

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Winter (November) 2011 Examinations

Tuesday, the 22nd November 2011

**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 after finishing/ writing the exam.**

	<b>Marks</b>
<b>Q. 2 (a)</b> Briefly explain three (03) main approaches of risk identification.	<b>03</b>
<b>(b)</b> ‘External environment is made up of many other factors for example physical environment etc.’ List down the names of such other factors.	<b>03</b>
<b>(c)</b> Define the followings:	
<b>(i)</b> Risk	<b>03</b>
<b>(ii)</b> Risk classification	<b>03</b>
<b>(iii)</b> Portfolio risk	<b>03</b>
<b>Q. 3 (a)</b> In the context of good corporate governance, give your suggestions for improvement in the following scenarios:	
<b>(i)</b> Internal auditor reports to Finance Director.	<b>02</b>
<b>(ii)</b> Same individual is the CEO and Chairman.	<b>02</b>
<b>(iii)</b> The executive board annually evaluates the performance of the Chairman.	<b>02</b>
<b>(b)</b> Briefly explain fraud and fraudulent financial reporting.	<b>04</b>
<b>(c)</b> As per Para A-3 of International Standards of Auditing (ISA-320), explain the factors that may affect the identification of an appropriate benchmark in determining the materiality for the financial statements as a whole.	<b>05</b>
<b>Q. 4 (a)</b> Elaborate the steps to be taken by the management preparing for cut-off procedures.	<b>05</b>
<b>(b)</b> Elaborate the procedure to be adopted for vouching payment of wages. <b>{any eight (08)}</b>	<b>08</b>

PTO

- Q. 5 (a)** A company has grown considerably in recent years. On completion of the annual audit of the company for the year ended June 2011, your audit firm had issued a memorandum on internal control stating the certain weaknesses in internal control to the attention of the management. The Finance Director agreed that the company had grown too large for the internal control systems that have been in force for some years and has sought advice of your audit firm on the kind of control suitable for purchase systems.

**Required:**

State what basic division of duties you would expect to find in any internal control system. Substantiate your reasoning. **03**

- (b)** “The system of internal control for purchases includes initiation of purchase, quotation and tender, placing order, receipt of goods, invoice, allocation, payment, goods returned and purchases book”. In the context of the statement, explain the following:

**(i)** Receipt of goods **03**

**(ii)** Invoice **05**

**(iii)** Goods returned **02**

- (c)** “There are certain factors that may affect external auditor’s determination of whether the work of internal auditors is likely to be adequate for the purposes of the audit.” What are those factors? List out and briefly explain any two (02) points in each factor. **08**

- Q. 6 (a)** Discuss the merits of cost audit for the followings:

**(i)** Management **03**

**(ii)** External auditors **02**

**(iii)** Shareholders **01**

- (b)** Explain as to what information should be collected and checked, by the cost auditor, with regard to the following areas of a manufacturing concern while conducting the cost audit: **{any five (05) each}**

**(i)** Production capacity **05**

**(ii)** Power and fuel **05**

**THE END**