RIARA SCHOOL OF BUSINESS

NURTURING INNOVATORS

SEPTEMBER –DECEMBER 2022 TRIMESTER

EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

DAY / EVENING PROGRAMME

UNIT CODE - RAC 406; UNIT TITLE - CASES IN AUDITING AND FINANCIAL REPORTING

DATE: _____ TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s).
4. Marks allocated to each question are shown at the end of the question.
5. PLEASE start the answer to EACH question on a NEW PAGE.
6. For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
7. Write your answers in paragraph form unless stated otherwise.
8. Keep your phone(s) SWITCHED OFF at the front of the examination room.
9. Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
10. You are only allowed to leave the examination room 30 minutes to the end of the Examination.

QUESTION ONE: COMPULSORY (30 MARKS)

a) Describe two issues of concern in any case study relating to *auditing of cash*

(4 marks)

b) Explain 2 *types of skills* that one can learn from case study learning method **(4 marks)**

c) Describe the *independence* of an auditor in the context of *independence in appearance* and *independence in fact* **(4 marks)**

d) Discuss *three factors* that courts of law take into account to determine *materiality* of financial misrepresentation of financial accounts in a *criminal case* against accountants of a publicly listed firm **(6 marks)**

e) Explain three issues relating to *internal control environment* and the *responsibility* of an *external auditor* **(6 marks)**

f) Discuss *three key issues* addressed by the *Sarbanes-Oxley Act (2002)* **(6 marks)**

QUESTION TWO

a) Explain the *responsibility* of *accountants* (to *third parties*) in financial reporting in view of the courts finding on the famous *Ultramares-Touch Case* and matters of *negligence*

(6 marks)

b) Discuss *three ways* in which management of a company can be found *guilty of obstruction of justice* in the context of financial reporting and auditing of their company's accounts. **(6 marks)**

c) Briefly explain the following *terminology* in the context of auditing*:*

i) Civil liability **(2 marks)**

ii) Foreseeability **(2 marks)**

iii) Control risk **(2 marks)**

iv) Audit planning **(2 marks)**

QUESTION THREE

a) Discuss *three examples of situations* where an auditor may be found *criminally liable* (in view of its revenue contracts) under Section 46 of the *Kenya Companies Act*

(6 marks)

b) Describe three *legal issues* associated with the *auditing of WorldCom* and the *responsibility* that its auditors (Arthur Andersen) subsequently faced out of the financial impropriety that was associated with the firm **(6 marks)**

c) The issue of *working papers* and the objective of altering them emerged in the E & Y Partner in the audit of NextCard, Inc.

i) In view of the above case study, explain the *importance of working papers* in confirming that the audit was done correctly **(4 marks)**

ii) Describe what an auditor would *accomplish* by *altering working papers*

(4 marks)

QUESTION FOUR

a) Describe *three key issues* associated with the *JEB Fasteners Case* particularly on matters of *foreseeability and manipulation* of financial statement elements **(6 marks)**

b) Explain three *roles of a company's board of directors* in financial reporting for *external users* of financial statements **(6 marks)**

c) *Corporate governance* became a major concern for corporate entities following the collapse of *Enron* in year 2002. In view of this, describe the *professional malpractices*

engaged in by the firm's auditors and top management leading to *its bankruptcy*

(8 marks)
