



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	LEVEL: 7
COURSE CODE: GAU 711S	COURSE NAME: AUDITING 310
DATE: JUNE 2023	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION PAPER	
EXAMINER(S)	Dr. A. Simasiku
MODERATOR:	Mr T. Pandulo

INSTRUCTIONS
<ol style="list-style-type: none">1. Capture your full name, student number and assessment number on the first page.2. Answer ALL the questions and manage your time properly.3. Number each page correctly4. Write clearly and neatly.5. Do not write in pencil and do not use tip-ex, as this will not be marked.6. The names of people and businesses used throughout this assessment do not reflect the reality and may be purely coincidental.

THIS QUESTION PAPER CONSISTS OF 5 PAGES (excluding this front page)

Question 1**(20 marks)**

The auditor obtains evidence sufficient to be able to draw conclusions which in turn support the audit opinion. Audit evidence is obtained by applying auditing procedures, and these may be applied to an entire set of data, usually referred to as the population, or to part of the population by selecting a sample from that population.

Required

Answer the following questions regarding audit sampling.

1. What is audit sampling? (2)
2. Where an auditor applies procedures to less than 100% of a population, what are the items to which the auditing procedures are applied collectively known as? (1)
3. Why is it important that the sample be representative of the population? (2)
4. What is sampling risk? (2)
5. Reduce all steps in an audit sampling exercise to 4 broad stages. (2)
6. What are the 5 factors to consider when planning an audit sample? (2)
7. At the outset of a sampling exercise, what should the auditor determine regarding the population? (2)
8. What are sampling units? Give three examples of sampling units in relation to accounts receivable. (2)
9. List four parameters which must be determined when setting the sample size for a statistical sample? (2)
10. What is stratification? Give two examples of how accounts payable may be stratified. (3)

Question 2**(20 marks)****Required:**

- A. Match each of the following audit procedures to the financial statements to which it is closely match with (8)

Procedure	Assertion
Recalculate the closing balances on the share capital account	presentation
Review financial statements notes	Completeness
Review memorandum and articles of association and compare requirements with the issued share capital	Accuracy, valuation, and allocation
Read minutes of board for evidence of share capital	Existence

- B. You are drafting an engagement letter in respect of Severn company Limited and are aware that ISA 210 Terms of the audit engagement requires certain issues to be in the engagement letter (5)

Required

Indicate which ones should be included and those to be excluded in the engagement letter. Please Just indicate, INCLUDED or EXCLUDED

1. Scope of the audit
 2. Complaint procedures
 3. Responsibility of management of Severn Company Limited
 4. Fees and billing arrangement
 5. Timetable for the provision of accounting information by Severn Company Limited
- C. NAB and Company have decided that it would like to accept the nomination as MICKEY limited s auditors and Mickeys existing auditors have agreed to resign rather than be removed from office. The audit manager in charge of the tender has set out a list of procedures that the firm must undertake before Mickey can be approved as an audit client.
1. Ensure that the existing auditor's resignation has been properly conducted.
 2. Communicate with Mickeys existing auditors.
 3. Submit an engagement letter.
 4. Perform client screening including an assessment of Mickeys risk profile.

Required

Show the correct order in which the above procedures should be undertaken.

D. Required

Indicate whether the following procedures below will be conducted during the interim or the final audit. Please just indicate INTERIM AUDIT or FINAL AUDIT (3)

1. Perform preliminary analytical procedures to identify any major changes in the business.
2. Obtain third party confirmations relating to receivables, payables, and cash.
3. Update documents relating to the clients accounting systems which has been prepared in prior year audits.

Question 3

(30 marks)

- (i) Stratification is a technique commonly used by auditors when carrying out a sampling exercise. You are on the audit team for the year end audit of Nam Golf Ltd, a large wholesaler of golf equipment to the public. Equipment is imported and purchased locally and sold to golf clubs, sports shops, and specialist golf retail outlets. The majority of the company's customers purchase on credit, but there are a significant number of cash sales made as higher discounts are given for cash sales than for credit sales.

Required:

- a) Give the reason auditors stratify populations when sampling. (1)
- b) Discuss whether stratification can be used when conducting:
- Haphazard sampling
- Monetary unit sampling (4)
- c) Give 2 examples of stratification which may be appropriate on the audit of Nam Golf Ltd based on the information given above. One to illustrate stratification when conducting tests of detail and one to illustrate its use when performing tests of controls. (4)
- d) If a population is stratified by value, it is not necessary to select any items from the lowest stratum if the value of the highest stratum is greater than 50% of the value of the population. True or false? Justify. (2)
- e) The most suitable sample selection method for testing completeness of current liabilities is monetary unit sampling. True or false? Justify. (3)
- f) Haphazard selection is not appropriate when using statistical sampling. True or false? Justify. (2)
- (ii) Answer the following questions relating to audit opinions.
- a) In terms of ISA 700, what are the objectives of the auditor when forming an opinion and reporting on financial statements? (2)
- b) Which of the following is correct? Explain why you regard the others as incorrect:
i. The auditor certifies that the financial statements are materially correct.
ii. The auditor's report conveys an opinion on whether sufficient appropriate evidence has been gathered on the audit.
iii. The auditor forms an opinion on whether the financial statements are prepared in all material respects, in accordance with the International Financial Reporting Standards. (4)
- c) Which of the following is not a modification of the auditor's opinion? Justify.
i. An adverse qualification
ii. A disclaimer
iii. An emphasis of matter (2)

- d) When forming an opinion on the financial statements the auditor evaluates whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. List six matters to which consideration should be given in carrying out this evaluation. (6)

Question 4

(15 marks)

The most important objectives of internal controls relating to suppliers and purchases are, ordering, receipt and invoicing and Accounting.

Required:

Explain what can go wrong at the following stages of the purchase cycle?

- (a) Ordering (6)
- (b) Receipt of goods (4)
- (c) Accounting (5)

Question 5

(15 marks)

You are the audit manager in charge of the audit of Freddo. The audit senior has contacted you with several problems he has encountered when considering the audit on non-current assets.

- (a) The client has stated that the motor vehicles the senior wished to inspect cannot be inspected as they all are being driven by salesmen which are due to return to office until after the accounts are signed.
- (b) The client has capitalised furniture in its new office block, although it has not previously capitalised furniture. The furniture has expected life of three years.
- (c) A large crane previously written off by the client has been brought back into use at a valuation of N\$ 200 000 because of problems with its replacements. The N\$ 200 000 has been included as a revaluation in this year's accounts.

Required

Outline the audit work that should be carried out in the light of the problems found. (15)

END OF QUESTION PAPER