

You are the audit manager of Currant & Co and you are planning the audit of Orange Financials Co (Orange), who specialise in the provision of loans and financial advice to individuals and companies. Currant & Co has audited Orange for many years.

The directors are planning to list Orange on a stock exchange within the next few months and have asked if the engagement partner can attend the meetings with potential investors. In addition, as the finance director of Orange is likely to be quite busy with the listing, he has asked if Currant & Co can produce the financial statements for the current year.

During the year, the assistant finance director of Orange left and joined Currant & Co as a partner. It has been suggested that due to his familiarity with Orange, he should be appointed to provide an independent partner review for the audit.

Once Orange obtains its stock exchange listing it will require several assignments to be undertaken, for example, obtaining advice about corporate governance best practice. Currant & Co is very keen to be appointed to these engagements, however, Orange has implied that in order to gain this work Currant & Co needs to complete the external audit quickly and with minimal questions/issues.

The finance director has informed you that once the stock exchange listing has been completed, he would like the engagement team to attend a weekend away at a luxury hotel with his team, as a thank you for all their hard work.

In addition, he has offered a senior member of the engagement team a short-term loan at a significantly reduced interest rate.

**Required:**

(i) Explain SIX ethical threats which may affect the independence of Currant & Co's audit of Orange

Financials Co; and

(ii) For each threat explain how it might be reduced to an acceptable level. (12 marks)

## **Examiners Report**

Part (b) for 12 marks required an explanation of six ethical threats from the scenario and a method for reducing each of these threats. This was very well answered with many candidates scoring full marks. Ethics questions are often answered well by candidates and the scenario provided contained many possible threats.

Where candidates did not score well this was usually because they only identified rather than explained the ethical threat. In addition some candidates identified the threat but when explaining them they came up with incorrect examples of the type of threat; such as attending the weekend away at a luxury hotel gave rise to a familiarity threat rather than a self-interest threat.

The threat which candidates struggled with the most was the intimidation threat caused by management requesting the audit team ask minimal questions. The response given by many candidates was to decline the assurance engagement; this does not address the intimidation threat. Instead candidates needed to stress that this issue needed to be discussed with the finance director and that appropriate audit procedures would be undertaken to ensure the quality of the audit was not compromised.

In addition when explaining issues some candidates listed many examples of ethical threats; such as “the assistant finance director being the review partner gives rise to a familiarity, self-review and self-interest threat.”

This scatter gun approach to questions is not recommended as it wastes time.