



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING (CHARTERED ACCOUNTANCY)	
QUALIFICATION CODE: 07 BACC	LEVEL: 6
COURSE CODE: FOE601Y	COURSE NAME: FUNDAMENTALS OF ETHICS AND ASSURANCE
SESSION: OCTOBER 2025	PAPER: THEORY AND PRACTICAL
TOTAL DURATION: 150 MINUTES	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER	MS G. KAFULA
MODERATOR:	MS M. E. CLOETE

INSTRUCTIONS

1. Answer ALL questions in blue or black ink only.
2. This paper consists of TWO (2) separate questions.
3. Write clearly and neatly.
4. Start each question on a new page and number the answers clearly.
5. No programmable calculators are allowed. You may make use of an unprogrammable calculator during the assessment
6. Questions relating to the 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.
7. Any resemblance to any people, places, organisations, or anything are purely coincidental.

THIS QUESTION PAPER CONSISTS OF 9 PAGES (Including this front page)

Background information

Care Audits Incorporated (Care Audits) has been appointed as the auditors of Clean Blue Water Technologies Ltd (CBWT) at the beginning of the 2025 financial year. This was after the previous auditors were asked to resign, following a disagreement regarding the audit fee and accounting policies. You are a third-year audit trainee that has been assigned to the audit of CBWT.

CBWT is a public company listed on the Namibian Stock Exchange (NSX) and is a leading water treatment company in Namibia, that was incorporated during 1992. The company also provides services to the Namibian Government as part of tenders awarded to CBWT. The financial year end of CBWT is 31 August.

CBWT is currently in the process of tendering for a big project to design, build and maintain a new water treatment facility in Windhoek, as the Government is launching various projects to address the water crisis in the city. The audited financial statements are part of the tender documentation that have to be submitted by CBWT to the Government by no later than 30 September 2025. No interim audit was performed due to staff constraints at Care Audits.

CBWT has been using the same accounting package since its incorporation in 1992. During September 2024, the board of directors approved the implementation of a new fully integrated computerized system due to the significant growth the company experienced in the past few years and the board realizing that the current accounting package was outdated. Based on the outcome of a feasibility study that was conducted, it was decided to purchase an accounting package off the shelf from one of the largest and most reputable suppliers in the software industry rather than to develop the accounting software in house. The new accounting system, ACC-600, was implemented during February 2025 and accounting staff were provided with the relevant manuals in order to start using the new system immediately.

CBWT owns 75% of Carbonate (Pty) Ltd's (Carbonate) issued share capital. The shares in Carbonate were purchased on 31 January 2025. Carbonate is situated in Botswana and will be audited by a medium sized audit firm in Botswana. The financial year end of Carbonate is 31 March.

The materiality figure for the audit of CBWT is N\$2 million.

Audit firm information – Care Audits

A few years ago, Len Care CA(NAM) set up his audit practice, Care Audits. He is currently the audit partner at the practice. Len Care also established a private company, Understand Your Business (Pty) Ltd (Understand Your Business) to provide non-audit professional services such as bookkeeping and the preparation of financial statements to the public in which he has an 80% shareholding. His good friend from school, John Pastel, who has a BCompt-degree, holds the remaining 20% interest. Care Audits' business model entails that Len Care only retain a small, selected client base (between ten and fifteen audit clients) ensuring that he has a sound knowledge of every client. In his opinion, this contributes to high quality audit work. As a pre-

requisite, Len Care emphasized that all new auditing clients should make use of Understand your Business to perform all their non-audit professional services, otherwise the engagement would not be accepted. Len Care based this decision on the fact that it would improve the understanding of the client and it would result in better audits.

Care Audits is a small auditing firm with only 10 staff members, but they still manage to attract and maintain good clients due to Len Care's high public profile which is created by publishing auditing and accounting related articles in the financial press. These articles also generate enquiries to Len Care who then refers them to John Pastel who is responsible for engaging with potential clients to determine whether they are interested in appointing Understand your Business to perform their non-audit professional services. These potential clients are simultaneously made aware of the audit services rendered by Care Audits.

Due to Len Care's high profile and reputation in the financial industry, he has become a highly desired speaker and spends most of his time out of the office. On 3 September 2025 prior to leaving for his next session of presentations, he sent you an email which is included in Annexure A to indicate responsibilities in terms of the CBWT audit.

The following documents are available for your consideration:

Annexure A The following email was addressed to you:

From: Len.Care@Careaudits.na
Sent: 3 September 2025
To: Student.Advice@Careaudits.na
Subject: CBWT 2025 Audit

Dear Audit trainee,

As you are aware, I am leaving today for a three-week long tour to do presentations all over the country and would therefore have limited involvement, if any, in the CBWT audit. During the audit, please make sure that you address all the issues below and follow my instructions as highlighted pertaining to the issues.

Seeing that this is the first time that our firm will audit CBWT, you are the most suitable person to lead this audit. You are very competent, and you also have the most knowledge about this type of industry. Therefore, I would suggest that you contact the previous auditors immediately to get hold of their working papers and to study the prior year working paper files thoroughly.

CBWT invited me to attend a strategic planning session to be held at Windhoek Country Club on 24 September 2025. The 2025 annual financial statements will also be discussed at this meeting. The audit therefore needs to be completed by 20 September 2025 so that I am able to advise management on the required changes in their strategic planning session.

You would further notice that the proposed audit fee for the 2025 financial year is less than the management consultancy fee that were charged by Understand your Business. This is because

CBWT's operational director, Jeff Pump, being inexperienced and therefore requiring my support and assistance. Therefore, please ensure that my instruction to inflate the current audit fee with N\$100 000 and to reduce the fee for other services with the same amount was also correctly incorporated by Chris Flush (CA (NAM)), the financial director of CBWT, when reviewing the notes to the annual financial statements.

During my consulting sessions, the following information was brought to my attention:

1. At the end of April 2025 huge performance bonuses were paid to the directors of CBWT, which was based on the management reports that were presented at that time. Based on the consultations I had with the operational director, Jeff Pump and afterwards with Chris Flush, we realized that there were a significant number of transactions that were either accounted for incorrectly or not accounted for at all. As this would result in a significant loss for CBWT, I suggested that they make all these adjustments in the 2026 financial year to avoid unnecessary questions from their shareholders. So do not treat these as misstatements in the current year, but rather save it as part of next year's working papers, so that we have a record of the adjustments that must be accounted for.
2. During the board meeting that was held in the beginning of December 2024, Chris Flush made the following recommendations/proposals (as indicated below) to the CBWT's board that would enable them to comply with some BBBEE requirements:

- The current non-executive directors should be requested to resign. Should they agree, they will be compensated accordingly with an amount of N\$250 000 each.

A reconstitution of the board would take place which entails the following:

- With effect of 1 January 2025, Kanye Ndlovu, a prominent leader in the environmental industry, would be appointed as CBWT's chairman and she would simultaneously also be appointed as the Director of Human Resources and Transformation.
 - Kanye Ndlovu should, for the next five years, be given a minimum annual performance bonus of N\$1 560 000.
3. The board unanimously accepted Chris Flush's proposals. Shortly after the board meeting, the three independent non-executive directors as well as CBWT's chairman agreed to accept the compensation of N\$250 000 each and resigned with immediate effect.

I know that I can trust you to deal with CBWT's audit in a professional manner and that you will take all the aspects I addressed above into account. Please accept management's explanations for any other issues not mentioned in my email, even if there are no supporting documentation or valid explanation for it, as they are unwilling to make any further changes to the annual financial statements. For us to build a good relationship with CBWT's management and to retain the audit and other non-audit professional services, we need to express an unqualified opinion. The annual financial statements will be used for all the contracts that they will tender for soon and to increase their bank overdraft because of possible cash flow shortages they are anticipating

financing the new contracts. This is because of the increased demand for their services. I indicated to CBWT's management that the audit would run smoothly and that no changes would be requested, as I would provide the necessary guidance to my audit team.

Record all problems that you are unable to resolve, including the misstatements mentioned above, by 20 September 2025 in a confidential report so that the effects thereof can be considered in planning the 2026 audit. Sign off all working papers so that if an IRBA/PAAB inspector were to look at the file they would think that the audit was completed satisfactorily. Then prepare the standard unmodified auditor's report and sign it with my electronic signature (ask my secretary for the JPEG file). The deadline for this audit is non-negotiable. Thereafter arrange that 30 copies of the audited financial statements of CBWT are printed and courier them to Windhoek Country Club for my attention.

If you have any further questions, please do not hesitate to send me an email as I would attend to it in between my presentations.

Once you have completed CBWT's audit, take a well-deserved two-week holiday and charge the time to CBWT.

Regards,
Len Care

QUESTION 1	
YOU ARE REQUIRED TO:	MARKS
<p>a) With reference to the background information, describe the audit risks at the overall financial statement level for Clean Blue Water Technologies Ltd and at group and entity level for the year ended 31 August 2025.</p> <p>Note: Exclude risks of material misstatement as a result of fraud and manipulation.</p> <p style="text-align: right;">Communication skills: logical argument</p>	<p>(14)</p> <p>(1)</p>
<p>b) Describe the most appropriate overall audit responses at the financial statement level to address the audit risks identified in part (a) above.</p>	(5)
<p>c) List the general system software and operational controls that Clean Blue Water Technologies Ltd should have implemented for the new fully integrated computer system to operate as intended.</p>	(6)
<p>d) With reference to the audit firm information and Annexure A: Critically evaluate and discuss the ethical, statutory and corporate governance concerns you have for both Care Audits Incorporated and</p>	(32)

<p>Clean Blue Water Technologies Ltd for the year ended 31 August 2025. Limit your answer to the requirements of the following:</p> <p>i. SAICA Code of Professional Conduct (CPC) (safeguards not required) (22) ii. King IV Code on Corporate Governance (10)</p> <p>Notes: Exclude the following from your answer:</p> <ul style="list-style-type: none"> • Any potential safeguards that relates concerns identified; and • Any considerations/concerns relating to the Auditing Professions Act (APA). <p>Communication skills: clarity of expression and logical argument</p>	(2)
TOTAL MARKS QUESTION 1	(60)

QUESTION 2

40 MARKS

You are an audit senior responsible for the audit of Black and White (Pty) Ltd (hereafter referred to as BW) for the year ending 30 June 2025. BW is a profitable owner managed business which specializes in the music download industry.

Company Background

BW offers on-line application download facilities (only to Namibian customers) which enable customers to download their favorite music applications from any device. A fully computerized environment as well as a trading website is therefore in use. The company has its head office based in Windhoek.

As part of your risk assessment procedures as well as the review of the general computer controls for the 2025 reporting period, you have compiled the following working papers:

Work Paper Reference	Work Paper Description
A_100	Understanding the Entity and its environment
B_100	Understanding the General Computer Controls

Client: Black and White (Pty) Ltd	Period End: 30 June 2025	A_100
Prepared by: T Rainee	Date: 10 July 2025	
Reviewed by:	Date:	
Understanding the Entity and its environment - Risk Assessment Procedures		

Mr. Shuttle formed BW in 2010. The company is presently run by Mr. Drive who is the company's managing director. His wife, Mrs Speedy, the financial director, handles the accounting and financial matters of the company.

BW has a strong visionary management team, led by Mr. Shuttle. Management is dedicated to the growth and development of the company and has a positive attitude towards a sound control environment. Bonuses for executive directors and senior management are based on performance and profitability.

BW sells music from well-known local and overseas artists through the internet and by means of SMS downloads. BW has licensing agreements with local and international record companies, which provide for royalties to be paid to the record companies for music downloads. In line with BW's objective of reaching all Namibians, payment methods include online purchases using credit cards.

With thousands of transactions taking place daily, BW is dependent on reliable information technology (hereafter IT) systems.

The Industry

The industry is characterized by a high level of competition amongst major players in the market, which are mainly companies like Kapana and Banana which are the leaders in the online application business.

Accounting Policies

The company's accounting policies conform to International Financial Reporting Standards.

Online downloads using credit cards

- A customer accesses BW's website using a computer or an appropriately enabled hand-held device.
- The customer is then able to browse through BW's music catalogues and selected tracks.
- Selected tracks are put into an online 'shopping basket'.
- After completing the selection of tracks, the customer enters BW's secure payment website and enters his or her credit card details.
- Once the customer has entered all details, the payment website collects payment from the credit card company.
- The music website then enables the download of the purchased tracks.

Information from prior year standing audit file of BW:

- ✓ BW has a history of law violations and claims against them
- ✓ Management of BW does not monitor significant controls regularly
- ✓ Management sets unduly aggressive financial targets
- ✓ BW pays their management extremely high-performance bonuses
- ✓ BW enter in significant related party transactions which are not in the ordinary course of business

Client: Black and White (Pty) Ltd	Period End: 30 June 2025	B_100
Prepared by: T Rainee	Date: 10 July 2025	
Reviewed by:	Date:	
Understanding the General Computer Controls		

The report on the review on general controls which was presented to you contained, inter alia, the following:

BW employs three computer technicians. They are responsible for ensuring that the company's network functions satisfactory. The technicians report to Mrs. Numbers, the financial controller. However, she does not interact very much with the technicians, as she is, by her own admission, not strong on computer technology. The technicians are responsible for making program changes as they see fit, training new staff members to use the company's computerized system, operating the help desk, and managing the database. The three technicians are all on the same employment grade and generally work well as a team allocating the various tasks among themselves. The three technicians are in a general office in the accounting section where the network servers and various other pieces of computer equipment are located.

Mrs Speedy is the senior financial director (FD) in the company. There are two executive directors and one non-executive director but all three of these individuals are from a manufacturing background and have little interest in the financial/ administrative side of the business which is left up to Mrs. Speedy.

All employees of BW are given access to the network. All personnel can access the network from two terminals in the staff canteen if, for example they want to send e-mails or browse the internet during tea or lunch breaks. To get into a particular application the employee must enter a unique password. Controls over passwords are as follows:

With the help of one of the technicians, the employee accesses a "new password file" which is resident on the system. A list of two hundred and four passwords then appears on the screen and the employee must select one password by "clicking" on it. If a password has already been taken it appears in bold italics and cannot be selected. A new list of passwords is produced every six months and employees must select a new password using the same procedure. Passwords of staff that have left the company are also invalidated at this time. The password file is encrypted and only the three technicians, all of whom have root access/ super user access, can access the password file. The password application software was written by one of the three technicians.

Other supplementary access controls such as shut down after three access violations, time out facilities, and access logs are in operation. The company has a firewall in place and makes use of anti-virus software. There is a suitable disaster recovery plan and back up strategies appear to be effective.

Ethical Dilemma

In the current year, BW's management has been under pressure to sustain profitability in order to secure the high-performance bonuses paid to directors. To achieve this, BW entered into several related-party transactions with entities controlled by the managing director's family. These transactions are not in the ordinary course of business and have not been adequately disclosed to shareholders. While some employees have raised concerns about the fairness and transparency

of these dealings, management insists that this practice is common in the industry and should not be questioned.

QUESTION 2		
	YOU ARE REQUIRED TO:	MARKS
a)	<p>With reference to the background information as well as working paper A_100:</p> <p>i) Identify conditions or events that may increase the risk of fraud or error according to ISA 240. (4)</p> <p>ii) Describe the procedures necessary to respond to these fraud risk factors in general for the current reporting period if the fraud risk at overall financial statement level has been assessed as high for the current reporting period. (4)</p>	
b)	With reference to working paper B_100, discuss the weaknesses in the general controls of BW (Pty) Ltd based on the information given. (12)	
c)	Using the five assumptions for solving social ethical dilemmas, discuss how BW's ethical dilemma could be addressed. (10)	
d)	<p>Discuss BW's corporate moral obligations towards its key stakeholders, in light of the following issues identified in the scenario:</p> <ul style="list-style-type: none"> - Undue pressure to maintain profitability and high-performance bonuses for directors (2 marks) - Undisclosed related-party transactions involving the managing director's family (2 marks) - Weak oversight of IT systems and controls (2 marks) - History of law violations and claims against BW (2 marks) 	(8)
	Communication skills: clarity of expression and logical argument	(2)
	TOTAL MARKS QUESTION 2	(40)
	Total Marks First Opportunity Examination	(100)

END OF INFORMATION AND REQUIRED