



BAC 3402 AUDIT AND ASSURANCE

MID SEMESTER TEST

MONDAY 16TH OCTOBER 2023

TIME – 16:30 TO 19:30 HOURS

TIME ALLOWED: WRITING – THREE HOURS

READING THROUGH– FIVE MINUTES

INSTRUCTIONS:

- 1. Section A: This question is compulsory and must be attempted.**
- 2. Sections B: Answer THREE (3) questions from this section.**
- 3. This examination paper carries a total of 100 marks.**
- 4. Candidates must not turn this page until the invigilator tells them to do so.**

Section A: Question 1 is compulsory and must be attempted.

Question 1

Sunrise Financial Services (SFS) is a mid-sized financial institution that offers a range of banking and investment services. SFS has a long-standing relationship with the audit firm, Global Auditors Inc. (GAI), which conducts its annual financial statement audits. The audit engagement for the fiscal year ending December 31, 2023, presents several challenges.

During the audit, GAI's audit team, led by Emily, a seasoned auditor, encountered irregularities in SFS's loan portfolio. There were indications that some loans had been reclassified to improve the bank's loan quality metrics artificially.

Required:

- (a) Describe what is meant by “audit of annual financial statements”. **(5 marks)**
- (b) Illustrate how Global Auditors Inc. could apply the Five (5) fundamental principles of professional ethics in auditing in dealing with the irregularities in Sunrise Financial Service's loan portfolio. **(35 marks)**

Total (40 marks).

SECTION B: Attempt any THREE questions in this section.

Question 2

You are the lead auditor for a mid-sized manufacturing company, ABC Manufacturing Ltd., and you are conducting the annual financial statement audit for the year ending December 31, 2023. As part of the audit planning process, you have assessed the risks of material misstatement and developed appropriate responses. Your objective is to obtain sufficient appropriate audit evidence to support your risk assessments.

During your audit, you identify a significant risk related to ABC Manufacturing's inventory valuation. The company maintains a large inventory of raw materials, work-in-progress, and finished goods due to the nature of its manufacturing operations. Your risk assessment suggests that there may be a potential for overstatement of inventory values due to obsolescence, slow-moving items, or incorrect valuation methods.

Required:

Describe how you would design and implement appropriate audit responses to address the assessed risk of material misstatement related to inventory valuation at ABC Manufacturing Ltd.

Total (20 marks)

Question 3

You are the lead auditor for XYZ Corporation, a multinational company with operations in various countries. As part of the audit engagement for the fiscal year ending December 31, 2023, you are responsible for assessing compliance with relevant laws and regulations that could have a material effect on the financial statements.

Required:

- (a) Explain the audit procedures you would perform and the factors you would consider when assessing your client's compliance with laws and regulations.

(10 marks)

- (b) Describe your responsibilities as an auditor in addressing non-compliance issues that have a material effect on the financial statements?

(10 marks).

Total (20 marks)

Question 4

You are a senior auditor at ABC Auditors LLP, a reputable audit firm. Your firm has been approached by a potential client, XYZ Corporation, a medium-sized manufacturing company, to conduct their annual financial statement audit for the year ending December 31, 2023.

As a senior auditor, you are responsible for assessing whether to accept this new engagement.

Required:

(a) Outline the steps you would take and the factors you would consider when assessing whether to accept XYZ Corporation as a new audit client. **(10 marks)**

(b) Describe how would you assess the integrity and reputation of XYZ Corporation's management team. **(10 marks)**

Total (20 marks).

Question 5

As an auditor, your primary responsibility is to gather and evaluate audit evidence to form a basis for your audit opinion.

Required:

(a) Explain the auditor's responsibility for obtaining and evaluating audit evidence in the audit of financial statements, with a focus on the key principles of sufficiency and appropriateness of audit evidence. **(10 marks)**

(b) Describe specific types of audit procedures you would perform in the areas of revenue recognition, to gather sufficient and appropriate audit evidence. **(10 marks).**

Total (20 marks).

End of Test Paper