



**Pakistan Institute  
of Public Finance Accountants**

# **Model Solutions**

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

**Winter Exam-2025**

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

#### Q.1. Evidence

**7.4.1** The auditor requires evidence to support all information presented in the audit report. Even the background description of the entity and generalised statements about the organisation must be supported by appropriate evidence. The final audit report must be able to withstand all challenges and the auditor must be able to demonstrate his/her professionalism in the way the audit is carried out and in the presentation and contents of the final report.

#### Attributes of Evidence

**7.4.2** To support the auditors' findings, conclusions and recommendations the evidence must be:

- a) Sufficient;
- b) Relevant;
- c) Reliable; and
- d) Objective.

**7.4.3 Sufficient.** Evidence should be sufficient to lead a reasonable person to the same conclusions as the auditor. The sufficiency of evidence will be influenced by a wide variety of matters including:

- a) The auditor's knowledge of the entity and its environment;
- b) The materiality/significance of the matter in hand;
- c) Whether the report is addressing only a limited area of coverage or whether it encompasses all activities and transactions within a large area of management responsibilities;
- d) Whether the audit is providing assurance or just identifying particular weaknesses in need of correction;
- e) The degree of risk that insufficient evidence will lead to a misleading statement or conclusion or produce an inappropriate recommendation;
- f) The quality and persuasiveness of the evidence; and
- g) The degree of acceptance of the evidence by management.

**7.4.4** The auditor should take care that the evidence is strong enough to support statements in the report.

**7.4.5** If the audit report simply lists a series of negative findings, the evidence required applies only to those particular projects/activities/transactions examined. If however, the auditor wishes to generalise about all projects/activities/transactions, the audit evidence has to be sufficient to demonstrate, usually on the basis of a statistically valid sample, that the majority of such projects/activities/transactions have the same characteristics of satisfactory performance (assurance) or suffer from the same negative findings.

**7.4.6 Relevant.** The relevance of audit evidence refers to the relationship of the evidence to its use and applicability. The auditor should have a clear audit programme with distinct audit objectives. The auditor is expected to collect relevant evidence to conclude against those audit objectives to complete the audit satisfactorily.

**7.4.7** In practice, the auditor is likely to encounter situations not anticipated in the audit plan. The auditor should not be blind to evidence outside of the audit objective(s). If the auditor obtains evidence of a significant issue outside of the defined scope and objectives of the audit, the auditor should discuss the situation with his/her superior or other appropriate person in DAGP. If the auditor pursues an area of investigation substantially outside of the audit objectives, it would be appropriate to brief the entity's management on the change of scope.

**7.4.8** Evidence must support audit statements directly. Evidence should not take the form of an implication. For example, statements that the manager is often absent does not necessarily imply that there is insufficient supervision. The linkage must be established by the auditor by obtaining sufficient relevant evidence to support the conclusion.



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**7.4.9** Evidence to support audit conclusions should, as far as possible, be timely. The relevance of audit findings generally diminishes over time.

The auditor needs to focus as far as possible on current situations so that management can receive useful feedback and take corrective actions. For example, major capital projects may proceed through the planning stage, contracting and construction over many years. If the auditor identifies a weakness in the planning stage of a project now complete, the finding may not be applicable to other projects. The managers, or the systems, procedures and practices may have changed. Wherever possible, the auditor should review the current systems, procedures and practices and determine whether the weaknesses of the past still exist or have been corrected.

**7.4.10 Reliable.** The auditor has a professional responsibility to ensure that, as far as possible, the evidence obtained is reliable. That is to say, the evidence is:

- a) based on fact, not opinion;
- b) an accurate reflection of reality;
- c) from a reliable source;
- d) consistent with other evidence; and
- e) remains true for all situations within the audit domain.

#### **Audit Manual – Chapter 7**

*Collect relevant evidence to conclude against audit Ensure that evidence obtained is reliable.*

**7.4.11** Interviews are a source of useful evidence but the auditor should appreciate that often statements are based on opinions, are not necessarily accurate and may on occasion be intentionally false. Wherever possible, a statement from an interview should be checked against documented evidence. For example, if the auditor is informed that a particular transaction was delayed for some time, the documentation of the transaction should be sought to confirm what was said in the interview.

**7.4.12** Occasionally, even documented evidence can be unreliable. The auditor should be continually reviewing, questioning and deciding on the reliability of the evidence. Where the auditor is not satisfied with the reliability of the evidence, and has not been able to resolve the problems, the best approach is to include statements to this effect in the draft report and seek management's assistance in getting the most reliable evidence.

**7.4.13** Where there is a good system of internal control, the auditor can be more confident of the reliability of information produced by the entity than where the internal controls are weak.

**7.4.14** A particular type of evidence is the non-existence of something – the lack of an anticipated event or expectation (a control, a study or some other matter that the auditor is expecting to see). The best the auditor can do is document on file the efforts made to find the evidence of what the auditor would expect to see in the particular circumstances.

If the auditor does not make the appropriate efforts to find what is considered missing, he/she can be criticised by management for not making reasonable effort. One approach is to use the “audit query” to seek management's assistance. Alternatively, through interviews, briefing and, if necessary, within the draft report, the auditor should draw attention to the fact that no evidence has been found of what the auditor was looking for.

**7.4.15 Objective.** To be admissible, evidence should be objective and free from bias. The auditor should always maintain an open mind with regard to the evidence collected. The auditor should guard against assuming that the initial findings or assumptions are the only interpretation



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of the situation. If not, there is the danger that the auditor, most likely inadvertently, seeks evidence that supports the original perception. Whenever there are contradictions in the evidence collected, the auditor should not reject certain evidence, but rather seek further evidence to determine which information is correct, or to obtain an explanation as to why the evidence is not consistent.

**7.4.16** Evidence should be evaluated objectively; alternative interpretations of the same evidence should be considered and inconsistencies in the evidence resolved before reaching final conclusions. Wherever possible, the auditor should focus on the results and systems, not on the individuals involved. The auditor should endeavour to avoid being influenced by Personalities

#### **Q.2. 7.8 Keeping Entity Officials Informed**

**7.8.1** To successfully complete the fieldwork, the auditor should:

- a) Have effective communication skills, both oral and written; and
- b) Establish and maintain good working relationships with entity officials.

**7.8.2** Good working relationships are highly dependent on good communications. Entity officials must have complete confidence in the integrity, independence and capability of the auditors. Auditors must be seen to be honest, fair, discreet and tactful.

**7.8.3** Entity management and staff should be kept informed of the progress of the audit. Conflicts between an audit team and entity officials can be avoided by timely intervention.

**7.8.4** Except in the case of a fraud, or suspected fraud, the auditor should strive to conduct a “no-surprises audit”. This means honest communications and keeping entity officials aware of the progress of the audit and the findings to date. The auditor should ensure that the findings about an area of audit are not reported to a more senior manager before the manager at the lower level has been informed of the findings and given an opportunity to rebut, correct or explain.

**7.8.5** It is good practice, at the end of the fieldwork at a particular location, to arrange a meeting to discuss the findings with the senior manager of the area being audited. This meeting is an opportunity to confirm the audit findings and explore possible recommendations with the manager. Minutes of the meeting can form useful audit evidence.

**7.8.6** The auditors should also seek, where appropriate, to have regular communications with the internal audit unit within the entity. As discussed in earlier sections, coordination of the external and internal audit work can ensure adequate audit coverage, while at the same time minimizing duplicate efforts.



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**Q.3. Control risk**

**5.4.38** This is the risk that material/significant error or loss is not prevented or detected on a timely basis by the internal control structure. Control risk is a function of the effectiveness of the design and operation of the internal controls. In order to assess control risk, the auditor should obtain evidence to support the effectiveness of internal control policies and procedures in preventing or detecting material error or loss. The auditor should recognize that there are risks of error or loss that cannot be detected or prevented in a timely manner whatever the controls in place. Further, the auditor should recognize that the costs of certain controls cannot be justified when compared to the potential losses they are guarding against.

**5.4.39** The auditor should identify and evaluate both the control environment and the effectiveness of the individual internal controls that are in place. Indicators of a positive control environment include:

- a) policies and procedures relating to internal controls and to the need for maintaining a proper control environment exist and are documented;
- b) an appropriate organizational structure with clearly identified roles and responsibilities relating to the administration of internal controls exists; staff are selected and trained to ensure their competence and dedication in key control positions;
- c) senior management is involved in identifying control risks and monitoring performance;
- d) actions are taken to correct any identified control deficiencies with an appropriate level of priority; and
- e) management displays positive attitudes towards the maintenance of sound internal controls, such as: recognizing dedicated effort; positively responding to audits and reviews of controls; and taking disciplinary action in response to poor performance.

**5.4.40** The auditor is referred to the Control Environment Worksheet in the Standard Audit Working Papers Kit.

**5.4.41** To review the effectiveness of controls the auditor should make use of the Internal Control Questionnaires which are presented in the audit program guides as part of the Standard Audit Working Papers Kit. The auditor should expect stronger controls where risks are highest.

For example, there should be strong controls in place to ensure contracts involving large expenditures are well managed: for the selection of the contractor, for drawing up the contract; and for the control of performance under the contract. On the other hand, there should be minimal effort applied to controlling small items of inventory where the risk of loss, damage or theft is low.

**5.4.42** The auditor should determine how the controls are applied, assess their adequacy, and identify significant control gaps.

**5.4.43** The trend in modern government is to “let the managers manage” and take reasonable risks in order to achieve results with reduced resources. Consequently, the auditor should be conscious of the need for reasonable, but not excessive, internal controls. The cost of controls should not exceed the potential losses that could occur without those controls.



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#### Q.4. Planned Precision

**5.4.22** Planned precision is the auditor's planned allowance for further possible errors.

**5.4.23** By testing a sample, the auditor can determine the Most Likely Error (MLE) in the population. However, because the auditor has only selected a sample, there is a chance that the actual error in the population is larger than that. The auditor needs to ensure there is sufficient assurance that the maximum possible error in the population is less than the materiality amount.

**5.4.24** To do this, when planning and performing many analytical procedures and substantive tests of details, the auditor reduces the materiality amount by his/her estimate of the most likely error that will exist in the financial statements as a whole. This estimate is referred to as the "expected aggregate error." Planned precision is equal to materiality less the expected aggregate error.

**5.4.25** To determine the expected aggregate error, the auditor should consider:

- a) The errors found in previous years;
- b) Changes the entity has made to the internal control structure to prevent these errors from recurring; and
- c) Other changes to the entity's business or its internal control structure that could affect the size of the errors.

**5.4.26** If the auditor's estimate of the expected aggregate error had been set at the planning stage at Rs. 816,500, the auditor would have calculated planned precision as follows:

	Rs.
Materiality	3,000,000
Expected aggregate error in financial statements	816,500
Planned precision	2,183,500

**5.4.27** As noted in the discussion on materiality, the materiality amount determined at this step of the general planning phase is used for the audit of all components within the same audit. There is no need to allocate the amount to the various financial statement components. Consistent with this approach, the expected aggregate error being used for a particular test is the expected aggregate error in the financial statements as a whole, and not just the expected error in the population being audited. When auditing the completeness of income tax receipts, for example, the auditor would need to allow for errors not only in that test, but for errors found in other income tax receipts tests and for errors found in other financial statement components.

#### Q.5. 7.2 Compliance Testing

**7.2.1** In conducting the audit, the first step is to evaluate the effectiveness of internal controls. This is done through compliance testing. During the planning phase, the auditor will have assessed the appropriateness of internal controls and made an initial judgment as to the extent to which the auditor can rely on the internal controls when deciding on the sample sizes to take for detailed testing of transactions.

**7.2.2** To determine how well internal controls are being applied, the auditor should test the controls with a sample of transactions. The sample taken for compliance testing will usually be part of the sample required for substantive testing (see later).

**7.2.3** Generally, for compliance testing, basing the assumptions on a zero deviation (or error) rate and a tolerable rate of 5%, the auditor would take a sample size of between 30

and 60. Thus, with a sample size of, say, 45 items, if the auditor finds no errors, then the controls can be assessed as having a low control risk. If in this sample, one error is found, then the auditor



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can determine control risk is moderate. If, however, more than one error is found in the sample, the auditor cannot place much reliance on the controls (and therefore would increase the amount of substantive

**7.2.4** Compliance tests are designed to determine whether the controls are effective. Any significant misstatements or instances of non-compliance should lead the auditor to identify weaknesses in controls, report the specific weaknesses in the controls, consider the implications on the financial statements and reconsider the extent of reliance on the controls (and therefore the size of sample needed for direct testing of transactions).

**7.2.5** A similar approach is taken to sampling and testing compliance with authorities, authorities being one specific type of internal control over the entity's operations.

**Q.6. The general framework of the auditing standards of the Auditor General of Pakistan is based on the principles of the latest INTOSAI Auditing Standards.**

4.1.2 The INTOSAI auditing standards consist of four parts.

- a) Basic principles
- b) General standards
- c) Field standards
- d) Reporting standards

These standards have been developed to provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit, including audits of computer-based systems. They should be viewed in the context of the particular constitutional and legal provisions applicable to the Department of the Auditor General of Pakistan.

4.1.3 The basic principles for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

4.1.4 Auditing standards should be consistent with the principles of auditing: They also provide guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit. Auditing Standards constitute the criteria or yardsticks against which the quality of the audit results are evaluated.

4.1.5 Interpretations, explanation and amendments of these standards are the prerogative and responsibility of the AGP.

**Q.7. 11.5 Management Representation Letter**

Entity officials in each ministry, department, agency, etc. are responsible for the completeness and accuracy of the financial statements or, in the case of the financial statements of the Federation, the provinces and the districts, their portion of the financial statements. In addition, entity officials have often provided the auditors with numerous pieces of information – both verbally and in writing – during the course of the audit.

The auditor prepares the management representation letter to have entity officials acknowledge, in writing, that they are responsible for the completeness and accuracy of the financial statements (or their portion thereof) and for the representations they made during the audit.



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Section 7(b) of the Controller General Ordinance requires the Controller General of Accounts to “prepare and submit to the Auditor-General for each financial year a Consolidated and General Financial Statement incorporating the summary of the accounts of the Federation, all provinces and district authorities”.

#### 11.5.1 Standard content

A sample management representation letter is included in the Standard Audit Working Paper Kit. In this letter entity officials are asked to acknowledge their responsibility for the proper presentation of the entity’s financial position, results of operations, etc., and confirm, to the best of their knowledge and belief, that:

- all relevant information has been made available to the auditors;
- they are not aware of any irregularities involving management or employees, or any violations of statutes or regulations whose effect should be recorded or disclosed in the financial statements;
- specifically listed asset, liability, revenue and expenditure items are valid, complete, properly valued, etc.;
- all required disclosures have been made;
- there are no significant subsequent events that require recording or disclosure in the financial statements; and
- there are no other matters of significance that require recording or disclosure in the financial statements.

The letter should normally be addressed to the person within DAGP who will be signing the audit opinion (the Auditor-General, the Deputy Auditor General (Senior) or the responsible Deputy Auditor General).

The letter should normally be signed by the:

- Head of the Organization;
- Principal Accounting Officer;
- Financial Advisor; and
- Finance and Accounts Officer.

For exempt entities, officials performing the equivalent functions would sign the representation letter.

#### 11.5.2 Preparation and clearance of the letter

The auditor should review the letter of representation contained in the Standard Audit Working Paper Kit to ensure that it is appropriate for the entity. The auditor should make whatever changes are considered necessary, including adding any representations that he/she believes should be added.

The auditor should then discuss the draft letter with entity officials. This should be done well in advance of the deadline date for the letter to ensure that there will be no difficulties obtaining the required representations.

When the response is received from the officials, the auditor should ensure that any alterations made by the officials are acceptable to the auditor.

The Standard Audit Working Paper Kit includes a checklist that the auditor can use to assist in the preparation and clearance of the representation letter.



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Q.8.

**Audit Para: Discrepancy of 3,000,000/-**

During the Audit scrutiny of Accounts Records of the office of the DY Director Agriculture (Extension), Sargodha for the year,2024-25 it was noticed that the budget allocation for the year 2024-25 was Rs. 8,000,000/- for Establishment Charges and Rs. 3,000,000/- for Contingent charge.

The Cash Book and June Account (Final) of the office shows whole expenditure incurred Rs. 6,000,000/- in Establishment charges and Rs. 2,000,000/- in Contingent Expenditure and nor saving nor any surrender was made. Whereas, the saving of Rs. 3,000,000/- should have been shown.

In such scenario, either it might be a discrepancy of figures or misappropriation of amount.

The matter needs to be investigated under intimation to audit.

-Sd-  
Audit Officer

Q.9. Solution:

**AUDIT PARA- LOSS OF Rs. 1,000,000/- AND**  
**IRREGULAR AWARD OF WORK.**

During audit scrutiny of the CEO Education Authority, it was noticed that, the tenders for supply of Furniture worth Rs. 500,000/- was called on 1.1.2023. Five bidders participated in the competition. In which, M/s XY was stood lowest with quoted rate of Rs. 510,000,000. But CEO of District Education Authority ignored him and awarded the work to 2<sup>nd</sup> lowest M/s 52,000,000/- without recording any cogent reasons.

As per PPRA Rules, the lowest bidders cannot be ignored without any solid reasons. Therefore, in this case, a loss of Rs, 10,000,000/- was sustained by the Government in the form of highest rate as well as the factor of favoritism cannot be ruled out.

Audit desires to justify the irregular action of CEO, Education Authority Faisalabad.

Q.10. **4.3 Activity and Resource Planning**

**4.3.1** This phase primarily involves taking the decisions made during the general planning phase and using them to build the audit programs that will be used during the fieldwork phase. It also involves establishing budgets, staffing requirements, the timing of the audit work, and the information to be obtained from the entity.

**4.3.2** These steps are introduced below, and are discussed in more detail later.

**Develop audit programs**

**4.3.3** The audit programs provide the auditor with a list of all the procedures to perform.

**4.3.4** The auditor can use the error conditions identified during the general planning phase, or a previous audit program for the entity, as a starting point for the development of the audit programs.



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**4.3.5** The auditor should also determine what information the entity management are required to make available for the audit work.

#### **Establish resource requirements and timing considerations**

**4.3.6** For each audit determine:

- a) the number of auditors with required level of seniority and skill sets;
- b) related out-of-pocket expense budgets; and,
- c) timing of the work.

**4.3.7** The resource requirements are based on the audit programs. Resource allocations from previous audits of the entity may provide a helpful starting point.

#### **Fieldwork**

**4.3.8** During the fieldwork phase, the auditors complete the procedures that are contained in the audit programs. The required evidence is gathered, and the work performed is documented in the appropriate working paper files.

#### **Evaluation**

**4.3.10** During the evaluation phase, the results of the audit are summarized and conclusions are reached.

**4.3.11** The auditor first concludes on the results of each test. The auditor then reaches a conclusion on each component. Finally, the auditor reaches a conclusion on the financial statements as a whole, and/or identifies specific irregularities and general systemic weaknesses based on compliance with authority tests.

#### **Reporting**

**4.3.13** The reporting phase involves performing some final clearance procedures and issuing an audit certificate (opinion) on the financial statements. In this certificate, the auditor expresses an opinion as to whether:

**4.3.14** the financial statements properly present in all material respects, the government's financial position, the results of its operations, its cash flows and its expenditure and receipts by appropriation; and,

**4.3.15** the sums expended have been applied, in all material respects, for the purposes authorized by Parliament, and have, in all material respects, been booked to the relevant grants and appropriations.

**4.3.16** Often, the reporting phase also involves issuing other reports dealing with internal controls, compliance with authorities, and performance matters that were identified as part of a financial audit, or in separate audits. These matters can be reported in a management report or in one of the Auditor-General's reports to Parliament and the Public Accounts Committee.

#### **Follow up**

**4.3.18** The follow-up phase involves returning to the entity at a later date to determine if entity management has:

- a) Corrected errors identified during the audit; and
- b) Implemented recommendations made by the auditors or by the Public Accounts Committee.

Reporting the results of the audit.



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**Q.11. 4.1.2** The audit plan should include:

- a) A clear statement of the audit objective(s);
- b) Statement of the magnitude of operations (expenditures, revenues, assets, personnel) and for an attest audit, the significant line items and accounts in the financial statements and significant financial statement assertions;
- c) Summary of significant issues and results of an initial risk assessment;
- d) Proposed audit scope, including:
  - Type(s) of audit activity (attest, compliance, effectiveness of internal controls, safeguarding of assets, fraud investigation, value-for money, IT systems, or some combination thereof);
  - locations to be visited;
  - functions, activities, systems and procedures to be examined;
  - aspects of performance to be covered;
  - audit methods and tests; and
  - samples selected or methods of selecting samples.
- e) Budget and schedule;
- f) Audit steps; and
- g) Assigned audit responsibilities.

**4.1.3** DAGP audit teams should plan to perform audits that encompass both financial attest and compliance components. These two audit components have much in common. Each requires the auditor to:

- a) Understand the audit entity;
- b) Conduct a risk assessment;
- c) Define audit objectives and scope;
- d) Develop an audit programme
- e) Test the controls;
- f) Determine sample size (for statistical or non-statistical);
- g) Conduct substantive tests;
- h) Report; and
- i) Follow up.

**Figure 4.1: Audit Cycle for Individual Audits**

- Understand the entity's business
- Establish audit objectives and scopes
- Assess materiality, planned precision, and audit risk
- Understand the entity's internal control structure
- Determine components



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- Determine financial audit and compliance with authority objectives and error/irregularity conditions
- Assess inherent and control risk
- Develop audit programmes
- Execute audit programmes
- Conclude on results of work
- Issue reports

**AUDIT PLANNING**

Determine mix of tests of internal control, analytical procedures and substantive tests of details

**ACTIVITY AND RESOURCE PLANNING FIELDWORK EVALUATION REPORTING FOLLOW UP**

Follow up matters in reports

Establish resource requirements and timing

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