



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION:	BACHELOR OF ACCOUNTING	
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COURSE CODE:	GAU711S	COURSE NAME: AUDITING 310
SESSION: JULY 2019	PAPER:	THEORY
DURATION: 3 HOURS	MARKS:	95

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER

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INSTRUCTIONS

1. This question paper is made up of four (4) questions.
2. Answer ALL the questions and in blue or black ink.
3. Start each question on a new page in your answer booklet.
4. Questions relating to this examination may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities & any assumption made by the candidate should be clearly stated.

THIS QUESTION PAPER CONSISTS OF 6 PAGES (Including this front page)

QUESTION 1

(25 marks)

You were registered with ICAN and IRBA last year and opened your own audit firm earlier this year. Shortly after opening your audit firm you appointed five audit staff members who passed the national senior certificate examinations at the end of last year. These staff members plan to register with NUST to do an accounting degree next year.

For the first months of your firm's existence, monthly accounting assignments for clients generated the firm's income. In July you were contacted by the managing director of Outdoors Limited who offered you the audit engagement of the company for the financial year that had just ended on 30 June, on condition that you issue your auditor's report by 31 August. He told you that the company was started in the previous year, has 30 shareholders and offers a wide range of outdoor adventures to school and business groups. You accepted the appointment and issued an engagement letter in which you stated that the audit report would be issued by 31 August

Shortly after you accepted the audit engagement, you were involved in a severe car accident that saw you hospitalised for six weeks. In the third week in hospital you had your staff call in and held a meeting with them from your hospital bed. You instructed them to ensure that all the audit firm's clients remain content with the service they receive as you had no medical insurance and needed the fee income to pay for your medical expenses. You instructed your staff to work overtime as needed and allocated two of them to the audit of outdoors limited and the other three to the monthly accounting assignments. You advised the two staff members responsible for the audit of outdoors Limited to use an example audit programme that you received when you attended the previous year's ICAN audit update as the basis for the audit.

You were discharged from hospital on 28 August and went straight to your audit firm's offices. You immediately called a meeting with the two staff members who conducted the audit of Outdoors limited. At the meeting they provided you with the signed off audit programme and you held brief discussions with them to establish exactly what type an auditor's report based on the example of an unmodified report contained in ISA 700. The next day you signed the auditor's report and had it delivered to Outdoors Limited.

Required:

- (a) List any requirements related to the conduct of an audit in accordance with ISA 200 That appear not to have been met on the audit of Outdoor Limited (8)
- (b) For each of the requirements identified in (a) give a full explanation of its relevance to the conduct of an audit. (17)

QUESTION 2

(30 Marks)

Your firm has been the auditor of Katutura Products, a listed company, for a number of years. The engagement partner has asked you to describe the matters you would consider when planning the audit for the year ended 31 January 2018.

During a recent visit to the company, you obtained the following information.

- (a) The management accounts for the 10 months to 30 November 2017 show a revenue of N\$130 million and profit before tax of N\$4 million. Assume sales and profits accrue evenly throughout the year. In the year ended 31 January 2017, Katutura Products had sales of N\$110 million and profit before tax of N \$8 million.

- (b) The company installed a new computerised inventory control system which has operated from 1 June 2017. As the inventory control system records inventory movements and current inventory quantities, the company is proposing:
 - (i) To use the inventory quantities on the computer to value the inventory at the year-end
 - (ii) Not to carry out an inventory count at the year-end

- (c) You are aware there have been reliability problems with the company's products, which have resulted in legal claims being brought against the company by customers, and customers refusing to pay for the products.

- (d) The sales increase in the 10 months to 30 November 2017 over the previous year has been achieved by attracting new customers and by offering extended credit. The new credit arrangements allow customers three months credit before their debt becomes overdue, rather than the one-month credit period allowed previously. Because of this change, trade receivables age has increased from 1.6 to 4.1 months.

- (e) The financial director and purchasing manager were dismissed on 15 August. A replacement-purchasing manager has been appointed but it is not expected that a new

financial director will be appointed before the year-end of 31 January 2018. The chief accountant will be responsible for preparing the financial statements for audit.

Required:

- (a) Describe the reasons why it is important that auditors should plan their audit (5)
- (b) Describe the matters you will consider in planning the audit and the further action you will take concerning the information you obtained during your recent visit to the company. (25)

QUESTION 3

(20 marks)

You are the auditor in charge of Enviro (Pty) Ltd. The company is in the business of generating and supplying renewable energy.

You recently had a meeting with the Chief financial officer (CFO) and the chief executive officer (CEO) of Enviro regarding the audit. During the meeting, the CFO noted that Enviro is currently under investigation from the Ministry of Mines and Energy for suspected non-compliance with the Energy Act of Namibia. Enviro's attorneys are of the opinion that the judge will rule in favour of the Ministry of Mines and Energy resulting in either N\$ 100 000 000 or the suspension of their trading license. Despite the predictions of the outcome of the case by the attorney, Enviro's management is hopeful that the court will rule in their favour as they are one of the biggest entities in the business of generating and supplying renewable energy. The CFO also noted that, the holding company, EnviroSol, has indicated their intention to support Enviro should they be required to settle the fine as well as any debt obligations that may arise from operations. Past experience indicates that EnviroSol provides financial support to Enviro.

Enviro is trading in a net liability position and has negative operating cash flows.

Enviro has a 31 December 2019 year end.

The draft financial statements are prepared on a going concern. No disclosure has been made for the above mentioned items.

Required:

1. What is the responsibility of the auditor with regards to non-compliance with laws and regulations. (4)
2. Evaluate whether the presentation of the financial statements of Enviro Ltd as at 31 December 2019 on the going concern basis is appropriate, based on the information given above. (8)
3. Comment on the impact of the above on the audit report. (8)

QUESTION 4: (20 Marks)

You are a trainee accountant currently assigned to the audit of the accounts payable of Maison Dior, a retailer of fragrances for men and women.

The financial manager of Maison Dior provided you with the accounts payable file of Maison Dior for the year ended 30 June 2019. The file included the payables' reconciliations, statements, invoices, delivery notes and order notes.

One of the accounts payable selected as a sample is Nasomatto (Pty) Ltd. The reconciliation of balance on the creditor's statement to creditors ledger is as follows:

Creditor's reconciliation of Nasomatto (Pty) Ltd as at 30 June 2019:

			N\$
Balance as per creditors statement 30 June 2019			20 000
Less payment made (cheque 44 dated 29 June 2019) not yet reflected on the statement			- 5 000
Less goods returned for which credit note is yet to be passed - Goods returned note 7 (Note 1)			- 1 000
Less settlement discount not yet reflected on statement 10% discount on invoice 55 (Note 2)			- 400
Balance as per creditors ledger 30 June 2019			13 600

Note 1:

On the 25 June 2019, 120 bottles of perfume were received with invoice number 30 for N\$ 12 500. As only 10 bottles of perfume were ordered by Maison Dior (N\$ 100 per bottle), the excess units were returned with the suppliers driver after signing both copies of the supplier delivery note with details of the oversupply and issuing a goods returned note.

Note 2:

The discount was in respect of the settlement of invoices number 55 for N\$ 4 000. Nasomatto offers a 10% discount in respect of all invoices paid with 30 days of date of delivery of the goods.

Required:

Describe the substantive audit procedures you would carry out in respect of the above reconciliation. **(20)**