



**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: AUT AUT621S	COURSE NAME: AUDITING 202
SESSION: NOVEMBER 2019	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100
FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	A. Simasiku
INSTRUCTIONS	
<ol style="list-style-type: none">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 10 PAGES (Including this front page)

AUDITING 202 2019

QUESTION ONE

30 MARKS

You are currently advising Checkers Ltd on the ethicality of their actions as well as their governance compliance structures. Checkers Ltd is a provider of expensive medical equipment and medicine to both private as well as public hospitals throughout South Africa. The first issue that has come to your attention is that the directors have become aware that King IV now advises all entities to apply the principles prescribed by King IV, and they have requested your assistance in improving the entity's corporate governance structures.

Composition of governing body:

Name & Position	Background
1. Dr Shapiro A qualified medical doctor, Chief Executive Officer (CEO) and Chief Finance Officer (CFO).	Appointed to the governing body when the company was first incorporated during 2018. He is a very autocratic person and prefers to have all aspects of the board under his control 24/7, so he appointed members of his own family to the board.
2. Anna Jobo Financial Director	Anna is a CA who obtained her qualification 12 years ago. She decided to give modelling a try, and for the past 11 years she has been a full time model. She met and married Dr Shapiro 5 years ago.
3. Jeremiah (Nephew of Dr Shapiro). Operations	Appointed in 2016. Also serves as the Deputy CEO to the board. He serves on 43 other boards in a non-executive capacity.
4. Aili Sharp (Son of Dr Shapiro and Anna). Non-Executive	Aili has a LLB degree and is a successful corporate lawyer. In order to remain independent, he does not provide any legal advisory services to the company.
5. Nancy Philips Non-executive	Nancy is the CEO of Dynamic Marketing Ltd a company that provides monthly marketing services to Checkers Ltd.
6. Andrew Shikongo Non-executive	Andrew is an advisor to the company. He used to be the operational director of the company but retired in 2010 and now provides advice to the company on an ad hoc basis.

Dr Shapiro considers all of the non-executive directors to be independent as they are not involved in the daily managerial decision making of the company.

- Checkers Ltd has a unitary board structure and no sub-committees. This is mainly because Dr Shapiro considers delegating the boards' responsibilities to sub-committees to be a waste of time – as he has to take ultimate responsibility for all functions 24/7 - so everything might as well remain under his control.

- Dr Shapiro has entered into contracts with all directors ensuring that they will receive a fixed annual package. Anna Jobo mentioned to you that when she prepares the final integrated report: – “I scan over the financial data because it is really *boring* anyway and I concentrate on our graphics. I love pretty things and it is my mission to make the integrated report a successful advertisement of what Checkers Ltd has to offer. If my modelling career taught me one thing, it was how to market oneself!”
- Dr Shapiro sent an email to all the members of the governing body informing them that Samuel Shapiro, who is his youngest son and recently qualified as a Chartered Accountant, will be starting at Checkers Ltd effective from 1 May 2017. Samuel will fulfil the role of Finance Controller. Charles Shipanga, the human resource manager overhead Dr Shapiro and Anna Jobo discussing how busy Samuel will be as he serves on 6 other governing bodies and that they think this will be bring excellent experience to their company.
- The second worrisome fact that indirectly affects your client Checkers Ltd, is that you have come across statistics that many people in the north-eastern parts of South Africa are dying from malaria each year. The government uses the poison DDT in its efforts to kill malaria mosquitoes in that part of the country. Prolonged exposure to DDT can cause neurological abnormalities in babies. Some research shows that exposure to DDT also increases the risks of breast, blood and lung cancer. DDT is also toxic to a wide range of wildlife. These include, amongst others, crayfish, shrimp, eagles, falcon and song birds. Checkers Ltd is the sole supplier of the cancer medicine supplied in hospitals to combat the breast, blood and lung cancer as mentioned above.
- Some people argue that it is highly unethical for government to use DDT for this purpose. While others feel that it is highly unethical for Checkers Ltd to capitalize from the misfortunes of others (i.e. cancer medication) and they feel that the government should abandon the spraying of DDT and rather focus on other preventative methods for combatting malaria.

YOU ARE REQUIRED TO:		MARKS
(a)	Provide suggestions for the improvement of the company's corporate governance practices according to the King Reports.	(20)
(b)	Discuss why some people would argue that the use of DDT is “highly unethical”.	(4)
(c)	Discuss why some people would feel that Checkers Ltd is taking advantage of the misfortunes of others. Discuss your answer in relation with ethics.	(5)

Presentation: Marks – structure and layout	(1)
TOTAL MARKS	(30)

NOTE:

Present your answers in a two-column format as shown below:

CONCERNS	RECOMMENDED PRACTICES

QUESTION TWO

(20 Marks)

Management needs to effectively balance risks and controls to achieve goals and objectives. Therefore, control procedures need to be developed so that they decrease risk to a level where management can accept the exposure to that risk. By performing this balancing act "reasonable assurance" can be attained. Internal controls should be proactive, value-added and cost-effective to be able to achieve a balance between risks and controls in an organisation.

In view of this statement, **You are Required** to:

- a) Describe the objectives management must bear in mind when designing effective internal controls. (3 Marks)
- b) Which aspects must the auditor consider when obtaining an understanding of internal controls? (2 Marks)
- c) What is the relationship between the extent of substantive tests to be performed and the reliance or non-reliance upon controls in the organisation? (5 Marks)
- d) List the categories of internal control activities with a clear example of each category mentioned. (10 Marks)

NOTES for question 2 (d):

Your answer must consist of 2 columns.

The heading of Column 1 must be: Category of internal control

The heading of Column 2 must be: Example

QUESTION THREE

[25 marks]

Due to the hard-economic times in the country, the Windhoek national museum board of directors approved the provision of entertainment for tourists visiting Windhoek by staging local Namibian cultural evenings. This entertainment takes place every evening in a large function room which is separate from the main museum throughout the tourist season from April to October each year, and comprises members of local musical performers performing dance and musical routines.

The function room is in part of a building which houses the administrative and accounting functions of the museum together with a bar used by customers attending the cultural evenings. The Museum accepts only cash payments from cultural evening customers and, in addition to staff who carry out specific tasks, a manager and three assistant managers are in attendance each evening to supervise activity in the function room.

The following controls are exercised over the income from the cultural evenings:

Entry Charges

The company does not issue entry tickets. Customers gain entry into the function room's audience area through a turnstile located alongside the cashier's kiosk in the foyer of the function room building. As customers pay and enter through the turnstile, a meter connected to it and located inside the kiosk automatically counts the number of entrants. Tickets are not issued to patrons. The kiosk does not have a cash register but is furnished with a cash drawer, containing a small permanent cash float, for use by the cashier. At the end of each night, the cashier ensures that the total cash takings in the drawer equate to the number of entrants counted on the turnstile meter multiplied by the standard entry charge as set by the directors. At the end of each evening the cashier sets the meter to zero. She then emails confirmation of the number of customer entrants and the total kiosk takings to the customer accounts department. This email will be opened the following day. Prior to finishing her work, the cashier puts the takings into a designated cash wallet and deposits the wallet in the secure night safe of the Museum. The safe is of a 'hole in the wall' design, located in a secure room inside the company's premises and allows 'deposit only' access to function room employees. Full access to the safe is granted to specified accounts department employees of the Museum who are responsible for the removal of deposits from it.

Bar Income:

This comprises bar sales and income from vending machines located within the function room. The bar's automated cash register (till), containing a permanent small cash float, is operated by the bar manager and staff, all of whom have had training in its use. At the end of each night, the bar manager obtains a listing from the till of all transactions registered and compares the total to the actual cash takings, which he counts without assistance, writing a note on the listing to explain any differences between the totals. He then empties the takings from the vending machines and puts these, together with those from the bar sales and the till listing, into a designated wallet, and then deposits the wallet in the night safe of the museum.

You are required to:

- (a)
- i. List six objectives of identifying general risk in a company. (3 marks)
 - ii. Identify the components of internal control in terms of ISA 315 (Revised). (2 marks)
 - iii. Outline the key objectives of internal controls that should be exercised over cash sales. (3 marks)
- (b) With regard to the controls exercised over sales income from the cultural evenings, **You are required to:**
- i. Advise why the auditors of the Museum could not rely on the existing controls as a basis for verifying completeness of sales income; (5 marks)
 - ii. Recommend relevant improvements to address specific weaknesses in the controls over both entry charges and bar income. Separate your answer between entry charges and bar income (12 marks)

(Total: 25 Marks)

QUESTION FOUR

[25 Marks]

Select the most appropriate answer for each of the following (1 to 20).

1. A general control is best described as
 - a) the opposite of an application control
 - b) a preventive control
 - c) a control which is part of the overall framework of control for computer activities
 - d) a set of policies and procedures to which employees must adhere in the performance of their duties.

2. Which of the following does not form part of the control environment component of the internal control process in a computerized financial reporting system?
 - a) commitment to competence
 - b) systems development
 - c) human resource policies and practice
 - d) assignment of authority and responsibility.

3. Which of the following is an important part of the general control category identified as "continuity of operations"?
- a) the segregation of duties within the IT department
 - b) programme change controls
 - c) authentication of users
 - d) risk assessment.
4. The principle of least privilege forms part of a company's
- a) security policy
 - b) disciplinary procedures for IT personnel
 - c) authentication of users
 - d) data communication controls.
5. Defining the level (or types) of access to be granted to a user is termed
- a) identification of the user
 - b) authorisation of the user
 - c) identification and authentication of the user
 - d) approval of the user.
6. An application control is best described as
- a) a control executed by the system itself
 - b) the opposite of a general control
 - c) a control which contributes to the accurate and complete processing of transactions through a specific application
 - d) a control which contributes to the production of valid, accurate and complete information
7. Controls in a computerised accounting environment are generally centered around
- a) accuracy and completeness of processing and storage of data
 - b) timeous processing of data
 - c) occurrence and authorisation, accuracy and completeness of processing and storage of data
 - d) existence and accuracy of processing of data.
8. Which of the following is not a control activity in a computerised accounting system?
- a) comparison and reconciliation
 - b) access controls at application level
 - c) source document design
 - d) performance reviews.
9. Which of the following is a general control and not an application control?
- a) minimum keying in of information
 - b) batching
 - c) user identification to access the system
 - d) override reports

10. Which of the following is an application control and not a general control?
- the approval of a programme change by the head of the user department
 - the approval of an amendment to the inventory Masterfile
 - the approval of the appointment of the CIO by the board
 - the approval of a new back-up strategy for inventory data files.
11. Corporate Governance is best described as
- strict compliance with the Companies Act 2008
 - the process whereby companies are directed and controlled
 - compliance with government regulations
 - ethical leadership.
12. Which term best describes the basis on which the King IV Code of Governance is built?
- Comply or else
 - Comply and explain
 - Apply or explain
 - Apply and comply
13. Which of the following is *not* accurate?
- A company should disclose the remuneration of each individual director and certain senior executives, provided it has the individual's consent
 - Shareholders should approve the company's remuneration policy
 - Companies should remunerate directors and executives fairly
 - The remuneration committee should issue a report to explain the company's remuneration philosophy and how it has been implemented
14. Functionally, the chief audit executive should report to the:
- financial director
 - audit committee chairman
 - external audit engagement partner
 - risk committee.
15. The internal audit function should be:
- compliance based
 - materiality based
 - risk based
 - variance based.
16. Which of the following is *not* a function of internal audit:
- performing an objective assessment of the adequacy and effectiveness of risk management and internal controls
 - performing alternate dispute resolution
 - performing reviews of the company's ethical governance processes
 - systematically analysing and evaluating business processes.

17. Wendell Blazer CA (SA) is the chief audit executive of a listed company, Ties Ltd. In the performance of his duties, from an ethics perspective, he is required to comply with:
- (a) only the SAICA Code of Professional Conduct
 - (b) only the Code of Ethics of the Institute of Internal Auditors
 - (c) the SAICA Code of Professional Conduct **and** the Code of Ethics of the Institute of Internal Auditors
 - (d) only the internal audit charter of Ties Ltd.
18. The auditor may decide to examine the entire population of items that make up an account balance (100% examination). This is most likely when:
- a) the assessment of the risk of material misstatement in the account heading is low.
 - b) analytical review procedures are not suitable.
 - c) tests of controls are being conducted.
 - d) the population consists of a small number of large value items.
19. Which of the following is **not** a function of internal audit:
- (a) performing an objective assessment of the adequacy and effectiveness of risk management and internal controls
 - (b) performing alternate dispute resolution
 - (c) performing reviews of the company's ethical governance processes
 - (d) systematically analysing and evaluating business processes.
20. Whether or not public company must have its annual financial statements audited depends upon:
- a) the company's public interest score only
 - b) the company's public interest score only and whether its financial statements are compiled by an independent financial accountant
 - c) the requirements of the industry in which the company operates
 - d) none of the above

Whilst the board is ultimately responsible for sound corporate governance policies and practices, specific responsibilities can be assigned to the individuals or groupings listed above. Consider and respond to each of the following: [answer questions 21 to 25]

21. Who should be responsible for appointing or dismissing the head of internal audit?
22. Who is responsible for the process of risk governance?
23. Who should inform the directors as to how their responsibilities as directors, should be met?

24. Who is responsible for ensuring that the company complies with all relevant laws, rules and codes of business practice?

25. Who should conduct the annual performance appraisal of the chairperson?

25 points of 1 mark each = 25 Marks)