

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL TWO

PROFESSIONAL ETHICS & VALUES – PAPER 9

TUESDAY, 27 NOVEMBER 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 on a fresh page in your 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

Sweetners Limited has been an audit client of Susie and Sarah, Certified Public Accountants (S&S CPA) for a few years. The company manufactures sweets, biscuits, cookies and other similar products.

For the year ended 30 June 2012, the audit team included a manager, two supervisors, two qualified seniors and three trainees. This audit, which lasted approximately five weeks, was very time-pressured and the team worked late into the night towards the end of the audit. The client'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.

Sweetner Limited's chief finance officer (CFO) was so impressed with the commitment of the audit staff. He requested the audit firm to pay them all a bonus through an increase in the audit fee. Except the audit manager, all the members of the team were paid a bonus amounting to two weeks' salary. The bonus was processed through the firm's payroll, in the same way as other payments, and recharged to the client as part of audit expenses.

The CFO was happy with the audit team and went ahead to request one of the partners, Susie, that for efficiency and in order to reduce on disruption, the same personnel should be assigned to carry out next financial year's audit. However, he was not happy with the trainees whom he referred to as 'nosy'. The audit manager has been in-charge of this client for the last two years.

During a discussion with the production manager, it was revealed that there have been some quality control problems with the sweets manufactured as some of the raw materials used had expired. The production manager explained that this was not intentional. It was a result of overstocking some items to avoid price fluctuations. He further attempted to explain that the risk of injury was 'remote'. Much as the company takes full responsibility, they had not done anything about it because the cost of correcting that mistake was much more than the benefit.

Required:

- (a) Comment on the ethical and other professional issues raised in the above scenario.

(20 marks)

- (b) Discuss any appropriate safeguards to reduce the threats to business and professional ethical issues raised to acceptable levels.

(10 marks)

(Total 30 marks)

SECTION B

Attempt two of the three questions in this section.

Question 2

- (a) The talk of town in the month of July 2012 was about a prominent accountant in one of the Government ministries arrested on allegations of forgery of official documents and uttering false statements.

Days after his arrest, his colleagues were also arrested and a search mounted at their homes. The accountants' public image was in the limelight once again. After the arrest of more suspects, sections of the public wondered why none of his colleagues had never reported such acts to the relevant authorities. Could he have done it all alone?

Required:

Explain the following in regard to an accountant's public image:

- (i) Professional image. **(2 marks)**
 - (ii) Professional judgement and behaviour. **(3 marks)**
- (b) A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.

In acting in the public interest, a professional accountant should observe and comply with the ethical requirements of the Code of Ethics.

Required:

Why should accountants act in public interest?

(3 marks)

- (c) Explain the following:

- (i) The term 'whistle-blowing'. **(2 marks)**
- (ii) Different forms of whistle-blowing. **(2 marks)**
- (iii) Moral and ethical issues surrounding whistle-blowing. **(2 marks)**
- (iv) Conditions under which whistle-blowing is morally justified. **(4 marks)**
- (v) Problems associated with whistle-blowing. **(2 marks)**

(Total 20 marks)

Question 3

- (a) In July 2012, the Institute of Certified Public Accountants issued a press release clarifying to the public who a professional accountant is according to the Accountants Act, Cap 266.

Required:

Explain the procedure one needs to follow in order to become a professional accountant in Uganda.

(3 marks)

- (b) Certain practices have developed that threaten to damage the integrity and objectivity of an accountant and the reputation of the accountancy profession.

Required:

- (i) Explain the following practices and associated ethical risks:

- Low balling. **(5 marks)**
- Opinion shopping. **(5 marks)**
- Referral fees. **(3 marks)**

- (ii) Discuss whether current ethical guidance is sufficient to prevent the practices in (b) (i) above.

(4 marks)

(Total 20 marks)

Question 4

To ensure that all staff get abreast with updated technical knowledge in the profession, it is a requirement in JR & Sons that whoever is sponsored for continuing professional development (CPD) has to disseminate information immediately on return.

During her presentation to the rest of the team members, Rachael mentioned that one of the best kept secrets of most successful companies is having non-executive directors (NED). A company does not have to be well established to bring NED onto their board. In fact it is strongly advisable for start-up companies and small and medium-sized enterprises (SMEs) to search for and recruit the perfect person to be a NED for their organisation.

“But why do you need one? Apart from having a great title and making your company appear soundly structured”, wondered one of the staff.

Joel, the chief executive officer (CEO), became even more interested and requested Rachael to explain the benefits and drawbacks of non-executive directors.

Required:

Explain to the CEO the benefits and drawbacks of non-executive directors

(20 marks)

SECTION C

Attempt two of the three questions in this section.

Question 5

Anything gained dishonestly will not belong to you for very long, there is always a price to pay for dishonesty.

Advantages of good business ethics far outweigh any disadvantages in the long run. Unethical business practices, although may lead to that immediate "fast buck" result, will ultimately come back to 'bite' the business.

Required:

Discuss the benefits of practicing good business ethics to any business.

(15 marks)

Question 6

Gray, Owen and Adams (1996), provided a framework for classifying different groups of people and their views of the relationship between business organisations and society. These can be used to analyse the ethical stance of business entities and their members (managers, employees, shareholders) towards society and social relationship.

The trio's seven viewpoints of social responsibility interests level gradually changes from capital (profit for shareholders) to society (social and environmental). They identified seven levels or positions on social responsibility.

Required:

Explain the seven viewpoints of social responsibility identified by Gray, Owen and Adams.

(15 marks)

Question 7

Professional codes of ethics are typically viewed as codified expectations of professional accountants. These are professional expectations providing information as to how members should address ethical problems and dilemmas in the course of their work.

Recently, some promoters of accounting and auditing reform have advocated for a more principles-based form of guidance. Their assumption is that principles allow more discretion, which in turn results in more principled reasoning. However, if the most effective form of the Code of Ethics depends on the accountant's level of moral development, then it would be expected that abandoning rules in favor of principles may not serve the profession unless members of the profession generally reason at post-conventional levels.

Required:

Using Kohlberg's ethical theory, examine how accountants' levels of moral development influence the effectiveness of the profession's ethical standards.

(15 marks)