

You are an audit senior of Beech & Co and have been allocated to the audit of Willow Wands Co (Willow), a listed company which has been an audit client for eight years and specialises in manufacturing musical instruments.

Bethan Oak was the audit engagement partner for Willow and as she had completed seven years as the audit engagement partner, she has recently been rotated off the audit engagement. The current audit partner, Sandeep Pine, has suggested that in order to maintain a close relationship with Willow, Bethan should undertake the role of independent review partner this year. In addition Willow has requested that Bethan assist them by attending their audit committee meetings, as a non-executive director has recently left the company.

Willow has also asked Sandeep and the other partners at Beech & Co to help them in recruiting a new non-executive director.

The total fees received by Beech & Co for last year equated to 16% of the firm's total fee income. The current year's audit fee has not yet been confirmed, but along with taxation and other possible non-audit fees the total income from Willow this year could be greater than for last year. Last year's audit fee was being paid monthly by Willow but no payments have been made for the last three months.

The audit manager for Willow has just announced that he is leaving Beech & Co to join Willow as the financial controller.

**Required:**

**Using the information above:**

**(i) Identify and explain FIVE ethical threats which may affect the independence of Beech & Co's audit of Willow Wands Co; and**

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

Note: The total marks will be split equally between each part.

## Examiners Report

This 10-mark question required identification and explanation of five ethical threats faced by the auditor of Willow and how these threats could be reduced. This question was answered well by most candidates.

In order to score the identification  $\frac{1}{2}$  marks, candidates were required to identify the fact from the scenario which may affect independence and from that identify which category of ethical threat this created.

The explanation  $\frac{1}{2}$  marks were awarded if candidates then went on to explain how this may affect the auditor's independence. Many candidates did not explain the threats correctly or in sufficient detail, often stating "this will reduce independence and objectivity", this is not an explanation of HOW objectivity could be affected.

For example, many identified the fact from the scenario that Bethan Norman was being asked to take on the role of independent review partner, despite having been the engagement partner for seven years.

Those candidates that went on to correctly identify this as being a familiarity threat were awarded the identification  $\frac{1}{2}$  marks. The explanation  $\frac{1}{2}$  marks were given if candidates explained that as a result of the long standing relationship Bethan may be too trusting or insufficiently sceptical when reviewing the audit work.

Just identifying the fact would not score any marks, as the identification of the ethical threat was required along with an explanation.

For several points many candidates incorrectly identified the ethical threat, for example many classified helping to recruit a new non-executive director as an advocacy threat when it was actually a selfinterest, familiarity or intimidation threat.

Candidates must be able to correctly identify the type of ethical threat created in the circumstances and are reminded that the ACCA Code of Ethics and Conduct is an examinable document for F8.

Some candidates assumed that an issue had to be identified for each category of ethical threat; selfreview, self-interest etc. This resulted in them trying to identify a situation from the scenario to fit each type of threats.

This is not the correct approach as it is unlikely that the scenario will be based around one of each of the five ethical threats.