard Audit Working Paper Kit.

#### **Updated audit programmes**

Audit programmes contain the specific audit procedures that the auditor needs to complete during the fieldwork phase.

Standard audit programmes are included in the Standard Audit Working Paper Kit. Audit programmes for the 13 specialized areas are included in the Audit Guides for those areas.

#### ***Approval of the general and detailed planning decisions***

All planning decisions should be approved before the fieldwork commences. This is to ensure that:

- Appropriate and sufficient evidence is obtained to support the opinion;
- All of DAGP's auditing standards are complied with; and
- Only necessary work is performed.

Since the work performed will form the basis for the conclusions reached and the form and content of the reports being issued, it is important that the general and detailed planning decisions be reviewed and approved by senior DAGP officials. It is suggested that the planning decisions be reviewed by the responsible Director General and approved by the responsible Deputy Auditor General

#### **Q.7. 8.2 to 8.3.1 FAM**

##### **Factors to consider**

When assigning specific staff to audits consider the following:

- The required skill mix for each specific audit. Ensure that each audit team is composed of staff members with the technical and supervisory skills that are required to complete the audit.
- The needs of all the audits in the directorate. Better auditors should be assigned to the more difficult and risky assignments.
- The audit deadline. Should the deadline date for an audit be moved forward, the auditors may have less time after the year end to complete their audit. This may necessitate adding extra staff to the audit to complete it in a shorter period of time.
- Audit continuity. Having at least some of the audit staff members return to perform work on the entity the next year will help to ensure that the audit team has the required knowledge of the entity.
- Rotation. Changing audit staff every few years can add new ideas to the planning and performance of the audit. It can also help to ensure that the auditors remain independent of the entity being audited.

- Learning and advancement. While it is beneficial for some staff to return to an entity, it's also advantageous to give them more challenging work each year. At the same time, they could provide advice and assistance to the more junior auditors who are performing the work that they performed in the previous year.
- Audit management software will assist in making these staffing decisions.

### **Allocating resources**

The specific audits planned for the period may have to be changed if certain audit skills or experience within the Audit Directorate (or supplied from elsewhere within DAGP) are overextended. The Audit Director should ensure that not only can the proposed set of audits be conducted within available resources but also that there are specific resources with required skills available to conduct the audits. For example, if there is only one person capable of conducting audits of IT systems under development, the Director should ensure the total audit workload of this type across several audits does not exceed the time available.

This can be managed by drawing up a matrix assigning audit resources against audit tasks to enable the manager to balance workload with available resources.

### **Updating budget requirements**

Any changes made to the nature, extent and timing of the audit procedures will most likely affect the budgets for the work. The auditor should update the budgets at this time.

The audit budget should include a projection of:

- costs of travel, accommodation and subsistence while visiting audit sites;
- cost of any purchases;
- level of effort of audit team members.

The biggest aspect of budgeting is the budgeting of time – estimating the amount of time required to:

- Plan the audit;
- Perform the audit of each specific component, and in total;
- Evaluate the audit results;
- Report the results of the audit;
- Follow up the results of previous audits (if being done at this time); and
- Manage the audit, including the supervision of lower level staff and a review of their work.

Good budgeting is very important for audits where an opinion is being expressed. In these cases, the auditor needs to complete all the activities that have been deemed necessary to form an opinion, and so needs to ensure adequate resources (people, time, and money) are available. Where no opinion is being expressed, the auditor has discretion over the scope of work performed and can adjust the audit plan to best use the resources that are available.

For the audit of the financial statements of the Federation and other audits where a central team makes the initial planning decisions, the central team will also be providing the entity teams with a budget to perform the work. It is the responsibility of each entity team to review the budget that it has been given and to discuss any problems with the central team before commencing the work.

### **Factors to consider**

The following factors should be considered when setting the budgets:

- size of the entity;
- complexity of the entity and its transactions;
- audit risk;
- inherent risk;
- quality of the internal control structure; and
- experience of the staff performing the audit.

**Q.8.** Ref: 15.1 of FAM

## **Quality Assurance**

### ***Introduction***

DAGP has a quality assurance framework to ensure its work is performed as efficiently and effectively as possible, and complies with International Auditing Standards as well as DAGP's own Auditing Standards. Quality in auditing means performing an audit effectively, following up all errors and deviations with a rigorous evaluation, reporting clearly on the results, while at the same time respecting the resource and time constraints established by the budget. Therefore quality assurance occurs all through the audit, not just at the end.

Elements of this quality assurance framework have been introduced throughout this Manual:

- DAGP's Auditing Standards;
- annual planning processes;
- the process tools and supervision instruments with which the auditor plans, performs, evaluates, reports and follows up individual audits.

This Chapter provides a summary of the quality assurance procedures and techniques implemented by DAGP.

### ***General quality assurance techniques described in this manual***

#### **Quality assurance through DAGP's stated values**

DAGP's values are discussed in Chapter 2. These values provide the auditor with guidance as to how he or she should conduct every aspect of the audit. Anytime the auditor is unsure of how to respond to a situation, reference to DAGP's values should provide the necessary direction. These values are therefore an important component of DAGP's quality assurance foundation.

#### **Quality assurance through DAGP's Auditing Standards**

DAGP's Auditing Standards are discussed in Chapter 4.

By following these standards, DAGP officials and staff will assure the quality of each audit.

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