



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07 BOAC	LEVEL: 7
COURSE CODE: GAU 711S	COURSE NAME: AUDITING 310
SESSION: MAY/JUNE 2024	PAPER: THEORY
DURATION: 3 Hours	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	P ERKIE, H HAITANGE
MODERATOR:	AKSEL NANGOLO

<p style="text-align: center;">INSTRUCTIONS</p> <ol style="list-style-type: none">1. This test paper is made up of three (3) questions.2. Answer ALL Question in blue or black ink.3. Start each question on a new page in your answer sheet.4. Questions relating to this paper 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.
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THIS QUESTION PAPER CONSISTS OF 7 PAGES (excluding this cover page)

QUESTION 1 (15 MARKS)

- a) Select the most appropriate answer to the following questions. **(6 marks)**
1. Planning materiality for the audit should be
 - a) Approved by the audit committee
 - b) Approved by the clients chief audit executive(Head of internal audit)
 - c) Laid out and explained in the engagement letter
 - d) None of the above
 2. The engagement letter must contain
 - a) The names of the engagement team
 - b) The name of the designated auditor
 - c) The qualifications of the designated auditor
 - d) The name and qualification of the partner who will conduct the quality control review of the audit
 3. In terms of ISA 500, audit evidence is obtained by performing
 - a) Risk assessment procedures and substantive tests
 - b) Test of controls and substantive procedures
 - c) Risk assessment procedures and further audit procedures
 - d) Tests of controls, substantive procedures and analytical review
 4. What type of opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements?
 - a) Qualified.
 - b) Disclaimer.
 - c) Adverse.
 - d) Reserved.
 5. Which of the following is not a section of the ISA 700 auditor's unmodified (unqualified) opinion?
 - a) Auditor's responsibility.
 - b) Opinion.
 - c) Management's responsibility for the financial statements.
 - d) Report on other audit activities.
 6. Which of the following uncertainties will not lead to an auditor's report containing a qualification of opinion in many countries?
 - a) Lack of consistency.
 - b) Material uncertainties.
 - c) Independence of auditor.
 - d) Reports in reference to economic conditions

- b) What stages of the audit process come after planning? (2 marks)
- c) When can auditors not perform test of controls? (2 marks)
- d) What is the purpose of designing, implementing and maintaining internal controls in a business? (2 marks)
- e) Name and briefly explain any three (3) types of internal controls activities (3 marks)

QUESTION 2 (10 marks)

The auditor obtains sufficient evidence to be able to draw conclusions which in turn support the audit opinion. Audit evidence is obtained by applying audit procedures, and these may be applied to an entire population or part of the population by selecting a sample from that population.

- 1. Explain the term "audit sampling" (2 marks)
- 2. Differentiate between tolerable rate of deviation and tolerable misstatement (2 marks)
- 3. The following are factors that the auditor may consider when determining the sample size for tests of detail:
 - 1. An increase in the auditor's assessment of the risk of material misstatement
 - 2. An increase in auditors required confidence level
 - 3. A decrease in the total misstatement that the auditor is willing to accept (i.e. tolerable misstatement)

REQUIRED

Indicate the effect (either increase or decrease) each of the factors listed above would have on the sample size. Provide a brief explanation for your choice. (6 marks)

QUESTION 3 (15 Marks)

You are busy with obtaining an understanding of an entity's internal control and made the following observation:

A creditor's clerk, who has no formal training and who was previously employed as a sales representative, does not sign off the creditor's reconciliation before submitting it for review to the financial manager. Payment is then authorised by the financial manager prior to it being reviewed by him. The organisation has no formal procedures in place for the creditor's function. As a trainee auditor, you know that management is responsible for running all aspects

of the business, and to this end, they must put in place policies and procedures to achieve the orderly and efficient operation of the business. It thus follows that if the client has an effective accounting system and internal controls then the information produced by the system will be valid, accurate, complete and timeously produced.

REQUIRED:

- a) Describe control weaknesses in the above scenario. **(7.5 marks)**
- b) For each weakness indicate what control could be put in place to overcome the weakness. **(7.5 marks)**

Present your answer as follows:

a) Weaknesses in internal control (1½ marks each)	b) Suggested control (1½ marks each)
1.....	1.....

QUESTION 4 (60 marks)

You are a member of the audit team performing the 31 March 2024 year-end audit of Books-4U (Pty) Limited (Books-4U). The following information relating to the company is available to you:

BACKGROUND INFORMATION

Books-4U is listed on the Namibia Stock Exchange (NSX). Books-4U is a wholesaler of printed books and sells a wide range of books, including textbooks. The company purchases its books from local and foreign publishing houses. Books-4U operates its business from several branches across Namibia.

During the financial year, the company experienced a decrease in profits due to new technology which allows individuals to purchase books digitally (these books are referred to as e-books). E-books have become very popular over the past few years, as these books can be read on electronic devices such as e-book readers and tablets at a much lower cost. Due to the decrease in profits, management informally instructed the credit controller to relax the internal controls regarding credit terms and policies in order to boost sales figures for the financial year under audit.

The decrease in profits is of great concern to the Chief Financial Officer (CFO) as the decrease in profits will result in a decrease in management’s performance bonuses. When interviewing the CFO regarding the calculation of management’s performance bonuses, the CFO was very evasive in answering certain questions.

In June 2023, Books-4U was notified that it is being sued for late deliveries of textbooks to some of the public schools in the Kunene Region. The chief executive officer (CEO) of Books-4U has apologised to the public but still fears that the litigation may have a huge impact on Books-4U’s future business relations.

Inventories (books) are measured at the lower of cost or net realisable value and the cost price is determined in terms of the first-in-first-out (FIFO) cost formula. The measuring of the inventory balance has not always proved to be reliable, mainly due to the limitations of the accounting system.

Due to the unreliable measurement of the inventory balance, Books-4U decided to change its accounting system during the financial year from a partially automated system to a fully automated system which is also compatible with your audit firm’s software.

AUDIT WORKING PAPERS

The following audit working paper was prepared by members of your audit team on the audit of Books-4U for the 31 March 2024 year-end:

Client: Books-4U		A100
Year end: 31 March 2024	Prepared by: S Cloete	
Date: 05 May 2024	Review by: T Moka	
Subject: Payments to suppliers		
<p>All payments to suppliers are made by electronic funds transfer (EFT). The system description for the scheduling of EFTs for Books-4U are described as follows:</p> <p>EFTs are scheduled in the accounting department. Two junior accountants in the accounting department are responsible for preparing the numerically sequenced electronic EFT requests and the two senior accountants are responsible for approving the EFTs electronically using their unique usernames and Passwords.</p> <p>Processing of EFTs is limited to terminals of the accountants in the accounting department and to ensure timely processing, EFTs are processed between 10:00 and 11:00 every weekday, excluding public holidays. In order to control access when processing and approving EFTs, the accountants’ terminals switch off after three unsuccessful access</p>		

attempts. An activity report of unsuccessful access attempts is reviewed and signed once a week by the financial manager to confirm that no unauthorised access was gained to the EFT system.

If a payment exceeds the value of N\$100 000 per supplier per day, the payment can only be authorised by the financial manager using a one-time password.

After the authorisation of EFTs, a list of all EFTs processed each day is printed out and filed with a copy of supplier invoices. The senior accountants in the accounting department prepare the monthly bank reconciliations which are reviewed by the financial manager on a monthly basis. The financial manager signs the bank reconciliation as proof of authorisation.

REQUIRED

1. With reference to the background information of Books-4U:
 - a) Identify the risk indicators at the financial statement level. **(7 Marks)**
 - b) For each identified risk indicator, describe the risks of material misstatement at the financial statement level present in the financial statements of Books-4U. **(14 marks)**

Present your answer as follows:

a) Events or conditions (risk indicators) (1 mark each)	(b) Description of the risks of material misstatement at the financial statement level (2 marks each)
1.....	1.....

2. With reference to the background information of Books-4U:
 - a) Describe the risks of material misstatement at the assertion level that relate to inventory balance. **(14 marks)**
 - b) For each risk described, identify the applicable audit assertion. **(7 marks)**

Present your answer as follows:

a) Description of the risks of material misstatement at the assertion level relating to the inventory balance (2 mark each)	b) Relevant assertion(s) (1 marks each)
1.....	1.....

3. With reference to working paper A100, formulate the tests of controls that you will perform to test the internal controls relating to the payments to suppliers. **(14 marks)**
4. Imagine that during the audit of Books-4U Limited you found the inventory to be overvalued by a material amount (N\$ 3 million) and the directors refuse to correct the error

REQUIRED:

Write the two paragraphs, explaining the opinion that you would express to the users of the audited financial statements, applicable to the facts in this scenario. **(4 marks)**

THE END