



Public Trust & Ethics

Mock exam November 2023

Fleming & Hutchins LLP

Notes:

- This paper contains a number of ethical dilemmas which you are required to evaluate.
- This exam has a time limit of **2 hours**.

History

PTE examination, May 2021.
Pass rate 82%.

A large graphic consisting of two concentric circles. The outer circle is a light green color, and the inner circle is a darker green color. The letters 'pte' are written in a large, white, lowercase sans-serif font across the center of the inner circle.

pte

This mock exam is taking place remotely.

ICAS would remind you to continue to be ethical and observe the exam conditions applicable to the TPE exam.

EXAMINATION QUESTION

You are Jamie Smith, a CA and recently promoted audit manager in the firm of Fleming & Hutchins LLP (FH), a medium-sized professional services firm based in the Midlands, where you also completed your CA qualification.

You are at your desk in your home office early one Monday morning. You are reading an article on the ICAS website regarding audit independence and client entertaining, when you are interrupted by a call from Leon, the partner in your team. He is delighted to inform you that Robson Barker PLC (RB), a prominent international printing group with a listing on the main market, has chosen to appoint FH as its external auditor. He tells you that this appointment is the result of many months of hard work by himself and some other senior partners, and your team will be leading this engagement. This is a major win for FH. This appointment has come after two other firms of auditors have resigned in the last four years, and Leon is keen to prove that our team has what it takes to form a good, long-term relationship with this client. Leon tells you that, as part of the audit, he has proposed that FH will carry out a review of the current Governance position at RB, and provide a report on compliance with best practice. When you attempt to ask about this, Leon quickly talks over you, suggesting that the report needs to be positive, as we “don’t want to create any problems” with our new client.

Leon explains that RB took a long time to select our firm as auditor and, as such, there is now a significant time pressure put on us to get started on this engagement to make sure RB’s financial statements are signed off in compliance with regulatory deadlines. With that in mind, Leon asks you to complete the client acceptance process before the end of the week, by which point you need to get final acceptance approval from FH’s National Executive Committee. He is also keen to get a team together to start client work on Monday. You mention that you are not sure you can complete all the required work in such a short time, particularly contacting the previous auditors and awaiting their response, but Leon brushes it off – his parting words being “I don’t care how you do it, just get the Executive’s approval.”

Leon leaves you to consider what lies ahead for you with this new client. RB features regularly in the press for various reasons, not many of them good. From your general knowledge, you are aware that the company is involved in several potentially controversial practices. For example, its staff have been quoted recently about being employed on zero hours contracts and not being guaranteed work or an income from their employment. You decide to carry out an internet search into the company and are not surprised to find that there are many more concerns being raised.

In an attempt to understand the client and their structure, you review an organisational chart for the RB group provided by Leon. You were expecting to see several companies making up the group given their international nature however you are amazed by just how complicated this group is. What you believed to be the main parent company is in fact only halfway down the chart, underneath multiple levels of ownership. Some of these entities appear to be offshore trusts, with a number of directors of the main company also seeming to hold interests in other entities within the group. You are not aware of any other of FH’s audit clients which have such a complex structure.

You move on to have a look at its most recent audited financial statements. With Leon’s words about not creating ‘problems’ in your mind, you decide to review the extract on compliance with the UK Corporate Governance Code. You are pleased to note that the report states full compliance, however you make a note to review the extract (Appendix 1) from this year’s draft financial statements in full before you commence any detailed work.

You know from your training that the firm’s procedures require that potential conflicts of interest are checked, and appropriate safeguards are put in place to manage them before engagements are accepted. You recall the recent press announcement that FH provided merger and acquisition advisory services to RB’s biggest competitor, Maclagan Printing (MP), as part of its takeover of another competitor company, and have been retained as its Mergers and Acquisitions strategic advisors for its acquisition programme.

You now turn your attention to an e-mail that has just come in from Leon. He forgot to discuss the need for you to book the resources for the team that will be starting the audit fieldwork on RB from next week. He suggests that one manager and two qualified seniors will be required initially, in addition to himself as partner. Leon suggests that Rohan would be the ideal manager as he works on the MP account and, therefore, already has an excellent knowledge of the printing industry. In addition, he will be able to use information from advising MP to help increase efficiency.

He then proposes Johanna and Andy as the two seniors. You are Johanna's line manager and she recently opened up to you about some problems she has been having with Andy. She told you a few weeks ago that she has always struggled to get on with him, however he has often asked her out on dates and she has had to tell him repeatedly that she is not interested in him in that way. Since then, their working relationship has been strained, with Johanna doing her best to avoid him. At the time of telling you this, Johanna made it clear that she was telling you in confidence, as she simply needed someone to talk to. She stressed that she was handling this herself and didn't expect or want you to take any action on her behalf.

It's starting to get late, and you're considering finishing for the day, when you receive another e-mail from Leon. It has crossed his mind that we should probably invite Dan from RB to a client event that you are in the process of organising for later in the year. He also tells you he's had a few more thoughts about the format of the event and wants to share them with you. He suggests that you call the event an "industry update", but he stresses that the update section should not take too long. He refers to it as "the boring portion of the day" and suggests that we keep this to a minimum. He has already asked two contributors to speak for around 15 minutes each, allowing everyone to then move on to the interesting part of the evening, being a drinks reception and gourmet BBQ provided by a celebrity chef. As the event is some months away, Leon is hopeful that it will be able to go ahead, even if some of the Covid-19 restrictions are still in place. However, he notes that if the event can't happen in this format, he will arrange a suitable virtual event and ensure all attendees are sent a gift bearing the logo of FH.

In the e-mail, he also tells you of a new contact he made over the weekend, Judy Bates, the CEO of a large paper manufacturer which will shortly be putting its audit out for tender. Leon hopes that inviting her along to our event should put us in a good place for winning this audit work. This reminds you of the article you started to read this morning and you make a mental note to go back and read it thoroughly.

You feel a bit overwhelmed by everything Leon has thrown at you today and, despite the time pressure you are under, you realise that you need to take a step back and think about how to proceed.

Appendix 1 – Extract from draft Corporate Governance section of Financial Statements**Robson Barker PLC**Key Personnel:

CEO	Dan Ward		
Exec Director(s)	Grace Ward		
	Robyn Murray	(Appointed	3 November 2021)
	Derek Ward	(Appointed	3 November 2021)
Chairman	Dan Ward		
Non-exec Directors	Ravi Hassan		
	Zara Shah		
	Simona Mills		

Meeting Dates during 2020:

- Audit Committee 13th January 2021
- Nominations Committee 26th October 2021
- Remuneration Committee 14th December 2021

Required:

1. Identify the public trust and ethical issues in this scenario;
2. Evaluate the public trust and ethical issues, considering the impact on the relevant stakeholders;
3. Evaluate possible courses of action/inaction, including the implications of each, with appropriate consideration of the relevant ethical theories;
4. Recommend actions that you (as Jamie) should take.

Throughout your answer, you should demonstrate an understanding of the ICAS Code of Ethics and relevant legislation / regulations.

In addition, candidates will be assessed on appropriate structure and communication.

————— End of Paper —————