



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: BAOC	LEVEL: 7
COURSE: AUDITING 310	COURSE CODE: GAU711S
DATE: JULY 2022	SESSION: JULY 2022
DURATION: 3HRS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	DR. K BOAMAH MR D. BENSON DR A SIMASIKU
MODERATOR:	MRS M DIKUUA

THIS QUESTION PAPER CONSISTS OF _6_ PAGES
(Excluding this front page)

INSTRUCTIONS

1. Answer ALL the questions and in blue or black ink
2. Start each question on a new page in your answer booklet & show all your workings
3. 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

PERMISSIBLE MATERIALS

1. Examination paper- No study materials are allowed in the examination room
2. Examination script - The examination script should be handed to the invigilator at the end of the examination session

QUESTION 1

(40 marks)

Houses a long-established large construction company has recently instructed your firm to act as the company's external auditors. The company has its own internal audit department. Professional clearance has been obtained from the previous auditors and an audit engagement letter has been issued.

It is now 1 March 2021 and you have been assigned to the audit team who will visit the company in order to obtain as much relevant knowledge as possible for use in planning the audit of the company's financial statements for the year ended July 2021.

Required:

(a)(i) Identify to whom in a company an audit engagement letter should be addressed and explain how acceptance of the terms of engagement should be conveyed to the auditor

(3)

(ii) Explain the purpose of an audit engagement letter, state when such a letter should be issued to an audit client and identify the occasions when it may be appropriate to issue a new (replacement) letter. (13)

(b) Give SEVEN examples of information your firm would wish to obtain prior to 31 July 2021 in order to assist in the planning of the financial statements of Houses Ltd. For each example state your reasoning for wishing to obtain the information

(14)

(c) Explain what you understand by the term audit risk, making reference to:

(i) Inherent risk (3)

(ii) Control risk (3)

(iii) Detection risk (4)

(10)

QUESTION 2

(30 marks)

The following audit report was drafted by a trainee on the audit report of Litetech (Pty) Ltd a company which manufactures lighting systems. The trainee was asked to draft the report at the conclusion of the audit for the financial year ended 30 June 2021 as part of the on-the job training and as part of your training you have been asked to evaluate his report. The shareholders of Litetech (Pty) Ltd included a clause in the company's Memorandum of Incorporation which requires that the company's annual financial statements are externally audited.

Independent report.

To the board of directors.

We have evaluated the accompanying financial statements of Litetech (Pty) Ltd for fairness based on our annual audit carried out in terms of the memorandum of Incorporation of the company.

Management is responsible for the preparation of the financial statements and for the prevention of fraud.

The auditor's responsibility is to perform the audit and in doing so, to detect any fraud which may have a material effect on the financial statements not having been prevented by the directors.

We report on the following aspects of the audit

1. An expert was engaged by our firm to assist in the valuation of work in progress. Due to the complexity of some of the company's lighting system, the risk of misstatement in work in progress warranted this.
2. The company is currently being sued by a former employee who suffered personal injury at work whilst testing electric current flow during quality control procedures.
3. With regard to the detection of fraud we detected a small wage fraud relating to unauthorized overtime. We reported this to management who subsequently dismissed the perpetrators.

In our opinion, except for the matters raised in 1 to 3 above, there were no outstanding issues arising from the audit which was conducted in terms of the International Standards on Auditing and the International Financial Reporting Standards

Emphasis of Matter.

There are no matters which require emphasis

Mayweather and Mosely

30 June 2021

Packia Place

Pretoria.

Required:

Detail the errors/deficiencies in the audit report presented to you for evaluation (give explanations where necessary) You are NOT required to redraft the report. (30 marks)

QUESTION 3

(30 marks)

Jeans a Limited liability company manufactures high fashion jeans for distribution to Wholesalers and retailers.

You have been assigned to the audit of inventory in the company's financial statements for the year ended 31 July 2021.

The following points were relevant to the audit.

(i) The company has raw materials, consumables, and work in progress inventory at its factory base. Finished goods are stored in a separate warehouse located five miles away

The company does not hold inventory held by third parties.

(ii) On 31 July 2021 employees of the company will physically count the inventory at both of the company's sites and members of your audit team will be in attendance.

(iii) The company has significant quantities of finished goods inventory held by independent retail stores under its sale or return system. Under this system, inventory is displayed for sale at retail shop premises but remains the property of Jeans until it is sold by retailers. Any garments not sold within three months are returned to Jeans for bulk sale at heavily discounted prices.

(iv) Some quantities of finished goods inventory were stated at net realisable value in the financial statements of the company for the previous year.

Required:

(a)(i) Define inherent risk (3)

(ii) Explain why inherent risk associated with inventory in the financial statements of Jeans would be assessed as high (10)

(b)(i) Define net realisable value (4)

marks)

(ii) Identify THREE possible causes for finished goods inventory being stated at net realisable value in the financial statements of Jeans for the previous year (3)

(c) (i) Identify the important tasks that members of your audit team should carry out when attending the company's physical inventory count on 31 July 2021 and (5)

(ii) For each task identified explain the purpose of carrying it out

(5)

END OF QUESTION PAPER