

QUESTION BANK

SECTION A

REGULATORY ENVIRONMENT

A

1. Money laundering – Nate & Co

You are an audit manager in Nate & Co, a firm of Chartered Certified Accountants. You are reviewing three situations which were recently discussed at the monthly audit managers' meeting:

- Nate & Co has recently been approached by a potential new audit client, Fisher Co. Your firm is keen to take up the appointment and is currently carrying out client acceptance procedures. Fisher Co was recently incorporated by Marcellus Fisher, with its main trade being the retailing of wooden storage boxes.
- Nate & Co provides the audit service to CF Co, a national financial services organisation. Due to a number of errors in the recording of cash deposits from new customers that have been discovered by CF Co's internal audit team, the directors of CF Co have requested that your firm carry out a review of the financial information technology systems. It has come to your attention that while working on the audit planning of CF Co, Jin Sayed, one of the juniors on the audit team who is a recent information technology graduate, spent three hours providing advice to the internal audit team about how to improve the system. As far as you know, this advice has not been used by the internal audit team.
- LA Shots Co is a manufacturer of bottled drinks, and has been an audit client of Nate & Co for five years. Two audit juniors attended the annual inventory count last Monday. They reported that Brenda Mangle, the new production manager of LA Shots Co, wanted the inventory count and audit procedures performed as quickly as possible. As an incentive she offered the two juniors ten free bottles of 'Super Juice' from the end of the production line. Brenda also invited them to join the LA Shots Co office party, which commenced at the end of the inventory count. The inventory count and audit procedures were completed within two hours (the previous year's procedures lasted a full day), and the juniors then spent four hours at the office party.

Required:

- (a) Define 'money laundering' and state the procedures specific to money laundering that should be considered before, and on the acceptance of, the audit appointment of Fisher Co. (5 marks)
 - (b) With reference to CF Co, explain the ethical and other professional issues raised. (9 marks)
 - (c) Identify and discuss the ethical and professional matters raised at the inventory count of LA Shots Co. (6 marks)
- (20 marks)**

2: Regulatory Environment

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2. Money laundering and compliance with laws and regulations – Money-Money bank

(a) Explain the term 'money laundering'. (3 marks)

(b) Comment on the need for ethical guidance for accountants on money laundering. (4 marks)

The OECD's Financial Action Task Force on Money Laundering (FATF) recommends preventative measures to be taken by independent legal professionals and accountants (including sole practitioners, partners and employed professionals within professional firms).

Required:

Remember, this explanation is for Part (c)

(c) Describe FOUR measures which assist in preventing professional accountants from being used for money laundering purposes. (8 marks)

Sunny is an auditor of Money-Money bank. According to the local law, the bank should have an anti-money laundering programme and it should report any cash transaction above \$10,000. However, Sunny found that Money-Money had not complied with this.

Required:

Remember, this explanation is for Parts (d) and (e).

(d) Discuss the responsibilities of an auditor, concerning compliance with laws and regulations in an audit of financial statements. (3 marks)

(e) Explain the procedure that Sunny should undertake when possible non-compliance is discovered. (7 marks)

(25 marks)

(Adapted from June 2005)

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SECTION B

PROFESSIONAL AND ETHICAL CONSIDERATIONS

B

3. Ethics – Boleyn & Co

(a) IFAC's 'Code of Ethics for Professional Accountants' is divided into three parts:

Part A – Applicable to All Professional Accountants

Part B – Applicable to Professional Accountants in Public Practice

Part C – Applicable to Employed Professional Accountants

Required:

Distinguish between 'Professional Accountants', 'Professional Accountants in Public Practice' and 'Employed Professional Accountants'.

(3 marks)

(b) As a newly-qualified Chartered Certified Accountant in Boleyn & Co, you have been assigned to assist the ethics partner in developing ethical guidance for the firm. In particular, you have been asked to draft guidance on the following frequently asked questions ('FAQs') that will be circulated to all staff through Boleyn & Co's intranet:

(i) What Information Technology services can we offer to audit clients?

(5 marks)

(ii) Can we entertain our clients as a gesture of goodwill or is corporate hospitality ruled out?

(3 marks)

(iii) Can audit teams cross sell services to their clients?

(4 marks)

Required:

For EACH of the three FAQs, explain the threats to objectivity that may arise and the safeguards that should be available to manage them to an acceptable level.

Note: the mark allocation is shown against each of the three questions.

(15 marks)
(December 2006)

4. Ethics – Corundum

The audit of the financial statements of Corundum, a limited liability company, for the year ended 31 December 20X9 is nearing completion and the company's annual general meeting is to be held next week. The current audit firm, Skarn, has not sought to be reappointed as it is Corundum's policy to change auditors periodically. Nuee Ardente, a firm of Chartered Certified Accountants has accepted nomination as auditor for the year ending 31 December 20Y0.

It has just come to light that a provision which should have been made in the financial statements for the year ended 31 December 20X9 has been omitted in error. This is of such significance that the financial statements which are soon to be issued cannot be considered to be reliable. However, the financial statements have been approved through the company's internal processes and the directors do not propose to amend them at this late stage but will not agree to a modified auditor's report. Skarn has discussed the matter with Nuee and obtained verbal assurances that if Skarn were to sign an unmodified report, the comparative information in the financial statements for the year ending 31 December 20Y0 would not be restated.

4: Professional and Ethical Considerations

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The company outsourced all legal and company secretarial work to Adam Flysch, a qualified legal practitioner, who worked from home using his own computer. Adam died suddenly. Corundum does not routinely keep copies of minutes and legal documentation.

Required:

Identify and discuss the ethical and other professional issues relating to the above matters.

(15 marks)

(Adapted from June 2002)

5. Professional and ethical issues – Dedza

You are an audit manager in Dedza, a firm of Chartered Certified Accountants. Recently, you have been assigned specific responsibility for undertaking annual reviews of existing clients. The following situations have arisen in connection with three client companies:

- (a) Dedza was appointed auditor and tax advisor to Kora Co, a limited liability company, last year and has recently issued an unmodified opinion on the financial statements for the year ended 30 June 2009. To your surprise, the tax authority has just launched an investigation into the affairs of Kora on suspicion of under declaring income.

(7 marks)

- (b) The chief executive of Xalam Co, an exporter of specialist equipment, has asked for advice on the accounting treatment and disclosure of payments made for security consultancy services. The payments, which aim to ensure that consignments are not impounded in the destination country of a major customer, may be material to the financial statements for the year ending 30 June 20Y0. Xalam does not treat these payments as tax deductible.

(4 marks)

- (c) Your firm has provided financial advice to the Pholey family for many years and this has sometimes involved your firm in carrying out transactions on their behalf. The eldest son, Esau, is to take up a position as a senior government official to a foreign country next month.

(4 marks)

Required:

Identify and comment on the ethical and other professional issues raised by each of these matters and state what action, if any, Dedza should now take.

Note: the mark allocation is shown against each of the three situations.

- (d) Comment on the following 'accountants are expected to uphold confidentiality at all times'

(5 marks)

(20 marks)

(Adapted from December 2005)

6. Professional and ethical issues – Depeche

You are a manager in Depeche, a firm of Chartered Certified Accountants. You have specific responsibility for undertaking annual reviews of existing clients and advising whether an engagement can be properly continued.

The following matters arose in connection with the audit of Duran, a company listed on a stock exchange, for the year to 31 December 20X9:

- (i) The audit team included a manager, two supervisors, two qualified seniors and six trainees. The final audit, which lasted approximately five weeks, was very time-pressured and the team worked late into the night towards the end of the audit. Duran's staff were very supportive throughout and paid for evening meals that were brought in so that the audit team could work with minimum disruption.
- (ii) Duran's chief finance officer, Frankie Sharkey, was so impressed with the commitment of the audit staff that he asked that Depeche pay them all a bonus through an increase in the audit fee. In April 20Y0, Depeche paid all the members of the team below manager status a bonus amounting to a week's salary. The bonus was processed through Depeche's payroll, in the same way as overtime payments, and recharged to Duran as part of audit expenses.