

You are an audit manager of Buffon & Co, and you have just been assigned the audit of Maldini Co (Maldini). The audit engagement partner who is responsible for the audit of Maldini, a listed company, has been in place for approximately eight years and her son has just been offered a role with Maldini as a sales manager. This role would entitle him to shares in Maldini as part of his remuneration package.

Maldini's board of directors is considering establishing an internal audit function, and the finance director has asked Buffon & Co about the differences in the role of internal audit and external audit. If the internal audit function is established, the directors have suggested that they may wish to outsource this to Buffon & Co.

The finance director has suggested to the board that if Buffon & Co is appointed as internal as well as external auditors, then fees should be renegotiated with at least 20% of all internal and external audit fees being based on the profit after tax of the company as this will align the interests of Buffon & Co and Maldini.

1. From a review of the information above, your audit assistant has highlighted some of the potential risks to independence in respect of the audit of Maldini.

- (1) Audit partner has been in the position for eight years
- (2) Maldini has asked for advice regarding role of internal audit
- (3) Maldini has asked Buffon & Co to carry out internal audit work
- (4) Fees will be based on 20% of profit after tax

Which of the following options correctly identifies the valid threats to independence and allocates the threat to the appropriate category?

| | Self-interest | Self-review | Familiarity |
|-----------|----------------------|--------------------|--------------------|
| A. | 1 only | 2 and 3 | 4 only |
| B. | 1 only | 2 only | 4 only |
| C. | 2 only | 3 and 4 | 1 only |
| D. | 4 only | 3 only | 1 only |

2. In relation to the audit engagement partner holding the role for eight years and her son's offer of employment with Maldini:

Which of the following safeguards should be implemented in order to comply with ACCA's Code of Ethics and Conduct?

- A. The audit partner should be removed from the audit team
- B. An independent review partner should be appointed
- C. The audit partner should be removed if her son accepts the position
- D. Buffon & Co should resign from the audit

3. In line with ACCA's Code of Ethics and Conduct, which of the following factors must be considered before the internal audit engagement should be accepted?

- (1) Whether the external audit team have the expertise to carry out the internal audit work
- (2) If the assignments will relate to the internal controls over financial reporting
- (3) If management will accept responsibility for implementing appropriate recommendations
- (4) The probable timescale for the outsourcing of the internal audit function

- A. 1, 2 and 3
- B. 2 and 3 only
- C. 1 and 4 only
- D. 1, 3 and 4

4. Following management's request for information regarding the different roles of internal and external audit, you have collated a list of key characteristics.

- (1) Appointed by audit committee
- (2) Reports are publicly available to shareholders
- (3) Review efficiency and effectiveness of operations to improve operations
- (4) Express an opinion on the truth and fairness of the financial statements

Which of the following options correctly allocates the above statements to the relevant auditor?

| | External | Internal |
|----|-----------------|-----------------|
| A. | 2, 3 and 4 | 1 only |
| B. | 1 and 4 | 2 and 3 |
| C. | 2 and 4 | 1 and 3 |
| D. | 2 only | 1, 3 and 4 |

5. If the internal and external audit assignments are accepted, what safeguards, if any, are needed in relation to the basis for the fee?

- A.** As long as the total fee received from Maldini is less than 15% of the firm's total fee income, no safeguards are needed
- B.** The client should be informed that only the internal audit fee can be based on profit after tax
- C.** The fees should be based on Maldini's profit before tax
- D.** No safeguards can be applied and this basis for fee determination should be rejected