



**NAMIBIA UNIVERSITY**  
OF SCIENCE AND TECHNOLOGY

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

<b>QUALIFICATION : BACHELOR OF ACCOUNTING (CHARTERED ACCOUNTANCY)</b>	
<b>QUALIFICATION CODE:</b> 07 BACC	<b>LEVEL:</b> 6
<b>COURSE CODE:</b> AUD612S	<b>COURSE NAME:</b> AUDITING 201
<b>SESSION:</b> NOVEMBER 2024	<b>PAPER:</b> THEORY AND PRACTICAL
<b>TOTAL DURATION:</b> 188 MINUTES <b>READING TIME:</b> 25 MINUTES <b>WRITING TIME:</b> 163 MINUTES	<b>MARKS:</b> 125

<b>FINAL ASSESSMENT OPPORTUNITY 1 2024 - INFORMATION</b>	
<b>EXAMINERS</b>	MS G. KAFULA MS Z. STELLMACHER
<b>MODERATOR:</b>	M. E. CLOETE

<b>INSTRUCTIONS</b>
<ol style="list-style-type: none"><li>1. Answer ALL questions in blue or black ink only.</li><li>2. This paper consists of FIVE (5) separate questions.</li><li>3. Write clearly and neatly.</li><li>4. Start each question on a new page and number the answers clearly.</li><li>5. No programmable calculators are allowed. You may make use of an unprogrammable calculator during the assessment.</li><li>6. Questions relating to the paper may be raised in the <b>initial 30 minutes</b> after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities &amp; any assumption made by the candidate should be clearly stated.</li><li>7. Any resemblance to any people, places, organisations, or anything are purely coincidental.</li></ol>

**THIS QUESTION PAPER CONSISTS OF 8 PAGES (Including this front page)**

**QUESTION 1****30 MARKS****Greenfield & Co.**

Greenfield Audit & Co. (GAC), a mid-sized audit firm based in Windhoek, Namibia, recently secured a tender to audit Precision Delivery Services (PDS) (Pty) Ltd for the financial year ending 31 March 2024. The engagement is expected to last five years based on an agreement between GAC and the company's Chief Financial Officer, Mr. Benson. The engagement letter was signed on 01 April 2024, with the audit expected to be finalized by the 15<sup>th</sup> of April 2024.

Precision Delivery Services (PDS) operates in the logistics and transportation industry, specializing in providing delivery and courier services. The company has been in business for 8 years, focusing on reliable and efficient transportation solutions for clients, including government agencies, retailers, and individual customers. The shareholders of PDS are interested in both the assets and turnover of the entity, and are willing to accept the high risk of their investment. PDS was previously audited by a sole proprietor.

The audit fee quoted by GAC for the 2024 year-end was relatively low. However, Mr. Benson mentioned during discussions that if the audit were "efficient and met expectations," GAC would be considered to conduct a financial review for PDS's upcoming application for a major government transport contract in 2025. Such an engagement could provide significant additional revenue for GAC and could serve as a platform to expand GAC's consulting services.

The risk at overall financial statement level has been assessed as low. This is as a result of strong internal controls implemented by management as well as a strong ethical environment.

The audit trainee has provided you with the following workpaper:

Workpaper Reference	Workpaper Description
AA2	Financial Information



Client: Precision Delivery Services (Pty) Ltd		Period end: 31 March 2024		AA2
Prepared by: GK		Date: 10 April 2024		
Reviewed by:		Date:		
Financial information				
	Actual unaudited for 11 months FY: 31 March 2024	Budget 12 months FY: 31 March 2024	Prior Year audited FY: 31 March 2023	
	R '000	R '000	R '000	
Sales	1 550 000	5 000 000	500 000	
Gross Profit	1 200 000	3 000 000	250 000	
Net Profit	250 000	1 000 000	100 000	
Total Assets	900 000	2 000 000	880 000	
Liabilities	440 000	200 000	420 000	

The engagement team responsible for the audit of PDS is made up of the following people:

Position	Person	Experience/Background
Partner	Yourself	Qualified (CA)SA 20 years of experience at GAC. Extensive transport and logistics-related experience performing audit work for six
Manager	Reinette	Qualified (CA)SA Has gained 3 years of experience as Financial Director working at PDA before joining GAC in January 2024.
Senior clerk	Neo	Will qualify as a CA(SA) at the end of 2025 3 years of experience at GAC. Performs audit work for five other transport clients.
Junior clerk	Sumaiya	2 years of experience at GAC. Performs audit work for five other transport clients.
Junior clerk	Alet	1 year of experience at GAC and performs audit work for four other transport clients.

Taxation specialist	Ruan	Ruan is a manager in GAC's tax department. Ruan has agreed that GAC will provide tax services to PDS for the year ended 31 March 2024.
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## QUESTION 2

20 MARKS

### Pharmapen Limited

You are one of the engagement partners of REC Auditors Incorporated (hereafter REC). REC is a large independent South African firm of auditors, that is not affiliated to any other auditing firms. REC has offices in all of the major cities in South Africa. REC has been appointed as the auditors of Pharmapen Limited (hereafter Pharma), during the current year. The year-end of Pharma is 31 December 2024.

### Background information about Pharma

#### The following information was documented by the audit team during an initial visit to the client:

Pharma is the largest pharmaceutical company in Africa and has a proud heritage dating back more than 16 years. It is committed to sustaining life and promoting healthcare through increasing access to its high quality, effective, affordable medicines and products. Pharma is listed on the Johannesburg Stock Exchange (JSE) and therefore should comply with the listing requirement stating that audited financial statements should be submitted within six weeks after year-end. The founder and current CEO, Mr Thomas, is still the major shareholder in the company.

Pharma provides a diverse basket of branded, generic consumer health and infant nutritional products, which are supplied to private pharmacies, retail pharmacy chains, hospitals, dispensing general practitioners, managed healthcare funders and retail stores across the private and public sectors in South Africa.

Pharma's product ranges cover several therapeutic categories. These include anaesthetics, analgesics, antiretroviral, cardiovascular system, infant nutritional products, oncology, oral hygiene and more. Pharma has two pharmaceutical manufacturing plant, and five distribution centres in South Africa.

During the current year, Pharma acquired the majority shareholding in Newpack (Pty) Ltd (hereafter Newpack). All the packing used by Pharma, are purchased from Newpack. The acquisition put severe pressure on Pharma's cash resources.

Pharma's manufacturing plant in Port Elizabeth is presently undergoing an upgrade. The capital investment is being incurred in order to increase production capabilities and to provide on-going compliance with Pharmaceutical Inspection Convention Standards. Inspections by the Medical Control Council (MCC) and other international regulatory authorities including the US FDA, are scheduled to take place within the next year.

Pharma converted their current tailor-made accounting system to a SAP IT package during June 2024, in order to provide management with more comprehensive information. The new accounting system enables Pharma to implement a new remuneration policy for management that are based on profits of the company.



### QUESTION 3

15 MARKS

#### Lewis Ltd

You are currently providing advisory services to Lewis Ltd, a company that sells an extensive range of home products. Your core focus in providing advice is on corporate governance in terms of King IV, for the financial year ended 31 August 2024.

Below is information pertaining to Lewis Ltd, which you are required to work through and provide advice on.



*(From left to right)*

#### 1) Board Structure:

- **Mr Oliver Smith** – Chief Executive Officer (CEO), BCom Financial Management.
- **Mr John Peterson** – Independent Non-Executive Director (Mr Peterson was previously an Executive Director at Lewis Ltd, he left Lewis Ltd in 2022 and is now acting in an independent capacity). Mr Peterson holds a qualification in Environmental Science.
- **Mr Nicholas Williams** – Chairman (Mr Williams also provides tax advice to the governing body at an additional fee). Mr Williams is a CA (SA).
- **Mr Tom Green** – Executive Director and Chief Financial Officer (CFO). Mr Green holds a qualification in architecture and design.
- **Mr Fabio David** – Independent Non-Executive Director for the past 17 years. Mr David holds a degree in BSC (IT).

Lewis Ltd has the following 2 committees:

## **2) Committees**

### **2.1) Nomination Committee**

#### **Members:**

- Oliver Smith (Chairperson);
- Nicholas Williams; and
- Fabio David.

### **2.2) Audit Committee**

#### **Members:**

- Tom Green (Chairperson);
- John Peterson; and
- Oliver Smith.

#### **Extract of a newspaper article**

Recently Lewis Ltd closed down 15 of its stores mainly due to poor performance. Mr Oliver Smith, CEO of Lewis Ltd, responded as follows, "closing down these stores were inevitable and for now we have no plans to look into this matter, and business will continue as usual". It has been further speculated that Lewis Ltd has been practicing unfair labour practices resulting in large lawsuits.

#### **Performance evaluation**

In the current year, the CEO performed all the performance evaluations of all the Directors of the Board. Based on the results of these evaluations, Directors will be remunerated in terms of the remuneration policy approved by the shareholders. The CEO determined that the remuneration of Executive Directors is in accordance with the Remuneration Policy presented to the shareholders' vote at the Annual General Meeting.



#### QUESTION 4

40 MARKS

You are on the audit team of Tutor-Time (Pty) Ltd (hereinafter "Tutor-Time"). Tutor-Time is a company which was established by Minnie Minders, a lecturer who used to be employed at a Namibian University. Minnie quit her job in 2022 and started the company which matches tutors and students throughout Namibia.

Minnie is the main shareholder of Tutor-Time, and the company has gone from strength to strength during the past two years. The Board of Directors consisted of a small group of five highly qualified individuals when the company started. Dodo Doring, the previous chairman of the IT steering committee, served on the Board for a period of six months during 2022. At the end of 2022, he left Namibia as he received a lucrative job offer in Australia. Since then, the shareholders have not been able to fill the Board vacancy. According to Minnie there is simply nobody in Namibia with the same IT knowledge as Dodo and since the systems are already installed and operational, the Board can run without an IT expert for now.

Minnie informed you that since Dodo left, Tutor-Time relies heavily on the next level of IT staff, which is represented by the IT manager, Bennie Boon. Bennie had more than ten years' experience in software management at well established companies before he was appointed at Tutor-Time.

Minnie is confident that the tutor programme was well designed and is the first of its kind to be implemented in Namibia.

The tutor programme interfaces with the online banking platforms of all major banks in Namibia and with the accounting system of Tutor-Time. The programme is automated, but the application process is still done manually and is completed in the following manner:

Students and tutors complete their details on a manual form which is e-mailed to the offices of Tutor-Time. This form includes the name, identification number, address and banking details of each individual. All applicants must be older than 18 years upon registration to make use of the services offered by the Tutor-Time platform. In addition, all applicants must reside in Namibia. The company intends to design an online application form to ensure a seamless application process and also to reduce input errors.

You made an appointment to meet Bennie at 11:00 am on the second day of the audit. Upon waiting for thirty minutes in front of Bennie's office, his secretary informed you that Bennie often arrives late at the office but the Finance Director, Clara Clan, seems to be turning a blind eye to this behaviour. Clara has complained on several occasions that she does not know why Bennie should report to her as she does not understand IT related matters.

The secretary then referred you to Peter Parker, an assistant in the IT department. You followed Peter to the IT department and noted that the door to the server room was removed. Peter informed you that he only finished his first year of programming at the University of Namibia. He enjoys the working environment at Tutor-Time but admits that his skills may be a little rusty as he has never attended a course on IT related matters since he joined the company two years ago.

According to him, the Tutor-Time system application was running smoothly, and any system changes are approved by his manager, Bennie Boon. Peter also told you that the company aims to strengthen the current system by developing another system known as Tutor-Time Too. During his studies at university, he could vaguely recall that new systems should be developed according to certain rules, but Bennie Boon laughed at this idea saying that there is no time for things like that.

Just then Nancy Noon, the accountant, walked in and requested Peter to inspect the interface between the accounting system and the Tutor-Time application. According to her, it appears that some sales transactions on the debtors' accounts which takes place on the Tutor-Time application does not reflect in the accounting system. Nancy only stumbled on this information as her cousin (who is also a customer of Tutor-Time) boasted that she pays half price for tutoring as not all the tutoring sessions are invoiced by the accounting department.

You enquired from Nancy whether the Finance Director is available as you required financial reports from her. She responded that she would extract the reports for you as any member of the finance departments personnel has access to all modules on the accounting system. Nancy further cautioned Peter to ensure that all taps of the bathroom are closed. The bathroom is located directly next to the server room and Peter recounted when water from a flooded bathroom ran into the server room on a Saturday evening a few months ago. He did not know what to do as he could not reach any staff member via telephone. Eventually an official from the municipality helped him to turn off the main water inflow to the building.

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#### QUESTION 5

20 MARKS

Exact Auditors is a global audit firm with offices in most of the major cities globally. You are a partner of Exact auditors which has been appointed as the external auditors of Meats-and-More Ltd (hereafter referred to as Meats-and-More) on 2 January for the 2025 audit. Exact auditors are involved in the audits of various sectors in Namibia with its largest focus on mining companies and parastatals. It does not have any exposure to food manufacturing within Namibia.

Meats-and-More is a company which is listed on the Namibian Stock exchange (NSX) and has been in existence for more than thirty years. The company produces processed meats and has six manufacturing plants throughout Namibia. In addition to the manufacturing plants, it has four more additional distribution centres in the country.

The CEO of the company, Pepe Pepperoni, is a close friend of yours and your families often goes on holiday together. Pepe has also convinced you to increase your shareholding in Meats-and-More Ltd from 3 – 5 %. After reviewing the interim financial statements (which indicated an excellent net profit to date) of the current financial year, you decided to take his advice. The company's profits showed significant increases for during the past few years, and it boasted significant investments in large asset funds in Namibia.

The company's year-end is 31 December and according to the NSX's requirements, the financial statements are to be submitted within two months after year-end.

During 2024, Meats-and-More has been in several media reports. Allegations were made against the company claiming that its signature polony "Delish Polony" caused a deadly bacterial disease in consumers. This disease especially affected people with poor immune systems, like the elderly and can arise due to poor hygienic conditions. A local laboratory analysed samples of "Delish Polony" and confirmed that there were indeed strains of the bacteria in the polony.

In your discussion with Pepe about the disease, he simply dismissed it saying: "Our legal team will simply deny the allegations until those customers give up the fight. We can't close our biggest factory for an inspection and lose a lot of money because of greedy people who just want money from Meats-and-More."

Pepe also informed you that he sent the previous auditors packing because they suddenly started to ask a lot of questions pertaining to the articles in the media.

**END OF INFORMATION**





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<b>FINAL ASSESSMENT OPPORTUNITY 1 2024 - REQUIRED</b>	
<b>EXAMINER</b>	MS G. KAFULA MS Z. STELLMACHER
<b>INTERNAL MODERATOR:</b>	M. E. CLOETE

QUESTION 1								
TO BE ANSWERED ON A SEPARATE PAGE								
YOU ARE REQUIRED TO:		MARKS						
(a)	<p>Discuss any threats to the fundamental principles in terms of the Code of Professional Conduct that you, as the partner in charge of the audit, should have considered before accepting the appointment as auditor of PDS for the year ended 31 March 2024.</p> <p><b>Provide your answer in the following tabular format:</b></p> <table border="1"> <thead> <tr> <th>Threat</th><th>Fundamental Principle</th><th>Reason why there is a threat</th></tr> </thead> <tbody> <tr> <td> </td><td> </td><td> </td></tr> </tbody> </table> <p><b>Please note that the threat and the fundamental principle will only be awarded a mark when they are aligned to the reason for the threat.</b></p>	Threat	Fundamental Principle	Reason why there is a threat				(20)
Threat	Fundamental Principle	Reason why there is a threat						
(b)	<p>Based on the assessment of risk at the overall financial statement level, calculate planning materiality for the year under review. Fully discuss the reasoning and assumptions used in your calculation.</p>	(10)						
<b>TOTAL MARKS: QUESTION 1</b>		<b>(30)</b>						



QUESTION 2						
TO BE ANSWERED ON A SEPARATE PAGE						
YOU ARE REQUIRED TO:		MARKS				
(a)	Identify and discuss the risks of material misstatement at the overall financial statement level for Pharma for the year ended 31 December 2024. Your answer should be presented in the following format:	(14)				
	<table><tr><th>Risk indicator</th><th>Implication of risk</th></tr><tr><td>(1 marks)</td><td>(1 mark)</td></tr></table>		Risk indicator	Implication of risk	(1 marks)	(1 mark)
	Risk indicator		Implication of risk			
(1 marks)	(1 mark)					
(b)	Briefly explain the difference between business risk and audit risk.	(2)				
(c)	Describe the auditor's response towards significant risks.	(2)				
Overall presentation and effective communication		(2)				
TOTAL MARKS: QUESTION 2		(20)				

QUESTION 3				
TO BE ANSWERED ON A SEPARATE PAGE				
YOU ARE REQUIRED TO:		MARKS		
(a)	Identify the corporate governance concerns for Lewis Limited, and for each concern, provide the recommended practices from the King IV Report on Corporate Governance <b>Please use the following format:</b>	(14)		
	<table><tr><th>Corporate Governance Concerns</th><th>Recommended King IV Practices</th></tr><tr><td></td><td></td></tr></table>		Corporate Governance Concerns	Recommended King IV Practices
Corporate Governance Concerns	Recommended King IV Practices			
Overall presentation and effective communication		(1)		
TOTAL MARKS: QUESTION 3		(15)		

QUESTION 4						
TO BE ANSWERED ON A SEPARATE PAGE						
YOU ARE REQUIRED TO:		MARKS				
(a)	Define the term entity level control.	(2)				
(b)	Identify any weaknesses in entity-level controls which are evident in the information and provide possible measures which Tutor-Time (Pty) Ltd can implement to address these weaknesses. Provide your answer in the following format: <table><tr><th>Weaknesses in internal control</th><th>Recommendations to improve</th></tr><tr><td></td><td></td></tr></table>	Weaknesses in internal control	Recommendations to improve			(12)
Weaknesses in internal control	Recommendations to improve					
(c)	Identify any other weaknesses in general IT controls (except for entity level controls) from the information. Your answer should also include the category of general controls affected.	(12)				
(d)	Write a memorandum to the Chief Executive Officer of Tutor-Time where you outline possible IT application controls for input of data which can be used in an online application form.  Note: Each control should indicate the type of input application control (e.g. character check) and the actual control which you will implement.	(14)				
TOTAL MARKS: QUESTION 4		(40)				

QUESTION 5		
TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	Discuss the matters which Exact Auditors should have considered before accepting the appointment as auditors of Meats-and-More.	(20)
TOTAL MARKS: QUESTION 5		(20)
TOTAL MARKS FINAL ASSESSMENT OPPORTUNITY 1:		(125)