

STAGE-5

S-503 - RISK MANAGEMENT AND AUDIT

i. Introduction:

This course comprises conventional audit, cost audit, and is designed to focus on risks involved in operations and production areas, and to provide safety to business from such risks.

ii. Objectives:

To provide the students an in-depth knowledge of risk management, financial audit and cost audit to enable them to:

- conduct audit effectively, and
- identify and advise management to take appropriate remedial actions in those areas where major risks are involved.

iii. Outcomes:

On completion of this course, students should be able to:

- identify, evaluate and manage different types of risks,
- determine role and importance of internal control,

- define objectives and scope of audit and describe the conceptual approach of auditing and evaluate and manage these risks,
- determine legal and ethical considerations of audit profession and carry out job keeping in view of their professional responsibility,
- draw up audit planning and determine quantum of audit work to be carried out in view of significant business risks,
- determine status of internal control and internal audit for deciding quantum by audit work to be conducted,
- apply audit techniques and procedures,
- describe documentation and evidence of audit work,
- prepare an audit report, keeping in view types of qualifications,
- describe nature, objectives, functions, scope, planning and procedures of cost audit,
- describe Cost Accounting Records Rules, and
- explain audit of material, labour and overhead costs.

INDICATIVE GRID:

SYLLABUS CONTENT AREA	WEIGHTAGE
SECTION-A 1. RISK MANAGEMENT 1.1 Risk Management Control and Evaluation 1.2 Management of Financial Risks 1.3 Case Study – Risk Management System of a Limited Company/Corporation 2. AUDITING 2.1 Nature and Principles of Auditing 2.2 Legal, Professional and Ethical Considerations 2.3 Audit Planning and Evaluation 2.4 Quality controls 2.5 Internal Control and Internal Audit 2.6 Audit Techniques and Procedures 2.7 Documentation and Evidence of Audit Work 2.8 Completion Stage of an Audit 2.9 Reporting Function 2.10 Role of Corporate Governance in Mitigation of Risks 2.11 Case Study-Risk Management System of a Listed Company	75 %
SECTION-B 3. COST AUDIT 3.1 Nature, Objects, Functions and Scope of Cost Audit 3.2 Planning the Cost Audit 3.3 Provision of Cost Accounting Records Rules 3.4 Material Cost 3.5 Labour Cost 3.6 Overheads 3.7 Sales, Royalty, Inter-Company Transactions	25 %
TOTAL	100%

Note: The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

CONTENTS

1. RISK MANAGEMENT

SECTION-A

1.1 Risk Management Control and Evaluation

Meaning, nature and types of risks; identification of risks of an organisation; methods of measuring, assessing and controlling risks; evaluation of risk management strategies; assessing and managing risks; evaluation of cost and benefits of audit; minimising the risks of fraud and application of appropriate audit techniques; minimising political risks; principles of diversification of risks; issues related to management's risk policy; involvement of financial audit, cost audit, internal audit to identify and eliminate various types of risks. Risk assessment procedures and success of information about the entity and its environment, revision of risk assessment.

1.2 Management of Financial Risks

Identification and evaluation of financial risks and appropriate methods for controlling them; evaluating the effects of alternative methods by risk management, and make recommendations; impact of differential inflation rates, exchange rates, currency risk management.

1.3 Case Study - Risk Management System of a Limited Company/Corporation

2. AUDITING

2.1. Nature and Principles of Auditing

Nature, definition, objectives and scope of an audit; types of audit; relationship between internal and external audit; general principles governing audit; concept of true and fair view; reasonable assurance; materiality; audit risk; going-concern and responsibility for financial statements.

2.2 Legal, Professional and Ethical Considerations

Appointment, remuneration, resignation, removal, powers, duties, liabilities, qualifications, disqualifications etc. of auditors under the Companies Ordinance, 1984. Appointment of auditor under Section 177 of the Income Tax Ordinance 2001; investigations and appointment of inspectors under the Companies Ordinance, 1984. International Auditing Standards and Guidelines; pronouncement and technical release, issued by professional institutes of Pakistan; knowledge on ICMAP Act; Regulation and Code of Ethics; Professional Code of Ethics and Behaviour issued by International Federation of Accountants (IFAC) Rules of professional conduct; professional responsibility and liability of auditor with regard to fraud and error; misconduct; negligence; expectation gap; insider dealing. Responsibility of management, responsibility of auditors, reporting non compliance. Regulation of audit and developments in auditing theories and their implications for the profession.

2.3 Audit Planning and Evaluation

Review of client's business, its significant business risk; accounting; legal, ethical and practical requirements; systems and procedures; preceding year's financial statements; client's general information; determining the audit risks and level of materiality; audit planning; overall audit plan, identifying critical or significant audit areas; effect of transactions with related party on the financial statements; detailed audit programmes; preparations and issue of engagement letters, in cases of new and recurring customers; change in engagement; multi-location and special purpose engagements and for providing other services; allocation and supervision of work; responsibilities; monitoring of time; progress and costs. Auditor's liability to third parties, environmental audit, social audit, audit of small entities.

2.4 Quality controls

Leadership responsibilities for quality of audits, assignment of engagement teams, engagement performance, engagement quality control reviews.

2.5 Internal Control and Internal Audit

Definition; objectives; types; principles and techniques of internal control and internal audit; limitations and effectiveness of internal control; evaluation of accounting and internal control systems; assessment of inherent; control and detection risk and factors affecting thereto; use of internal control questionnaire; role of audit committee towards internal control and audit; impact of internal audit work; reliance on internal audit by external auditor; internal control in Computer Information System environment; issuance of management letter. Control environment, entity's risk assessment process, control activities, monitoring of controls, controls relevant to audit, depth of understanding of internal controls.

2.6 Audit Techniques and Procedures

Techniques of audit testing; third party confirmation, management representations; sampling techniques; compliance technique; substantive testing; analytical review; use of Computer Assisted Audit Techniques; reliance on other auditors and experts; use of test of controls and substantive procedures for identifying risks of material mis-statements in existence; ownership obligation; occurrence; completeness; valuation; measurement; presentation and disclosure of assets and liabilities; appropriateness of accounting policies and their consistent application.

2.7 Documentation and Evidence of Audit Work

Documentation of work done, evidence of review, conclusions drawn and action taken, types of working- papers, recording of significant points; objectives, existence, ownership, valuation, completeness (cut-off), nature and sources, sufficiency, relevance, reliability.

2.8 Completion Stage of an Audit

Post-balance sheets events, contingent liabilities and commitments, completion procedures, review of audit work, review of the company's report and accounts.

2.9 Reporting Function

Audit reports; their meaning, types and qualifications; management letter (including communication with audit committee) subsequent discovery of facts existing at the date of auditor's report; date and place of auditor's report and signing thereon; other information in report containing audited financial statements; report on un-audited financial statements; group audit; joint audits; partnership and sole-traders; special purpose reports and reports on forecast and estimates; forensic assignments; related parties (completion and review engagements); report on prospectus and relating to bonus-issues and due diligence engagements.

2.10 Role of Corporate Governance in Mitigation of Risks

Role of corporate governance in mitigation of risks; financial risks and their mitigation; interest rate risk; liquidity risk; credit risk; sovereign risk.

2.11 Case Study - Risk Management System of a Listed Company

SECTION-B

3. Cost Audit

3.1 Nature, objectives, functions and scope of cost audit, cost audit as required under Section 258 of the Companies Ordinance 1984, rights, duties, responsibilities and status of cost auditor, requirement of cost audit report rules. Cost Accounts Rules and Cost Audit Report Rules 1995, authentication of cost statements, penalty, cost audit report, particulars to be included in cost auditor's report to the directors of the company, auditor's

observations and conclusions of report, reconciliation with financial account, cost statement, miscellaneous.

3.2 Planning the cost audit familiarity with the production process, systems and procedure of different industries, preparation of the audit programme, obligation for maintenance of cost accounting records under Section 230(I) (e) of the Companies Ordinance 1984. Provision of cost accounting records rules issued by the Securities & Exchange Commission of Pakistan, under Section 230 (I) (e) of the Companies Ordinance 1984, from time to time.

3.3 Provision of cost accounting records rules issued under Section 230 (1) (e) of the Companies Ordinance 1984 up-to-date.

3.4 Material cost: receipts, issues, transfers, returned, valuation of receipt, modes of valuation of stores issues, consumption manufacturing / processing losses, stores and spares: own-manufactured components and containers, major components, fabrication of different components, sub-assemblies, by-products, waste, defective work, spoilage, scrap and losses, methods of valuing and costing by-products, spoilage/scrap, work-in-progress, physical verification, nature and treatment of discrepancies.

3.5 Labour cost: classification and departmentalisation of labour costs.

3.6 Overheads: depreciation, plant utilisation, capacity utilisation, interest, utilities, allocation of cost of utilities, repairs and maintenance, collection of research and development costs, indirect materials/ wages/expenses, manufacturing overheads, administration overheads, selling and distribution overheads, service departments, distribution, general principles of allocation/apportionment of overheads.

3.7 Sale, royalty, inter-company transactions, income from intermediary products, income from work done for outside parties, abnormal non-recurring costs, production and statistical record, standard costing system, budgetary control; books of cost accounting, measurements (Ratio).

Recommended Books

CORE READINGS		
TITLE	AUTHOR	PUBLISHER
Principles of Auditing	Prof. Dr. Khawaja Amjad Saeed	Institute of Business Management, G.P.O. Box No. 1164, Lahore.
Advanced Auditing	Prof. Dr. Khawaja Amjad Saeed	Institute of Business Management, G.P.O. Box No. 1164, Lahore.
International Standards on Auditing	_____	International Federation of Accountants,

		545, Fifth Avenue, 14 th Floor, New York, NY 10017.
Business Risk Assessment	David McNamee	The Institute of Internal Auditors USA.
ADDITIONAL READINGS		
De Paula's Auditing	Frank A. Attwood & Neil D. Stein	Pitman Publishing, 128 Long Acre, London WC2E 9AN.
Spicer & Peglar's Practical Auditing	Spicer and Peglar	Butterworth & Co. Ltd. 88 Kingsway, London WC2B 6AB.
Risk Management	Michel Crouhy, Robert Mark, Dan Galai	Mc-Graw-Hill
Cost Audit Rules	—	Govt. of Pakistan.
Corporate Governance	Arya, Tandan and Vaslisht	Deep and Deep Publications, Rajouri Garden, New Delhi 110027.
Corporate Governance	Prof. Dr. Khawaja Amjad Saeed	Institute of Business Management, G.P.O. Box No. 1164, Lahore.