



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BACC	LEVEL: 6
COURSE CODE: AUT AUT621S	COURSE NAME: AUDITING 202
SESSION: JANUARY 2020	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100
SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	K. Boamah, Z. Stellmacher & D. Kamotho
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 6 PAGES (Including this front page)

QUESTION ONE

[20 MARKS]

You are the audit manager of T&T Associates, a medium sized firm of accountants. Your firm has just been asked for assistance from Kolobs & Co, a firm of accountants in an adjacent country. This country has just implemented the internationally recognised codes on corporate governance and Kolobs & Co has a number of clients where the codes are not being followed. One example of this, from Wingright, a listed company, is shown below. As your country already has appropriate corporate governance codes in place, Kolobs & Co have asked for your advice regarding the changes necessary in Wingright to achieve appropriate compliance with corporate governance codes.

Extract from financial statements regarding corporate governance

Mr Shipanga is the Chief Executive Officer and board chairman of WINGRIGHT. He appoints and maintains a board of five executive and two non-executive directors. While the board sets performance targets for the senior managers in the company, no formal targets or review of board policies is carried out. Board salaries are therefore set and paid by Mr. Shipanga based on his assessment of all the board members, including himself, and not their actual performance. Internal controls in the company are monitored by the senior accountant, although detailed review is assumed to be carried out by the external auditors; WINGRIGHT does not have an internal audit department. Annual financial statements are produced, providing detailed information on past performance.

You are required to

Write a memorandum to Kolobs & Co which:

- (a) Explains why Wingright does not meet international codes of corporate governance
- (b) Explains why not meeting the international codes may cause a problem for Wingright, and
- (c) Recommends any changes necessary to implement those codes in the company.

(20 marks)

QUESTION TWO

[25 marks]

A friend of yours, Reg Park, recently purchased all the shares in Crazytimes (Pty) Ltd, a wholesaling company which sells all kinds of goods for outdoor pursuits, e.g. skateboarding, BMX, kayaking etc. The company sells only on credit. Debtors pay only by cheque or EFT. The previous owners who were also the directors, spent more time engaged in outdoor pursuits than in looking after the business, choosing to leave the running of the business in the hands of various "managers" and other employees. The goods which the company sells are popular so the business has survived this ownership neglect, and your friend (an entrepreneur) sees potential in the company. He asked you to have a look at the accounting system and

internal controls which you did, only to find that, despite the design, and the documentation of the system being basically sound, the control awareness and proper operation of control activities by employees was poor. The cycle has been broken down into the usual functions for a revenue and receipts cycle and all functions are adequately staffed. On reporting to Reg Park, his response was "OK, as I am the sole director and will not be involved much in the business I want you to explain two things to me. Firstly, if we assume that the staff are honest but careless or as you say, not very control aware, what could go wrong in the revenue and receipts cycle, and secondly, if some of the staff are dishonest, including the managers, how could they be stealing from or defrauding the company?"

YOU ARE REQUIRED TO

- a) Describe and explain what could go wrong in the revenue and receipts cycle, assuming that the staff are honest but careless and lack control consciousness. Your response should cover the following areas
- i. Order department
 - ii. Warehouse
 - iii. Dispatch
 - iv. Invoicing and recording of sales
 - v. Receipts and recording of receipts from debtors
 - vi. Goods returned by customers
 - vii. Credit management
 - viii. General (15 marks)
- b) Describe how dishonest employees (including managers) could be stealing from/defrauding the company in this cycle. (10marks)

QUESTION THREE

30 Marks

COSO (2019) explains the concept of internal control as a process effected by an entity's Board of directors, management and other personnel, and designed to provide reasonable assurance regarding the achievement of the objectives of the business. The Board is the ultimate responsibility for the system of internal control. The Board sets appropriate policies on internal control and regularly assure itself that appropriate processes are functioning effectively to monitor the risks to which the company is exposed and that the system of internal control is effective in reducing those risks to an acceptable level. The right tone must be set at the top of the company to ensure that control responsibilities are taken seriously.

The Board, however, does not have sole responsibility for a company's system of internal control. They will typically delegate to management the task of establishing, operating and monitoring the system to maintain a sound system of internal control. Ultimately, all employees have some accountability towards implementing the Board's policies on risk and control. This reflects the 'top-down, bottom-up' nature of a sound system of internal control. In fulfilling its responsibilities, management identifies and evaluate the risks faced by the group - for consideration by the Board - and design, operate and monitor an appropriate system of internal control.

You are required to:

- (i) Describe the three broad objectives management has when designing internal controls. (3 Marks)
- (ii) What is meant by a control environment? What factors must the auditor evaluate to understand it? (9 Marks)
- (iii) Explain the term "walkthrough test". What is the purpose of such a test? (3 Marks)
- (iv) Explain the components of an internal control system. (5 Marks)
- (v) You are provided with the following list of internal controls:
 - a) The company's computer systems track individual transactions and automatically accumulate transactions to create a trial balance.
 - b) Budgeted figures are compared monthly to actual figures and differences are investigated.
 - c) The Human Resource department must obtain certified copies of all university degrees of new staff before they can start to work their first day at a company.
 - d) Management continuously obtains data about external events to evaluate how these events may affect the company and its processes.

- e) All department heads must perform monthly assessments of the department's compliance with policies and procedures. These assessments are sent to the department's manager.
- f) Before a supplier can be paid, the suppliers account details must be agreed to the approved vendor listing.
- g) The system automatically updates the subsidiary ledger to the general ledger daily.
- h) The company has developed a detailed series of accounting procedures to help employees get an understanding of how the controls operate.
- i) The company has drawn up a chart indicating various reporting lines and authorization protocols.
- j) The compensation plans of senior executives are reviewed by the board's remuneration committee quarterly to identify whether those plans create any pressures.

List the component of internal control which is represented in each of the above scenarios. (10 marks)

QUESTION FOUR

(25 marks)

According to ISA 315, identifying and assessing the risk of material misstatement through understanding the entity and its environment is a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an organisation's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies. The pace of change in business today has doubled meaning that organisations are much more at risk of failure than ever before. The global economy has also become more competitive and more unforgiven than the national economies. Auditors, therefore, need to be familiar with the business environment, the plans and the processes, which are used to drive the plans. They need to assumed that both strategic and operational planning and the financial information derived from it, are based on ordered and systematic considerations of the business future carried out by experienced and competent senior management who are ready to address the risks facing the business.

As part of their risk assessment process when evaluating audit risk, auditors should evaluate the organization's risk assessment process based on their knowledge of it and its trading environment and decide on the effectiveness of the conclusions. Sound risk assessment processes by management are an integral part of the control environment, which, auditors must be aware of its

effectiveness. They should review the management's assessment of risk as an integral part of their audit planning.

In view of the above statements, **you are required to** briefly answer the following short questions on business risk.

- a. What is business risk? (1 mark)
- b. Explain what risk assessment means; and what factors should the board consider when assessing risk. (6 marks)
- c. Explain internal and external forces that may prevent the achievement of business objectives (8 marks)
- d. What actions can be used to mitigate risk in an organization? (10 marks)