

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN**



**Spring (Summer) 2009 Examinations**

Monday, the 25th May 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, presentation and language.
- (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.

**Marks**

**Q. 2** Toobee (Pvt) Limited has been in operation over three (03) years period with total control of two founder members, Mr. Babar and Mr. Bashir. The company has large workforce of miners and makes ornaments from precious stones. The directors are planning to withdraw profits from the company, by way of directors remuneration and thereby cash flows would be largely curtailed. The company is facing problems of rising cost of operations and a recent landslide destroyed half of the factory which was situated near the mines.

**Required:**

- (a) Explain the risk faced by the company and the types of losses it has to bear. What risk management techniques the company should adopt to mitigate the losses? 09
- (b) “Risk identification is the key factor for project launching”. In respect of this comment, you are required to state:
  - (i) What approaches are there in project risk identification? 04
  - (ii) In part (a) above, briefly state which approach for risk identification is to be adopted and why? 02

**Q. 3** Elegant Garments Limited, a leading garment exporter company having major customers in European countries and USA has reported a turnover of over Rs.1 billion for the year ended December 31, 2008 as compared to a turnover of Rs.1.5 billion of last year. However, the company has incurred a loss due to various factors such as decrease in sales prices, increase in cost of production and other costs including increasing financing cost. Global economic crisis has adversely affected the export of the company and in near future revival of the export business is not expected. Due to uncertain flow of export proceeds the company is also facing severe financial crisis and timely settlement of working capital obligations are also disturbed. The company is also facing difficulties to settle banks’ borrowings arranged for the working capital requirements.

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Considering the fall in export business the company is now reviewing its business plan to shift its focus to local markets. The company is expected to have favourable response from the local market especially due to high quality of its products and having popular branding of its products. The company is also negotiating with financial institutions to restructure its borrowing arrangements to gain deferment in the repayments and reduction of mark-up rates. The company is hopeful to successfully renegotiate its arrangements with banks. Considering these developments the company is confident to come out of the crisis and accordingly it has prepared projections incorporating all these developments. According to the projections the company is expecting to have surplus in two years time. You are about to conclude your audit for the year ended December 31, 2008 and have been provided with the management plans to turn the company into profit.

**Required:**

(a) What further audit procedures are to be performed when events or conditions identified which can create significant doubts about the going concern assumption? 10

(b) State what audit procedures you will carry out to obtain sufficient appropriate audit evidence to evaluate that the management's plans are feasible? 10

**Q. 4** (a) A professional accountant is required to comply with the five fundamental principles described in "Code of Ethics for Professional Accountants". What are these principles? Explain. 10

(b) Dr. W. Bari, who has been practising for many years as a general practitioner, informs you that he is forming a group of practitioners with four other doctors and offers you to act as an auditor to the new group of practitioners.

**Required:**

(i) State the steps you would take before accepting this offer. 02

(ii) List out the information you would seek to obtain before planning your first audit. 03

**Q. 5** (a) Explain the eligibility criteria for engagement of quality control reviewer? 05

(b) The Code of Corporate Governance requires the directors of a listed company to establish an Audit Committee. With reference to the code describe responsibilities of the Audit Committee with regard to internal and external auditors, internal controls and review of interim and annual financial statements of the listed company. 10

**Q. 6** The cost auditor is about to complete the "cost audit" of a large factory of refining cooking oil and is in the process of compiling his report to the client.

**Required:**

(a) Advise as per the Companies (Audit of Cost Accounts) Rules, 1998 on the following aspects:

(i) The areas of weaknesses that should be noted during "cost auditor's observation and conclusion". 04

(ii) Two specific company's representations / statements which should be submitted along with cost auditor's report. 04

(b) In performing the "cost audit" of a new client, what audit procedure should be followed? State how would you conduct the audit under the head "Power and Energy"? 07

**THE END**