ICMA INTERNATIONAL
lead strategically

MODEL PAPER

PRACTICAL INDUSTRY KNOWLEDGE (PIK) EXAMINATION

[COMPUTER BASED EXAMINATIONS]

Audit & Assurance
[Strategic Level-2]

TIME ALLOWED: 03 HOURS | MAXIMUM MARKS: 100

Effective from December 2025 Examinations

EXAMINATION DEPARTMENT

MULTIPLE CHOICE QUESTIONS (MCQs)

Question No.1

A company wants to appoint an auditor who is also a director in another firm supplying goods to the company. Under Section 247 (disqualification), what is the issue? **[04 Marks]**

A	No issue, the person can be appointed
B	The person is disqualified due to conflict of interest
C	Disqualification applies only to shareholders
D	Disqualification applies only to banks

Question No.2

Which of the following is an example of a statutory audit requirement in Pakistan? **[04 Marks]**

A	Non-profit organizations only
B	Only federal government entities
C	All companies registered under the Companies Act 2017
D	Only listed companies

Question No.3

A review engagement normally provides limited assurance. Which statement best describes this level? **[04 Marks]**

A	Auditor expresses an opinion with extensive testing
B	Auditor expresses a conclusion based on inquiry and analytical review
C	Auditor performs a full audit
D	Auditor gives no conclusion

Question No.4

The audit team identifies that the internal auditor of the client reports directly to the CFO instead of the audit committee. The CFO also instructs the internal auditor on which areas to review. From a practical standpoint, what is the problem? **[04 Marks]**

A	No problem, this is common in small companies
B	CFO has the legal right to control the internal audit
C	Internal audit reports only need to be reviewed annually
D	Internal auditor is not independent, reducing reliability for external audit reliance

Question No.5

During planning, the auditor prepares an audit strategy. This document **[04 Marks]**

A	Guides the audit approach and key areas of focus
B	Replaces audit evidence
C	Is only needed for government audits
D	Is optional for listed companies

Question No.6

During planning, the audit team visits the client's office to understand business processes. They learn that the finance manager approves vendor payments alone without any countercheck from procurement or internal audit. Employees say this has been the practice for years. What should the auditor do under ISA 265? **[04 Marks]**

A	Ignore it since it is an internal matter
B	Communicate this segregation of duties deficiency to those charged with governance
C	Accept this as an efficient process
D	Focus only on revenue testing

Question No.7

The auditor performs preliminary analytical procedures and finds that administrative expenses have doubled compared to last year, but management is unable to provide a clear explanation. What should the auditor practically do? **[04 Marks]**

A	Ignore the fluctuation
B	Decrease testing for operating expenses
C	Only verify salaries and ignore other costs
D	Treat administrative expenses as an area requiring detailed testing

Question No.8

When assessing risks under ISA 315, which situation would normally be considered a significant risk? **[04 Marks]**

A	Routine salary processing
B	Complex revenue recognition involving multiple sales channels
C	Office rent expense
D	Utility bills

Question No.9

During an audit of Al-Madina Traders, the auditor notices that the warehouse team prepares the goods dispatch note, updates the inventory system, and also prepares the sales invoice. There are no separate approvals or checks in the process. Staff justify this practice by saying, “we are short-staffed, so one person handles everything.” What is the major internal control risk?

[04 Marks]

A	Improved efficiency
B	Faster invoicing process
C	Risk of fraud or error due to lack of segregation of duties
D	Lower administrative cost

Question No.10

When internal audit work is used to reduce external audit testing, the external auditor must

[04 Marks]

A	Review and re-perform some of the internal auditor’s work
B	Request management approval
C	Skip substantive testing
D	Prepare separate working papers

[Note: The questions made available through this Model Paper reflects the pattern of questions to be tested in exams.]

CASE STUDY

Case Study: 1

XYZ Engineering Ltd is a large industrial company with operations across multiple cities. The company maintains an internal audit department that reports to the CFO. Internal audit performs routine audits of inventory, procurement, and payroll. During the current year audit, the external auditor reviews internal audit reports and finds that although internal audit identifies several weaknesses, most of their recommendations remain unimplemented. Management considers the internal audit department as "support staff" rather than an independent assurance function. Additionally, management hired a valuation expert to assess the fair value of specialized manufacturing equipment. The external auditor notes that the expert's firm is owned by the CEO's close friend, raising concerns about the expert's independence. The valuation report includes complex technical assumptions that the auditor is not fully familiar with.

Required:

(i) What should the external auditor evaluate before relying on the internal audit department's work?

(ii) How should the external auditor address the issue of internal audit recommendations remaining unimplemented?

(iii) What risk does the relationship between the valuation expert and the CEO create?

[15 Marks]

Case Study: 2

Bright Steel Manufacturing Ltd produces steel bars and sheets for industrial clients. During the cost audit for the current year, several issues were identified. Material consumption records did not match Goods Issue Notes, and there were frequent manual adjustments made by storekeepers. Labour costs increased significantly, but plant attendance records showed no equivalent increase in working hours. The production department reported high machine maintenance downtime, yet idle time was not separately recorded in cost statements. Internal transfer of semi-finished steel to another division was recorded at an outdated transfer price, resulting in under-costing of departmental outputs. Additionally, quality control reports showed rising defect rates, but the cost of rejects and wastage was not reflected in production cost sheets.

Required:

(i) What cost audit procedure should be performed to address the mismatch between consumption records and Goods Issue Notes?

(ii) How should the auditor deal with the absence of recorded idle time despite high machine downtime?

(iii) What action should the auditor take regarding defect rates not being recorded in cost sheets?

[15 Marks]

Scenario Based Question-1

(i) A new auditor is appointed to audit Falcon Textile Mills Ltd. During planning, the auditor notices that the company has recently faced several employee fraud incidents in the warehouse. The internal audit reports identify weak supervision and lack of monitoring. Management claims that "these were small issues and have been resolved." Based on ISA 240, how should the auditor respond
A. Assume no fraud risk remains
B. Treat fraud risk as significant and design specific audit procedures
C. Ignore warehouse operations completely
D. Rely only on management's statement

[05 Marks]

(ii) A manufacturing company has been facing repeated issues of inventory shortages despite having a computerized inventory management system. The internal auditor is assigned to review the process and discovers that storekeepers often bypass the system during urgent production requirements and issue material manually without updating records. What should the internal auditor consider the primary control weakness
A. Lack of segregation of duties
B. Failure to enforce system-based material issuance controls
C. Weak HR hiring practices
D. Poor financial reporting

[05 Marks]

(iii) While auditing the procurement-to-pay cycle, you find that supplier invoices are entered in the system without cross-verifying them against Goods Received Notes (GRNs) or Purchase Orders (POs). To practically test the control, what should be done
A. Ignore the invoices and proceed to next test
B. Select a sample of invoices and match them with GRNs and POs
C. Review payroll records
D. Compare supplier invoices with bank statements

[05 Marks]

Scenario Based Question No. 2

(i) A company undergoing financial restructuring requires fair valuation of investment properties. Management hires a valuation firm with strong professional credentials. However, the auditor notices inconsistencies in the valuation report regarding market assumptions. What should the auditor do
A. Accept the report as is
B. Engage another independent expert or seek clarification
C. Ignore valuation and use book value
D. Ask management to prepare its own valuation

[05 Marks]

(ii) During the audit of a logistics company, the auditor discovers that revenue of Rs. 85 million was recognised for services that were not fully performed by year-end. Management argues that the revenue was recorded based on “expected completion.” The misstatement is material but not pervasive. What type of audit opinion should the auditor issue

A. Adverse opinion
B. Disclaimer of opinion
C. Qualified opinion
D. Unmodified opinion with emphasis of matter

[05 Marks]

(iii) During receivable confirmation, several customers fail to respond to positive confirmations. The company has a history of overdue accounts. The auditor needs stronger assurance about the existence and recoverability of receivables. What should the auditor do next

A. Replace confirmations with verbal inquiries
B. Perform alternative procedures such as reviewing subsequent cash receipts
C. Perform no further work since confirmations were sent
D. Ask the CEO to certify receivable balances

[05 Marks]

THE END

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