



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

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

| | |
|---|-------------------------------|
| QUALIFICATION : BACHELOR OF ACCOUNTING | |
| QUALIFICATION CODE: 07 BOAC | LEVEL: 6 |
| COURSE: AUDITING 202 | COURSE CODE: AUT 621S |
| DATE: NOVEMBER 2023 | SESSION: NOVEMBER 2023 |
| DURATION: 3 HRS | MARKS: 100 |

| | |
|---|--|
| FIRST OPPORTUNITY EXAMINATION QUESTION PAPER | |
| EXAMINER(S) | Kamotho, D.W., Hainghumbi, H.T. P |
| MODERATOR: | Ms W Gertze |

THIS QUESTION PAPER CONSISTS OF _6_ PAGES (including this front page)

INSTRUCTIONS

1. Answer all the questions in blue or black ink
2. Start each question on a new page in your answer booklet & show all your workings
3. Questions relating to this examination 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.

PERMISSIBLE MATERIALS

1. Nonprogrammable scientific or financial calculator

Question 1

(25 Marks)

Miggy (Pty) Ltd (hereafter “Miggy”), a local distributor of confectionaries, has asked your accounting firm to evaluate their system of internal controls. The CEO of Miggy explained the current system of internal controls to your colleague. Your colleague has since been promoted to a senior position; therefore, she has passed on the information below to you. You are expected to generate recommendations for the partner at your accounting firm to share with the CEO of Miggy.

Since Miggy is a relatively medium-sized organization, they have a lot of faith in their long-term employees. They have one accountant who takes care of all accounting and administration matters which streamlines many of their processes. For example, in this dual role, he purchases all of the supplies and pays for these purchases. He also receives the cheques from customers and completes the monthly bank reconciliation.

The accountant is so busy that the company handles various functions a bit differently. Petty cash is one such function. All employees have access to the petty cash in a desk drawer and are asked to only place a note if they use any of the cash. Wages/salaries payouts is another such function. On payday, the salary cheques are picked up by the accountant and left in his office for employees to collect. Due to the accountant’s busy schedule, employees are welcome to help themselves by collecting their cheques. However, before he leaves for the weekend, he will move the cheques into a safe in his office.

The CEO is still quite embarrassed because he had to fire one of his employees for visiting illegal websites on a company computer. He later found out this individual was a convicted offender who served prison time for molesting children. The company had a hard time getting the employee to admit it was him because the company does not assign individual passwords to access the computer.

The CEO expressed his frustration because both he and the accountant interviewed and approved all of the new hires in the company.

REQUIRED:

Based on the above information:

- a) Define Internal control. (3 marks)

- b) Based on the description of the system of internal controls provided, identify any six (6) control weaknesses in Miggy's internal control system. (6 marks)

- c) For each control weakness identified, recommend to the CEO what the company can do to improve those controls. (6 marks)

- d) The CEO wants to understand the components of internal control. List and briefly discuss the five (5) components that make a good internal control system. (10 marks)

[Total: 25 Marks]

Question 2

(25 marks)

Karibu Ltd, a large manufacturing company listed on the Namibia Stock Exchange (NSX), wishes to appoint a number of non-executive directors to their Board. In doing so, they wish to comply with the recommendations of the Namcode on Corporate Governance. The existing Board is made up as follows:

| | |
|--------------------------------------|-----------------------|
| | |
| Chairman and Chief Executive Officer | John Capricon(54) |
| Financial Director | Ruddy Hinanifa (50) |
| Production Director | Zabron Mateta (46) |
| Sales and Marketing Director | Jerry Sakwa (44) |
| Operations Director | Chris Wood (45) |
| Non-executive Director | Davy Du Plessis* (52) |

*Davy Du Plessis represents his uncle Bill Du Plessis who has a 28% shareholding in Karibu Ltd. Bill Du Plessis has the largest single holding in Karibu Ltd. The number in bracket indicate the respective age.

The following individuals are being considered for appointment:

| | |
|-----------------------|---|
| Moses Mudavadi | prominent local businessman who is active in community projects. |
| Cathy Du Plessis (55) | a recently retired engineer who had on the odd occasion been consulted by Karibu Ltd. |
| Jonny Hinanifa (30) | a chartered accountant and son of Ruddy Hinanifa |
| Elvis Brown (45) | a partner in Karibu Ltd.'s audit firm (not the designated partner responsible for the audit of Karibu Ltd). |
| Peter Ondeng (48) | the company's legal adviser since the company's inception |
| Rassy Daddy (49) | a consultant in Karibu Ltd.'s line of business, who has no business relationship with Karibu Ltd. |
| Titus Veyele (60) | a businessman and chairman of the local Chamber of Commerce. |
| Reonald Koopers (50) | the owner of a small business which supplies Karibu Ltd with a number of components used in their manufacturing process. Reonald Koopers's business is one of ten such small businesses which supply Karibu Ltd as a part of the company's social and business development initiatives. Karibu Ltd is his major customer. |
| Maria Mathews (61) | the recently retired senior public relations manager at Karibu Ltd. This is a senior executive role. |

John Capricon has asked you to advise him on "what should be done to get our Board right".

REQUIRED:

- (a) Comment on the composition of the existing Board of Karibu Ltd in terms of the recommendations of the Namcode code of corporate governance.
(5 marks)
- (b) Advise John Capricon on how the board of directors of Karibu Ltd should be reconstituted to satisfy the recommendations of the Namcode . Your answer should indicate inter alia, which of the individuals being considered, should be appointed, where applicable. Justify your inclusion/exclusion of each individual.
(20 marks)

[Total: 25 Marks]

Question 3

25 Marks

You are about to begin the audit of one of your larger clients, Mama Kambo Ltd (hereafter "MK"). MK is a long-established wholesale distributor of dairy produce and operates out of three countries: South Africa, Botswana and Namibia. In each country, the company has a distribution refrigeration warehouse, and it also operates a centralised office in South Africa for purchasing and accounting functions. As part of the audit, you must carry out a detailed examination of the transactions of MK, including its internal controls components.

MK's internal controls consist of the following components:

- Control environment
- Risk assessment process
- Information system, including processes relevant to financial reporting and communication
- Control activities
- Monitoring of controls.

REQUIRED:

- a) Discuss what is meant by the term 'control environment'. (2 marks)
- b) Why is it important for the auditor to obtain an understanding of a client company and its environment, including the company's internal controls? (7 marks)
- c) Outline THREE key factors that an auditor would expect to see (find) in operation in MK's control environment. (3 marks)
- d) Outline FOUR different control activities that should be found in MK and provide one specific example of each. (8 marks)
- e) Discuss five inherent limitations of an internal control system (5 marks)

[Total: 25 Marks]

Question 4

(25 Marks)

You have recently been appointed the audit senior for Hamilton Computers Ltd, a technology company involved in the development of computer software and the manufacture of information technology (IT) hardware. The audit will commence shortly.

The Company relies heavily on its IT systems to manage and operate the business. The company has just implemented a new accounting IT system to support and record all of its financial transactions.

At a recent meeting with the company's chief financial officer (CFO), the audit partner informed the CFO that an audit of the new accounting IT system will be conducted this year, focusing largely on the general and application controls in the new system.

REQUIRED:

(a) The audit partner has asked you to brief him on the key aims and objectives of the audit of the new accounting IT system for the CFO. (5 marks)

(b) As part of the discussions at the meeting, the audit partner mentioned that there are three main areas upon which the audit of general controls will focus, namely:

- (i) IT Information security
- (ii) IT systems change control
- (iii) IT operations.

The audit partner has requested that you to assess the key risks and controls in each area. (14 marks)

(c) The audit partner has also noted that the team will use computer assisted audit techniques (CAATs) as part of this year's audit and would like you to briefly explain the benefits of using CAATs. (6 marks)

[Total: 25 Marks]

END OF QUESTION PAPER