



NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMIC, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING (HONOURS)	
QUALIFICATION CODE: 08BOAH	LEVEL: 8
COURSE CODE: AUD812S	COURSE NAME: ADVANCED AUDITING
SESSION: NOVEMBER 2025	PAPER: THEORY AND APPLICATION
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS
1. Answer all questions. 2. Read all the questions carefully before answering. 3. Make sure your name and surname, question number and the date appears on the answer script. 4. Please ensure that your writing is legible, neat and presentable.

THIS QUESTION PAPER CONSISTS OF 6 PAGES (Including this front page)

Question 1

(25 marks)

You are an audit supervisor of your firm and are planning the audit of your client, Spotless Co which manufactures cleaning products. Its year-end was 31 July 2024 and the draft profit before tax is \$33.6 million.

You are supervising a large audit team for the first time and will have specific responsibility for supervising and reviewing the work of the audit assistants in your team.

Spotless Co purchases most of its raw materials from suppliers in Africa and these goods are shipped directly to the company's warehouse and the goods are usually in transit for up to three weeks. The company has incurred \$1.3 million expenditure on developing a new range of cleaning products which are due to be launched into the market place in November 2024. In September 2023, Spotless Co also invested \$0.9 million in a complex piece of plant and machinery as part of the development process. The full amount has been capitalised and this cost includes the purchase price, installation costs and training costs.

This year, the bonus scheme for senior management and directors has been changed so that rather than focusing on profits, it is instead based on the value of year-end total assets. In previous years an allowance for receivables, made up of specific balances, which equaled almost 1% of trade receivables was maintained. However, the finance director feels that this is excessive and unnecessary and has therefore not included it for 2024 and has credited the opening balance to the profit or loss account.

A new general ledger system was introduced in May 2024; the finance director has stated that the data was transferred and the old and new systems were run in parallel until the end of August 2024. As a result of the additional workload on the finance team, a number of control account reconciliations were not completed as at 31 July 2024, including the bank reconciliation. The finance director is comfortable with this as these reconciliations were completed successfully for both June and August 2024. In addition, the year-end close down of the payables ledger was undertaken on 8 August 2024.

Required:

- a) Describe SEVEN audit risks, and explain the auditor's response to each risk, in planning the audit of Spotless Co. (21)

Note: Prepare your answer using two columns headed Audit risk and Auditor's response respectively

- b) In line with ISA 220 Quality Control for an Audit of Financial Statements, describe the audit supervisor's responsibilities in relation to supervising and reviewing the audit assistants' work during the audit of Spotless Co. (4)

Question 2

(25 marks)

Harolds Co is a manufacturer of footballs and is a new audit client for your firm. You are an audit supervisor of Dee & Co and are currently preparing for the forthcoming interim and final audit for the year ending 31 October 2025.

You are required to document and assess the sales system, recommend control improvements to deal with a specific fraud issue as well as undertake substantive testing of revenue.

Sales ordering, goods dispatched and invoicing

Harolds Co sells footballs to a range of large and small sports equipment retailers in several countries. Sales are made through a network of sales staff employed by Harolds Co, but new customer leads are generated through a third-party company. Sales staff are responsible for assessing new customers' creditworthiness and proposing a credit limit which is then authorised by the sales director.

The sales staff have monthly sales targets and are able to use their discretion in granting sales discounts up to a maximum of 10%. They then record any discount granted in the customer master data file. The sales staff visit customer sites personally and orders are completed using a two-part pre-printed order form. One copy is left with the customer and the other copy is retained by the sales person. The sales order number is based on the sales person's own identification (ID) number.

The company markets itself on being able to despatch all orders within three working days. Once the order is taken, the sales person emails the finance department and warehouse despatch team with the customer ID and the sales order details and from this a pick list is generated.

Sequentially numbered goods dispatched notes are completed and filed in the warehouse. Sequentially numbered invoices are generated using the pick lists for quantities and the customer master data file for prices. Standard credit terms for customers are 30 days and on a monthly basis sales invoice which are over 90 days outstanding are notified to the relevant sales person to chase payment directly with the customer.

Payroll fraud

The finance director, Mark Turkey, has informed you that a significant fraud took place during the year in the payroll department. A number of fictitious employees were set up on the payroll and wages were paid into one bank account. This bank account belonged to two supervisors, who were married, and were employed by Harolds Co. One had sole responsibility for setting up new joiners in the payroll system and the other processed and authorised bank transfer requests for wages and supplier payments. These employees no longer work for the company and Montse has asked the audit firm for recommendations on how to improve controls in this area to prevent this type of fraud occurring again. Harolds Cooperates a Human Resources department

Required:

- a) Identify and explain SEVEN deficiencies in the sales system of Harolds Co and provide a recommendation to address each of these deficiencies.
Note: Prepare your answer using two columns headed Control deficiency and Control recommendation respectively. (14 marks)
- b) In relation to the payroll fraud, identify and explain THREE controls Harolds Co should implement to reduce the risk of this type of fraud occurring again and, for each control, describe how it would mitigate the risk. (6 marks)
- c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Harolds Co's revenue. (5 marks)

Question 3

(25 marks)

You are the audit manager of Garlant & Co and you are planning the audit of Bee Financials Co (Bee), who specialise in the provision of loans and financial advice to individuals and companies. Garlant & Co has audited Bee for many years.

The directors are planning to list Bee on a stock exchange within the next few months and have asked if the engagement partner can attend the meetings with potential investors. In addition, as the finance director of Bee is likely to be quite busy with the listing, he has asked if Garlant & Co can produce the financial statements for the current year.

During the year, the assistant finance director of Bee left and joined Garlant & Co as a partner. It has been suggested that due to his familiarity with Bee, he should be appointed to provide an independent partner review for the audit.

Once Bee obtains its stock exchange listing it will require several assignments to be undertaken, for example, obtaining advice about corporate governance best practice. Garland & Co is very keen to be appointed to these engagements, however, Bee has implied that in order to gain this work Garland & Co needs to complete the external audit quickly and with minimal questions/issues.

The finance director has informed you that once the stock exchange listing has been completed, he would like the engagement team to attend a weekend away at a luxury hotel with his team, as a thank you for all their hard work. In addition, he has offered a senior member of the engagement team a short-term loan at a significantly reduced interest rate.

Required:

- a) What is “independence” in auditing? (4)
- b) Identify and explain SEVEN ethical threats which may affect the independence of Garland & Co’s audit of Bee Financials Co, and (7)
- c) For each threat, suggest a safeguard to reduce the risk to an acceptable level. (14)

Note: Prepare your answer using two columns headed Ethical threat and Possible Safeguard respectively.

Question 4

(25 marks)

Peterson Industries Co (Peterson) develops and manufactures a wide range of fast moving consumer goods. The company’s year-end is 31 December 2025 and the forecast profit before tax is \$8.3 million. You are the audit manager of Neptune & Co and the year- end audit is due to commence in January. The following information has been gathered during the planning process:

Inventory count

Peterson’s raw materials and finished goods inventory are stored in 12 warehouses across the country. Each of these warehouses is expected to contain material levels of inventory at the year-end. It is expected that there will be no significant work in progress held at any of the sites. Each count will be supervised by a member of Peterson’s internal audit department and the counts will all take place on 31 December, when all movements of goods in and out of the warehouses will cease.

Research and development

Peterson spends over \$2 million annually on developing new product lines. This year it incurred expenditure on five projects, all of which are at different stages of development. Once they meet the recognition criteria under IAS 38 Intangible Assets for development expenditure, Peterson includes the costs incurred within intangible assets. Once production commences, the intangible assets are amortised on a straight line basis over five years

Required:

- a) Explain FIVE factors which influence the reliability of audit evidence. (5)
- b) Describe the procedures to be undertaken by the auditor BEFORE and DURING the inventory count of Peterson Industries Co in order to gain sufficient appropriate audit evidence. (10)
- c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Peterson Co's research and development expenditure. (5)

During the audit, the team discovers that one of the five development projects, valued at \$980,000 and included within intangible assets, does not meet the criteria for capitalisation. The finance director does not intend to change the accounting treatment adopted as she considers this an immaterial amount.

Required:

- d) Discuss the issue and describe the impact on the auditor's report, if any, if the issue remains unresolved. (5)

THE END