



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Internal Audit Framework
(Application)**

WAPDA

Winter Exam-2024

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- Q.1.** Compliance Testing is discussed in section 5.8 of the IA Manual, and examinees are expected to attempt this part accordingly. However, the following is a suggested outline which can be followed.
- a** The objective of compliance testing is to get an assurance that the internal controls on which the auditors have decided to rely had been in place throughout the period of audit. Prior to proceeding to compliance testing, the auditors have already twice addressed the question of internal controls. First, they developed an understanding of the control framework and then they evaluated individual controls for each audit issue. Now they need to satisfy themselves that the controls did operate in practice and throughout the period of audit. This is necessary since the assessment of control risk is based on inquiry, observation and the walk-through of a few transactions only. The sample size for compliance testing generally depends on three things: i.e. upper Error Limit, expected number of compliance eviations in the sample and confidence level to be obtained from the audit procedure.
- Q.1.** The materiality of error in a class of transactions is the maximum possible error in the population that the auditor is prepared to tolerate. For audit of financial data, the maximum possible error would be the materiality amount. We can also say that an error (or the sum of the errors) is material if the error (or the sum of the errors) is big enough to influence the users of the financial statements. Materiality is discussed in section-6.11/A. The examinees are supposed to develop their answers accordingly.
- Q.1.** Efficiency is the relationship between the goods or services produced (outputs) and the set of resources used to produce them (inputs). It is discussed in Chapter 2 of the Manual and is an essential attribute of performance auditing. The examinees are expected to develop their answer accordingly.
- c**
- Q.2.** Chapter 9 of the Internal Audit Manual discusses the CAATs. The prime objective in using CAAT is to assist in performing audit checks in the most effective and efficient manner. There are two types of CAATs:
- Techniques for reviewing system controls look at the systems rather than the data processed through them.
 - Techniques for reviewing data are all based upon the examination and extraction of operational data and manipulating it through audit programs.
- The actual position is that till date, WAPDA internal Audit is not using CATTs at all. It is due to non-availability of computer software required for such auditing and lack of human resource expert in IT. As it requires a lot of money and expertise, it is still a dream. Examinees are required to build answers on the above outline.
- 05 marks for status of CAATs 05 marks for limitation and 05 marks for doable plan**
- Q.3.** Answer will be examined in accordance with guidelines given in IAF-2.4/c-iii and 8.13. The examinee is required to formulate 15 interview questions at his own. There is no one specific answer to this question which can be produced here. It all depends upon the interviewer, how he takes up the interview and tries to get certain information from the interviewee.
- Q.4.** Outline for answer is as following:
- Unrealistic estimation of works can be checked through following tests/checks:
- Check that the survey report is prepared and approved by the competent authority.
 - Check that the work and estimates are sanctioned and approved by the competent authority as per book of financial powers.
 - Check the tenders and ascertain whether the estimates represent the probable cost of the execution of works.



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- Check drawings, work specifications and site survey reports to ascertain whether the project is carried out in accordance with the requirements.
- Check that the estimates are based upon prevailing market rates.
- Check that the actual expenditure over the approved cost of estimate is within the limits approved by the competent authority. In case of variation over the limit, ascertain whether approval has been obtained from the competent authority.
- Check that the rates used in the estimate are in accordance with the rates specified in WAPDA Schedule of Rates or approved price bulletin

Q.5. The population to be tested will depend on the objectives of the audit. In an audit of a transactional process, the population will be all transactions taking place during the period under review. In an audit of effectiveness, the population may be more restricted or significantly expanded. Whatever the size of the population, the auditor should attempt to determine its principal characteristics and the best source for selecting a sample.

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The sampling unit is the specific item of which the population is assumed to be composed for sampling purposes. As an example, consider a population of purchases for the year. Assume that the purchases are recorded by cash disbursement, that each disbursement may relate to several supplier invoices, and that each supplier invoice may relate to several purchases. In this example, the sampling unit could be:

- a) Each cash disbursement.
- b) Each supplier invoices within each cash disbursement.
- c) Each purchase within each supplier invoice, or
- d) Each Rupee of value within each purchase.

If the auditor sets individual cash disbursement as the sampling unit, the sample selection process would be much simpler than if the auditor set an individual purchase within a supplier invoice as the sampling unit. However, by setting each cash disbursement as the sampling unit, the auditor would have to audit all supplier invoices and all purchases within each selected cash disbursement.

Q.5. Main advantages of statistical sampling over non-statistical sampling are as following:

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- Because each sampling unit has an equal and known chance of selection, there is a better chance that the sample will be representative of the population than is the case with a non-statistical sample. When expressing an opinion on financial statements, having a representative sample is very important.
- Because there is a better chance that the sample will be representative of the population, the sample results are more objective and defensible, as are the projections of those results to the population as a whole.
- It provides a direct estimate of the maximum possible error (referred to as the upper error limit (UEL) in some CAATS).

Q.5. The performance of the system of internal control itself must be monitored. Main objective of the monitoring of internal controls is to keep the internal controls effective and continuously updated along with changing organizational goals, working, and objectives. A system of internal control requires regular monitoring to ensure it remains effective. Over a period of time, changes in an organization's strategic objectives may lead to gaps in controls, redundant controls or duplicated controls. Monitoring of the system needs to be performed by all tiers of management, and by staff. Monitoring includes traditional management and supervisory activities, together with encouraging employees to identify breakdowns, redundancies, duplications or gaps in internal control procedures. In addition, the Principal Accounting Officer and the Authority should undertake periodic reviews of the system of internal control. The frequency of these periodic reviews will depend upon the rate of change in the organization's underlying objectives, the level of risk and the number and nature of modifications to the system of internal control.

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Q.6. Outline for answers is as following:

Best practice emphasizes the responsibility of the WAPDA Authority to establish an appropriate corporate culture, including codes of ethics and standards of conduct to both enhance the organization's reputation for fair and responsible dealing and to help maintain high standards of behavior throughout the organization. The responsibilities of the WAPDA Authority and the General Managers Finance include:

- Acting with honesty and good faith.
- Exercising due care and diligence.
- Using information and position properly.
- Employing discretion.
- Avoiding conflict of interest.
- Meeting public obligations.
- Managing financial obligations prudently
- Maintaining confidentiality.

These are the foundation attributes upon which the corporate culture is based, and which drive internal controls. An effective system of internal control, supported by an appropriate tone at the top, has an important role to play in creating and maintaining an ethical culture in an organization. These values must be communicated to all levels of management. One method of communicating these values is by documenting and implementing a Code of Conduct, which should address all these above issues.
