

## SEMESTER – 5

### RISK MANAGEMENT & AUDIT [BAF-502]

#### INTRODUCTION

This course comprises conventional audit, cost audit, and is designed to focus on risks involved in operations and production areas, and to provide safety to business from such risks.

#### OBJECTIVE

To provide the students an in-depth knowledge of risk management, financial audit and cost audit to enable them to:

- conduct audit effectively, and
- identify and advise management to take appropriate remedial actions in those areas where major risks are involved.

#### OUTCOMES

On completion of this course, students should be able to:

- identify, evaluate and manage different types of risks,
- explain audit and other assurance engagements,
- define objectives and scope of audit and describe the conceptual approach of auditing and evaluate and manage these risks,

- determine legal and ethical considerations relating to the appointment and removal of auditor,
- draw up audit planning and determine quantum of audit work to be carried out in view of significant business risks,
- determine role and importance of internal control,
- determine status of internal control and internal audit for deciding quantum by audit work to be conducted,
- apply audit techniques and procedures,
- describe documentation and evidence of audit work,
- prepare an audit report, keeping in view types of qualifications,
- describe nature, objectives, functions, scope, planning and procedures of cost audit,
- describe Cost Accounting Records Rules, and
- explain audit of material, labour and overhead costs
- Comprehend the requirement of assurance engagements
- Understand and respond according to the code of ethics issued by IFAC & SAFA
- Understand the responsibility of management and its committees for the application of code of corporate governance

#### INDICATIVE GRID

PART	SYLLABUS CONTENT AREA	WEIGHTAGE
A	<b>RISK MANAGEMENT</b> 1. Risk Management	10%
B	<b>AUDITING</b> 2. Audit framework and Regulation	5%
	3. International Framework for Assurance Engagement	20%
	4. Planning and risk assessment General Principles and Responsibilities	10%
	5. Risk Assessment and Response to Assessed Risk	10%
	6. Internal Control	10%
	7. Internal Audit	10%
	8. Audit Evidence	10%
	9. Collecting Audit Evidence	5%
	10. Using the Work of Others	10%
	11. Corporate Governance	10%
	12. Code of Ethics	10%
	13. Audit Conclusions and Reporting	15%
	14. Cost Audit	10%
<b>TOTAL</b>		<b>100%</b>

**Note:** The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

#### CONTENTS

##### PART - A

##### RISK MANAGEMENT

1. **Risk Management**
  - Introduction to risk
  - Methods of measuring, assessing and controlling risks
  - Evaluation of risk management strategies, assessing and managing risks
  - Risk Management Control and Evaluation
  - Management of Financial Risks
  - Credit/Counterparty risk, Market risk, Operational risk, Transaction risk, interest rate and other risks
  - Case Study and Risk Management System of a Limited Company/Corporation

##### PART – B

##### AUDITING

2. **Audit framework and regulation**
  - Audit and other assurance engagements
  - Statutory audit and regulation
  - Legal consideration relating to appointment and removal of auditor
3. **International Framework for Assurance Engagement**
  - ISRE 2400 Engagement to Review Financial Statements
    - Objectives of a Review Engagements
    - Terms of Engagements
    - Procedure and Evidence
    - Conclusion and Reporting
  - ISRE 2410 Review of Interim Financial Information

- Objectives of an Engagements to review interim Financial Information
  - Agreeing the Terms of Engagements
  - Procedure of a Review of Interim Financial Information
  - Reporting the Nature, Extent and Result of the Review of Interim Financial Information
  - ISAE 3000 Assurance Engagement Other than Audits or Reviews of Historical Financial Information
    - Engagements Acceptance and Continuance
    - Agreeing on the Terms of the Engagements
    - Planning and performing the Engagements
    - Preparing the Assurance Report
  - ISRS 4400 Engagements to Perform Agreed upon Procedures Regarding Financial Information
    - Objective of an Agreed-Upon Procedure Engagements
    - Defining the Terms of the Engagement
    - Procedure and Evidence
    - Reporting
  - ISRS 4410 Compilation Engagements
- 4. Planning and Risk Assessment General Principles and Responsibilities**
- ISA 200, Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with International Auditing Standards
  - ISA 210, Agreeing the terms of Audit Engagements
  - ISA 220, Quality Control for an Audit of Financial Statements
  - ISA 230, Audit Documentation
  - ISA 240, The Auditor's responsibilities relating to fraud in an audit of financial statements
  - ISA250, Consideration of laws and regulations in an audit of financial statements
  - ISA 260, Communication with those charged with governance
  - ISA 265, Communicating deficiencies in internal control to those charged with governance and management
- 5. Risk Assessment and Response to Assessed Risk**
- ISA 300, Planning an audit of financial statements
  - ISA 315, Identifying and assessing the risks of material misstatement through understanding the entity and its environment
  - ISA 320, Materiality in planning and performing an audit
  - ISA 330, The auditor's response to assessed risks
  - ISA 402, Audit considerations relating to an entity using a service organization
  - ISA 450, Evaluation of misstatements identified during the audit.
- 6. Internal Control**
- Classify different Types of Internal control
  - Information required for developing effective internal controls
  - Testing the controls regarding
    - Inventory
    - Sales
    - Purchases
    - Cash and bank
    - Revenue and capital expenditure
    - Non current tangible assets
- 7. Internal Audit**
- Internal audit and corporate governance
  - Distinction among external and internal auditing
- Scope of and need for internal auditing
  - Nature and types of internal operation audits
  - Relationship between internal and external auditors
  - Nature and types of internal audits
  - Preparation and interpretation of internal audit report
- 8. Audit Evidence**
- ISA 500, Audit Evidence
  - ISA 501, Audit Evidence-Specified consideration for selected items
  - ISA 505, External confirmation
  - ISA 510, Initial audit engagements-opening balances
  - ISA 520, Analytical procedures
  - ISA 530, Audit Sampling
  - ISA 540, Auditing accounting estimates, including fair value accounting estimates, and related disclosures
  - ISA 550, Related parties
  - ISA 560, Subsequent events
  - ISA 570, Going concern
  - ISA 580, Written representation
- 9. Collecting Audit Evidence**
- Collecting Audit Evidence of:
    - Non-current assets
    - Inventory
    - Receivables
    - Cash and bank
    - Liabilities, Capital and Directors' Emoluments
    - Not-for-profit organization
- 10. Using the Work of Others**
- ISA 600, Special consideration-audits of group financial statements (including the work of component auditors)
  - ISA 610, Using the work of internal auditors
  - ISA 620, Using the work of auditor's expert
- 11. Corporate Governance**
- Need and scope of corporate governance in controlling operating and financial activities
  - Rights and responsibilities of management and its committees, executive and nonexecutive directors in preparation and audit of financial statements
  - Rights and responsibilities of stakeholders in preparation and audit of financial statements
  - Evaluate corporate governance procedure
  - Nature and consequences of relevant corporate governance code and required compliance disclosure
- 12. Code of Ethics**
- Code of ethics issued by IFAC & SAFA**
- Part - B Professional Accountants in Public Practice and
  - Part -C Professional Accountants in Business
- 13. Audit Conclusions and Reporting**
- ISA 700, Forming an opinion and reporting on financial statements
  - ISA 705, Modifications to the opinion in the independent auditor's report
  - ISA 706, Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
  - ISA 710, Comparative information-corresponding figures and comparative financial statements

- ISA 720, the auditor's responsibilities relating to other information in documents containing audited financial statements.

#### 14. Cost Audit

- Nature, Objectives, Functions, advantages and Scope of Cost Audit

- Planning the Cost Audit
- Provision of Cost Accounting Records Rules
- Material Cost
- Labor Cost
- Overheads
- Sales, Royalty, Inter-Company Transactions
- Companies audit of cost accounts rules

**TEACHING METHODOLOGY:** The faculty is advised to teach the topics in the mode of case studies based on problem solving and decision-making with practical approach.

#### RECOMMENDED BOOKS

CORE READINGS		
TITLE	AUTHOR	PUBLISHER
CIMA, UK Study Text	---	BPP
Relevant Study Text	---	Kaplan Publishing
Business Risk Assessment	David McNamee	The Institute of Internal Auditors
Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements	IFAC / ICAP	IFAC / ICAP
Practical Auditing (Latest)	Javid H. Zuberi	Petiwala Book Depot, Karachi
Code of Ethics	Issued by IFAC & SAFA	---
ADDITIONAL READINGS		
Advanced Auditing (Latest)	Prof. Dr. Khawaja Amjad Saeed	Khawaja Publications