



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

Audit & Assurance (PS)

CGA | PMAD | PRAD

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Q.1. The following is a brief summary of the accounting structure of the Pakistan government.

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.

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.

There are AGPR sub-offices in each of the provinces that act as the district accounts officers in respect of federal government transactions.

Provincial governments. The CGA also has primary responsibility for the completeness and accuracy of the financial statements of the provincial governments.

Reporting to the CGA, the accountant general of each province is responsible for the centralized accounting and reporting functions within his/her respective province.

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

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.

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.

Departmental treasuries. Departmental treasuries are established to record specific accounting transactions such as income and sales taxes and customs duties.

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 their entity.

OR

Special Audit:

Any project having significant importance goes to 100% Audit scrutiny is called Special Audit.

Usually ordinary audit is conducted as a test check up to 10% of record. When higher authority receives complaints about massive irregularities or through media reports about embezzlements in an organization, the DAGP decides to conduct 100% Audit of records to verify the facts.

Q.2. Parliamentary Control and Public Accountability

Accountability of elected officials and the public servants that implement their policies is a cornerstone of democratic government. In Pakistan, the government is formed of elected representatives of the people, and is required by the Constitution to seek a fresh mandate every five years.

To ensure the administrative machinery of the government performs its functions in accordance with the aspirations of the people, the National Assembly (lower house of the Parliament) and the four Provincial Assemblies constitute Standing Committees on Public Accounts (PACs). The PACs are mandated to oversee the implementation of government policies and programmes.

The Government departments and agencies are held accountable for any major departure from the approved budget and for significant violations of rules and regulations. The Auditor-General of Pakistan reviews the financial statements submitted by each Government department and agency and reports findings to the President and Provincial Governors who submit them to the National and Provincial Assemblies respectively. The legislatures assign these reports to the PACs for detailed scrutiny. Each PAC holds hearings at which secretaries of the ministry, divisions and departments submit their responses to the Auditor-General's observations. Based on this testimony, each PAC then makes its recommendations to the National Assembly. This process ensures that departments and agencies accountable to government for implementation of policies in accordance with regulations.

Q.3. DAGP Audit Scope

In determining the scope of audit work the Auditor-General has wide discretion.

For certification audits required under Section 7 of the Auditor-General Ordinance, the entity to be audited will be defined by the applicable accounting policies of the government. For example, to certify the financial statements of the Federation, the entity to be audited is the aggregate of all of the ministries, departments, agencies, etc. that the accounting policies require to be included in the financial statements of the Federation. Whether to perform audit activities in every single entity within the federation is a matter for the Auditor-General to decide. At a minimum, audit activities should cover all entities whose operations are material in the context of the financial statements of the Federation. In addition, the Auditor-General may plan to extend the audit activities to any other entities he considers significant.

In the case of compliance with authority audits, the Auditor-General has complete discretion as to which entities (whether organizational entities, such as agencies, DAOs, DDOs etc., functional entities, such as the payroll function or the purchasing function; or accounting entities, such as objects of expenditure, grants or appropriations) will be subject to audit and how often audits will be conducted.

OR

Public Accounts Committees (FAM)

It is a committee of National Assembly or Provincial Assembly comprised of members of Assembly. It elects Chairman among five to six members.

As per Constitutional mandate, the Audit General of Pakistan submits all the Audit Reports to the President of Pakistan or in Governors in the provinces.

Then President forwards the Audit Reports to the Speaker of the Assembly.

Then Speaker forwards the Audit Report to the Chairman PAC for to start the accountability process.

A PAC may conduct a hearing on the matters contained in a particular audit report, after which the PAC might issue its own report and recommendations on the subject.

In preparation for a meeting of the PAC to discuss a particular report, the Auditor General should prepare a “Briefing Book”, or briefing file. A copy of the report (cross referenced back to the key pieces of supporting evidence)

- The key evidence (including extracts of important documents with source of the documents, etc.) which should be copied from the working papers.
- The Accountability process of Government Officers starts by the PAC on the basis of Audit Reports and take actions, make decisions for the best interest of the Tax payers money

Q.4. General audit planning

The general audit planning phase is where most key planning decisions are made. It involves:

Step 1 Establish audit objectives and scope;

Step 2 Understand the entity’s business;

Step 3 Assess materiality, planned precision and audit risk;

Step 4 Understand the entity’s internal control structure;

Step 5 Determine components;

Step 6 Determine financial audit and compliance with authority objectives, and error/irregularity conditions;

Step 7 Assess inherent risk and control risk; and

Step 8 Determine mix of tests of internal control, analytical procedures and substantive tests of details.

Q.5. a

1. The auditor and the Department of the AGP must be independent
2. The Department of the AGP shall avoid conflict of interest between the auditor and the entity under audit
3. The auditor and the Department of the AGP must possess the required competence
4. The auditor and the department of the AGP must exercise due care and concern in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations

Q.5. Substantive Analysis

b

Substantive analysis is a means of deciding whether financial data appear reasonable and acceptable and therefore may allow the auditor to conduct less detailed testing of transactions. The extent of reliance on substantive analysis procedures depends on the following factors:

- Materiality of items involved in relation to the financial information taken as a whole (if the amount is high, the auditor does not rely on analytical procedures alone in forming an opinion);

- Other audit procedures relating to the same audit objectives;

The likely level of precision and reliability that can be obtained from the analysis (for example, if the construction of a road is through uniform terrain, a unit cost per kilometer can be applied to provide a reasonable estimate of expected cost; however, such an analysis would not likely provide a reliable figure if the road is constructed through variable terrain of mountains and plains);

- Results of the evaluation of internal controls. If the internal controls are assessed as weak, more reliance should be placed on tests of detailed transactions than on analytical procedures.

Q.6. Clearing Observations, Conclusions and Recommendations

Before the auditor can publish a report on findings or an opinion on financial statements, the audit observations, conclusions and recommendations must be cleared with entity management.

This is accomplished by briefing entity management on audit findings and documenting their responses, which can also provide additional audit evidence. This process can be based on formal written statements or verbal briefings.

The auditor should make best efforts to obtain a sound understanding of the operations and to obtain sufficient evidence to support findings. Nevertheless, at the initial stages of clearing observations, not all observations may be complete or accurate. Where findings are refuted, or modified by the manager's response further evidence may be sought to substantiate the manager's assertions.

The effectiveness of the communication of the contents of an audit report is influenced by:

- Facts;
- Opinions; and
- Wording.

Obtaining Management Responses

When clearing audit queries, or getting management responses to the draft report, the auditor needs a timely response.

To encourage this, the auditor should establish a date for discussing the material or indicate by what date the auditor would like to receive the response. Management should be given a reasonable amount of time to respond.

When management of the entity fails to provide a response as requested, the auditor should consult with senior DAGP management and draft a letter for the signature of the AG, informing the management of the entity that if a response is not provided by a given date, usually two weeks from the date of the letter, the DAGP assumes that the management of the entity have no disagreements with the contents of the report and that the DAGP will proceed to publish the report.

Q.7. DAGP audit teams should plan to perform audits that encompass both financial attest and compliance components. These two audit components have much in common. Each requires the auditor to:

- Understand the audit entity;
- Conduct a risk assessment;
- Define audit objectives and scope;
- Develop an audit programme
- Test the controls;
- Determine sample size (for statistical or non-statistical);
- Conduct substantive tests;
- Report; and
- Follow up.

OR

Updating staffing requirements and allocating resources

The audit must be appropriately staffed to achieve its objectives.

Audit planners should ensure that the staff members assigned to the audit have the audit skills required to perform the work efficiently and effectively.

Changes to the nature, extent and timing of the audit work may affect the levels of staff required to perform the work, and the assignment of specific staff members to the audit. Staffing requirements need to be updated at this time.

For example, if the auditor wishes to reduce the size of substantive samples and increase reliance on internal controls and analytical procedures, and also intends to introduce CAATs, then the staff members assigned to the audit should have the required training to carry out the tests of internal control, the analytical procedures, and the CAATs.

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.

- Q.8.** Internal controls are significant because they help safeguard an organization's assets, minimise risks, ensure the accuracy of financial records, promote operational efficiency, and encourage adherence to policies and laws, ultimately protecting the organization from fraud and errors while achieving its objectives.
- They are crucial tool for managing risk and maintaining compliance with regulations.
- Separation of duties is a key part of the preventive internal control process, ensures that no single individual is in a position to authorise, record and be in custody of a financial transaction and the resulting creation of an asset.

Other examples of internal controls are:

- a. Physical controls like access limitation to assets
- b. Financial Reconciliations
- c. Transaction Reviews
- d. Authorization procedures for invoices
- e. Policies and procedures documents
- f. Information process controls to ensure data accuracy, all designed to prevent errors, fraud and safeguard assets within an organization.
- g. If all of above internal controls are intact, the operations of organisation will be successful.
