### Namibia University of Science and Technology

**Faculty of Management Sciences**

**Department of Accounting, Economics and Finance**

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<tr>
<th>Qualification: Bachelor of Accounting (Chartered Accountancy)</th>
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<tr>
<td>Qualification Code: 07BACP</td>
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<td>Level: 7</td>
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<tr>
<td>Course Code: PAU711S</td>
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<td>Course Name: Auditing 301</td>
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<td>Session: June 2016</td>
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<td>Paper: Theory</td>
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<td>Duration: 3 Hours</td>
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<td>Marks: 100</td>
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**First Opportunity Examination Question Paper**

- **Examiner(s):** Ms Miriam Dikuua
- **Moderator:** Mr Edwin Beukes

**Instructions**

1. This examination paper is made up of four (4) questions.
2. Answer ALL the questions in blue or black ink.
3. Start each question on a new page in your answer booklet.
4. 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.
5. Please ensure that your writing is legible, neat and presentable.

**Permissible Materials**

1. Answer book and stationery

**This Question Paper Consists of 5 Pages** (Excluding this front page)
QUESTION 1  

You have been appointed the senior-in-charge on the audit of Suncon (Pty) Ltd. Although your audit firm has had this client for years, you have never been the senior on the audit before. Early in the financial year, you commence planning this audit. You have only a basic knowledge of the client at this stage, but are aware of the following:

1. Suncon (Pty) Ltd is a manufacturer of sophisticated heat resistant materials used in industry.
2. The company imports most of its raw materials.
3. The accounting systems are computerized and there is effective monthly management reporting.
4. The major shareholder is Fireworkz Ltd, a listed company which holds 55% of the shares in Suncon (Pty) Ltd.
5. At various stages in each financial year, the group internal auditors perform assignments including risk evaluations at Suncon (Pty) Ltd. Suncon (Pty) Ltd has appointed its own audit committee.

You have decided to break your planning into the following activities:

a. Gaining an understanding of Suncon (Pty) Ltd and its environment.  
   (10 marks)

b. Gaining an understanding of Suncon (Pty) Ltd’s internal controls.  
   (10 marks)

c. Identifying and assessing the risk of material misstatement.  
   (8 marks)

d. Making preliminary judgement of materiality  
   (7 marks)

YOU ARE REQUIRED TO:

Describe how you would carry out each activity (a. – d.) and give reasons as to why you would carry out the procedures you have described. Mark allocation is indicated above.
You are a trainee in a large firm of auditors. The firm has a very diverse portfolio of clients, one of which is CelluCare (Pty) Ltd a wholesaler of cellular telephones. The company is not particularly well run and you are somewhat concerned about the 31 March 2015 year-end inventory count as you have just received the following e-mail from Stefan Horsthemke, the inventory controller at CelluCare (Pty) Ltd giving you details about the year-end inventory count.

1. CelluCare (Pty) Ltd will allocate eight (8) hours to the inventory count from 8am to 4pm on 31 March 2015. The warehouse will be divided into eight (8) sections, each to be counted by a different team. Sixteen (16) staff members including myself will be allocated to count the inventory. We will be divided into eight (8) teams of two (2). The first team will count their section from 8am to 9am, and the second team will continue from 9am to 10am and so on. Thus, as one team finishes their section, another team will commence.

2. All teams will assemble at 7h45 on the day of the count and I will inform them of which section to count and who makes up the teams. My counting partner and I will count for the first hour as I am due at a seminar on my cellphone technology from 1am to 3 pm. While one (1) person counts, the other person will record the results of the count on blank lined paper which they will be given.

3. No deliveries will be made from CelluCare (Pty) Ltd on the day of the inventory count, but obviously we cannot control deliveries from suppliers. I will be instructing the receiving clerks (none of whom will be counting) to receive goods in the normal manner and transfer them onto the shelves in the warehouse so that they are included in the physical count.

4. Once each team has completed its count, one of the team members will place the count sheets on my desk. When I return from the seminar I will adjust the perpetual inventory records to agree with the count sheets; I will obtain the cost price from the latest invoice for each inventory line e.g. Samsung S4, and write it onto the count sheets. Over the weekend I will do the extensions (quantity x price) for each inventory line and cast the sheets. By Monday morning you should have the completed sheets reflecting the total value of inventory.

If you have any problems with the above, please feel free to contact me.

YOU ARE REQUIRED TO:

Identify and explain the weaknesses evident from Stefan Horsthemke’s e-mail in respect of the proposed inventory count and costing of inventory. (30 marks)
QUESTION 3

The following procedures were carried out on the audit of NamBath Ltd, a retailer of bathroom requisites.

1. Held discussions with NamBath Ltd's credit manager and sales director on the prospects of collecting accounts receivable balances which are long outstanding.

2. Observed the client's counting teams (made up of competent employees independent of the inventory section) conducting an inventory cycle count.

3. Inspected NamBath Ltd's documentation (delivery notes) for evidence that they were signed by the customer to acknowledge the receipt of goods purchased by that customer.

4. Obtained a 'confirmation of balance' certificate directly from NamBath Ltd's bank.

5. Computed the gross profit percentage for the current year, compared it with that achieved in the prior year, and analysed the difference.

YOU ARE REQUIRED TO:

a) Classify each of the above items of audit evidence according to its source, as follows:
   i. Evidence developed by the auditor.
   ii. Evidence obtained from sources outside (external to) the entity.
   iii. Evidence internally generated by the client. (5 marks)

b) Assess the reliability of each item of audit evidence using the following categories:
   i. Highly reliable
   ii. Moderately reliable
   iii. Less reliable

Give reasons to support your assessment in each case. (15 marks)
QUESTION 4

The following procedures were carried out during the audit of the finance and investment cycle at Xpaper Ltd, a manufacturer of a large range of paper products. Xpaper Ltd also has a number of investments in shares of both private and listed companies.

1. Inspected minutes of the meetings of the investment committee for authority for the purchase of shares in a private company which had taken place during the year under review.
2. Reperformed the calculation of interest paid to debenture holders for the year.
3. Inspected the accounting policy note in respect of the valuation of investments to confirm that it was clearly expressed.
4. Compared the schedule of long-term liabilities at the current year-end to the schedule of long-term liabilities at the previous year-end.
5. Inspected the share certificates for a sample of investments in private companies, to determine whether the certificates were in the name of Xpaper Ltd.
6. Inspected the date on the bank statement and proof of payment sent by the company which had borrowed the money to confirm that a repayment of a loan made by Xpaper Ltd had been recorded in the year under audit.
7. Discussed and evaluated the basis on which the useful life of one of the company's registered trademarks was determined.
8. Inspected the notes to the financial statements to confirm that all disclosures in respect of the company's intangible assets required in terms of financial reporting standards had been made.
9. Obtained written confirmation of the balance owing at year-end directly from Cartons Ltd, a company to whom Xpaper Ltd had made a loan.
10. Obtained the share market price of the company's listed investments at year-end.
11. Discussed with management whether any of the company's paper manufacturing equipment was lying idle.
12. Traced the posting from the journal entries which recorded the profit or loss on sale of fixed assets to the general ledger to confirm that the "transaction" had been recorded in the proper accounts.
13. Review correspondence with Xpaper Ltd's attorneys to confirm that an economic inflow from a court case which has been disclosed in the notes as a contingent gain would "probably" but not "virtually certainly" occur.

14. Enquired of management as to the source of funding for major acquisitions identified during the audit of fixed assets.

15. Selected a sample of items of plant and equipment from the asset register and physically inspected them matching the description/asset numbers to the details extracted from the register.

YOU ARE REQUIRED TO:

Indicate to which assertion each of the procedures listed above relates. (15 marks)

END OF QUESTION PAPER