



**Pakistan Institute
of Public Finance Accountants**

Public Sector

**Model
Solutions**

Summer Exam-2022

MODEL SOLUTIONS – DISCLAIMER

INTRODUCTION

The Model Solutions are provided to students for clear understanding of relevant subject and it helps them to prepare for their examinations in organized way.

These Model Solutions are prepared only for the guidance of students that how they should attempt the questions. The solutions are not meant for assessment criteria in the same pattern mentioned in the Model Solution. The purpose of Model Solution is only to guide the students in their future studies for appearing in examination.

The students should use these Model Solutions as a study aid. These have been prepared by the professionals on the basis of the International Standards and laws applicable at the relevant time. These solutions will not be updated with changes in laws or Standards, subsequently. The laws, standards and syllabus of the relevant time would be applicable. PIPFA is not supposed to respond to individual queries from students or any other person regarding the Model Solutions.

DISCLAIMER

The Model Solutions have been developed by the professionals, based on standards, laws, rules, regulations, theories and practices as applicable on the date of that particular examination. No subsequent change will be applicable on the past papers solutions.

Further, PIPFA is not liable in any way for an answer being solved in some other way or otherwise of the Model Solution nor would it carry out any correspondence in this regard.

PIPFA does not take responsibility for any deviation of views, opinion or solution suggested by any other person or faculty or stake holders. PIPFA assumes no responsibility for the errors or omissions in the suggested answers. Errors or omissions, if noticed, should be brought to the notice of the Executive Director for information.

If you are not the intended recipient, you are hereby notified that any dissemination, copying, distributing, commenting or printing of these solutions is strictly prohibited.

Audit & Assurance (PS)



Summer Exam-2022

Solutions – Audit & Assurance (PS)

Q.1. The auditor should document the internal controls as part of the audit. A clearly documented description of the controls enhances the auditor's ability to assess the controls. Also, the documentation aids supervision of the audit and improves communications between members of the team. The documentation should form part of the working papers and should be included on the permanent file.

Methods of understanding the system and application of controls include:

- a) Narrative;
- b) Flowchart;
- c) Internal Control Questionnaire (ICQ); and
- d) Walk-through.

Narrative. This is a written description of an entity's internal controls. Narrative of an accounting system and related controls includes four characteristics:

- a) Information on the origin of every document and record in the system;
- b) Description of all processing that takes place;
- c) The disposition of every document and record in the system; and
- d) An indication of the controls relevant to the assessment of control risk - these typically include separation of duties, authorization and approvals and internal verification.

Flowchart. This is a time-consuming exercise and is generally applied only when the effort can be justified, such as when there is some uncertainty about the processes or the complexity and importance of the procedures indicate a need for clear representation.

The flowchart is a diagrammatic representation of the entity's documents and their sequential flow in the organisation and can be a valuable component of the working paper file. It includes the same four characteristics identified above for narratives.

The advantages of a flowchart are that it:

- a) provides a concise overview of the entity's system;
- b) helps identify inadequacies by showing how the system operates;
- c) shows clearly the separation of duties allowing the auditor to judge whether they are adequate; and
- d) is easier to follow a diagram than to read a description.

Internal Control Questionnaire. The ICQ is a common tool of the auditor. It contains a series of questions about the controls in each audit area. There is usually a pre-developed ICQ that may, or may not be tailored for the particular area under examination by the auditor. It is designed to require a "yes" or a "no" response, with a "no" response indicating potential internal control deficiencies.



Summer Exam-2022

Solutions – Audit & Assurance (PS)

The advantage of using the ICQ is it allows the auditor to thoroughly cover each audit area reasonably quickly at the beginning of the audit.

The disadvantages are:

- a) The individual parts of the entity's systems are examined without providing an overall view;
- b) A standard questionnaire may not apply to all audit entities; and
- c) There is a danger of taking a mechanical approach rather than thinking through the control needs of the particular operations under examination.

Walk-Through (Cradle to Grave Test). The walk-through is conducted to confirm that the system and controls are operating in accordance with the auditor's understanding. It is used to verify that identified controls have been put into operation.

To conduct a walk through test the auditor selects a few transactions (generally between 3 and 6), pertaining to each significant transaction cycle, and traces them through the cycle beginning with initiation of the transaction, through processing until it is ultimately summarised and included in a general ledger or management report.

The auditor should document the transactions selected for walk-through, the controls that were observed and describe any enquiries made of client personnel.

Total Marks 20

Q.2. The circumstances to Give an Unqualified Opinion

05

a

As discussed in DAGP's Auditing Standards, "an unqualified opinion is given when the auditor is satisfied in all material respects that:

- a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- b) the statements comply with statutory requirements and relevant regulations;
- c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- d) there is adequate disclosure of all material matters relevant to the financial statements."

Q.2.

Auditor's Report

10

b

To the President of the Islamic Republic of Pakistan:

I have audited the statement of assets and liabilities of the Federal Government of Pakistan as at 30 June 20XX and the statements of revenues and expenditure, cash flows, appropriation accounts by grants and appropriations, appropriation accounts by economic functions and department/division, appropriation accounts by grant, and analysis of revenues by division/department for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit in accordance with the requirements of Article 169 of the Constitution of the Islamic Republic of Pakistan read with Section 7 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

I conducted my audit in accordance with the auditing standards issued by the International



Summer Exam-2022

Solutions – Audit & Assurance (PS)

Organisation of Supreme Audit Institutions and by my department.

Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion:

- (a) These financial statements properly present, **in all material respects**, the financial position of the federal government as at 30 June 20XX and the results of its operations, its cash flows and its expenditures and receipts by appropriation for the year then ended in accordance with the stated accounting policies of the Government of Pakistan.
- (b) The sums expended have been applied, in all material respects, for the purposes authorised by Parliament and have, in all material respects, been booked to the relevant grants and appropriations.

Without qualifying my opinion, I draw your attention to [reference to a separate document where further comments/findings are discussed].

Islamabad, Pakistan (signed) _____
[Date] Auditor-General of Pakistan

Total Marks 15

Q.3. Audit risk. The chance that the auditor is prepared to take that he/she may issue an unqualified opinion on financial statements that are materially misstated. 7.5

Control risk. The chance that the entity's internal controls will not prevent or detect material error.

Inherent Risk. The chance of material error occurring, assuming that there are no internal controls in place

The Factors to be considered while assessing the Audit Risk are as follows:

- Entity is receiving a lot of bad publicity.
- Entity is being privatised, transferred to another level of government, or turned into a special operating agency.
- Entity is issuing new debt.
- Entity is in financial difficulty (or expected to be in financial difficulty in the short term).
- The financial statements have a large number of use who, are relying to a large extent on those statements and the audit opinion thereon.
- Entity is very easy to audit (and consequently users expect the auditor to obtain a higher than usual level of assurance).



Summer Exam-2022

Solutions – Audit & Assurance (PS)

The Factors to be consider while assessing the Inherent Risk are as follows:

7.5

1. The nature of the component, e.g.
 - Susceptibility to loss.
 - Susceptibility to fraud.
2. The extent to which the items making up the component are similar in size and composition.
 - Consider: The more homogeneous the component, the lower the risk.
3. The volume of activity.
 - Consider: If a lot of transactions are being processed, the chances of an error occurring may be higher than if only a few transactions are being processed.
4. Capability of the staff processing the transactions.
 - Consider: If the staff are experienced and take their jobs seriously, there is probably a lower inherent risk than if the staff are inexperienced or careless.
5. The number of locations.
 - Consider: Entities operating out of a single location with a centralised accounting system may have a lower inherent risk than those operating out of many locations, each with its own accounting system.
6. The accounting policies being used.
 - Consider: Many components have a lower risk of error when the cash basis of accounting is being used than when the accrual basis of accounting is being used.

Total Marks 15

Q.4. Adequate documentation is important for several reasons. It will:

- a) serve as evidence of the auditor's compliance with DAGP's Auditing Standards;
- b) help to ensure that delegated work has been satisfactorily performed;
- c) increase the efficiency and effectiveness of the audit;
- d) help the auditor's professional development;
- e) serve as a source of information for preparing reports;
- f) provide information to answer enquiries from entity officials, the Legislature and its committees, or from any other party;
- g) assist in the planning of the audit for the following year; and
- h) help auditors in the following year to perform their work

Total Marks 15

Q.5. In this case, the auditor has four potential options:

- a) Increase the materiality amount;
- b) Increase the sample size;
- c) Request entity officials to record a correcting entry; or



Summer Exam-2022
Solutions – Audit & Assurance (PS)

- d) Request entity officials to perform a detailed investigation and then re-audit.
- e) If neither of these options is possible, the auditor should qualify the audit opinion.

Total Marks 15

Q.6. As is illustrated in the working paper kit, the information that is often found in the permanent file includes:

- a) The role of the entity, its vision and mission statements, and its most recent corporate plan;
- b) Copies of relevant government legislation, regulations, guidelines and other rules affecting operations;
- c) Organisation charts;
- d) Chart of accounts;
- e) Summary of accounting principles used by the organisation;
- f) Copies of long-term contracts/leases;
- g) Copies of loan agreements, schedules of amortisation for debts and special assets;
- h) Extracts of minutes;
- i) Special remuneration conditions for senior officers; and
- j) Reports to management and management's response.

Policies and procedures manuals may be in the permanent file if they are brief or, alternatively, a copy should be kept on the auditor's premises.

Total Marks 15

Q.7. Data access controls

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 unauthorized access was attempted so that the person attempting such access may be identified?
- e) Limit simultaneous logins?

2. Are there controls in place to ensure

- a) Password of adequate length?
- b) Regular change of password?



Summer Exam-2022
Solutions – Audit & Assurance (PS)

- 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 minimize the risk that unauthorized 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.

Total Marks 15
