

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



New Fall (E) 2011, April 2012 Examinations

Wednesday, the 25th April 2012

RISK MANAGEMENT AND AUDIT (S-503)
STAGE - 5

Time Allowed: 02 Hours 45 Minutes

Maximum Marks: 80

Roll No.:

- (i) Attempt all questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

	Marks
Q. 2 (a) Suppose you have been working as a risk assessment manager in ‘Perfect Solutions’, a renowned software developing firm of the country. Nowadays, you are engaged with other experts in developing a commercial software for sale and for the use of your company. It will take substantial time for development. Enumerate some significant risks and how the company may minimize the impact and likelihood of such risks.	10
(b) Define the followings:	
(i) Risk analysis	02
(ii) Absolute risk	01
(iii) Inherent risk	02
Q. 3 (a) Suppose you have been working as an auditor in ‘Iqbal & Co.’, an audit firm of the country. Your firm has been appointed to conduct a full scope of the financial statements covering a period of a quarter of Abdul Ali Limited. Abdul Ali Limited needs the audit report for obtaining a loan from Khidmatgar Bank Limited. While verifying certain heads of account, you discover some problems for which you are not provided satisfactory replies by the client. At the same time, Abdul Ali Limited approaches you to change the scope of the assignment from a full scope audit review to a review assignment. They give you the reason that they have misunderstood the scope of assignment earlier.	
Required:	
What course of action would you adopt in this scenario?	06
(b) Which type of matters is dealt in Quality Control Reviewer’s Report?	06
(c) Suppose you have been working as an auditor in ‘Shahbaz & Co.’, an audit firm of the country. One of your clients has asked you to enlighten them about the objectives of quality control policies and procedures that are adopted by an audit firm. State these objectives to your client.	03

PTO

			Marks
Q. 4	(a)	‘In order to draw up a well designed and satisfactory audit programme, auditors should include some items in their audit programme’. Briefly explain those items.	06
	(b)	‘The working papers help in planning, performance, supervision and review of the audit’. Briefly discuss the information, documents, evidence or analysis included in working papers. {any ten (10) of them}	05
	(c)	Suppose you have been working as an auditor in Fakhri & Co., what steps should be taken by you to put an effective check on cash received from debtors, so that the malpractice of “Teeming or Lading” or “Lapping” is checked?	05
Q. 5	(a)	Define ‘control procedures’. List down the points included in “specific control procedures”.	08
	(b)	What will be the impact of the following cases on auditor’s opinion? Furnish your reasons assuming the year end is December 31.	
	(i)	On December 20, 2011 the Board of Directors of Mushtaq & Co., decided to discontinue a division. The decision has not been communicated to any of those affected and proceedings for close down did not start in 2011. No provision has been made for resulting losses.	02
	(ii)	During 2010, one of your clients Hakim Limited has given a guarantee for certain loans of Khadim Enterprises. The financial position at the time of guarantee had given, was sound. During 2011, Khadim Enterprises went bankrupt. Hakim Limited has disclosed the amount of guarantee as contingencies and commitments, both in 2010 and 2011.	03
	(iii)	On December 12, 2011, a land with a carrying value of Rs.6.5 million was impaired by Nadir Limited. The impairment loss is estimated at Rs.3 million. Directors have refused to record the loss on the ground that the value of other fixed assets is substantially higher than their carrying values.	02
Q. 6	(a)	Discuss the purposes of cost audit? {any seven (07)}	07
	(b)	Suppose you have been appointed as a cost auditor in a manufacturing concern. What points would you consider for the following while carrying out the cost audit? {six (06) points each}	
	(i)	Materials cost	06
	(ii)	Depreciation	06

THE END