**EGERTON UNIVERSITY**

**NAKURU TOWN CAMPUS**

**BCOM 412: AUDITING II ASSIGNMENT**

1. **AUDIT ORS INDEPENDENCE AND ETHICS**

You are a partner in an audit firm, Nyambura, Wafula & Associates, CPA (K). Your firm has an income of approximately Ksh. 2,000,000.00 per annum and has been in operation for the last 10 years.

In the current year, your firm applied for and got appointed as auditors of ABC LTD, a large public manufacturing firm in the city. The audit fees from this assignment will be approximately Ksh. 500,000.00 per annum (this will be over and above the Ksh. 2 million in revenue that you generate). You forecast that the audit fees alone will rise over the coming years as the firm expands.

You take up the assignment to audit ABC LTD. In the course of the audit, you note that the firm has set aside a provision for bad debts worth Ksh. 3,000,000.00 and has written off bad debts worth Ksh. 500,000.00 in the current year. The total accounts receivable for the firm stand at Ksh. 15,000,000.00. On further examination you note that there is an account worth Ksh. 5,000,000.00 (out of the 15,000,000 accounts receivables) whose collectability is in doubt. The account is for K&S Company LTD, and the CEO of ABC LTD is also a director in this K&S Company LTD. On making further enquiries from the CEO he assures you that the account is not in doubt and that his company will pay off the account as soon as they get funds. He also warns that your audit firm risks losing the audit assignment if you pursue further or dare report the doubtful account linked to him.

**REQUIRED**

1. By calculating the proportion of total income that the audit firm will get from the audit of ABC LTD, is it wise for the firm to take up the audit assignment? Why? (4 mks)
2. Citing relevant ethical principles and rules of conduct, how should the auditor respond to the doubtful debt and the threats from the management regarding the account? Explain. (10 mks)
3. **REVENUE PROCESS**
4. List and explain four analytical procedures that could be used to test revenue related accounts. What potential misstatements are indicated by each of the analytical procedures? (10 mks)
5. Distinguish between positive and negative confirmation. Under what circumstances would positive conformations be more appropriate than negative confirmations? (6mks)