

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PROFESSIONAL ETHICS & VALUES – PAPER 9

TUESDAY, 19 JUNE 2012

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.

The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.

2. Section **A** has one compulsory case study question carrying 30 marks.
3. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
4. Section **C** has **three** questions and only **two** are to be attempted. Each question carries 15 marks.
5. Write your answer to each question in a separate answer booklet.
6. Please, read further instructions on the answer booklet before attempting any question.

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SECTION A

This section has one compulsory question to be attempted.

Question 1

Francis is a manager in the audit firm of Active & Co., Certified Public Accountants. For the first time, he has been requested to work on one of the firm's established clients, Better Life Ltd (BLL). BLL's main activity is the manufacture of upper-class mattresses. The company is effectively run by one director, the managing director. The other directors are non-executive and all have close personal relationships.

For the previous seven years BLL has been an audit client of Active & Co. For all these years, Mrs. Kalule has been the engagement partner and has thus accumulated vast knowledge of the client's business activities and operations.

Active & Co. has a culture of building capacity. This year round, Mrs. Kalule has informed Francis that she would like her niece Resty to be part of the audit team. Resty is sitting for her last two CPA Level I papers this month.

During the initial meeting with the client, the following were discussed and agreed upon:

1. Active & Co. will collect and take custody of the client's monies (rental income) from the newly acquired commercial buildings. At the end of last financial year, BLL acquired Bunyoro Co. Ltd., a rental company.
2. Active & Co. will provide a second opinion on Bunyoro Co. Ltd.
3. Fees:
 - (a) The fee for audit and taxation services this year will be calculated as a percentage of sales revenue from mattresses and as a percentage of tax saved respectively.
 - (b) The client expects that Active & Co. will accept a fixed fee for representing them in a dispute regarding the amount of VAT payable to Uganda Revenue Authority.

Mrs. Kalule had not yet spoken to the client about the audit fees for last year's audit, 22% of which is still outstanding.

The employees of BLL are entitled to purchase mattresses at a discount of 11%. The audit team has in previous years been offered the same level of staff discount.

Required:

- (a) Identify and explain the professional and other ethical issues in the case above. **(4 marks)**
- (b) ICPAU's Code of Ethics contains statements, explanatory notes and guidance on specific areas of threat, and responsibility of members. Explain the treatment of the following issues as per ICPAU's Code of Ethics:
- (i) Fees (for both audit and other assurance services) **(4 marks)**
 - (ii) Client's monies **(6 marks)**
 - (iii) Second opinion **(6 marks)**
- (c) Threats to objectivity, if not reduced to acceptable levels, may compromise the independence of Active & Co. in the course of auditing Better Life Ltd. Briefly explain how these threats can be mitigated. **(10 marks)**
- (Total 30 marks)**

SECTION B

Attempt two of the three questions in this section.

Question 2

- (a) Distinguish between the following ethical principles; ethics, values and morals. **(6 marks)**
- (b) Explain the **six** pillars of character. **(14 marks)**
- (Total 20 marks)**

Question 3

Medad, one of the December 2011 CPA(U) graduates recently joined a well-known audit firm in Jinja. At the same recruitment, the firm also recruited four first class Bachelor of Commerce graduates from Lumumba University Business School.

Very energetic and anxious to learn, the four graduates would like to know what process a company goes through when appointing auditors. One of the audit partners Mr. Ernest Isingoma has therefore requested Medad to take them through the procedures followed in changing professional appointment.

Required:

Clearly explain each of the following:

- (a) Changes in professional appointment (2 marks)
 - (b) Communication with outgoing auditors (10 marks)
 - (c) Issues that may be brought to the attention of the incoming auditor by the outgoing auditor for consideration before acceptance of an appointment. (4 marks)
 - (d) Transfer of information / books (4 marks)
- (Total 20 marks)**

Question 4

The foundation of any business conduct program is to do business legally and ethically in all aspects of operations. Breach of legislation, regulations or codes of conduct can have very serious consequences for organisations which include penalties, litigation and loss of reputation and probably ultimate closure.

Required:

Giving examples, clarify on the following concepts explaining why they are considered to be unethical and often illegal practices in business today.

- (a) Veil of ignorance. (4 marks)
 - (b) Antitrust compliance. (4 marks)
 - (c) Commercial bribery. (4 marks)
 - (d) Insider dealing/trading. (8 marks)
- Total 20 marks)**

SECTION C

Attempt two of the three questions in this section.

Question 5

- (a) Giving examples, explain the term 'agency' in the context of corporate governance.
(3 marks)
 - (b) Explain the benefits of separation of the roles of the chief executive officer from those of the chairperson of the board of directors.
(12 marks)
- (Total 15 marks)

Question 6

Distinguish between absolutism and relativism, illustrating the strengths and weaknesses of each of them.

(Total 15 marks)

Question 7

- (a) Explain the variables determining Carroll's model of corporate social responsibility.
(4 marks)
 - (b) (i) Describe Immanuel Kant's ethical theory, and give the **three** significant formulations of the categorical imperative.
(5 marks)
 - (ii) Briefly critique Immanuel Kant's ethical theory.
(6 marks)
- (Total 15 marks)