



ATD LEVEL III

PILOT PAPER

PRINCIPLES OF AUDITING

December 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) (i) Explain five ethical threats which might affect the independence of auditors. (10 marks)
- (ii) For each threat in (a) (i) above, suggest what the accountancy profession can do to ensure auditors remain independent in the course of the audit. (5 marks)
- (b) Describe five benefits that might accrue to an organisation by having their accounts subjected to an audit. (5 marks)

(Total: 20 marks)

QUESTION TWO

You are working in an audit firm as an assistant, your firm has been offered the appointment to audit an agri-business. The client has six agri-business centers and all these centers are using Quick Books accounting system.

Required:

- (a) Discuss five factors which might influence your decision on whether to accept the appointment. (10 marks)
- (b) Describe four steps your firm should take before accepting the appointment. (4 marks)
- (c) State three rights and three duties of an auditor. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Define the term “internal control system”. (2 marks)
- (b) ISA 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment” requires auditors to obtain an understanding of information systems and control activities relevant to the audit. Control activities are the policies and procedures which help ensure that management directives are carried out.

Required:

- (i) Describe four characteristics of a good information system as a component of internal control system. (8 marks)
- (ii) Describe four different types of control activities and for each type, provide an example of a control a company may implement. (8 marks)
- (iii) List two components of business risk. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Distinguish between “materiality” and “performance materiality”. (4 marks)
- (b) With reference to ISA 700 “Forming an Opinion and Reporting on Financial Statements”, explain the information contained in the paragraph headed “auditor’s responsibility for financial statement”. (6 marks)
- (c) List six elements of the auditor’s report. (6 marks)
- (d) During the course of the audit, you discover that a company had valued their closing stock using LIFO and the amounts involved are considered to be material.

Required:

Explain the type of opinion you could express on this company’s financial statements. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Describe the steps that an auditor should perform in undertaking a positive receivables circularisation for a company. (4 marks)
- (b) Describe substantive procedures, other than a receivable circularisation, the auditor could perform to verify each of the following assertions in relation to account receivables:
- (i) Accuracy, valuation and allocation. (3 marks)
 - (ii) Completeness. (3 marks)
 - (iii) Rights and obligations. (3 marks)
- (c) Describe the substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in respect of year end accrual for income tax payable by a limited liability company. (7 marks)
- (Total: 20 marks)**
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