

# INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



## Summer (May) 2011 Examinations

Friday, the 27th May 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.**

	Marks
<b>Q. 2</b> Briefly define the followings:	
<b>(a)</b> Risk assessment procedures.	<b>05</b>
<b>(b)</b> Risk identification, risk assessment and risk management.	<b>06</b>
<b>(c)</b> Entity's risk assessment process.	<b>05</b>
<b>Q. 3</b> Suppose you have been working as an audit manager in a firm of auditors. It is Monday 3 <sup>rd</sup> November 2010, and it is your first day back after a three week's long holiday. On your desk there was a note marked “urgent attention required” from one of your assistants. The note reads as follows:  “I have completed the external audit assignment of our client “Too Good to be True”. However, I have not completed the “Subsequent Event” and “Going Concern” sections of the audit as I have never ever audited these before. I shall be grateful, if you would kindly advise me as to how to audit these areas.  PS: Welcome back and hope you had a nice holiday.”	
<b>Required:</b>	
<b>(a)</b> State the auditors' responsibility in relation to 'subsequent events'. Your answer should distinguish between responsibilities up to the date of the auditor's report and responsibilities after the date of the auditor's report.	<b>05</b>
<b>(b)</b> List down the audit procedures that should be followed as an auditor to obtain sufficient appropriate audit evidence that “Too Good to be True” is a going concern.	<b>05</b>
<b>(c)</b> Simply state the type of audit opinion to be expressed by the auditor for scenario 1, 2 and 3 given below:  <u><b>Scenario 1:</b></u> After the audit work, it is concluded that “Too Good to be True” is a going concern and the management has prepared the financial statements using the Going Concern basis.	<b>02</b>

PTO

**Scenario 2:**

After the audit work, it is concluded that there is material uncertainty which casts significant doubt on “Too Good to be True’s” ability to continue as a Going Concern. Adequate disclosure of this fact is made in the financial statements. **02**

**Scenario 3:**

After the audit work, it is concluded that “Too good to be True” is not a Going Concern. However, the management of the entity has prepared the financial statements on a Going Concern basis. Management is not willing to change the basis of preparation of financial statements from “Going Concern” to “Not a Going Concern”. **02**

- Q. 4 (a)** “The technique of verification revolves around six points”. Briefly, discuss the statement. **06**
- (b)** “The auditor should use assertions for classes of transactions”. Briefly discuss any four (04) such assertions. **04**
- (c)** How would you verify Directors’ fee in the financial statement of a listed company? Explain. **04**
- Q. 5 (a)** Explain the term “true and fair” as used in the statutory Audit Report by the auditor. **05**
- (b)** List down any six (06) ‘Quality Control Policies’ adopted by an audit firm. **06**
- (c)** What factors should an auditor need to consider while planning the audit approach? **08**
- Q. 6 (a)** Differentiate between the roles of cost auditor and financial auditor? (five each) **05**
- (b)** Suppose you are appointed as a cost auditor in a manufacturing concern. What points would you consider for the following while carrying out the cost audit? (five each) **10**
- (i)** Labour cost
- (ii)** Sales

**THE END**