



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

Faculty of Management Sciences

Department of Accounting, economics and finance

QUALIFICATION : BACHELOR OF ACCOUNTING AND FINANCE	
QUALIFICATION CODE: 07 BACC	LEVEL: 7
COURSE: AUDITING 3B	COURSE CODE: AUD 312S
DATE: JAN/FEB 2019	SESSION: JAN/FEB 2019
DURATION: 3HRS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	MR A. SIMASIKU
MODERATOR:	MS C GAMSES

THIS QUESTION PAPER CONSISTS OF _4_ 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

(30 marks)

You have been assigned to assist with the audit of certain aspects pertaining to the presentation and disclosure of the annual financial statements of Backstop Ltd for the financial year ended 28 February 2017. The company manufactures helmets for various sporting activities.

You are currently busy with the presentation and disclosures of contingent liabilities. Note 20 to the financial statements read as follows:

Note 20- Contingent Liabilities

1. The company has been sued by a customer who suffered facial damage and visual impairment when a cricket ball stuck him in the eye during a cricket match. He is claiming N\$ 800000 from the company on the grounds that his helmet (manufactured by the company) was defective.

Required

- (a) State the assertions which relate to the presentation and disclosure of the annual financial statements. (10 marks)
- (b) Define a contingent liability (4 marks)
- (c) Distinguish between a contingent liability and a provision. (4 marks)
- (d) Describe the audit procedures you would conduct in respect of the assertions relating to the presentation and disclosure of the contingent liability described in note 20. (12 marks)

QUESTION 2

(30 marks)

(a) Internal control is designed amongst other things to prevent error and misappropriation.

Required:

Describe the errors and misappropriations that may occur if the following are not properly controlled:

- (i) Receipts paid into bank accounts (5 marks)
- (ii) Payments made out of bank accounts (5 marks)
- (iii) Interest and charges debited and credited to bank accounts (5 marks)

(b) A book selling company has a head office and 25 shops, each of which holds cash (banknotes, coins and credit card vouchers) at the year-end date. There are no receivables. Accounting records are held at shops. Shops make returns to head office and head office holds its own accounting records. Your firm has been the external auditor to the company for many years and has offices near to the location of some but not all of the shops.

Required:

List the audit objectives for the audit of the cash and state how you would gain the audit evidence in relation to those objectives at the year-end. (10 marks)

(c) The external auditors of companies often write to companies' bankers asking for details of bank balances and other matters at the year end

Required:

Explain why auditors write to companies' bankers and list the matters you would expect banks to confirm (5 marks)

QUESTION 3

(40 marks)

You are the manager in charge of the audit of Windhoek warehouse point Ltd, the largest warehouse company operating out of 10 warehouse locations in Windhoek, Walvis bay, Rundu, Oshakati, and Keetmanshoop. This will be the second year in which you have conducted the audit. The company has a public interest score of 300 and prepares its financial statements internally in terms of IFRS. During March your senior commenced with planning the audit for the current year (financial year end 30th June) by updating the audit file work paper on understanding the entity and its environment and has made the following notes

1. My discussions with Dean Andrew, the newly appointed financial manager were very concerning. He has recently returned from extended travels around the world and he seemed very nervous. He is definitely not up to date with the latest international financial reporting standards (IFRS). He is unlikely to receive much help from the financial director because as noted in the last year's file he is also not up to date with the latest IFRS choosing to delegate accounting matters to the financial manager.
2. Avid Investors Ltd has purchased 20% share in WWP Ltd (it is a company which has recently been in the news for alleged foreign exchange control transgressions) and has managed to appoint two directors on to the board of WWP Ltd as a condition of the company purchasing the 25% of the shareholding. Avid Ltd will be the largest shareholders.
3. WWP Ltd's liquidity position has worsened since the prior financial year end and the intentions seem to be according to Dean Andrew, that Avid Investors will provide loan capital required.
4. My discussion with Blake Josh, the Internal Audit manager, revealed that
 - 4.1. His department uncovered an extensive fraud in the purchasing department which has cost the company a great deal of money. Fortunately for us, the fraud wasn't underway when we conducted the audit in the prior year.

- 4.2. Avid investors Ltd have used their influence on the board to do away with the audit committee as "cost cutting exercise" and Blake Josh is concerned that his department may be next. The department is at present strong and competent
- 4.3. A new computerised salary and wage system has been implemented
- 5 Despite some poor trading results in some regions, WWP Ltd has kept warehouses in all of the major town centres around Namibia operational. Inventory levels remain high
- 6 The credit control function has been decentralized and is carried out by the regional offices. Credit terms are still set by the sales director and the financial director and have recently been extended in an attempt to boost the sales
- 7 The audit deadline will be 21 working days after the year end

Required:

Discuss the effect that the information above will have on the overall audit strategy (40 marks)