

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall 2012 (February 2013) Examinations

Tuesday, the 26th February 2013

**RISK MANAGEMENT AND AUDIT (LA-502)
SEMESTER - 5**

Time Allowed: 02 Hours 45 Minutes

Maximum Marks: 90

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)** A leading multinational Oil and Gas exploration company intends to expand its operations and is willing to get exploration rights in the suburbs of Balochistan (a multi ethnic area). The company is listed on New York stock exchange and London stock exchange and is required to follow various regulations including financial reporting, corporate governance, health and safety environment, cross border trade etc. Keeping in view its first ever operational experience in Pakistan, the management of the company has mandated your firm to carry out detailed risk analysis of the project.

Required:

As a Manager you have been assigned to prepare a presentation defining the following risks associated with the project:

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- (i) Strategic risks
- (ii) Operational risks
- (iii) Contractual inadequacy risks
- (iv) Political risks
- (v) Stakeholders risks
- (vi) Event risks

- (b)** With reference to Q2 (a) above, identify further risks associated with the following:

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- (i) The management of the company intends to finance the project in debt equity ratio of 60:40. 5% of the equity will be raised through general public, whereas debt will be raised from local and international banks. The local portion of debt will be priced at six months Karachi Interbank Offer Rate (KIBOR) plus 175 basis points (bps).
- (ii) Change in crude oil and gas prices fixed by Oil and Gas Regulatory Authority.
- (iii) The gas extracted will be pumped into national system line which is 10 kilometres away from extraction site.

- (c)** Define ‘interest rate risk’. List down the methods of reducing ‘interest rate risk’.

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- Q.3 (a)** M/s. V.I.T.Z & Co., Chartered Accountants has been appointed as auditor of the M/s. Spindles Limited. The Engagement Manager has asked you to prepare an engagement letter for M/s. Spindles Limited for the year ended December 31, 2012.

Required:

Prepare outline of engagement letter in accordance with the requirement of International Standard on Auditing (ISA) 210.

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- (b)** Specify any seven (7) conditions where ‘going concern’ assumption may not appropriate.

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Q. 4 (a) M/s. Growth Limited, a public limited company has diversified businesses like foods, chemicals, engineering services, energy etc. The management control of all subsidiary companies rest with the M/s. Growth Limited. These companies trade with each other frequently. You have been assigned the task to audit the financial statements of M/s. Growth Limited.

Required:

Keeping in view the large number of related party transactions, enumerate records and documents as per ISA 550 that may be inspected during audit to get information about related party relationship and transactions.

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(b) In relation to audit sampling, define the following terms:

(i) Anomaly

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(ii) Tolerable misstatement

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(iii) Statistical sampling

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Q. 5 (a) What are the significant control procedures regarding the following:

(i) 'purchases' in order to avoid:

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- unauthorized purchases.
- misappropriation of inventories.

(ii) 'sales' in order to avoid:

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- dispatched of goods to a bad credit risk.
- teeming & lading.

(b) Planning an audit involves establishing the overall audit strategy for the engagement and development of an audit plan. Enumerate the adequate planning benefits during the audit of financial statements.

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Q. 6 (a) What are the powers and duties of a cost auditor?

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(b) You have been assigned a task to conduct cost audit of Softel Corporation, a manufacturing company. After successful completion of cost audit field work, you are preparing cost audit report and related appendices.

Required:

List down the particulars to be included in Cost Audit report to the Directors of the company.

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Q.7 (a) Suppose you have been working as a Manager of external audit team of M/s. Frame Limited. The company has internal audit department lead by a certified internal auditor. What factors would enable you to place reliance on the work done by the internal audit department?

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(b) You have been assigned to carry out an audit of M/s. Fan Limited and its group companies with the team of five members. One of your team members has noted the following points during the course of audit and is trying to identify component of audit risk which is most directly related to the observations noted:

- (i)** The client fails to discover employee fraud on timely basis because the bank reconciliation is not prepared on regular basis.
- (ii)** In prior years the confirmation to few debtors failed to identify material misstatement in their balances.
- (iii)** Technological developments resulted in obsolescence of major products.
- (iv)** Inadequate segregation of duties due to shortage of staff and high staff turnover.
- (v)** Perpetual Inventory count system has not been established.

Required:

Guide the team member in identifying risks associated with the above observations.

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THE END