



**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

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

INSTRUCTIONS
<ol style="list-style-type: none">1. This test paper is made up of four (4) 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.

THIS QUESTION PAPER CONSISTS OF 8 PAGES (excluding this cover page)

Question 1 (20 Marks)

- a) Your audit firm has performed the audit of Pingle Limited for the past eight years. During a meeting with the Chief Executive Officer (CEO), he told you that Pingle Limited has appointed a new Chief Financial Officer (CFO), Ms Malambo. You learn later that Ms Malambo's sister is married to the only senior audit manager in your audit firm who is qualified to perform the audit.

REQUIRED:

Explain, according to ISA 220, whether your firm should continue with the audit of this existing client. You may assume that the audit firm will not be able to acquire the services of another suitably qualified audit manager. (2)

- b) The responsibility for the prevention and detection of fraud and error lies with management and those responsible for governance. ISA 240, however, lays down what is required of the auditor with regards to fraud.

REQUIRED:

In light of the above statement, name 4 key activities that the auditor is expected to undertake to detect and prevent fraud in an organisation. (4)

- c) Imagine that during the audit of CRI Limited you found that almost all the accounting records of CRI Limited were destroyed in a flood. As a result, you could not perform adequate audit procedures to arrive at any meaningful opinion.

REQUIRED:

Write 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)

- d) The auditor obtains evidence sufficient 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 set of data, usually referred to as the population, or to part of the population by selecting a sample from the population.

REQUIRED:

Answer the following questions regarding audit sampling

- a) What is audit sampling? (2)
b) What are requirements for a selected sample to be considered valid? (4)
c) Select the most appropriate answer to the following questions: (4)

1. Selecting samples for testing from a population without a structured technique is termed
 - a) Haphazard selection
 - b) Random selection
 - c) Systematic selection
 - d) Stratification selection

2. The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same procedure is termed:
 - a) Non-sampling risk
 - b) Inherent risk
 - c) Statistical risk
 - d) Sampling risk

3. Monetary amount set by auditor - should not be exceeded by the actual misstatement in the population is termed:
 - a) A tolerable deviation
 - b) Sampling error
 - c) A tolerable misstatement
 - d) A constituent of sampling risk

4. For audit sampling purposes the individual items making up the population which is being sampled are referred to:
 - a) Sampling units
 - b) Sampling blocks
 - c) Sampling transactions
 - d) Sampling stratifications

QUESTION 2 (10 MARKS)

Lisa Beukes is the current auditor of Wallbox (Pty) Ltd. a large manufacturing company. She carried out the following audit procedures for the Wallbox.

1. During the inventory count she test counted a sample of inventory items selected from the client's inventory list and compared the quantities counted with those on the client's inventory list.
2. She arranged for the financial manager to obtain a positive confirmation from Wallbox (Pty) Ltd's major overseas debtor. The debtor sent an email confirming the amount owed to the financial manager who forwarded it to Lisa Beukes.
3. She obtained a bank confirmation relating to the client's bank account (overdraft) direct from the bank. On previous occasions the confirmation from the bank had been incorrect but only by small amounts.
4. She inspected a sample of Wallbox (Pty) Ltd's delivery notes for the signature of Wallbox (Pty) Ltd's dispatch clerk indicating that the goods had been checked against the internal sales order, as well as the signature of the customer's goods received clerk acknowledging receipt of the goods delivered.
5. She observed the offloading and receiving of deliveries by suppliers, to determine whether the goods were counted by Wallbox (Pty) Ltd's receiving clerks.

Require:

- a) Classify each of the above in terms of its source **(5 marks)**
 - Evidence developed by the auditor
 - Evidence obtained from the third parties
 - Evidence obtained from the client.

- b) Indicate whether each procedure is a test of controls or substantive procedure **(5 marks)**

QUESTION 3 (10 MARKS)

You are the senior on the audit of Entle (Pty) Ltd, a retailer of glassware. You asked a junior trainee about the assertions pertaining to the following account headings:

Accounts receivable: N\$ 1 297 141

Sales: N\$ 4 863 219

Her response was as follows:

Accounts receivable. The assertions are:

Existence: All debtors making up the balance of N\$1 297 141 actually exist; they are not fictitious.

Accuracy: The amount of N\$ 1 297 141 is accurate; i.e. no mistakes are included in the balance.

Completeness: Only debtors who can pay the complete amount owed by them are included in the balance.

Obligation: Debtors included in the amount are obliged to pay within the company's credit period.

Sales. The assertions are:

Materiality: The sales figure of N\$ 4 863 219 is material in relation to the other figures in the balance sheet.

Cut-off: The figure of N\$4 863 219 includes only sales made in the financial year being audited.

Validity: All sales included are valid sales; e.g. they are not fictitious.

Required:

- a) Comment on your junior trainee's understanding of each of the assertions. Explain your answer. (6)
- b) List the correct assertions for each of the two account headings given. You are not required to describe the assertion. (4)

QUESTION 4 (60 MARKS)

You are a member of the audit team performing the 30 September 2023 year-end audit of Hangula Limited (Hangula). The following information relating to the company is available to you:

BACKGROUND INFORMATION

Hangula is listed on the Namibia Stock Exchange (NSX). Hangula manufactures clothing mostly for Mr Clothes stores in Namibia. The company imports all its material and manufacturing equipment from foreign countries. Hangula manufactures clothing at its premises based in Oshakati.

The company recently decided to expand its portfolio and now intends to submit a tender for manufacturing the clothing for all Xedgars stores. As part of the tender application, Hangula is required to include the audited financial statements for the year ended 30 September 2023. One of the criteria which Hangula must comply with to qualify for the tender is to have a current ratio of 2:1. The deadline for the submission of tender applications is 20 October 2023. This places the auditors under extreme pressure to complete the audit before the tender deadline. The Chief Financial Officer (CFO) indicated that if the tender is successful, the management of Hangula will receive bonuses based on profits for the year ended 30 September 2023.

During July and August 2023 Hangula factory wage workers went on strike demanding a wage increase from N\$ 70 per hour to N\$ 140 per hour. The strikes were often violent and in one incident factory wage workers burnt down one of Hangula's plants containing expensive manufacturing equipment. Soon thereafter, the strike was suspended as Hangula and the wage workers agreed to a wage rate of N\$ 130 per hour, almost being double the original wage rate.

Hangula's insurance company is still in the process of investigating the arson of plant and equipment during the strike and indicated that the insurance payout might be substantially lower than expected as Hangula is underinsured. In the meanwhile Hangula decided to lease manufacturing equipment in order to continue with the manufacturing of clothing. In preparing the financial statements for the 2023 year end, the CFO decided that all damaged manufacturing equipment should be written off. However, upon investigation the CFO determined that in the past the company's equipment was not depreciated correctly according to its useful life. The CFO decided to appoint an expert to determine the correct carrying value of equipment that is still in a working condition and to decide which equipment should be written off.

Just before year end the National Energy Regulator of Namibia announced that NAMPOWER requires a further 20% increase in electricity prices in addition to the increase of 8% during the year. Industrial companies protested against the proposed electricity increase indicating that it will have a negative impact on various companies' business operations.

At the beginning of the financial year Hangula implemented cost-saving measures of which one was to close its internal audit department.

During the planning stage of the audit the audit team determined that Hangula has numerous related party transactions.

COMPUTATION OF PLANNING MATERIALITY

Based on your risk assessment, inherent risk was assessed as high. Use the following information to determine Hangula planning materiality for the year ended 30 September 2023:

Item	Unaudited financial results NS	Budgeted financial results NS	Interval used to calculated materiality
Turnover	60 000 000	70 000 000	0.5%– 1%
Gross Profit	25 000 000	28 000 000	1%– 2%
Expenses	28 000 000	25 000 000	1%– 2%
Net profit /(loss) before tax	(3 000 000)	3 000 000	5%– 10%
Total assets	19 000 000	25 000 000	1%– 2%
Total liabilities	15 000 000	15 000 000	0.5%– 1%
Equity	4 000 000	10 000 000	2%– 5%

AUDIT WORKING PAPERS

The following audit working papers were prepared by members of your audit team on the audit of Hangula for the 30 September 2023 year-end:

Client: Hangula		A1
Year end: 30 September 2023	Prepared by: M Van Royeen	
Date: 05 October 2023	Review by: T Mbango	
Subject: System description invoicing		
<p>An invoicing clerk is responsible for preparing pre-numbered invoices. The invoice clerk accesses the invoicing software by entering his unique username and password. A log which displays unsuccessful attempts to access the invoicing software is printed, followed up and signed by senior management on a weekly basis.</p>		

The invoicing clerk, before preparing pre-numbered invoices, matches the details of the clothes on the signed delivery notes to the relevant orders and these two documents are stapled together. The numerical sequence of the delivery notes received for invoicing are confirmed and missing numbers are investigated by Mary Smith, the senior manager in charge of invoicing. Once invoices are prepared, the following controls are performed by Mary:

- a) The courier and customer's signature is on the delivery note.
- b) The description and quantity of clothes on the invoice agree to the description and quantity of clothes on the signed delivery note.
- c) The price on the invoice agrees to the authorised price list.
- d) The VAT charged is correct.
- e) The calculation on the invoice is correct.

A grid stamp which reflects these controls is imprinted on each invoice, and is initialled by Mary as evidence that these controls have been performed.

REQUIRED

1. With reference to the background information of Hangula:

- a) Identify the risk indicators at the financial statement level. **(6 Marks)**
- b) For each identified risk indicator, describe the risks of material misstatement at the financial statement level present in the financial statements of Hangula for the 2023 financial year-end. **(12 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 Hangula:

- a) Describe the risks of material misstatement at the assertion level that relate to the balance of plant and equipment. **(8 Marks)**
- b) For each risk described, identify the applicable audit assertion. **(4 Marks)**

Present your answer as follows:

a) Describe the risks of material misstatement relate to the balance of plant and equipment. (2 mark each)	b) Applicable audit assertion. (1 marks each)
1.....	1.....

3. With reference to the computation of planning materiality:
 - a) Describe the steps that should be followed by the auditor to calculate the planning materiality. **(5 marks)**
 - b) Calculate planning materiality and substantiate your calculations with reasons explaining why you used certain figures. **(10 marks)**
4. With reference to the invoicing of Hangula (working paper A1) formulate the **tests of controls** that you will perform to test the internal controls relating to invoicing. **(10 marks)**
5. Assume that the financial statement of Hangula Limited is not a going concern, but management refuse to present the 2023 financial statements on any other basis than the going concern basis, discuss the impact on the audit report for the financial year ending 30 September 2023. **(5 marks)**

THE END