

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

SPRING (SUMMER) 2008 EXAMINATIONS

Monday, the 26th May, 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, 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) 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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		Marks
Q. 2	(a) In order to perform an audit in accordance with the International Standards on Auditing, it is essential for an auditor to obtain an understanding of the client and its environment. Discuss.	05
	(b) Briefly explain the risk assessment procedures applied by the auditor to obtain an understanding of the client and its environment.	05
	(c) What does risk prioritization mean? Explain the objective to prioritize the risks by an organization.	05
Q. 3	(a) Define and explain the term “fraud” in relation to the audit of financial statements.	05
	(b) Why the discussions between the teams are given importance for the purposes of detection of material misstatements, which occurred due to fraud during an audit?	05
	(c) What specific representations an auditor should obtain from the management in relation with the fraud?	05

PTO

Q. 4 (a) What are the components of audit risk? Briefly explain. 09

(b) V & W Ltd., is a construction company. Control of the company is in the hands of V & W family, who have been majority shareholders for over 20 years. Mr. G. Van is chairman and managing director of the Co. The other three directors, one of whom is a member of the V & W family, hold senior positions within the organization. Seventy percent of the company's construction contracts are government contracts, with the remaining contracts being small shopping centres or business centres.

Mr. G. Van has given you the following facts concerning the past year and future trends of his company:

- (i) During the year the company won a major contract to construct number of buildings on a university campus. The project is particularly interesting as all the facilities must be capable of transmitting and receiving videoconference broadcasts. Mr. Van has not been involved in this type of work before but feels it will lead to a lot of similar work in the private sector.
- (ii) Reconciliation of debtors' statement to the debtors' ledger were performed incorrectly for a 3 months period while a clerk was on leave. These reconciliations were approved by the accountant. The errors were detected by the debtors' clerk on his return and all errors were corrected.
- (iii) V & W Ltd., keeps a small store of building materials in its main warehouse. The warehouse manager is responsible for ordering goods, receiving goods and making payments to creditors.
- (iv) A bonus incentive scheme was introduced for the supervisors at the construction sites to ensure buildings were completed on time.

Required:

Discuss the audit risks involved in the above scenario. 06

(c) Define 'sufficient appropriate audit evidence'. 05

Q. 5 As a cost auditor to a group of factories, describe the procedure you would adopt for the record of the following:

(a) Overheads, 05

(b) Work-in-process, 05

(c) Stores and spare parts 05

Q. 6 What obligation does the auditor has, if some facts relating to financial statements are discovered after the financial statements have been issued? 15

THE END