

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall (Winter) 2009 Examinations

Friday, the 20th November 2009

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

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 80

- (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 on 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.

Marks

Q. 2 EASY RESOURCE BANK LIMITED has hired Mr. Jammi as Manager Vault operations in charge of portfolio for the bank. Mr. Jammi is aware that risk is an important factor which has to be measured in the banking operations; however he is unsure on certain matters. As a consultant to the bank you are to advise on the following questions raised by the Manager:

Required:

- (a) Risk management of Vault is important, however, what would be the consequence of risk occurring or not and how it can affect the banking business? **7**
- (b) How the risk can be assessed and what techniques can be adopted to mitigate the risk? **8**

Q. 3 (a) The auditors M/s T & T Partners have been asked repeatedly by the management of Top Food (Pvt) Limited to handover the letter of confirmation for statement of balances received by the auditors directly from the debtors and creditors during the final audit of the company. What course of action the auditor should take with regard to timely communication of above audit matters with those charged with governance? **4**

(b) Explain the need for documentation / working papers for the auditors. **4**

(c) Analyse the constituent typical items that would be included in a complete set of working papers. **7**

Q. 4 (a) “The auditing techniques for audit testing now takes cognizance of risk element in the modern audit”. In the light of this statement explain risk based audit approach and vouching based audit approach. **4**

(b) Enumerate at least five main areas of audit risk for the following:

- (i) Normal audit risk **2**
- (ii) High audit risk **2**

(c) **DAWOOD STEEL PRODUCTS LIMITED**

In the accounts of Dawood Steel Products Limited (DSP Ltd.) there is a material item - scrap sales of Rs.1,700,000. The company manufactures steel keys by stamping out the keys from sheets of metal. The scrap is what is left of the steel sheets after the keys have been stamped out from them. The system for dealing with the scrap is found to be as follows:

PTO

Scrap Steel is placed by the operatives in a large bin placed in the yard outside the workshop. At intervals, the bin is collected by a local scrap merchant who removes the bin and scrap and leaves an empty bin. The weight is found on the company weighbridge by the gatekeeper who notes the weight in a book kept for that purpose. During the week following each collection, the scrap merchant sends a cheque with a statement showing the weight collected, the price and the amount of the cheque. The cashier who also opens the post inspects the statement to see if it is more or less the same amount as usual and pays it in.

Required:

- (i) What effective control weaknesses exist in DSP Ltd., if any? 4
- (ii) State the areas of direct audit evidence the auditor would look for. 3
- (iii) What further detailed tests auditor may carry out to verify the figure of Rs.1,700,000? 5

Q. 5 This is the first year for Ali Daraz Computers Limited, a longstanding audit client of your Management Consultants firm.

Ali Daraz Computers Limited retails computer hardware buying from manufactures and selling to the general public. The company's head office and the biggest shop is in Karachi having its warehouse nearby. There are also a number of other shops all over the Southern Sindh. The accounting records are maintained in computers at the company's head office.

When a sale is made at one of the retail outlets, the salesman orders the goods from the warehouse and they are then either delivered to the shop or directly to the customer.

In previous audits stock held at the warehouse has been less than the stock quantities shown in the accounting records. There have been problems with goods in transit. The company has also faced problems identifying and valuing damaged stock and goods returned by customers. The company allows customers to pay by instalments and there have been problems with customers failing to pay promptly in the past.

The company has opened three new retail outlets at out-of-town shopping centres. This has involved heavy capital expenditure, and has caused the company some liquidity problems. The company is currently negotiating loan finance and an increased overdraft with its bank.

Required:

- (a) State ten typical matters in the development of an overall audit plan for an organization. 7
- (b) Enumerate the matters you will consider and the work you will carry out when planning the audit of Ali Daraz Computers Limited. 8

Q. 6 As per the Companies (Audit of Cost Accounts) Rules, 1998 "The Cost Auditor" shall make out a report within 60 days of his appointment to the directors in the form set out in Appendix II, along with statement of capacity utilization and stock in trade as specified in clause (a) and (b), of sub rule (1) in the form set out in Appendix III and simultaneously shall submit two copies thereof to the Securities & Exchange Commission of Pakistan (SECP).

Required:

- (a) State what matter the cost auditor should consider when stating his "Comments on Cost Accounting System". 4
- (b) Enumerate the items to be included in heads "wage & salaries" and "overheads". 7
- (c) What are the corporate requirements of reconciliation of cost accounts and financial accounts? Also state any additional matters that cost auditor shall include in his reconciliation. 4