The audit engagement partner for Hazard Co (Hazard), a listed company, has been in place for approximately six years and her son has just accepted a job offer from Hazard as a sales manager. This role would entitle him to shares in Hazard as part of his remuneration package.

Hazard's directors are considering establishing an internal audit department, and the finance director has asked the audit firm, Remy & Co about the differences between internal audit and external audit.

If the internal audit department is established, and Remy & Co is appointed as internal as well as external auditors, then Hazard has suggested that the external audit fee should be renegotiated with at least 20% of the fee being based on the profit after tax of the company as they feel this will align the interests of Remy & Co and Hazard.

Required:

(a) Using the information above:

(i) Explain the ethical threats which may affect the independence of Remy & Co in respect of the audit of Hazard Co; and (3 marks)

(ii) For each threat explain how it might be reduced to an acceptable level. (3 marks)

(b) Distinguish between internal and external audit. (4 marks)