

- a) State the FIVE threats contained within ACCA's Code of Ethics and Conduct and for each threat list ONE example of a circumstance that may create the threat. (5 marks)
- b) You are the audit manager of Jones & Co and you are planning the audit of LV Fones Co, which has been an audit client for four years and specialises in manufacturing luxury mobile phones.

During the planning stage of the audit you have obtained the following information. The employees of LV Fones Co are entitled to purchase mobile phones at a discount of 10%. The audit team has in previous years been offered the same level of staff discount.

During the year the financial controller of LV Fones was ill and hence unable to work. The company had no spare staff able to fulfil the role and hence a qualified audit senior of Jones & Co was seconded to the client for three months.

The audit partner has recommended that the audit senior work on the audit as he has good knowledge of the client. The fee income derived from LV Fones was boosted by this engagement and along with the audit and tax fee, now accounts for 16% of the firm's total fees.

From a review of the correspondence files you note that the partner and the finance director have known each other socially for many years and in fact went on holiday together last summer with their families. As a result of this friendship the partner has not yet spoken to the client about the fee for last year's audit, 20% of which is still outstanding.

Required:

- (i) Explain the ethical threats which may affect the independence of Jones & Co's audit of LV Fones Co; and (5 marks)
- (ii) For each threat explain how it might be avoided. (5 marks)

Examiners Report

This 20-mark question was based on a manufacturer of luxury mobile phones, LV Fones Co, and addressed the syllabus area of professional ethics.

Part (a) for 5 marks was unrelated to the scenario and required five threats from the ACCA's Code of Ethics and Conduct along with an example for each threat.

This part of the question was very well answered by the vast majority of candidates with most scoring full marks.

A significant minority of candidates confused the requirement for threats with that of the fundamental principles and hence provided answers in relation to objectivity, integrity, confidentiality, professional competence and due care and professional behaviour; unfortunately these answers gained no marks. In addition some candidates did not provide an example of each threat, choosing instead to explain the threat in more detail, however this was not what was required.

Part (b) for 10 marks required an explanation of the ethical threats for LV Fones Co along with an explanation of how the threats might be avoided.

This question was well answered by most candidates; they were able to clearly identify from the scenario the ethical issues impacting the audit of LV Fones. Some candidates did not explain the threats in sufficient detail, sometimes just identifying the issue and not explaining how this was an ethical threat.

For example, many identified that the offer of a staff discount of 10% was an issue, however if they did not then go onto explain that this was a self-interest threat they would have only gained $\frac{1}{2}$ rather than 1 mark.

The second part of this question required methods for avoiding the threats, candidates performance here was generally satisfactory. Some answers tended to be quite brief and to include unrealistic steps, such as resigning as auditors to reduce the risk of fee dependence, not allowing the finance director and partner to be friends or suggesting the finance director should resign.

In addition many candidates demonstrated that they had not read the scenario properly, as a common suggestion was to not allow the audit senior to undertake the secondment, this was despite the scenario clearly stating that the secondment had already occurred.