

Tutorial 5 (Week 6): Financial Statements Integrity

- (a) Refer to the Independent Auditor's Report and identity the Key Audit Matters (KAM) highlighted by the auditors. For each KAM, answer the following:
- i. Which area of the financial statement does the KAM relate to, and why is it considered significant by the auditors?
 - ii. How might management potentially use this area to influence or manage reported earnings?
 - iii. Identify one key audit procedure performed by the auditors that you believe best addresses this risk, and briefly explain why.
- (b) Imagine you are an analyst in the investment team of SBS Transit. You have been tasked by your supervisor with looking at the financial statements of two potential companies that SBS might invest in. Net income for the past five years of the two companies are given as follows:

Year	Alpha Auto Company	Beta Bus Company
2021	\$2,500,000	\$5,000,000
2022	\$4,000,000	\$3,500,000
2023	\$6,000,000	\$8,000,000
2024	\$7,500,000	\$2,000,000
2025	\$8,500,000	\$10,000,000

If both companies are seeking similar amount of investment from SBS Transit, in terms of shareholding and amount, which of these two companies appear to be a more attractive investment? Explain your reasoning. What alternate sources of data would you look for to find out if the reported earnings accurately portray the business performance of the two companies?

~ End of Tutorial 5 ~