NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION
DEPARTMENT OF, ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING (CHARTERED ACCOUNTANCY)	
QUALIFICATION CODE: 07 BACC	**LEVEL:** 6
COURSE CODE: AUD612S	**COURSE NAME**: AUDITING 201
SESSION: JANUARY 2025	**PAPER:** THEORY AND PRACTICAL
TOTAL DURATION: 188 MINUTES READING TIME: 25 MINUTES WRITING TIME: 163 MINUTES	**MARKS:** 125

FINAL ASSESSMENT OPPORTUNITY 2 2024 - INFORMATION	
EXAMINERS	MS G. KAFULA MS Z. STELLMACHER
MODERATOR:	M. E. CLOETE

INSTRUCTIONS

1. Answer ALL questions in blue or black ink only.
2. This paper consists of FOUR **(4)** separate questions.
3. Write clearly and neatly.
4. Start each question on a new page and number the answers clearly.
5. No programmable calculators are allowed. You may make use of an unprogrammable calculator during the assessment.
6. Questions relating to the 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.
7. Any resemblance to any people, places, organisations, or anything are purely coincidental.

THIS QUESTION PAPER CONSISTS OF 9 PAGES (Including this front page)

QUESTION 1 **20 MARKS**

Harley Limited

You are a partner at Limbo & Partners, a medium sized audit firm whose head office is situated in Johannesburg. For a number of years your firm has been the auditors of Harley Limited, a company that manufactures spare parts for motor bikes for the local and export market. The company's year-end is 31 March. Harley Limited has established strong internal controls and maintained high ethical standards over the years.

During the audit planning meeting with management to determine the scope of the audit, you were informed that ownership of the company's shares had changed and that a foreign company which is registered in Germany now holds 65% of the issued shares. The financial manager informed you that audited statements have to be available within 2 months after year-end for consolidation purposes. He realized the audit deadline is tight and provided you with proof of accounting records balanced and reconciled on a regular basis from the internal audit department. Fortunately, your audit firm is already familiar with the accounting system and came to the conclusion that an effective control environment exists with effective accounting and internal controls in place.

The following interim financial statements for the six months ended 30 September 2024 were also made available to you:

Statement of Financial Position for the 6 months ended 30 September 2024:

Land and Buildings	3 000 000
Plant	4 000 000
Current assets	2 500 000
Construction costs	591
	9 500 591
Shareholders' funds	4 000 591
Long term loan	2 500 000
Current liabilities	3 000 000
	9 500 591

The sales and profit figures were as follows:

	Actual: 6 months ended 30 Sep 2024	**Budgeted: 6 months ended 30 Sep 2024**
Sales	7 500 000	7 800 000
Net Profit	1 000 000	1 200 000

The company showed an assessed loss and did not pay any tax.

The financial manager also informed you that the company had large capital expansions in April 2024, which drastically reduced manufacturing costs. The expansion was financed through loans.

QUESTION 2 **55 MARKS**

Holiday Holdings (Pty) Ltd

You are an audit manager at JMEG Inc. (hereafter JMEG), a firm of Registered Auditors based in Johannesburg, Polokwane and Cape Town. JMEG is a widely recognized audit firm to a variety of industries including the leisure industry.

You are responsible for managing the audits of the companies in Holiday Holdings (Pty) Ltd Group and report to Ms. Violet Bvuma (Audit Partner for the group). The financial year end of all companies in the group is 31 March. All group companies have adopted *International Financial Reporting Standards (IFRS)* as their financial reporting framework. New Standards issued, but not yet effective will not be adopted before its effective date.

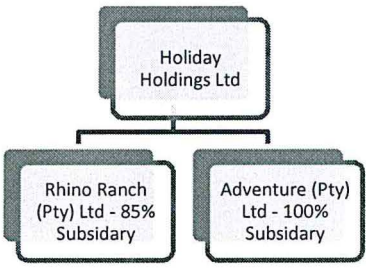
JMEG has performed the external audit of Holiday Holdings (Pty) Ltd as well as for Rhino Ranch (Pty) Ltd, and Adventure Pty Ltd, both subsidiaries of Holiday Holdings over the last 4 years.

The following documents and Workpapers are available for the different audit files:

DOCUMENT / WORKPAPER NAME	**WORKPAPER REFERENCE**
HOLIDAY HOLDINGS LTD GROUP	
Understanding the group and governance of the group	A100
Extract from minutes of the Board meeting held on 28 February 2024	B200
Property, Plant and Equipment Balance	C200
Audit matters: Various Accounts	D200

Client: Holiday Holdings Ltd Group	**Year-end:** 31/03/2024	**A100**
Prepared by: PG Jones	**Date:** 1 April 2024	
Reviewed by: DA Koza	**Date:** 9 April 2024	
Subject: Understanding the group and governance of the group		

GROUP STRUCTURE:



Holiday Holdings Ltd owns a number of holiday resorts and lodges throughout South Africa. Holiday Holdings receive rental income from Rhino Ranch (Pty) Ltd, which operates from two lodges owned by Holiday Holdings. Adventure (Pty) Ltd makes use of Holiday Holdings (Pty) Ltd.'s resorts and lodges for tours held close to these resorts and lodges.

The Board of Directors of Holiday Holdings (Pty) Ltd are as follows:

Name	Designation	Notes
Mr. Lethabo van Zyl	Chief Executive Officer	
Mr. Reneilwe Thupana CA (SA)	Chief Financial Officer	#
Mr. Eric Human	Chief Operating Officer	
Adv. Thabang Boqwana	Non-executive Chairman	
Dr. Sefako Bond	Independent Non-executive	
Prof. Ethen Britz	Independent Non-executive	**N1**
Dr. Ngaka Mkhize	Non-executive	**N2**
Prof Martinus Jacobs	Non-executive	**N3**
Adv. Lesiba Smuts	Independent Non-executive	

Notes:	
#	He also serves as the company secretary.
N1	He has been a senior lecturer of Accounting for ten years and he is the lead independent.
N2	Obtained his Medical Doctor qualification from Sefako Makgatho Health Science University.
N3	He holds 11% of the shares of Makhina Travel, one of Holiday Holdings (Pty) Ltdmaterial customers.

All executive directors have employment contracts dealing with terms of employment. All non-executive directors receive a base fee plus fees for attending meetings of the board and its sub-committees as well as travel reimbursements. The Remuneration Committee is responsible for setting and monitoring the remuneration policies of the group and approving incentive schemes. Members of the Audit Committee are Adv. Smuts (Chairperson) and Prof Britz. Members of the Remuneration Committee are Dr. Bond (Chairperson); Prof Britz and Adv. Smuts. A Risk Committee has been established as well.

Client: Holiday Holdings Ltd Group	**Year-end**: 31/03/2024	**B200**
Prepared by: PGDA Candidate	**Date**: 23/03/2024	
Reviewed by: PGDA Lecturer	**Date**: 04/04/2024	
Subject: Extract from minutes of the board meeting held on 28 February 2024		

1. Attendance and apologies

- All the directors were present.

2. Minutes of the previous meeting (31 July 2023)

- Minutes of the only other meeting held during the year were adopted as fair reflections of the events of the meeting subject to few corrections.

3. 2024 Financial Year End Planning Process

3.1. Adjusting Journal Entry at year-end

The CFO indicated that at the management meeting held during the month of February 2024, at his direction and persuasive, they agreed that an adjustment is necessary to reduce the taxable income of Rhino Ranch (Pty) Ltd which will improve the tax position of the group. In order to prevent this adjustment from being detected by either the auditors or South African Revenue Service (SARS), we will refer to the adjustment as "purchases" on the journal entry.

3.2. The management is ready for year-end and everything is in place to ensure a smooth year end closure audit process.

- Audit files are prepared with all supporting documents for the auditors.

4. Audit Committee Report

Adv. Smuts reported on the recently held audit committee meeting and the following were the highlights:

- Management indicated that the Annual Financial Statements will be finalised in time and presented to the committee for review and inputs before submission to the auditors.
- A meeting will be arranged by the auditors to present the audit strategy and budgeted audit fee to the committee for approval prior to the start of the audit.

5. Closure

Adv. Boqwana closed the meeting at 13:17pm. In his closing remarks, he thanked all members for the commitment to Holiday Holdings (Pty) Ltd and reminded them of the importance of confidentiality regarding all matters discussed during all board meetings. He further indicated that these minutes should not be shared with anyone other than the Board members. If auditors or anyone request these minutes, item 3.1 should be deleted from the minutes prior to sharing the minutes.

Client: Holiday Holdings Ltd Group	**Period end:** 31/03/2024	**C200**
Prepared by: A.Trainee	**Date:** 01/04/2024	
Reviewed by:	**Date:**	
Property, Plant and Equipment Balance		

Property, Plant and Equipment: Cost

Opening Balance		R24 000 000
Additions		R1 760 000
Disposals		(R1 230 000)
Closing balance		**R24 530 000**

Accumulated Depreciation

Opening Balance		N$ 6 476 000
Depreciation for the year		N$ 2 980 000
Closing balance		**N$ 9 456 000**

Client: Holiday Holdings Ltd Group	**Period end:** 31/03/2024	**D200**
Prepared by: A.Trainee	**Date:** 02/04/2024	
Reviewed by:	**Date:**	
Audit matters: Various Accounts		

Procedures that first-year trainee needed to complete:

1. Observe the client's count teams perform the inventory count.
2. Recalculate the total balance of debtors outstanding for longer than 120 days, to determine whether the provision for doubtful debts is reasonable.
3. Obtain confirmation letters from three of the most significant creditors to confirm whether the balance due to them agrees to the supplier age analysis.
4. Observe the sales agent access the bookings software to confirm whether a password is required.

5. Re-perform the interest received calculation, using the prime interest rate obtained from the South African Reserve Bank's website for periods throughout the financial year, to confirm whether the interest received from the loan granted to the shareholder is reasonable.

QUESTION 3 **40 MARKS**

You are the audit senior of Chumba Shoes Ltd (hereinafter "Chumba Shoes"). Chumba Shoes is a company which manufactures veld shoes and is based in Oshakati. The company has been in existence for several years but during the last few years it has received a lot of positive online attention. This was in particular due to the fact that several prominent figures in Namibia, as well as abroad applauded the fine craftmanship of Chumba Shoes.

During 2023, Chumba Shoes converted into a public company, and it also launched an online shop. According to the IT executive of the company, Mr Gaba, it was best that the company opted to develop the system for the online shop itself. He believed that off-the-shelf packages are mainly just a bunch of formulae put together and to top it all – it is expensive.

While conducting the audit, you realized that the development of the online shop and its related financial applications had major budget overruns. Mr Gaba also told you in confidence that some of the customers of Chumba Shoes were very upset as their outstanding debtors' balances were extremely high, while they did not make any purchases online. Many accused the company of dishonest dealings.

It later came to light that an intern involved in the development of the system performed test runs on live customer data.

A local Namibian celebrity, Jacky Jax, also caused quite a scene in the office of the CEO of the company. He claimed that his private phone number was leaked out onto social media and that he was now inundated with many unwanted phone calls and text messages. The only platform where he used this phone number was on the online shop of Chumba Shoes. The only valid explanation that the CEO could think of at the time was that hackers infiltrated the website of the company and in particular the customer database to obtain private information of customers.

The leaking of Jacky Jax's number went viral and thousands of negative comments were posted on the Facebook page of Chumba Shoes. The negative publicity led to the share price of Chumba Shoes plummeting and major investors withdrawing from the company.

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QUESTION 4 **10 MARKS**

You are the audit manager at ABC Audit Firm. The audit firm has recently taken on a new audit client, Blu's Bulldozers (Pty) Ltd (hereinafter "Blu"). Blu manufactures bulldozers in Ondangwa and has been in operation for the past twelve years.

The manufacturing process of the bulldozers is subjected to stringent standards and Blu prides itself in compliance to the requirements of the International Organization for Standardisation (ISO). The company has won several international awards and has a highly competent staff compliment. ABC Audit Firm does not have the skills to value the inventory of Blu at this stage

Although all preliminary engagement procedures were finalized, the engagement letter was not yet drawn up. The designated audit partner has requested that you compile the engagement letter. The year-end of Blu's is 30 June and the audit will commence on 31 July 2025. The firm does not have an internal audit department.

END OF INFORMATION