



**Pakistan Institute  
of Public Finance Accountants**

# **Model Solutions**

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

**Winter Exam-2023**

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### **Solutions – Audit & Assurance (PS)**

- Q.1.** This Manual focuses on regularity audit, as defined by INTOSAI Auditing Standards, which have been adopted by the DAGP. **05**
- (a)**

Regulatory audit embraces:

- a) Attestation of financial accountability of accountable entities, involving examination of financial records and expression of opinions on financial statements;
- b) Attestation of financial accountability of the government administration as a whole;
- c) Audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations;
- d) Audit of internal controls and internal audit functions;
- e) Audit of the probity and propriety of administrative decisions taken within the audited entity; and,
- f) Reporting of any other matters arising from or relating to the audit that DAGP considers should be disclosed

- Q.1. Accounting Responsibility Structure of the Government of Pakistan** **10**
- (b)**

The following is a brief summary of the accounting structure of the Government of Pakistan.

- 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 centralised accounting and reporting of federal transactions. Additionally the AGPR is responsible for the consolidation of summarised 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 centralised 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 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.



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- 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

**Total Marks 15**

**Q.2.** The AGP's code of ethics highlights the principles of independence, objectivity, and impartiality: **12**  
**a** and all the employees/auditors of AGP must uphold the said principles in their audit activities:

- a) **Independence:**  
Auditors must maintain independence from the audited entity and external interest groups. This means that auditors should act in a manner that does not compromise their independence. Factors such as external pressure, prejudices, prior employment and posting with the audited entity, and personal or financial conflicts of interest has the potential to impair independence of the Auditors. Auditors are obligated to refrain from involvement in matters where vested or any sort of personal interests exist.
- b) **Objectivity and Impartiality:**  
Auditors should not only be independent while conducting audits but also try to remain objective and impartial. They should approach audit issues and topics without bias or favoritism. Both objectivity and impartiality should be evident not only in fact but also in appearance. Auditors should base their conclusions and opinions exclusively on evidence gathered in accordance with auditing standards and FAM.
- c) **Maintaining Independence:**  
Auditors need to avoid any form of external or internal influence that could compromise their ability to provide unbiased assessments during the audits. This involves staying clear of personal favouritisms, external pressures, or any circumstances that might affect their objectivity.
- d) **Objective Reporting:**  
Auditors are expected to present accurate and objective audit reports. Conclusions and opinions must be rooted in the evidence gathered during the audit process from planning to reporting phase. While they should consider information from the audited entity and other parties, auditors must maintain their own conclusions independently.
- e) **Impartial Use of Information:**  
Auditors should consider information provided by the audited entity and other relevant parties in a neutral manner. Their opinions should reflect a balanced assessment that takes into account different perspectives.

In spirit, the AGP's code of ethics emphasizes on the core principles that auditors must follow: independence from any external or internal influences that could compromise their objectivity and impartiality, maintaining objectivity in their assessment process, and presenting conclusions based solely on gathered evidence. These principles ensure the credibility and integrity of audit outcomes and maintain public trust in the audits conducted and reports issued by the Auditor General of Pakistan.

**Q.2. Walk-through procedure.** A test of internal control that involves selecting one or two **03**  
**b** transactions from the relevant transaction cycle and "walking" them through the cycle. The auditor begins with the initiation of the transaction, and then follows it through the various processing stages until the transactions are ultimately summarised and included in the general ledger.

**Total Marks 15**



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- Q.3.** 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. 05
- a**

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 are accountable to government for implementation of policies in accordance with regulations.

- Q.3.** In the provided scenario, they should adhere to a set of behaviors and actions to ensure the integrity and effectiveness of the audit process in the light of AGP's code of ethics. These actions involve maintaining impartiality, objectivity, and diligence while facing the challenges: 10
- b**

1. **Conscientious and Thorough Conduct:** The auditor must continue to perform the audit conscientiously and thoroughly, despite the hindrances. They should strive to adhere to auditing standards and best practices, ensuring that their work is unbiased and comprehensive.
2. **Impartiality and Objectivity:** The auditor should uphold the principles of fairness and objectivity. They should not allow personal biases or emotions to influence their assessment and interactions with the audited entity. The audit process should remain impartial and focused on factual evidence.
3. **Professionalism:** The auditor should maintain a courteous and professional behaviour, even in the face of resistance or confrontation. They should refrain from responding to hostility with hostility and instead, communicate respectfully and calmly.
4. **Documentation of Meetings:** To ensure transparency and accountability, the auditor should ensure that all meetings related to the audit are held with at least two auditors present. Detailed notes of these meetings should be documented, capturing key discussions, challenges, and responses from both sides.
5. **Reporting Incidents:** Serious incidents or concerns that hinder the audit process should be promptly reported to the auditor's supervisor or Audit Manager in writing. These reports should include specific details of the incidents and challenges faced during the audit.
6. **Consultation and Course of Action:** The Audit Manager, in consultation with senior management within DAGP, should propose a suitable course of action to address the hindrances faced by the auditors. This may involve internal discussions to formulate an effective response strategy.
7. **Escalation as Needed:** Depending on the severity of the situation, different courses of action can be taken. These may include raising the issue with the Principal Accounting Officer or equivalent, submitting a letter signed by the Auditor-General or Deputy Auditor-General to appropriate authorities, changing the composition of the audit team, seeking legal opinions, or involving higher management.
8. **Rights of Individual Auditors:** Individual auditors have the right to express their concerns if they are not satisfied with the actions taken to address the impediments. They can report their concerns to the Assistant Auditor-General, a Deputy Auditor-General, or directly to the Auditor-General.

By adhering to these behaviors and actions, the auditor ensures that the audit process remains transparent, effective, and aligned with the principles of independence, fairness, and professionalism, despite the challenges faced during the audit.



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- Q.4.** The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result. 05
- a**

The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the result of carrying out the field standards constitute the main source for the contents of the opinion or report.

- Q.4. Planning** 10

- b** The auditor shall plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner

- (i) The DAGP shall give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within mandate of the AGP.

- (ii) In planning an audit, the auditor should:

- (a) Identify important aspects of the environment in which the audited entity operates;
- (b) Develop an understanding of the accountability relationships;
- (c) Consider the form, content and users of audit opinions, conclusions or reports;
- (d) Specify the audit objectives and the tests necessary to meet them;
- (e) Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weakness;
- (f) Determine the materiality of matters to be considered;
- (g) Review the internal audit of the audited entity and its work programme;
- (h) Assess the extent of the reliance that might be placed on other auditors, for example, internal audit;
- (i) Determine the most efficient and effective audit approach;
- (j) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- (k) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

- (iii) The following planning steps are normally included in an audit;

- (a) Collect information about the audited entity and its organisation in order to assess risk and to determine materiality;
- (b) Define the objective and scope of the audit;
- (c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- (d) Highlight special problems foreseen when planning the audit;
- (e) Prepare a budget and a schedule for the audit;
- (f) Identify staff requirements and a team for the audit; and
- (g) Familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

- (iv) The SAI may revise the plan during the audit when necessary.



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**Q.5.** The form and content of all audit opinions and reports are founded on the following general principles. 10

- a**
- (a) **Title.** The opinion or report shall be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
  - (b) **Signature and date.** The opinion or reports shall be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).
  - (c) **Objectives and scope.** The opinion or report shall include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
  - (d) **Completeness.** Opinions shall be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports shall be presented as prepared by the auditor. In exercising its independence the Department shall be able to include whatever it sees fit, but it may acquire information from time to time which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
  - (e) **Addressee.** The opinion or report shall be addressed as per requirements of applicable laws and procedures.
  - (f) **Identification of subject matter.** The opinion or report shall identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
  - (g) **Legal basis.** Audited opinions and reports shall identify the legislation or other authority providing for the audit.
  - (h) **Compliance with standards:** Audit opinions and reports shall indicate the auditing standards or practices followed in conducting the audits, thus providing the reader with an assurance the audit has been carried out in accordance with generally accepted procedures.
  - (i) **Timelines:** The audit opinion or report shall be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

**Q.5.** Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces: 05

- b**
- (a) Audit of the economy of administrative activities in accordance with sound administrative principle and practices, and management policies;
  - (b) Audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
  - (c) Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

**Total Marks 15**



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**Q.6.** Three conditions are normally present when fraud occurs. These conditions are often present in various ways in the public sector. These include: 07

- 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

**Q.6.** Matters of significance can include one or more of the following: 08

- b
  - (a) Large expenditures or large revenues;
  - (b) Areas of high risk (significant control weaknesses, potential for large losses/negative impacts);
  - (c) Matters of propriety, or probity (even if not of high materiality or risk);
  - (d) Important aspects of the programme's performance;
  - (e) Politically sensitive areas, where the reputation of the government could be adversely affected;
  - (f) Substantial errors or misrepresentations in financial and other management reports;
  - (g) Serious problems of compliance, especially regarding laws and regulations; and
  - (h) Areas where the audit is likely to identify opportunities for significant improvement.

The auditor may decide to address one or more of these or to limit audit coverage to financial attest requirements together with the more critical aspects of compliance with key laws and regulations. Ultimately the decision as to what sub-entities are significant and should be included in a particular audit is a matter for DAGP management.

**Total Marks 15**

**Q.7. Data access controls** 10

a Is some access protection software in use?

**1. Are there password controls which:**

- a) Identify authorised users?
- b) Restrict each user to a limited range of activities?
- c) Limit attempts to enter password?
- d) Give the time when the unauthorised access was attempted so that the person attempting such access may be identified?
- e) Limit simultaneous logins?





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**2. Are there controls in place to ensure**

- a) Password of adequate length?
- b) Regular change of password?
- c) Prohibition of use of similar password as used before?
- d) Passwords are stored in encrypted format?
- e) Change of password for vendor supplied user profiles?

**3. Are there procedures to ensure that:**

- a) Written authorization is required for addition, deletion and sharing of user profiles?
- b) Privileged users and authorities are controlled?
- c) User functions are assigned such that segregation of duties is enforced?
- d) Inactive terminals are deactivated/disconnected?
- e) Remote and incoming network access is controlled?

**4. Are there procedures to minimise the risk that unauthorised jobs are run? For example:**

- a) Are supervisors employed on all shifts?
- b) Is a job schedule (operations checklist) prepared?
- c) Are operating instructions prepared for operators (e.g., operator response to console messages, response to job aborts)?
- d) Are unscheduled job run requests authorised before execution?
- e) If scheduling software is used do controls exist over access to the scheduling functions?
- f) Is there an audit trail for changes to the schedules, and it is reviewed?

*Through a review of entity manuals, enquiries and observations, ensure that appropriate password and other controls have been designed to limit access to the data.*

*Through enquiry and observation, ensure that the controls are, in fact, being used.*

- Q.7.** The auditor should diligently document all the work that has been performed. The working papers **05**  
**b** should provide a record of the nature, extent and timing of the audit procedures performed, and the results of those procedures.

To achieve this objective, the fieldwork, evaluation and reporting files should include:

- a) evidence that all of the planned audit work was performed;
- b) an indication as to who performed the audit procedures and when they were performed;
- c) evidence that the work performed by lower level staff was supervised and reviewed;
- d) copies of communication with experts and other third parties;
- e) copies of letters or notes concerning audit matters communicated to or discussed with the entity; and
- f) copies of the auditor's reports.

**Total Marks    20**

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