



**Pakistan Institute of Public
Finance Accountants**

May Exam-2026

[06.May.2026] [02:30 – 05:15 pm]

Additional time – 15 min for Paper Reading

Audit & Assurance (PS) (Application)

AGP | PG | Public | KPK Sector

Marks-80

Subjective

Duration: 02 Hours 30 Minutes

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- Start each question from fresh page.
- **Only required number of questions are awarded marks. The best question(s) are treated extra and rejected, if more than required questions are attempted.**

Books Allowed:

- Financial Audit Manual with Appendices
- Audit Working Paper Kit
- Quality Management Framework

Attempt any FIVE questions including Question No. 01, which is compulsory

Q.1. You are the Audit Manager reviewing four near-final audit files before signing the report. In each file, determine the most appropriate opinion/conclusion type.

1. In the Urban Transport Authority audit, access was denied to payroll, fuel, and maintenance records across three major units (together about 62% of total expenditure). Due to missing data and failed alternatives, the team could not obtain sufficient appropriate evidence for a substantial part of the audit.
2. During audit of the Procurement Directorate (North Region), the team found Rs. 38 million misstatements in inventory valuation due to incorrect rate application in one warehouse cluster. The rest of procurement balances and controls were tested with sufficient evidence and no material issue.
3. In the Health Supplies Project Audit, records for one major donor-funded component (about 28% of total project expenditure) were not provided despite repeated written requests. Alternative procedures could only verify a small portion of that component.
4. In the Provincial Works Department Audit, the team found widespread non-compliance and misstatements: unsupported expenditures, unrecorded liabilities, and inflated contractor advances affecting multiple major heads. Management refused all proposed adjustments.

Required:

For each case, decide whether the report should be Unmodified, Qualified, Adverse, or Disclaimer of opinion and give ONE practical reason for each decision based on FAM.

16

Q.2. (a) During audit of procurement, the audit team relied heavily on verbal explanations from management without proper documentation.

Required:

Discuss the types of audit evidence required in such case and explain why proper documentation is critical for audit quality and accountability.

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Contd.....

- (b) While auditing revenue receipts, the audit team detected several instances of underreporting and delayed recording of revenue.

Required:

Explain different types of error conditions that may occur in revenue audits and how they impact Financial Statements.

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- Q.3. (a)** In an audit of procurement transactions, only 6% of transactions show non-compliance by value, but these include emergency purchases made without approvals and repeated contract splitting. Management argues the amount is “too small” to report seriously.

Required:

Given the situation and using ISSAI 4000 & Financial Audit Manual, advise the audit team:

12

- (i) How materiality should be assessed Quantitatively and Qualitatively?
 - (ii) How sampling should expand and how this effect the conclusion and recommendations?
- (b) You are leading a compliance audit at the reporting stage. While reviewing the draft, the Principal Accounting Officer (PAO) asks the team to remove two major observations and warns for severe consequences. At the same time, a senior officer informally advises the team to tone down the language because the entity is politically sensitive. During the same week, it is disclosed that one audit team member has a close relative posted in the procurement department under audit, and that officer has already contributed to drafting part of the relevant finding.

As fieldwork closes, management continues to provide records selectively and links full access to a prior reduction in draft observations.

Required:

With reference to FAM how this situation should be handled?

04

- Q.4. (a)** Write note on key functions of Chief Finance and Accounts Officer (CF&AO) in Federal Ministries.

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- (b) During a post-audit quality inspection of a high-profile procurement audit, the review team finds that key working papers are scattered across personal laptops, email attachments and Whatsapp groups. Some files are duplicated with different figures, several documents are unsigned, and there is no clear distinction between draft and final versions. One crucial supporting document cited in the draft report cannot be traced, while another contains sensitive vendor information shared without access control. The Audit Manager has asked the team to finalize the report within 48 hours and “regularize the file later.”

Required:

As Team Lead, explain how this situation should be handled in line with FAM and set out the practical sequential corrective actions that must be taken immediately before report finalization to ensure file integrity, confidentiality, reviewability and defensibility.

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- Q.5. (a)** During planning of an annual audit, your directorate has received 22 proposed audits, including mandatory certification related assignments, compliance reviews requested by management and one centrally-led audit requiring inter-directorate coordination. Available staff and person-days are sufficient for only about 70% of the total proposed workload. At the same time, Senior Management has asked that the final plan should avoid duplication and align with DAGP’s broader priorities.

Contd.....

(3)

Required:

As an Officer in Planning & Coordination Section of your office, prepare a reasoned FAM-based approach for finalizing the Annual Plan, including how priorities should be set, what should be retained or reduced, how integration of audit work can improve efficiency and how centrally-led audit budgeting/approval requirements should be handled before execution.

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- (b) During planning of a financial attest audit, the team uses Total Expenditure as the materiality base. The following data is available:

Details	Rs. / %age
Total Expenditure	1,200,000,000
Planning materiality rate	0.40%
Expected aggregate error (known misstatements + projected likely errors)	2,100,000
Confidence level selected	95%
In detailed testing, detected error in sampled items	900,000
Projected error from sampling projection	1,500,000
Additional likely error from control weakness	700,000

Required:

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- (i) Calculate Initial Planned Precision at Planning Stage.
- (ii) Calculate Revised Planned Precision after incorporating evaluation-stage likely errors.
- (iii) Based on your revised Planned Precision, state whether the team should:
 - (a) Reduce testing
 - (b) Keep testing same
 - (c) Expand testing

- Q.6.** After completion of audit report, six months passed and no structured follow-up was performed. During internal review, it was found that high-risk recommendations were neither tracked nor verified and closure status was marked “implemented” without documentary confirmation.

Required:

Using FAM guidance on Quality Assurance during the Follow-up Phase, explain how follow-up quality assurance should be organized to ensure reliable Implementation Status and Accountability?

16

- Q.7. (a)** An FAO identified multiple high-risk areas during previous audits, but due to limited resources, not all areas can be audited in the current year.

Required:

Explain how risk-based planning should be applied to prioritize audit areas. Also describe the role of materiality and risk assessment in annual planning.

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- (b) You are assigned to audit payroll expenditure of a large public sector entity with thousands of employees.

Required:

Develop a brief audit programme for payroll audit, highlighting key steps and controls to be tested.

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