



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

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

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	LEVEL: 7
COURSE CODE: GAU711S	COURSE NAME: AUDITING 310
SESSION: JUNE 2025	PAPER: THEORY AND APPLICATION
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS:	P. ERKIE, K. TJONDU AND Y. TJEJAMBA
MODERATOR:	A. NANGOLO

<p style="text-align: center;">INSTRUCTIONS</p> <ul style="list-style-type: none">• This question paper is made up of FOUR (4) questions.• Start each question on a new page and show all your workings.• Answer All the questions and in blue or black ink.• You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.• 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 and any assumption made by the candidate should be clearly stated.

PERMISSIBLE MATERIALS

Non-programmable calculator/financial calculator

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

Question 1**(30 marks)**

You are the audit supervisor of Kudu & Co and are currently planning the audit of an existing client, Kemetic Science Co (Kemetic), whose year-end was 30 April 2023. Kemetic is a pharmaceutical company, which manufactures and supplies a wide range of medical supplies. The draft financial statements show revenue of N\$35.6 million and profit before tax of N\$5.9 million.

Kemetic's previous finance director left the company in December 2024 after it was discovered that he had been claiming fraudulent expenses from the company for a significant period of time. A new finance director was appointed in January 2025 who was previously a financial controller of a bank, and she has expressed surprise that Kudu & Co had not uncovered the fraud during last year's audit.

During the year Kemetic has spent N\$1.8 million on developing several new products. These projects are at different stages of development and the draft financial statements show the full amount of N\$1.8 million within intangible assets. In order to fund this development, N\$2.0 million was borrowed from the bank and is due for repayment over a ten-year period. The bank has attached minimum profit targets as part of the loan covenants.

The new finance director has informed the audit partner that since the year-end there has been an increased number of sales returns and that in the month of May over N\$0.5 million of goods sold in April were returned.

Kudu & Co attended the year-end inventory count at Kemetic's warehouse. The auditor present raised concerns that during the count there were movements of goods in and out the warehouse and this process did not seem well controlled.

During the year, a review of plant and equipment in the factory was undertaken and surplus plant was sold, resulting in a profit on disposal of N\$210,000.

Required:

(a) State Kudu & Co's responsibilities in relation to the prevention and detection of fraud and error. **(5 marks)**

(b) Describe EIGHT audit risks, and explain the auditor's response to each risk, in planning the audit of Kemetic Science Co. **(16 marks)**

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

(c) Explain the quality control procedures that Kudu & Co should have in place during the engagement performance. **(5 marks)**

(d) Kemetic's new finance director has read about review engagements and is interested in the possibility of Kudu & Co undertaking these in the future. However, she is unsure how these engagements differ from an external audit and how much assurance would be gained from this type of engagement.

Required:

(i) Explain the purpose of review engagements and how these differ from external audits;
and **(2 marks)**

(ii) Describe the level of assurance provided by external audits and review engagements.
(2 mark)

Question 2 **(30 marks)**

(a) Auditors are required to document a company's accounting and internal control systems as part of their audit process. Two methods available for documenting internal control systems are narrative notes and questionnaires.

Required: For each of the two methods, NARRATIVE NOTES and QUESTIONNAIRES:

(i) Describe the method for documenting internal control systems; and

(ii) Explain an ADVANTAGE of using this method.

Note: The total marks will be split equally between each part. **(4 marks)**

(b) Hapuka Co is a company listed on a stock exchange. It manufactures furniture which it supplies to a wide range of retailers across the region. The company has an internal audit (IA) department and the company's year end is 30 June 2023. You are an audit supervisor with Orisha & Co, preparing the draft audit programmes and reviewing extracts from the internal controls documentation in preparation for the interim audit.

Sales

Hapuka Co generates revenue through visits by its sales staff to customers' premises. Sales ledger clerks, who work at head office, carry out credit checks on new customers prior to being accepted and then set their credit limits. Sales staff visit retail customers' sites personally and orders are completed using a four-part pre-printed order form. One copy is left with the customer, a second copy is returned to the sales ordering department, the third is sent to the warehouse and the fourth to the finance department at head office. Each sales order number is based on the sales person's own identification number in order to facilitate monitoring of sales staff performance.

Retail customers are given payment terms of 30 days and most customers choose to pay their invoices by bank transfer. Each day Lily Shah, a finance clerk, posts the bank transfer receipts from the bank statements to the cash book and updates the sales ledger. On a monthly basis, she performs the bank reconciliation.

Purchases and inventory

Receipts of raw materials and goods from suppliers are processed by the warehouse team at head office, who agree the delivery to the purchase order, check the quantity and quality of goods and complete a sequentially numbered goods received note (GRN). The GRNs are sent to the finance department daily. On receipt of the purchase invoice from the supplier, Camilla Brown, the purchase ledger clerk, matches it to the GRN and order and the three documents are sent for authorisation by the appropriate individual. Once authorised, the purchase invoices are logged into the purchase ledger by Camilla, who utilises document count controls to ensure the correct number of invoices has been input. The company values its inventory using standard costs, both for internal management reporting and for inclusion in the year-end financial statements. The basis of the standard costs was reviewed approximately 18 months ago.

Payroll

Hapuka Co employs a mixture of factory staff, who work a standard shift of eight hours a day, and administration and sales staff who are salaried. All staff are paid monthly by bank transfer. Occasionally, overtime is required of factory staff. Where this occurs, details of overtime worked per employee is collated and submitted to the payroll department by a production clerk. The payroll department pays this overtime in the month it occurs. At the end of each quarter, the company's payroll department sends overtime reports which detail the amount of overtime worked to the production director for their review.

Hapuka Co's payroll package produces a list of payments per employee which links into the bank system to produce a list of automatic bank transfer payments. The finance director reviews the total to be paid on the list of automatic payments and compares this to the total payroll amount to be paid for the month per the payroll records. If any issues arise, then the automatic bank transfer can be manually changed by the finance director.

Required:

(b) In respect of the internal controls of Hapuka Co:

(i) Identify and explain SIX deficiencies

(ii) Recommend a control to address each of these deficiencies, and

(iii) Describe a TEST OF CONTROL the external auditors should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency.

Note: Prepare your answer using three columns headed Control deficiency, Control recommendation and Test of control respectively. The total marks will be split equally between each part. **(18 marks)**

(c) Define value for money, and name and explain the 3Es of Value for Money. **(8 marks)**

Question 3

(20 marks)

Damaseb Co manufactures chemical compounds using a continuous production process. Its year-end was 31 July 2024 and the draft profit before tax is N\$13.6 million. You are the audit supervisor and the year-end audit is due to commence shortly. The following matters have been brought to your attention.

Revaluation of property, plant and equipment (PPE)

At the beginning of the year, management undertook an extensive review of Damaseb Co's non-current asset valuations and as a result decided to update the carrying value of all PPE. The finance director, Peter Dullman, contacted his brother, Martin, who is a valuer and requested that Martin's firm undertake the valuation, which took place in August 2023.

Inventory valuation

Your firm attended the year-end inventory count for Damaseb Co and ascertained that the process for recording work in progress (WIP) and finished goods was acceptable. Both WIP and finished goods are material to the financial statements and the quantity and stage of completion of all ongoing production was recorded accurately during the count. During the inventory count, the count supervisor noted that a consignment of finished goods, compound E243, with a value of N\$720,000, was defective in that the chemical mix was incorrect. The finance director believes that compound E243 can still be sold at a discounted sum of N\$400,000.

Bank loan

Damaseb Co secured a bank loan of N\$2.6 million on 1 October 2023. Repayments of N\$200,000 are due quarterly, with a lump sum of N\$800,000 due for repayment in January 2025. The company met all loan payments in 2023 on time, but was late in paying the April and July 2024 repayments.

Required:

(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the revaluation of Damaseb Co's property, plant and equipment. **(5 marks)**

(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the VALUATION of Damaseb Co's inventory.

(6 marks)

(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Damaseb Co's bank loan.

(4 marks)

(d) Describe the procedures which the auditor of Damaseb Co should perform in assessing whether or not the company is a going concern.

(5 marks)

Question 4

(20 marks)

Dynamic Co provides scientific services to a wide range of clients. Typical assignments range from testing food for illegal additives to providing forensic analysis on items used to commit crimes to assist law enforcement officers.

The annual audit is nearly complete. As audit senior you have reported to the engagement partner that Dynamic Co is having some financial difficulties. Income has fallen due to the adverse effect of two high-profile court cases, following which a number of clients withdrew their contracts with Dynamic Co. A senior employee then left Dynamic Co, stating lack of investment in new analysis machines was increasing the risk of incorrect information being provided by the company. A cash flow forecast prepared internally shows Dynamic Co requiring significant additional cash within the next 12 months to maintain even the current level of services.

Required:

(a) Define 'going concern' and discuss the auditor's and directors' responsibilities in respect of going concern.

(5 marks)

(b) State the audit procedures that may be carried out to try to determine whether or not Dynamic Co is a going concern.

(10 marks)

(c) Explain the audit procedures and actions the auditor may take where the auditor has decided that Dynamic Co is unlikely to be a going concern.

(5 marks)

THE END