



**Pakistan Institute  
of Public Finance Accountants**

# **Model Solutions**

**Internal Audit Framework  
(Application)**

**WAPDA**

**Summer Exam-2025**

# **MODEL SOLUTIONS – DISCLAIMER**

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**Q.1. Population Size and Population Value:**

- a** Population is all the transactions taking place in the period under audit. The population size is the number of sampling units like cash disbursements, supplier invoices, purchases, or Rupees in the population. The population size will vary depending on the sampling unit being used. For example, our population of purchases for the year may be composed of 16,000 disbursements for 30,000 supplier invoices to make 70,000 purchases costing 100,000,000 individual Rupees. Depending on which sampling unit has been selected, any of these units can constitute the population size. Except for small population sizes, the size of the population does not influence the size of the sample selected. For other than very small populations, the sample size is dependent on the assumed variability (error rate) of the population, on the accuracy required from the sample (determined by consideration of materiality) and the confidence level (determined by consideration of risk).

The population value is the monetary amount of the population being sampled. In the above example, it would be Rs. 100,000,000. There may be individually significant transactions that the auditor wants to examine. These could be very large transactions or transactions with high risk. Auditors often audit 100% of these transactions and take a sample of the remaining transactions.

**Q.1. Inherent risk and Control risk**

- b** Inherent Risk refers to the risk involved in the nature of business or transaction. Transactions involving exchange of cash may have higher Inherent Risk than transactions involving settlement by cheques.

This is the susceptibility to material/significant error or loss unrelated to any internal control system. Assessing inherent risk requires the evaluation of numerous judgmental factors, relating to the nature of the entity and its business environment taken as a whole.

Control Risk refers to the risk that a misstatement could occur but may not be detected and corrected or prevented by the auditable unit's internal control mechanism. Control risk is a function of the effectiveness of the design and operation of the internal controls. In order to assess control risk, the auditor should obtain evidence to support the effectiveness of internal control policies and procedures in preventing or detecting material error or loss.

**Q.2. Necessary information is given in the question. The examinees are required to draft an audit observation on the prescribed format which comprises following parts:**

- Audit criteria
- Condition
- Effect of the condition
- Causes
- Recommendations

**Q.3. Audit evidence is required to be collected in following manner:**

- i. The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.
- ii. Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The DAGP shall ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.
- iii. In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e., the evidence should be competent, reliable, relevant and reasonable.
- iv. 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.

Adequate documentation is important for several reasons. It will:

- Confirm and support the auditor's opinions and reports;
- Increase the efficiency and effectiveness of the audit;
- Serve as a source of information for preparing reports or answering any enquiries from the audited entity, legislature and its committees or from any other party;
- Serve as evidence of the auditor's compliance with Auditing Standards;
- Facilitate planning and supervision;
- Help the auditor's professional development;
- Help to ensure that delegated work has been satisfactorily performed;
- Provide evidence of work done for future reference.

**Q.4. Transparency in tendering process for consultancy:**

In order to examine the transparency in tendering process as an auditor I shall check that:

- The tender is announced publicly in accordance with the policy of the government/PPRA Rules/WAPDA Purchase Procedures and foreign agencies guidelines (where applicable).
- Envelop is attached with all the bidding applications.
- The cost of administrative and technical sanction is recorded in the tender register.
- The bidding applications of potential suppliers are recorded in the tender register.
- There are no interpolations, and corrections are made to the tender.
- All the changes are approved by the competent authority.
- The comparative statement of all the bid applications is prepared in the tender register.
- Basis on which bidding applications were accepted or rejected.
- Arithmetic accuracy of the calculations made in the tender and estimates.
- Attendance sheet of potential bidders to ascertain the participation of all the bidders.

Further, I shall also compare the contents of tender with the estimates and bidding applications and tender register to ascertain the accuracy of particulars quoted by the applicants.

**Q.5. Cause and Effect Analysis**

- a** Cause and Effect Analysis is a technique that helps in identifying all the likely causes of a problem. Wherever possible, the auditor should determine the underlying cause(s) of an observed weaknesses or error. Normally, there is at least one major underlying cause for the weakness or error, such as:

- a) Inexperienced individual carrying out the transaction
- b) Insufficient training of that individual
- c) Lack of proper systems and procedures
- d) Insufficient management involvement / scrutiny
- e) Unclear accountability.

It is usually a matter of judgment as to which factor, or combination of factors, is generally regarded as the underlying cause(s).

Cause and effect analysis is often difficult. Sometimes clear relationships between observations and the underlying causes cannot be proved. This is where the auditor's knowledge, experience and communication skills are important.

Cause-and-effect analysis ensures that we direct our effort towards the areas that matter and produce meaningful and significant audit observations. This analysis also ensures that we understand the underlying causes, so that we can develop recommendations that address the most important areas.

**Q.5. Limitations of WAPDA Internal Audit**

- b** There may be various limitation of WAPDA internal audit including lack of independence, lack of human resources in quantitative and qualitative terms, lack of appropriate training, conflict of interests etc. However, each examinee must have different views on the subject. Candid opinion will be appreciated.

**Q.6. Conflict of interest:**

**The team members are required to observe the following code:**

- a) When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest.
- b) In particular, auditors should ensure that such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity.
- c) Auditors should not be involved in management decisions or activities. such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity.
- d) Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities that could influence or be perceived as influencing their independence and integrity.
- e) Auditors should avoid all relationships with managers and staff in the audited entity and other parties that may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.
- f) Auditors should not use their official position for private purposes and should avoid relationships that involve the risk of corruption or may raise doubts about their objectivity and independence.

Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Neither should they divulge information that would provide unfair or unreasonable advantage to other individuals or organizations, nor should they use such information as means for harming others.

**Q.7. Some of the important areas of WAPDA are enlisted below:**

1. Procurement and Contract Management
2. Stores Accounting and Inventory Management
3. Payroll and HR Management
4. Fixed Assets Management
5. Funds Management
6. Internal Control Framework and Risk Management
7. Accounting and Finance
8. Project Management
9. Information Technology

However, the examinees are expected to choose five most important areas for auditing based on the materiality and other risk factors. Justifications for choosing particular areas are also required.

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