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: 07BACC	**LEVEL:** 7
COURSE CODE: AUD701Y/ADA701Y	**COURSE NAME:** AUDITING 300
SESSION: 13 OCTOBER 2025	**PAPER:** THEORY AND PRACTICAL
DURATION: 180 MINUTES	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS	MS M CLOETE
INTERNAL MODERATOR:	MS A GUSTAV
EXTERNAL MODERATOR:	MS E GROBBELAAR

INSTRUCTIONS:

1. This paper consists of **NINE** pages (including this cover page). If your paper does not contain all the pages, please put up your hand so that a replacement paper can be handed to you.
2. This paper consists of TWO questions.
3. Answer all the questions in blue or black ink only.
4. Each question should be answered on a separate page.
5. 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.
6. Permissible materials include stationery and a non-programmable calculator only.
7. The neatness, disclosure and presentation of your answers will be considered when marking your paper.
8. The scenarios presented are fictitious and any similarities, real or imagined, to real events, people, places, organisations are purely coincidental and should be interpreted as such.

QUESTION 1 **(68 MARKS)**

You are a member of the audit team, currently engaged on the audit of Spotless (Pty) Ltd (hereafter referred to as Spotless). Spotless is a manufacturing company that specializes in the production of all goods relating to personal care and hygiene. The company has a 30 June financial year end.

Background information

Spotless operates from a huge warehouse, situated in Northern Industry in Windhoek, with a factory situated right next to the warehouse. The factory allows the company to manufacture its products seamlessly, while the warehouse serves as a storage facility for raw materials, work-in-progress and finished goods, as well as a serves as the store outlet for customers.

Spotless' products include items such as soap, toothpaste, hand soap, shampoo, facecloths, cotton buds, and many more hygienic goods. Some of the hygienic products it sells, such as specific scented soaps and shampoos are imported from Europe, due to the quality of ingredients used in these products. Due to the wide range of hygiene items it sells, Spotless has a customer base that entails both corporate entities and personal homes. Corporate companies can place bulk orders in advance.

The company was established in 2011, and due to the Covid pandemic, there was a huge increase in the demand for its products. This surge resulted in the company performing well for the pandemic period, but simultaneously lead to many other hygiene companies entering the market to tap into the worldwide pandemic and its impact on preventing the spread of Covid. Since Covid, many of the competitors have remained in the market, and this saturation has led to Spotless's financial performance deteriorating. As a result of this weakened performance, Spotless had to take out a loan from Medium Bank during February 2025. Additionally, the new market entrants have introduced various hygiene products that cater to the younger Gen Z's, whereas the product base of Spotless has remained similar since its inception.

The company has a sound internal control process, however, management is anxious that the company's financial situation be presented as favorably as possible.

The following working papers have been prepared by the audit team:

Woking paper reference	Working paper description
MP100	Understanding the inventory balance
ST200	Future of the company operations

Client: Spotless (Pty) Ltd	Period end: 30 June 2025	MP100
Prepared by: A. Trainee	Date: 15 July 2025	
Reviewed by:	Date:	
Understanding the inventory balance		

The company uses a computerized perpetual inventory system which is well-maintained, and physical controls over inventory is considered efficient. Most products are maintained in their original packaging after being manufactured, except for items that require to be displayed. The warehouse is designed in an orderly manner, with inventory being designated according to its nature e.g. soaps on one end, shampoos on another etc. Material amounts of inventory are always held on hand.

As with all manufacturing products, inventory does sometimes get damaged, and there are always items which do not sell as well as would be expected. The company also holds very specialized Gilette razors on consignment for Gilette Ltd. These are the only razors that Spotless sells.

The inventory in the warehouse is considered secured and is distributed to the manufacturing factory to meet production requirements as needed. The audit team is satisfied that there are sound physical security measures in place to prevent unauthorized personnel and vehicles from gaining access to the warehouse. Management has established policies and procedures for storing and handling of inventory, which have been communicated to warehouse employees.

The purchasing, goods receiving, inventory custody, sales and accounting functions of Spotless are segregated. The management of Spotless has confirmed that the following key controls are in place over the inventory receiving, custody and delivery functions at the warehouse, and that there have been no changes since the prior year:

Goods receiving area

1. Copies of purchase orders are filed in delivery date order which ensures that receiving department personnel are made aware of all expected deliveries.
2. Staff in the receiving department prepare and sign goods received notes on which they record the supplier, date received and the actual quantity and condition of each item received.
3. Goods received notes are matched (specification and quantity) to purchase orders by the staff in the receiving department. Differences identified between goods received and goods ordered are reported to the purchasing department and management.

Inventory custody area

1. Inventory is subject to periodic physical counts and adjustments as a result of the counts (quantities and amounts) are reviewed and approved by an appropriate member of management. These inventory counts are undertaken in a systematic manner, using pre-numbered count sheets which are completed in ink and signed by the counter on completion.

Despatch area (despatch of materials from the warehouse to the manufacturing factory)

1. Customer order documents are pre-numbered and missing documents are investigated on a timely basis.
2. The specification and quantity of materials transferred to the despatch area are compared with an authorised customer order and related delivery documents.

Maintenance of standing data

1. Changes made to inventory master files are approved, prior to input, by an appropriate level of management. Pre-printed sequence numbers are used on standing data input forms and checks are performed to ensure that all numbers are accounted for.

Physical inventory discrepancies

The internal audit function of Spotless recently conducted a surprise visit to the warehouse to perform audit testing. Their work included compliance testing of documented controls and the performance of cyclical physical inventory verification procedures. The performance of these procedures led to the detection of a significant variance between the physical inventory of certain small high value materials and the inventory records. The value of the missing inventory represents a potential material loss to Spotless.

Client: Spotless (Pty) Ltd	Period end: 30 June 2025	ST200
Prepared by: A. Trainee	Date: 30 July 2025	
Reviewed by:	Date:	
Future of the company operations		

Based on the audit procedures performed throughout the audit, as well as the draft financial statements for the financial year 30 June 2025, Spotless has become factually insolvent. Upon further discussion with management, the entity has various plans in place to ensure the continuance of the company. They specifically have the following plans in place:

Plan 1:

The company has taken out a N$2.5million loan from Medium Bank during February 2025. Part of the terms of the loan is that Spotless needs to meet certain loan covenants, and certain inventory has also been pledged as security.

Plan 2:

Cash flow forecasts were prepared for the 2026 financial year end by management and are available to the auditors. More inflows are expected from operations, with less operational outflows:

Cash flow forecast for the 2026 financial year Prepared by the Financial Manager	**N$**
Opening cash balance	-987 323
Plus: Cash inflows operational	10 965 700
Minus: Cash outflows operational	-8 579 430
Closing cash balance	1 398 947

Management states that they are confident the above 2 plans will resolve their cash flow problems until they return to a net asset position.

QUESTION 1

<table>
<tr><th colspan="2">TO BE ANSWERED ON A SEPARATE PAGE</th><th></th></tr>
<tr><td colspan="2">YOU ARE REQUIRED TO:</td><td>MARKS</td></tr>
<tr><td>(a)</td><td>With reference to the background information and working paper MP100, discuss the risk of material misstatement at the assertion level for the inventory balance of Spotless (Pty) Ltd at 30 June 2025.</td><td>(12)</td></tr>
<tr><td>(b)</td><td>With reference to working paper MP100, describe the substantive audit procedures you would perform to address the following assertions relating to the inventory balance of Spotless (Pty) Ltd at 30 June 2025:

i) Rights (of ownership)
ii) Valuation and allocation
No marks awarded for general procedures.</td><td>

(4)
(15)</td></tr>
<tr><td>(c)</td><td>With reference to working paper MP100, identify the internal controls which address the existence of inventory. For each control identified, describe the test of control you would perform to test it. You may present your answer in a tabular format.

<table><tr><th>Internal control over existence (4 marks – 0.5 mark per control)</th><th>Test of control (8 marks)</th></tr><tr><td></td><td></td></tr></table></td><td>(12)</td></tr>
<tr><td>(d)</td><td>Based on the background information, identify the various business risks that Spotless faces by discussing the risk type, description and any mitigating factors it can undertake to address them. You may present your answer in a tabular format.

<table><tr><th>Risk type</th><th>Risk description</th><th>Mitigating response</th></tr><tr><td></td><td></td><td></td></tr></table></td><td>(15

(1)</td></tr>
<tr><td>(e)</td><td>Describe the 3 audit procedures that the auditor must conduct to address management override of controls, regardless of the risk assessment.</td><td>(3)</td></tr>
<tr><td>(f)</td><td>With reference to working paper ST200, describe the audit procedures you will perform on the cash-flow projection drafted by management.</td><td>(6)</td></tr>
<tr><td colspan="2">TOTAL MARKS: QUESTION 1</td><td>(68)</td></tr>
</table>

QUESTION 2 **(32 MARKS)**

You are on the audit team of Gondwana Holdings Limited (hereafter referred to as Gondwana). Gondwana is the holding company of a group of companies which holds various lodges and hotels across South Africa (SA). The group prides itself in providing lodges to various income classes, ranging from low to high income earners. They believe their lodges "*provide a home for everyone*." The company has a 31 December financial year end.

Gondwana has 2 wholly owned subsidiaries, which operate and manage the groups lodges in the provinces of South Africa, specifically:

- Garden Routes (Pty) Ltd (which manages the lodges on the west of SA)
- Adventures (Pty) Ltd (which manages on the lodges on the east of SA)

Gondwana was founded 13 years ago, by Mr. Kavesan Pillay, who loved to travel to the various landscapes of SA. The company was listed on the Johannesburg Stock Exchange (JSE) in 2019. Immediately prior to listing, Mr. Pillay retired as the Chief Executive Officer (CEO) and became the non-executive chairman of Gondwana.

The current directors of Gondwana are as follows:

- Mr. Kavesan Pillay: Non-executive chairman
- Mrs. Taylor Swift: Chief Executive Officer
- Mr. Joe Jonas CA (SA): Financial Director
- Mr. Troy Bolton: Operations Director
- Mr. Zac Efron: Independent non-executive director
- Mr. Carlos Montez Independent non-executive director
- Ms. Vanessa Hudgens Independent non-executive director

Non-executive directors receive directors' fees plus fees for attending meetings of the board of directors and its sub-committees. The Remuneration Committee is responsible for setting the remuneration policies for the group. The members of the Remuneration Committee are Mr. Efron (chairman), Mr. Pillay and Ms. Hudgens. Gondwana also has an Audit Committee consisting of Mr. Montez (chairman) and Ms. Hudgens. A Risk committee has also been established. No other committees are formed.

Expected new venture:

The Gondwana group performed well for the 2024 financial year end, with more tourists visiting SA due to the weakening of the Rand. After visiting Europe and doing some research on the hospitality industry, Mr. Joe Jonas learnt that having a tour bus operator that takes tourists from the lodges to various tourist attractions in SA would be very successful.

Joe Jonas therefore prepared a business proposal which was approved by the directors of Gondwana:

- Gondwana will enter into an agreement with Luxury Travels (Pty) Ltd ("Lux Travels"), a tour bus company wholly owned by Demi Jonas, Joe's wife. Lux Travels will sell an all-inclusive 4 day package for R20 000 per person, which entails accommodation at Gondwana lodges, all meals and drinks, as well as transport and entrance fees paid for famous landmarks across the western or eastern regions. This set price is much lower than the cost that Gondwana usually charges its customers.

- Lux Travels will charge Gondwana a management fee of 5% for the 4-day package administration they will do, such as bookings and invoicing.

The terms of this business venture were unanimously approved at a directors meeting on 15 December 2024 at which all the directors were present, for implementation early in 2025. Joe simply presented the proposal, answered a few questions and also voted in favour as part of the proposal.

The following minutes of meeting of the board of directors were provided to you:

MINUTES OF THE BOARD MEETING HELD ON 17 MARCH 2025

Present:

- Mr Kavesan Pillay
- Mrs. Taylor Swift
- Mr. Joe Jonas CA (SA)
- Mr. Troy Bolton
- Mr. Zac Efron
- Mr. Carlos Montez

Other attendees:

- Mr. Nick Cyrus (company secretary)

Apologies:

- Ms. Vanessa Hudgens

Approval of the minutes of the previous meeting – 15 December 2024
The minutes of the meeting held on 15 December 2024 were approved subject to a few editorial corrections.

Election of board chairman
Mr Pillay indicated his intention to step down as chairman, due to his age and he would love to have more time with his family. Mr. Pillay will, however, remain on the board as a non-executive director which requires less time commitment. He proposed that, in line with the company's track record of success due to tight family control, his daughter, Taylor Swift (previously Taylor Pillay), succeed him as chairman. It was further resolved that no big fuss would be made regarding the appointment, and that except for a JSE SENS announcement, no further publicity would be given to the matter.

The next meeting is scheduled for 15 June 2025.

QUESTION 2

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		**MARKS**
(a)	Discuss whether the board of directors of Gondwana Holdings Ltd complied with the King IV recommended practices, regarding the appointment of Mrs. Taylor Swift as chairman. AND Discuss how you as the auditor would respond to the appointment. Ignore any requirements in terms of the APA and CPC.	(3) (5)
(b)	Discuss any ethical, King IV and statutory concerns arising from Gondwana entering into the new business venture with Lux Travels, as presented to and approved by the board of directors of Gondwana Holdings Ltd.	(15)
(c)	Describe the audit procedures you would perform to ensure the completeness of managements identification of related parties and transactions within the Gondwana Holdings Ltd group.	(7)
TOTAL MARKS: QUESTION 2		**(30)**
Communication and presentation *(Source: Adapted from Applied Questions on Auditing – Barnard, Marx, van der Watt; Graded Questions on Auditing 2023 (Richard, Roets, Adams, Jonock, West)*		**(2)**
TOTAL MARKS FINAL ASSESSMENT OPPORTUNITY 1		**100**

<<END OF EXAMINATION PAPER>>