



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Audit & Assurance (PS)
(Application)**

AGP | PG | Public | KPK Sector

May Exam-2026

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Q.1. Case 1

Opinion: Disclaimer of Opinion

Reason: Access denial across major units (62% of expenditure) and failure of alternative procedures means insufficient appropriate evidence for a substantial and pervasive portion. Auditor cannot form an overall conclusion.

Case 2

Opinion: Qualified Opinion

Reason: The inventory valuation misstatement is material, but it is confined to one area (one warehouse cluster). Other areas were tested with sufficient evidence. So, impact is material but not pervasive/fundamental.

Case 3

Opinion: Qualified Opinion (Scope Limitation)

Reason: A major component (28%) could not be fully verified due to missing records; alternative procedures were only partially successful. This is a scope limitation with material, but not clearly pervasive, effect.

Case 4

Opinion: Adverse Opinion

Reason: Misstatements/non-compliance affect multiple major heads (expenditure, liabilities, advances), so effect is material and pervasive. Management refusal to adjust means the issue remains unresolved at report stage.

Q.2. Reference: FAM Section 7.9 – Audit Evidence & Documentation

a Key Points:

- Types of evidence:
 - Documentary (invoices, contracts)
 - Physical verification
 - External confirmations
 - Analytical procedures
- Verbal explanations alone are **insufficient**.
- Documentation ensures:
 - Audit quality
 - Accountability
 - Evidence for conclusions
 - Basis for review and supervision

Q.2. Reference: FAM – Audit of Receipts / Error Conditions

b Error Conditions:

- Understatement of revenue
- Overstatement of revenue
- Timing differences (cut-off errors)
- Misclassification
- Omission of transactions

Impact:

- Misstatement of financial statements
- Reduced reliability
- Incorrect decision-making
- Possible fraud risk



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- Q.3.** In this case, management is focusing only on amount (6%), but in compliance audit that is not enough. Under ISSAI 4000, materiality is judged by both quantitative materiality (money/value) and qualitative materiality (nature/seriousness of violation). (Ref: ISSAI 4000 paras 54-56)
- a**

So even if value is small, the issue can still be material because emergency purchases were made without required approvals, and there is repeated contract splitting, which may show intentional control bypass. These are serious by nature, therefore materially important for governance and compliance.

i) How materiality should be assessed

Quantitative side of materiality

- Calculate value affected, frequency, departments involved, and trend over time.
- Compare with planning materiality/performance materiality used for the audit.
- See whether combined effect can influence users' decisions.
- FAM also states materiality is about whether omission/misstatement can influence users. (Ref: FAM 4.2.9-4.2.10)

Qualitative side of materiality

Treat non-compliance as material where there is:

- breach of law/rules (approval not obtained),
- repeated pattern (not one isolated case),
- possible intent to avoid thresholds (contract splitting),
- control weakness affecting fairness/transparency

(Ref: ISSAI 4000 paras 54-56; FAM 4.2.9-4.2.10)

So, even with 6% value, the issue may be material by nature and pattern.

ii) How sampling/evidence should be expanded

If high-risk patterns appear, audit procedures should be increased.

Following steps may be taken in the given scenario:

- Expand sample size beyond the initial sample.
- Add targeted (risk-based) samples: emergency purchases, near-threshold contracts, same vendor split in short intervals, same date/period repeated orders.
- Perform document trail testing: approvals, sanction notes, bid records, comparative statements.
- Use data analytics to detect splitting patterns: same vendor + same item + close dates + amounts just below limit.
- Obtain explanations from management in writing and corroborate independently.

This is consistent with ISSAI 4000 requirements to reduce audit risk and obtain sufficient appropriate evidence (Ref: ISSAI 4000 paras 52-53, 200-201). It is also consistent with FAM principle that audit work should be planned so undetected errors do not exceed materiality (Ref: FAM 4.2.21).



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iii) Effect on audit conclusion

After expanded testing:

- If non-compliance is material (even if not high by value), the conclusion should be modified accordingly. If material and pervasive, use stronger adverse form;
- if material but limited, use qualified form (as applicable to engagement type and reporting format).

(Ref: ISSAI 4000 para 194(a), paras 198-203)

- Do not keep an unmodified conclusion merely because amount is small.

iv) Effect on recommendations

- Recommendations should be practical and linked to root causes:
- Mandatory pre-approval controls for emergency procurement.
- System alert for repeated orders/vendor-splitting patterns.
- Post-facto approval review committee with accountability timelines.
- Procurement threshold compliance dashboard and monthly exception report.
- Responsibility fixation and disciplinary action where intentional splitting is proven.
- Training on procurement law and approval hierarchy.

The report should clearly present violated criteria, evidence, materiality rationale (quantitative + qualitative), impact/risk to public funds and transparency, management response, and auditor's final view. (Ref: ISSAI 4000 paras 202-209)

Q.3. In this scenario, auditor independence is threatened from multiple sides: pressure from the audited entity, internal influence, conflict of interest within the team, and restricted access to evidence. Under FAM, such a case must be handled through a clear, documented, and rule-based response.

First, audit observations should not be dropped or softened due to threats, influence, or sensitivity. Findings must remain based on evidence and criteria only. FAM requires independence in both **fact and appearance**, so judgment must stay free from external and internal pressure. (Ref: FAM 1.18.6(a-f))

Second, the team member whose close relative works in the audited wing creates a conflict-of-interest risk. To protect objectivity and credibility, that officer should be removed from related testing, drafting, and review, and the conflict should be documented formally. Work already prepared by that officer should be rechecked by another team member/supervisor. (Ref: FAM 1.18.8(a-b))

Third, selective release of records is an obstruction risk. FAM requires proper documentation of such incidents and escalation through supervisory/competent authority channels. All non-provision or delayed provision of records should be recorded in writing (dates, requested files, responses, effect on audit work). (Ref: FAM 1.20.2(a-d))

Fourth, reporting should remain transparent. If sufficient appropriate evidence is obtained, findings should be reported normally. If access limitations materially affect audit work, the limitation should be clearly disclosed and reflected in the audit conclusion/report language as per applicable reporting requirements. This protects the integrity of the audit and prevents misleading assurance.



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- Q.4.** In the Federal Government, the office of the Chief Finance and Accounts Officer (CFAO/CF&AO) is a senior finance function posted with the Secretary (Principal Accounting Officer - PAO) of a Ministry/Division to assist and support the PAO in managing financial affairs of the Ministry/Division and its attached departments/organizations, in accordance with Finance Division's financial management framework and related manuals/regulations.

Key Functions / Working

- a. **Budget formulation and expenditure control:** Supports preparation of budget estimates and monitors utilization of grants/appropriations; helps ensure expenditure remains within authorized limits and supports re-appropriation/adjustments as per applicable procedures.
- b. **Financial scrutiny / pre-audit support:** Scrutinizes expenditure proposals and payment claims to ensure proper sanction, availability of funds, correct classification/head of account, adequate supporting documentation and compliance with applicable financial rules/instructions.
- c. **Accounts maintenance and reconciliations:** Ensures proper maintenance of accounts/records and timely reconciliation between departmental records and the accounts maintained by the accounting authority; identifies misclassifications and pursues corrections.
- d. **Financial reporting and management information:** Prepares/coordinates periodic financial reports and provides analysis on spending trends, variances and key financial risks for management decisions.
- e. **Procurement and contract vetting (financial aspects):** Provides finance inputs on procurement/contract cases including fund availability, head classification, payment terms, and financial risk considerations.
- f. **Internal controls, risk and compliance support:** Assists the PAO in strengthening internal controls (authorization, segregation of duties, record keeping, safeguarding of assets) and in managing financial risks through preventive and corrective measures.
- g. **Audit coordination and compliance management:** Coordinates responses to audit observations, supports processing of audit/inspection reports and follow-up compliance actions through the Ministry/Division.
- h. **Advisory role to PAO:** Advises the PAO/management on financial implications of policy decisions, resource constraints, and areas needing governance/control improvements.

Source: SYSTEM OF FINANCIAL CONTROL AND BUDGETING

- Q.4.** In this scenario, the report should not be finalized first. Under FAM, working papers are the foundation of the audit report. If files are scattered, unsigned, and not traceable, the report is weak and can be challenged.

First, all working papers should be moved immediately from personal laptops, emails, and WhatsApp into one official audit file system. FAM says working papers are confidential DAGP property and must be kept securely with controlled access. **(FAM 11.4.1, 11.4.3)**

Second, file integrity must be restored. Where duplicate files show different figures, the team should identify one final version, mark old drafts as superseded, and prepare a proper index and cross-references. Every important paper should show preparer, reviewer, dates, source, and link to the report point. **(FAM 11.3.3, 11.3.4, 11.3.11)**



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Third, unsupported or unsigned papers must be fixed before report issue. If one key cited document cannot be traced, that observation is not fully supported yet. It should be re-verified, replaced with valid evidence, or revised. FAM clearly requires working papers to support report conclusions and review. **(FAM 11.2.1, 11.3.1, 11.3.2)**

Fourth, confidentiality breach must be controlled. Sensitive vendor information should not be shared openly. FAM allows access only under controlled conditions and DAGP keeps control of papers. **(FAM 11.4.2(a), (b), (e))**

Fifth, custody responsibility must be clear. Until files are formally archived, custody remains with the audit team. After closure, files should be retained and archived as per policy, with permanent file properly maintained. **(FAM 11.4.2, 11.1.3, 11.1.4)**

So, practical sequence should be:

1. secure all files in official repository,
2. clean versions and indexing,
3. complete reviewer/preparer sign-off,
4. resolve missing evidence,
5. then finalize report.

This approach makes the audit defensible, confidential, and review-ready, exactly as required by FAM.

Q.5. In this situation, the annual audit plan should be finalized in a practical way:

a **keep what is compulsory, choose what is highest risk, and postpone what is low priority.**

First, mandatory audits should be protected. These are the audits that DAGP must perform every year, so they should be included before other requested work. FAM also says that when total planned work is more than available resources, discretionary work should be reduced. So, with only 70% capacity, not all 22 proposed audits can be retained. Low-risk discretionary audits should be deferred, merged, or rescheduled. **(FAM refs: 3.4.13–3.4.17)**

Second, the directorate's plan should be prepared in the proper approval flow. FAM requires each directorate to prepare its annual plan and submit it for approval, after which plans are consolidated into the Corporate Audit Plan. This means selection decisions must be clear, justified, and documented. **(FAM ref: 3.4.3)**

Third, to avoid duplication and save effort, related audit work should be integrated. FAM recommends combining discretionary compliance/internal-control/performance work with mandated annual audits where possible. In practice, this means doing work at the same time and reusing samples, with additional testing only where necessary. This improves efficiency and reduces repeated field visits. **(FAM refs: 3.5.1, 3.5.2)**

Fourth, the centrally-led audit should be handled through the required budget process before execution. FAM requires estimating hours/costs, discussing feasibility with directorates, updating the budget, and obtaining approval from the Auditor General. Without this formal step, execution may face staffing and funding issues later. **(FAM refs: 3.6.2(a–f), 3.4.11)**

So, a sound final plan would include:

1. all mandatory audits,
2. only high-risk discretionary audits within available person-days,
3. integrated audit design to reduce duplication, and
4. formal budgeting/approval for centrally-led work.



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Q.5. (i)

b Materiality Calculation

Materiality = Total Expenditure × Planning materiality rate
= 1,200,000,000 × 0.40% = 1,200,000,000 × 0.004 = 4,800,000

Initial planned precision (planning stage)

Initial Planned Precision = Materiality – Expected Aggregate Error
= 4,800,000 – 2,100,000 = 2,700,000

(ii)

Revised planned precision (after evaluation-stage likely errors)

Likely Errors = Detected Error + Projected Error + Additional Likely Error
= 900,000 + 1,500,000 + 700,000 = 3,100,000

revised planned precision:

Revised Planned Precision = Materiality – Evaluation-stage Likely Errors
= 4,800,000 – 3,100,000 = 1,700,000

(iii)

Testing decision based on revised planned precision

Initial precision = Rs. 2,700,000

Revised precision = Rs. 1,700,000

Decrease in precision = 2,700,000 – 1,700,000 = 1,000,000

Since planned precision has decreased, required sample size/procedures increase.

Decision: Expand testing (option c).

Q.6. Quality Assurance during Follow-up Phase (FAM-based)

In this case, the main problem is that follow-up was treated as a formality. Under FAM, follow-up quality assurance means recommendations cannot be marked “implemented” without proper evidence and review.

1) Create a formal follow-up tracking system

All audit recommendations should be entered in a follow-up register with:

- recommendation number,
- risk level (high/medium/low),
- responsible officer,
- target date,
- current status,
- evidence received.

This ensures no high-risk item is missed.

FAM 12.2.4, 12.2.5

2) Prioritize high-risk recommendations first

Since resources are limited, QA should require early follow-up of high-risk issues (especially those linked to loss, fraud risk, or control failure). These should not wait for routine annual review. FAM 12.2.3



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3) Verify implementation with documentary evidence

“Implemented” status should be accepted only after checking proof such as:

- revised SOPs/notifications,
- system logs,
- payment recovery proof,
- control operation evidence,
- independent confirmations (where needed).

Management statements alone are not enough.

FAM 12.2.4

4) Apply quality review before closure

Before closing any recommendation, supervisor/reviewer should check:

- whether evidence is sufficient,
- whether action addresses root cause,
- whether implementation is operating in practice (not just on paper),
- whether residual risk remains.

If evidence is weak, status should be “in progress” or “not implemented,” not “closed.”

FAM 12.2.4, 12.2.5

5) Document re-testing for critical issues

For major recommendations, team should perform limited re-testing or validation procedures to confirm controls are now working effectively.

FAM 12.2.5

6) Escalate non-compliance and delayed action

If high-risk recommendations remain unresolved, the issue should be escalated in follow-up reporting to higher management/PAC-related monitoring channels with clear accountability and revised deadlines.

FAM 12.2.3, 12.2.4

7) Report follow-up status transparently

Follow-up report should clearly separate:

- implemented,
- partially implemented,
- not implemented,
- not due yet,

and include evidence basis for each status.

Q.7. Reference: Revised FAM – Risk-Based Planning

a Key Points:

- Apply **risk-based approach**:
 - Identify high-risk areas (financial significance, past irregularities).
 - Prioritize audits with **higher risk and materiality**
- Consider:
 - Previous audit findings
 - Internal control weaknesses
 - Public interest and sensitivity
- Use **materiality** to focus on significant areas
 - Allocate limited resources efficiently
 - Prepare **Annual Audit Plan** accordingly



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Q.7. Reference: Audit Working Papers Kit / Execution Guidelines
b

Key Steps:

- Understand payroll system and controls.
- Verify:
 - Employee records (appointments, promotions)
 - Attendance and leave records
- Test:
 - Salary calculations
 - Deductions (tax, GP fund, etc.)
- Check:
 - Ghost employees
 - Unauthorized payments
- Reconcile payroll with:
 - Budget and accounts
- Use sampling techniques.
- Document findings properly.
