



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

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

QUALIFICATION: BACHELOR OF ACCOUNTING (HONOURS)	
QUALIFICATION CODE: 08BOAH	LEVEL: 8
COURSE CODE: AUD812S	COURSE NAME: ADVANCED AUDIT
SESSION: NOVEMBER 2023	PAPER: THEORY AND APPLICATION
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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<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.• 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.• Start each question on a new page in your answer booklet and show all your workings.• 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 8 PAGES (Including this front page)

Question 1

(30 marks)

You are the audit supervisor of Muundjua & 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 2022 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 2023 who was previously a financial controller of a bank, and she has expressed surprise that Muundjua & 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.

Muundjua & 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 Muundjua & 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 Muundjua & 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 Muundjua & 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) Mkondo 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

Mkondo 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

Mkondo 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.

Mkondo 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 Mkondo 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)**

Mkondo Co deducts employment taxes from its employees' wages and salaries on a monthly basis and pays these to the local taxation authorities in the following month. At the year end, the financial statements will contain an accrual for employment tax payable.

Required:

(c) Describe the substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in respect of Mkondo Co's year-end accrual for employment tax payable. **(4 marks)**

The listing rules of the stock exchange require compliance with corporate governance principles and the directors of Mkondo Co are confident that they are following best practice in relation to this. However, the chair recently received correspondence from a shareholder, who is concerned that the company is not fully compliant. The company's finance director has therefore requested a review of the company's compliance with corporate governance principles.

Mkondo Co has been listed for over eight years and its board comprises four executive and four independent non-executive directors (NEDs), excluding the chair. An audit committee comprised of the NEDs and the finance director meets each quarter to review the company's internal controls.

The directors' remuneration is set by the finance director. NEDs are paid a fixed fee for their services and executive directors are paid an annual salary as well as a significant annual bonus based on Mkondo Co's profits. The company's chair does not have an executive role and so she has sole responsibility for liaising with the shareholders and answering any of their questions.

Required:

(d) Describe TWO corporate governance weaknesses faced by Mkondo Co and provide a recommendation to address each weakness to ensure compliance with corporate governance principles. Note: Prepare your answer using two columns headed Weakness and Recommendation respectively. **(4 marks)**

Question 3**(25 marks)**

Damaseb Co manufactures chemical compounds using a continuous production process. Its year-end was 31 July 2022 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 2021.

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 2021. Repayments of N\$200,000 are due quarterly, with a lump sum of N\$800,000 due for repayment in January 2023. The company met all loan payments in 2021 on time, but was late in paying the April and July 2022 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)

Asake Co manufactures motor vehicle components and its year end was 30 June 2023. You are an audit supervisor of Burna & Co and the final audit is due to commence shortly. Total assets are N\$43.2m and profit before tax is N\$7.2m. The following matters have been brought to your attention:

Trade receivables

Asake Co's trade receivables ledger is comprised of a large number of customers. In previous years, the audit team has undertaken a positive trade receivables circularisation to confirm year-end balances. However, the customer response rate has historically been low and so alternative audit procedures have been undertaken. A decision has been made that for the current year audit a circularisation will not be performed. The year-end trade receivables balance is N\$3.9m (2022: N\$2.8m) and the allowance for trade receivables is N\$410,000 (2022: N\$300,000).

Bank balances

The bank and cash figure included in Asake Co's draft financial statements is comprised of a number of bank account balances: an overdraft of N\$5.1m which is the company's main current account and N\$0.2m relating to several savings accounts. The finance director has informed the audit manager that all accounts have been reconciled as at the year end. The overdraft of N\$5.1m has increased significantly since the prior year (2022: N\$1.2m). The directors have informed you that the overdraft facility, which the company requires in order to operate on a daily basis, is due for renewal in October 2023 and that they are confident it will be renewed.

Required:

(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Asake Co's trade receivables. **(5 marks)**

(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Asake Co's bank balances. **(5 marks)**

(c) Describe the audit procedures the auditor should perform in assessing whether or not Asake Co is a going concern. **(5 marks)**

During the final audit, the finance director has informed the audit team that Asake Co's bankers will not make a decision on the renewal of the overdraft facility until after the auditor's report is signed. The audit engagement partner is satisfied that the use of the going concern basis is appropriate. The directors have agreed to include some brief going concern disclosures in the draft financial statements and the audit team still have to assess the adequacy of these disclosures.

Required:

(d) Discuss the issue and describe the impact on the auditor's report of Asake Co of adequate AND inadequate going concern disclosure. **(5 marks)**

THE END