



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
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SESSION: MAY/JUNE 2025	PAPER: THEORY
DURATION: 180 MINUTES	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	A. NANGOLO

INSTRUCTIONS	
<ol style="list-style-type: none">1. This test paper is made up of four (4) questions.2. Answer ALL Questions in blue or black ink.3. Start each question on a new page in your answer sheet.4. The names of people and businesses used throughout this assessment do not reflect the reality and may be purely coincidental.5. 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 & any assumption made by the candidate should be clearly stated.	

THIS QUESTION PAPER CONSISTS OF 7 PAGES (including this cover page)

Multiple Choice Questions

Choose the one best answer from the options provided

1. Which of the following types of audit evidence is generally considered the most reliable?
 - A. Evidence obtained from internal sources
 - B. Oral representation from management
 - C. Original documents obtained directly by the auditor
 - D. Evidence generated internally under weak internal controls

2. What is the auditor's primary objective in performing tests of controls?
 - A. To detect all instances of fraud
 - B. To assess the design and operational effectiveness of internal controls
 - C. To evaluate financial statement presentation
 - D. To confirm balances with third parties

3. Which of the following is NOT a financial statement assertion related to account balances?
 - A. Completeness
 - B. Occurrence
 - C. Valuation and allocation
 - D. Rights and obligations

4. In an automated environment, a test of control would most likely include:
 - A. Recalculating depreciation expense
 - B. Observing employees performing control procedures
 - C. Reviewing audit trail logs for unauthorized access
 - D. Sending confirmations to customers

5. Which of the following best describes the role of internal auditors in corporate governance?
 - A. They are responsible for issuing the external audit opinion.
 - B. They assist in the design of the company's marketing strategy.
 - C. They provide independent assurance on risk and control processes.
 - D. They prepare the company's financial statements.

6. Under which circumstance would an auditor most likely issue a qualified opinion?
 - A. There is a material misstatement that is pervasive.
 - B. The financial statements are free from material misstatements.
 - C. The auditor was unable to obtain sufficient appropriate evidence, but the effect is not pervasive.
 - D. The financial statements conform completely with IFRS.

7. Which of the following is a principle in designing substantive procedures?
 - A. Avoid using analytical procedures
 - B. Focus only on immaterial accounts
 - C. Tailor procedures based on assessed risks of material misstatement
 - D. Use only computer-assisted techniques

8. In audit sampling, which of the following best describes non-statistical sampling?
 - A. Selection based purely on chance
 - B. Allows quantification of sampling risk
 - C. Requires use of probability theory
 - D. Relies on auditor judgement without formal statistical methods

9. What is the purpose of including an 'Emphasis of Matter' paragraph in an audit report?
 - A. To express a disclaimer of opinion
 - B. To highlight a matter already disclosed that is fundamental to users' understanding
 - C. To communicate a disagreement with management
 - D. To describe an uncorrected material misstatement

10. Which of the following is an example of a substantive analytical procedure?
 - A. Observing the inventory count
 - B. Confirming accounts receivable
 - C. Comparing gross profit margins over several years
 - D. Testing the authorization of transactions

QUESTION 2**(20 MARKS)**

- a) Internal auditors are professionals within an organization. Unlike external auditors, who focus on the financial reporting of a company, internal auditors have a broader scope of responsibilities.

What are the key roles of an internal auditor in an organization? **(7 Marks)**

- b) In an audit, auditors perform various procedures to gather evidence and form an opinion on the financial statements. These procedures can be classified into two main categories: tests of controls and substantive procedures.

Below is a list of audit procedures.

1. Recalculating the total amount of a sample of sales transactions to verify the accuracy of recorded amounts.
2. Observing the process of cash disbursements to assess whether proper authorization is obtained.
3. Vouching recorded purchases to vendor invoices and receiving reports to verify the occurrence of transactions.
4. Inspecting a sample of sales invoices to ensure they are properly approved and match corresponding orders and deliveries.
5. Confirming accounts receivable balances with customers to verify their existence and accuracy.

Required: Classify each procedure as either a test of controls or a substantive procedure. **(5 marks)**

- c) At the conclusion of an audit, auditors are required to express an opinion on the financial statements based on the evidence obtained. The type of opinion issued communicates the auditor's conclusion regarding the reliability and fairness of the financial statements.

List and briefly explain four types of audit opinions that an auditor may issue in accordance with the International Standards on Auditing (ISAs). **(8 Marks)**

PART A**SCENARIO****Background Information**

Savanna Tech Industries (Pty) Ltd is a regional electronics manufacturing and distribution company operating across Namibia. You have been appointed as the Senior Auditor for Savanna Tech Industries' financial audit for the year ended 31 December 2024.

During the audit, you are required to evaluate the company's revenue cycle to assess the effectiveness of internal controls, the accuracy of revenue recognition, and the completeness of reported sales.

Revenue Cycle

Savanna Tech processes hundreds of sales orders per month, both locally and for export. The company has an integrated sales and accounting system that manages sales orders, inventory, invoicing, and revenue recording.

The Revenue Cycle Process and Controls in Place Are as Follows:

1. Customer orders are received by the Sales Department either via email or through the company's online portal. A sales order is created in the system and must be reviewed and approved by a Sales Manager before being processed.
2. Once approved, the Inventory Control Department verifies stock availability. If the item is in stock, a delivery note is generated, and the goods are packed and dispatched by the warehouse team.
3. Dispatch personnel confirm the shipment by updating the system and attaching proof of delivery. No sales invoice can be generated until this confirmation is logged.
4. After dispatch confirmation, the Finance Department generates a sales invoice using the system. Invoices are automatically matched to the approved sales orders and delivery confirmations.
5. The Accounts Receivable (AR) Clerk monitors customer accounts and records payments once they are received. Payments are typically made via EFT or bank deposit. The system automatically flags overdue accounts.
6. On a monthly basis, the AR Clerk prepares an aged debtors report, which is reviewed by the Credit Controller and escalated to management for any accounts overdue by more than 60 days.

7. The company applies the accrual basis of accounting. Revenue is recognized when goods are delivered and control has transferred to the customer, not when payment is received.
8. The system maintains a complete audit trail of all sales transactions, including order approval, dispatch, invoicing, and payment.
9. Management performs monthly reconciliations between the sales ledger and the general ledger. Any discrepancies are investigated and resolved.
10. Credit limits are assigned to customers and reviewed periodically. Orders that exceed a customer's credit limit are automatically blocked by the system and must be manually approved by a senior manager.

Required:

- a) With reference to the REVENUE CYCLE, as a Senior Auditor auditing Savanna Tech Industries (Pty) Ltd, what tests of controls will you perform to ensure the effectiveness of internal controls? **(20 Marks)**

PART B

As part of the audit for Savanna tech and are tasked with auditing the company's property, plant, and equipment (PPE). As part of your audit procedures, you need to perform substantive procedures to verify the PPE balance reported on the Statement of Financial position.

Required:

- b) Name and explain the key assertions you will test. **(10 Marks)**
- c) Explain the substantive procedures you would perform to audit machinery as part of PPE. For each procedure, provide a brief explanation of why it is important and how it helps in verifying the machinery balance. **(15 Marks)**

SCENARIO

GreenFields Organics (Pty) Ltd is a mid-sized company based in Mariental, specializing in the production and distribution of organic dairy products. For over a decade, it held a solid market presence, supplying national supermarket chains and boutique health stores across Namibia.

However, over the past 18 months, GreenFields has been facing severe operational and financial stress. The company has experienced the loss of a major retailer contract, which previously accounted for 40% of its revenue. This loss was a direct result of GreenFields' failure to meet revised food safety compliance requirements, and the retailer has since shifted to a new competitor offering lower prices and faster delivery.

In the most recent financial year, the company recorded a significant net loss, with negative operating cash flows. The balance sheet shows a net liability position, and the current ratio has dropped below 0.9. The company is struggling to meet its obligations and has arrears in supplier payments, with some creditors threatening legal action for unpaid invoices.

GreenFields had relied heavily on short-term financing, which has now reached its limit. Several loan agreements are in breach of terms, particularly interest coverage ratios, and the bank has issued a warning that further breaches could trigger loan recall. Attempts to secure additional funding have been unsuccessful due to the company's poor financial standing.

Adding to the concern, a key executive (Chief Operational Officer) recently resigned and has not been replaced, and the HR department has reported growing dissatisfaction among staff, with threats of industrial action over delayed salaries.

Meanwhile, a change in Namibian government agricultural subsidy policies has removed critical financial support that GreenFields relied on to sustain its organic certification program. The company's failure to adapt has led to negative public perception around the authenticity of its organic products.

To manage its liquidity crisis, GreenFields has moved from credit-based supply arrangements to cash-on-delivery terms, further straining cash reserves. The board has recently held a meeting where management expressed uncertainty about continuing operations beyond the next financial quarter if a strategic investor is not secured.

Required: Based on the scenario above, assess whether GreenFields Organics (Pty) Ltd, is a going concern by identifying the relevant indicators and explaining your reasoning. **(25 marks)**

.....THE END.....