

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN**



**Fall (Winter) 2008 Examinations**

Monday, the 24th November 2008

**RISK MANAGEMENT AND AUDIT (S-503)**

Stage – 5

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 80

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- (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, presentation and language.
  - (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
  - (v) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
  - (vi) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
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	<b>MARKS</b>
<b>Q.2 (a) (i)</b> What are the benefits of better risk management?	<b>5</b>
<b>(ii)</b> What are the risk management tools? Explain.	<b>4</b>
<b>(b)</b> State the components and categories of internal control under COSO framework.	<b>6</b>
<b>Q.3 (a)</b> “Verification” is a technique adopted by the auditor to ensure the existence of business assets and liabilities, their ownership and valuation, completeness, appropriate presentation and disclosures.	
<b>Required:</b>	
State the audit work you will carry out when verifying the following:	
<b>(i)</b> Goodwill	<b>5</b>
<b>(ii)</b> Patent rights	<b>5</b>
<b>(b)</b> Define and explain the term “business risk”.	<b>5</b>

PTO

**Q.4 (a)** The following is the fixed assets schedule in the notes to the financial statements of Amin Ltd., a client company you are auditing.

**FIXED ASSETS SCHEDULE**

(Rupees in Thousands)

<b>Cost:</b>	<b>Motor Vehicles</b>	<b>Computers</b>	
Balances as at 1 <sup>st</sup> January 2007	1,400	800	
Additions during the year	600	2,000	400
Disposals in the year	-	-	(300)
Balances as at 31 <sup>st</sup> December 2007	2,000	900	
<b>Depreciation:</b>			
Balances as at 1 <sup>st</sup> January 2007	560	600	
Disposal in the year	-	560	(225)
Charge for the year	-	400	225
Balances as at 31 <sup>st</sup> December 2007	960	600	
Net Book Value, as at 31 <sup>st</sup> December 2007	1,040	300	
Net Book Value, as at 31 <sup>st</sup> December 2006	840	200	

Depreciation has been provided for both on straight-line method, as follows:

Motor Vehicles	20% per annum
Computers	25% per annum

**Required:**

Outline the procedures you would use to verify the Fixed Assets in the Balance Sheet of the company.

**10**

**(b)** Your firm, Shiekh Asim & Co., is planning the audit of a client, Babar Company Ltd., for the year ended 31<sup>st</sup> December 2006. The company has a turnover of Rs. 100 million, 85% of which was underwritten on credit. The year-end debtors are about Rs. 20 million and there are about 100 customers on the sales ledger.

**Required:**

You have been asked by the partner incharge of the audit to describe and illustrate, by the use of suitable examples, the ways in which statistics and judgement can be used in relation to the:

- (i) Validation of the sales transaction system.
**5**
- (ii) Verification of the year-end debtors.
**5**

	<b>MARKS</b>
<b>Q.5 (a)</b> It is mandatory to the Directors of a listed company to include “Statement of Compliance” with the Code of Corporate Governance in the Director’s Report to the shareholders. List down the contents of the report.	<b>10</b>
<b>(b)</b> Explain the term “Liability for Misfeasance” against the auditor on account of professional negligence.	<b>5</b>
<b>Q.6 (a)</b> Briefly explain the procedure for the appointment of Cost Auditor.	<b>5</b>
<b>(b)</b> Who are disqualified from the appointment as a Cost Auditor?	<b>5</b>
<b>(c)</b> Explain the powers of the Cost Auditor.	<b>5</b>

**THE END**