



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Audit & Assurance
(PS)(Application)
AGP | PG | Public Sector
Winter Exam-2023**

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Q.1. 12.3.1 Nature and content of reports

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Management reports are reports addressed to entity officials. They contain matters of a lesser significance.

Both audit reports and management reports may deal with:

- (a) Reservations being expressed in the auditor's opinion;
- (b) Contentious matters on which DAGP decided not to express a reservation;
- (c) Comments on the form and content of the financial statements;
- (d) Comments on the accounting policies used to prepare the financial statements;
- (e) Compliance with authority violations;
- (f) Internal control weaknesses; and
- (g) Performance (value-for-money) matters.

With respect to item (a), because the standard audit opinion is usually very short, the auditor normally does not have an opportunity to provide a detailed discussion on the reservations that he/she has expressed. Such a discussion could be included in a separate report.

With respect to items (b), (c) and (d), the inclusion of additional matters in the auditor's report could result in some readers thinking that a reservation of opinion is intended. As a result, it is preferable for the auditor to use a separate audit report to make comments about the financial statements and his/her audit thereof.

Items (e), (f) and (g) would be matters that were identified during the conduct of the audit.

The decision to include a particular matter in the audit report or in a management report may change during the audit and even during the reporting phase itself. The auditor needs to keep in perspective the message and the most important conclusions expected to result from the audit.

For example, the auditor may have initially concluded that a particular matter was significant enough to be brought to the attention of the appropriate PAC. However, during the clearance process entity officials may have agreed to deal promptly with the matter. In this case, the auditor may decide to report the matter in his/her management report.

On the other hand, the auditor may have initially included a matter in a management report because entity officials had agreed to deal with the matter promptly. If the matter was still outstanding the following year, the auditor may decide to include it in his/her audit report for that year.

Total Marks 15

Q.2. (Solution 6.2– Precise and important things from Chapter-6 should be appreciated)

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.

Total Marks 15



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Q.3. 12.2.5 Qualified opinion (FAM)

A qualified opinion is issued where the auditor is faced with a scope limitation, a departure from the government's accounting principles, or an uncertainty, but the matter at hand:

- is not critical to an understanding of the financial statements; and
- can be explained clearly and concisely.

To explain a matter clearly and concisely, it helps if the auditor can quantify the financial effect. Of course, in the case of a scope limitation, this would not be possible.

The use of a paragraph (called the reservation paragraph) between the scope paragraph and the opinion paragraph is the usual way of alerting the reader to the fact that there is a qualified opinion. To be most effective the paragraph needs to explain the matter as clearly and concisely as possible. It is not sufficient to provide only a general indication of a problem so that the reader is merely warned that further questions should be asked.

To be clear and concise, the auditor should:

- a) state the financial effect of the matter. If it cannot be quantified, the auditor should so state.
- b) In the case of an audit involving more than one Ministry, identify the specific Ministry (or Ministries) in which the monetary errors or compliance with authority violations occurred. This is particularly important if the reservation in the auditor's opinion was the result of significant errors in only one or two Ministries.

Note: where material monetary errors or compliance with authority violations have occurred, the auditors should request Ministry officials to investigate the matter and make necessary adjustments to the financial statements. If Ministry officials refuse, the auditors could request the Controller General of Accounts to make the necessary adjustment. This is consistent with Sections 5(a) and 5 (i) of the Controller General Ordinance. Once the necessary adjustments have been made, the financial statements can be considered accurate, and the Auditor-General can issue an unqualified opinion.

In addition to adding the reservation paragraph, other changes are made to the standard wording of the auditor's opinion, as follows:

The opinion paragraph is amended to insert:

- a) In the case of a scope limitation or a departure from the government's accounting principles, an "except for", "except that" or "except as", followed by a brief summary of the matter and a reference to the reservation paragraph; or
- b) In the case of an uncertainty, a "subject to", followed by a brief summary of the matter and a reference to the reservation paragraph.
- c) In the case of a scope limitation or an uncertainty, the scope paragraph would also contain an "except as" clause. This is done by inserting "Except as explained in the following paragraph, ..." at the start of the scope paragraph.
- d) The Standard Audit Working Paper Kit contains three examples of qualified opinions – a scope limitation, a departure from the government's accounting principles, and an uncertainty.

Total Marks 15

Q.4. 9.3 to 9.3.3 FAM

Substantive Testing

For financial audit purposes, substantive testing is required to determine how much assurance can be placed on financial assertions. Some testing is by analysis and other procedures but most assurance is provided through detailed testing of sampled transactions.

Substantive Analysis

Substantive analysis is a means of deciding whether financial data appear reasonable and



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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 kilometre 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);

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.

Selecting items for tests of details. Normally only a proportion of the items within an account is tested even though the auditor wants to conclude about the account as a whole.

This is done by:

- Selecting key and high value items; or
- Taking a representative sample; or
- A combination of both.
- 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.

Tests of Details

Tests of details are the application of one or more of the following audit techniques to individual transactions that make up an account balance:

- Recomputation;
- Confirmation;
- Inspection; and
- Cut-off tests.

Recomputation 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 authorisation of components of the computation and should therefore be supplemented by other procedures directed to those assertions.

Key items are normally selected when:

- There is reliance on internal controls and there is substantive audit evidence from analytical procedures (and therefore require relatively little substantive audit evidence from tests of details); or,



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- A small number of high value items form a large proportion of the account (therefore testing these items will include a high proportion of the total value of the account); or
- The population consists largely of non-routine transactions and therefore the account is unlikely to consist of similar items that could be sampled.

As well as having a high value, key items can be other unusual or suspicious items, such as:

- multiple transactions with very similar values/dates/suppliers;
- apparently duplicate transactions;
- items which are unmatched; or,
- items with other specific characteristics that catch the auditors' attention.

Representative sampling is likely to be most effective when:

- There is little or no evidence from analytical procedures so the auditor has to rely on substantive audit evidence from tests of details;
- The population contains a large number of individually insignificant items; and/or
- The population contains routine transactions and therefore the account is likely to consist mostly of similar items (i.e. a homogeneous population).

Total Marks 15

Q.5. 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.

Quality assurance during the reporting phase

Quality assurance for financial audit opinions

The following tools are provided to ensure the quality of the auditors opinions and statements:

- Management representation letters;
- Audit completion checklists; and
- Memoranda recommending signature.

These documents, and the diligent performance of quality assurance procedures for their use, help ensure that DAGP has the audit evidence that it requires, and that the Auditor-General is signing the most appropriate opinion

Quality assurance for other audit reports

A formal process governing how audit observations are developed, cleared and reported, and the most appropriate reporting style has been used. This process helps to ensure that the



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contents of the report are correct, and the findings, conclusions and recommendations contained in the report are easily understood and appreciated by the readers of the reports.

Total Marks 15

Q.6.

General Provident Fund Audit Programme Steps

Audit Entity:

Audit Period:

Date(s) Conducted:

Audit Objectives:

To determine whether, on the basis of the transactions examined (selecting all significant and/or representative sample) that the financial assertions / transactions comply with the following five considerations:

- A. Existence and Occurrence
- B. Completeness
- C. Measurement
- D. Regularity
- E. Presentation and Disclosure

Audit Obj.	<i>Audit Procedure</i>	Done By⁸⁹:	WP Ref⁹⁰.
A	<i>Existence and Occurrence</i> 1. Select a sample of transactions (as required for certification requirements / for purposes of testing controls / for additional substantive compliance testing) 2. Refer to the GP Fund register for all subscribers in the sample 3. From the sample of transactions providing advances / final payments, check that these have been correctly updated in the GP Fund register; and that for each transaction: a) the payment; b) the adjustment to fund balance; and c) deductions from payroll for repayment of advance; was to the same subscriber 4. Check for the sample that the GP Fund ledger has been updated to reflect the monthly deductions from salary 5. Through application of CAATs or otherwise, search for any payments (advances / final payments) to subscribers that look as if they might be double payments to the same person 6. Through application of CAATs or otherwise, search for any payments made to a bank account different from the one used for salary payments – e.g. check if the wrong person is receiving the advance / final payment		
B	<i>Completeness</i> 1. Check through application of a CAAT that the sum of the annual statements provided subscribers equals the amount of money in the GP Fund 2. Compare list of advance payments paid out of GP Fund for selected months with list of subscribers and check whether the changes to the payroll deductions reflect the necessary changes to pay back the advance 3. <i>Does the final payment correspond with the</i>		



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	<p><i>retirement/resignation of the employee? – if so:</i> Check that the final payment out of the GP Fund corresponds with the final payroll payment and initiation of pension payments (where applicable) – in other words, for the sample selected, check that data relating to the final payment corresponds with pensioners in the Pension Register against Establishment Register and confirm that pertinent information are consistent (name, date of birth, level, date of leaving/retirement / start of pension payments, etc.)</p> <p>4. Conduct a reconciliation (and/or check a batch of transactions) between Direct Credit Advice and Monthly Statement of GP Fund register and General Ledger</p>		
C	<p>Measurement</p> <ol style="list-style-type: none"> 1. Check that final payment has correctly adjusted for any outstanding advance taken 2. Check whether payroll deductions for repayment of advance have been correctly calculated (including interest) and that the number of repayments are between 12 and 48 3. Check that the annual statements provided subscribers are correctly calculated advance in excess of allowable amount / incorrect amount of deductions / errors in amount of payments, particularly last payment 		
D	<p>Regularity</p> <ol style="list-style-type: none"> 1. From a sample of refusals of applications for an advance, determine whether the refusal was a correct application of the GP Fund rules 2. Check that all documents relating to the sample of transactions regarding advance / final payments are completed fully, have proper authorisation (including checking signing authority and signatures of the approving officers) and that the credit advance was signed by two delegated officers 3. At the same time as steps C1 and C3, check that these calculations comply with the regulations and rules relating to the GP Fund (including advance is less than 80% of balance in subscriber's account / a non-refundable advance is only provided someone who's age is above the threshold / previous advance repaid before/out-of a second advance / number of payroll deductions for repayment of advance between 12 and 48) 		
E	<p>Presentation and Disclosure</p> <ol style="list-style-type: none"> 1. Check that advance / final payments are correctly identified in the General Ledger under GP Fund Object (<i>what is the code?</i>) and correctly coded according to the Chart of Accounts by checking for the sample of transactions that the advance / final payments have been correctly coded according to the Chart of Accounts codes. 2. Check whether the GP Fund section receives timely reports from the General Ledger under the relevant Object Codes and that the information is presented in a way that it can be used by the section. 		

Total Marks 15



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Q.7. 10.5.1 Determining the most likely error and upper error limit- FAM)
Determining the most likely error and upper error limit

The auditor should consider the results of all tests of internal control, analytical procedures and substantive tests of details and use professional judgment to estimate the most likely error and the maximum possible error in the component.

If the results of all of the auditor's procedures are consistent with each other, this may not be difficult. For example, assume the auditor has:

- (a) concluded that the applicable internal controls are functioning well enough to prevent and detect material error;
- (b) not found any significant fluctuations through analytical procedures; and
- (c) has an upper error limit from substantive tests of details that is less than the materiality amount.

In this case, the auditor may conclude that the most likely error and the upper error limit determined from his substantive tests of details are the best estimates of the most likely error and the upper error limit in the component as a whole.

Sometimes, though, the auditor is faced with conflicting audit evidence. Suppose the auditor's analytical procedures indicate that material error exists in a particular component, while the auditor's substantive tests of details indicate that there are no errors in the component.

In this case, it is not appropriate for the auditor to ignore the results of his/her analytical procedures and to conclude that the most likely error in the component is Rs. nil. The auditor should seek further evidence to determine whether the results of the analytical procedures or the results of the substantive tests of details are correct.

One way to resolve conflicting audit evidence is to seek input from entity officials. Entity officials may be able to provide the auditor with additional information that helps to explain the fluctuation identified by the analytical procedures.

As a second example, consider the reverse situation – the auditor's analytical procedures indicate that material error does not exist in a particular component, while the auditor's substantive tests of details indicate that material error does exist in the component.

Again, it is not appropriate for the auditor to ignore the results of analytical procedures. The auditor may, in fact, have a substantive sample that is not representative of the population.

To resolve the conflicting audit evidence the auditor could ask entity officials to perform a detailed investigation of the specific errors identified by the auditor, or of the entire component to determine the actual error in the component.

The auditor should not take any assurance from the affected audit procedures until such time as the conflicting audit evidence is satisfactorily resolved. To do so would be to ignore evidence that indicates that the results of at least one of the procedures is not correct, or that there are causes of the errors that are yet to be identified.



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Q.8. (a)

Light vehicles

500 light vehicle saving 5000 kms distance p/day.

5000/10 km = 500 liter petrol saving per day

500 x 270 =Rs. 135,000 p/day x 365 days Rs.49,275,000

(Rs.49,275m /annum) x 2= 98,550,000

500 trucks x10 =5000 km saving distance 5000/15=333.33 liters diesel per day (Rs. 966,66 per day x 365 days Rs. 35,282,981

m /annum x 2= 70,565,961

Total fuel cost saving in two years = 98,550,000+ 70,565,961= 169,115,961/-

(b)

LOSS OF RS. 169,115,961/- IN FUEL COST SAVING DUE TO LATE COMPLETION OF OVER HEAD PROJECT.

During the audit scrutiny of accounts records of Chief Engineer National High Way Authority, it was noticed that, a project, “Construction of Over Head bridge between Multan cantonment and Motorway was commenced On 5.7.2019 and anticipated date of completion was 4.7.2021, but it was completed on 05.7.2023. The annual saving in fuel cost was anticipated in PC-1 was Rs. 84,557,981/- per annum. Due to two years late completion of project, the benefit of Rs. 169,115,961 in fuel cost could not be availed.

Audit desires to investigate the reasons of two years time over- run of project and fix the responsibility up on the officials at fault under intimation to audit.

Sd.

XYZ

Audit officer

Total Marks 20