



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

Internal Audit

**Framework - WAPDA
(Application)**

WAPDA

Winter Exam-2025

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Q.1. A suggested outline for the answer is as below:

Some of the internal controls for protection of Payroll frauds are given below:

1. All updates to the payroll system should be validated, logged and authorized.
2. Access controls should ensure that only authorized personnel are able to update the payroll system.
3. Controls to ensure the payroll cannot generate more than one payment for each period.
4. Checks should be carried out on starters and leavers to ensure that they are correctly added to or deleted from the payroll.
5. Budget holders should be provided with sufficient and timely information to enable them to monitor staffing costs against budget.
6. There should be segregation of duties between those responsible for authorizing appointments and changes to standing data and sanctioning payments.
7. The claimant should submit claims in writing.
8. All claims should be checked to vouchers and any other supporting documentation prior to authorization.
9. Claims should be checked to ensure that the correct subsistence rates have been used.
10. Any alterations to claim forms should be countersigned.
11. Claims should not be returned to the claimant after they have been countersigned.
12. Signatures of authorized counter-signatories should be checked before payment is made.
13. The accounts officers passing the bill for payment should be provided with sufficient information to enable them to monitor travel costs against budget.

Q.2. Role of Internal Audit in WAPDA

- a.b** Examinees are expected to give their candid personal opinion on the overall performance of internal audit in maintain financial discipline in WAPDA. As the assessment is subjective there is right or wrong answer to the question.

Q.3. Outline for the answers is as following:

Necessary information is given in the question. The examinees are required to draft an audit observation on the prescribed format which comprises following parts:

- Audit criteria
- Condition
- Effect of the condition
- Causes
- Recommendations



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Q.4. Suggested outline for the answer is as following:

- i.** Resistance to change: Internal auditors may encounter resistance from employees or management when suggesting changes to existing processes or procedures.
- ii.** Lack of independence: Internal auditors may face pressure from management to overlook or downplay certain issues, which can compromise the integrity of their work.
- iii.** Lack of resources: Internal auditors may be understaffed and lack the necessary resources, such as technology and training, to perform their duties effectively.
- iv.** Limited scope of work: The internal auditors may have a limited scope of work, and may not have the authority to investigate all areas of the organization.
- v.** Difficulty in identifying and assessing risks: Internal auditors may have difficulty identifying and assessing risks within the organization, which can make it difficult to develop effective internal control systems.
- vi.** Limited knowledge on new and emerging technologies: Internal Auditors may not have enough knowledge on new and emerging technologies, and how they can be used to improve the internal audit process.
- vii.** Lack of standardization: Internal auditors may face difficulties in the absence of standardization and consistency in the internal audit process across different departments and organizations.
- viii.** Difficulty in measuring the effectiveness of internal controls: Internal auditors may face challenges in determining the effectiveness of internal controls, which can make it difficult to identify areas for improvement.

How to overcome these challenges

- Legislative and institutional reforms: Ensure that internal audit has the independence it needs, backed by law.
- Capacity development: It is essential to invest in people through training, certification, and peer learning, as these practices are crucial for growth.
- Adoption of standards: International frameworks like the IIAs and ISSAIs provide a solid foundation.
- Digitization: Modern audit tools and data analytics tools can assist audit teams in improving efficiency and focusing on key areas.
- Internal audit and external oversight: Internal audit shouldn't operate in isolation. Collaborating with external auditors, anticorruption agencies, and legislative bodies can facilitate the translation of reports into actionable outcomes.



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Q.5. Internal audit of public entities is performed by internal audit department, which evaluates whether the financial management and internal control systems are transparent and comply with the rules of legality, regularity, efficiency and economy. Internal audit is exercised over all activities in a public entity, which has following stages:

STAGE-I Preparing audit mission:

- Initiation of the audit - Internal control questionnaire);
- Collecting and processing information
- Risk analysis
- Developing the internal audit program (program audit, the preliminary program of
- Opening session

STAGE-II Field Work:

- Collecting evidence
- Finding and reporting irregularities
- Review working papers
- Closing session

STAGE-III Internal Audit Report:

- Draft internal audit report
- Transmission of the draft audit report;
- Conciliation meeting
- Final report
- Dissemination of internal audit report.

STAGE-IV Follow-up: Based on its audited entity will be revise their work as auditors' recommendations, recommendations which were accepted by the entity.

Q.6. The materiality of error in a class of transactions is the maximum possible error in the population that the auditor is prepared to tolerate. We may also define it as “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”.

To determine materiality the auditor should perform the following steps:

- Identify the probable users of the financial statements.
- Identify the information in the financial statements that is expected to be the most important to each of these users (e.g., total expenditures, total assets or the annual surplus or deficit). One or more of these amounts may serve as the base amount(s) for computing materiality.
- Estimate the highest percentage(s) by which the base amount(s) could be misstated without significantly affecting the decisions of the users of the financial statements.
- Multiply the percentage(s) times the base amount(s).
- Select the lowest amount – this is the materiality amount. Errors exceeding this value are material

Materiality for expenditure of very small entity means has a threshold of 02%. Here the auditors have raised objections on 03% of the expenditure which means auditor will give qualified opinion on the accounts of the organization which is not good.



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Q.7. Audit Procedure is specific action performed by an auditor to collect evidence while an audit program is a detailed list of these procedures.

a

Importance:

- It provides a systematic plan for each phase of the work that can be communicated to all audit personnel concerned.
- It is means of self-control for the audit staff assigned.
- Through it the senior auditor can review and compare performance with approved plans.
- It provides assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.
- It is an aid to the senior auditor making possible a reduction in the amount of direct supervisory effort needed.
- It is basis for the format of working papers of the auditors and provides evidence of the work done by each auditor.

Examinees are expected to prepare the required audit program in accordance with the Internal Audit Manual Annexures.

Q.7. Audit Procedure is specific action performed by an auditor to collect evidence while an audit program is a detailed list of these procedures.

b

Importance:

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Examinees are expected to prepare the required audit program in accordance with the Internal Audit Manual Annexures.

Q.8. The purpose 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 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. They are yet not sure that the controls on which they are going to rely had been in place throughout the period of audit. For this purpose they need to extend their sample size.

Sample Size for Compliance Testing The sample size for compliance testing generally depends on three things.

a. Upper Error Limit.

b. Expected number of compliance deviations in the sample.

c. Confidence level to be obtained from the audit procedure.

There is a fourth factor that also can have an impact on the number of items in the population - the population size as opposed to the population value. This factor though, only applies when the population size drops below a reasonable limit, say about 2,000 items.

Confidence level of 80% mean there is low level reliance on the specific internal controls.
