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# Answers

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**1 (a) Audit strategy document**

Section of document	Purpose	Example from B-Star
Understanding the entity's environment	Provides details of the industry area that the company is in along with specific information about the activities and strategies of the individual client.	Size of the theme park sector and expected growth over the next few years.
Understand the accounting and internal control systems	Details of accounting policies of the client and previous assessments of internal control systems indicating the expected extent of reliance on those systems.	Accounting policy for sales – sales are stated net of sales taxes. Reliance on control systems in B-Star may be limited due to lack of documentation of controls.
Risk and materiality	The assessment of risk for the client and the risk of fraud and error and the identification of significant audit areas. The materiality level for audit planning purposes.	Materiality for sales to be 5% of turnover. B-Star receives cash sales – audit work required to determine the completeness of sales.
Timing and extent of audit procedures	Details of the focus on audit work on specific areas. Detail on the extent of use of audit software and possible reliance on internal audit.	Audit software could be used to provide analytical procedures on the sales of B-Star
Co-ordination, supervision and review of audit work	Details the extent of involvement of experts, client locations and staffing requirements for the audit.	B-Star has only one location – audit staff will be required to work there for X weeks.

**(b) (i) Risk affecting completeness**

- The computer system does not record sales accurately and/or information is lost or transferred incorrectly from the ticket office computer to the accounts department computer.
- Cash sales are not recorded in the cash book; cash is stolen by the accounts clerks.
- Tickets are issued but no payment is received – that is the sale is not recorded.
- Cash is removed by the ticket office personnel, by the security guards or by the account clerks.
- The account clerks miscount the amount of cash received from a ticket office.

**(ii) Use of tests of controls and substantive procedures**

**Tests of controls**

Tests of control are designed to ensure that documented controls are operating effectively. If controls over the completeness of income were expected to operate correctly, then the auditor would test those controls.

In B-Star, while controls could be in operation, e.g. the account clerks agreeing physical cash to computer summaries, there is no indication that the control is documented; that is the computer summary is not signed to show the comparison has taken place. The auditor could use the test of inquiry – asking the clerks whether the control has been used, and observation – actually watching the clerks carry out the controls. As noted above though, lack of documentation of the control does mean relying on tests of control for the assertion completeness of income has limited value.

**Substantive procedures**

Substantive procedures include analytical procedures and other procedures.

Analytical procedures include the analysis of significant ratios and trends and subsequent investigation of any trends or relationships that appear to be abnormal. These procedures can be used effectively in B-Star as an approximation of income that can be obtained from sources other than the cash receipt records.

Other procedures, or tests of detail, are normally used to verify statement of financial position assertions and include obtaining audit evidence relevant to specific assertions. However, they could be used in B-Star to trace individual transactions through the sales/cash systems to ensure all ticket sales have been recorded (completeness assertion). The use of other procedures will be time consuming.

(c) (i) **Substantive analytical procedures – completeness of income for one day**

- Obtain proof in total. Tickets sold times price should equal day's income.
- Compare daily sales to budgeted daily sales (for example weekends and bank holidays would expect more income).
- Compare sales with previous days and account for changes such as variations for weather.
- Compare sales to souvenirs sales (more people in park means more souvenir sales).
- Compare ticket offices day-by-day and staff rotation to see if sales lower some day/some staff (attempt to identify fraud also).
- Compare the expected sales from ticket numbers to the total sales amount from cash and credit sales for each ticket office.

(ii) **Substantive analytical procedures – completeness of income for the year**

- Obtain the sales income from the previous year. Multiply this by 115% to provide a rough estimate of the income for this year.
- Obtain information on the number of days with rain during the last year. Where this is more or less than 30, adjust the income estimate by 1/730 down for each day of rain above 30 or 1/730 up for each day of rain less than 30. (Note: B-Star only attracts 50% of the normal number of customers on a rainy day; hence one day of rain decreases total customers by 1/730 in the year.)
- Compare actual income to budgeted income for the year. Ask the directors to explain any significant deviations.
- Obtain industry information on the popularity of theme parks, and change in customer numbers. Compare these trends to the results obtained by B-Star. Where B-Star performed significantly better or worse than average, obtain explanations from the directors.

(d) **Audit of year end credit card receivable**

- Agree the balances on each credit card company's ledger account to the list of receivables.
- Cast the list of receivables and agree the total to the total on the receivables ledger control account.
- For the last day of the financial year and the first day of the new financial year, agree total sales income from ticket office records to the cash book and receivables ledger ensuring they are recorded in the correct period.

For a sample of material balances and a random sample of immaterial items,

- Obtain direct confirmation from the credit card company of the amount due to B-Star using a receivables confirmation letter.
- Where direct confirmation is not possible, obtain evidence of cash receipt after the end of the financial year. Agree the amount on the bank statements post year end of B-Star to the amount due in the receivables ledger (less any commission due).
- Review after date sales day book for debit notes indicating that sales may have been overstated in the prior year.
- Obtain the financial statements of B-Star and ensure that the receivables amount is disclosed as a current asset net of commission due to the credit card companies.

2 (a) **Methods of sampling in accordance with HKSA 530 *Audit Sampling and Other Means of Testing*:**

**Random selection.** Ensures each item in a population has an equal chance of selection, for example by using random number tables.

**Systematic selection.** In which a number of sampling units in the population is divided by the sample size to give a sampling interval.

**Haphazard selection.** The auditor selects the sample without following a structured technique – the auditor would avoid any conscious bias or predictability.

**Sequence or block.** Involves selecting a block(s) of contiguous items from within the population.

**Tutorial note: Other methods of sampling are as follows:**

**Monetary Unit Sampling.** This selection method ensures that each individual \$1 in the population has an equal chance of being selected.

**Judgemental sampling.** Selecting items based on the skill and judgement of the auditor.

(b) **Assertions – classes of transactions**

**Occurrence.** The transactions and events that have been recorded have actually occurred and pertain to the entity.

**Completeness.** All transactions and events that should have been recorded have been recorded.

**Accuracy.** The amounts and other data relating to recorded transactions and events have been recorded appropriately.

**Cut-off.** Transactions and events have been recorded in the correct accounting period.

**Classification.** Transactions and events have been recorded in the proper accounts.

**(c) Audit report term**

**Modified.** An auditor modifies an audit report in any situation where it is inappropriate to provide an unmodified report. For example, the auditor may provide additional information in an emphasis of matter (which does not affect the auditor's opinion) or qualify the audit report for limitation of scope or disagreement.

**3 (a) (i) Benefits of using audit software**

**Standard systems at client**

The same computerised systems and programs are used in all 25 branches of Tirrol Co. This means that the same audit software can be used in each location providing significant time savings compared to the situation where client systems are different in each location.

**Use actual computer files not copies or printouts**

Use of audit software means that the Tirrol Co's actual inventory files can be tested rather than having to rely on printouts or screen images. The latter could be incorrect, by accident or by deliberate mistake. The audit firm will have more confidence that the 'real' files have been tested.

**Test more items**

Use of software will mean that more inventory records can be tested – it is possible that all product lines could be tested for obsolescence rather than a sample using manual techniques. The auditor will therefore gain more evidence and have greater confidence that inventory is valued correctly.

**Cost**

The relative cost of using audit software decreases the more years that software is used. Any cost overruns this year could be offset against the audit fees in future years when actual expense will be less.

**(ii) Problems on the audit of Tirrol**

**Timescale – six week reporting deadline – audit planning**

The audit report is due to be signed six weeks after the year end. This means that there will be considerable pressure on the auditor to complete audit work without compromising standards by rushing procedures.

This problem can be overcome by careful planning of the audit, use of experienced staff and ensuring other staff such as second partner reviews are booked well in advance.

**Timescale – six week reporting deadline – software issues**

The audit report is due to be signed about six weeks after the year end. This means that there is little time to write and test audit software, let alone use the software and evaluate the results of testing.

This problem can be alleviated by careful planning. Access to Tirrol Co's software and data files must be obtained as soon as possible and work commenced on tailoring Cal Co's software following this. Specialist computer audit staff should be booked as soon as possible to perform this work.

**First year audit costs**

The relative costs of an audit in the first year at a client tends to be greater due to the additional work of ascertaining client systems. This means that Cal Co may have a limited budget to document systems including computer systems.

This problem can be alleviated to some extent again by good audit planning. The manager must also monitor the audit process carefully, ensuring that any additional work caused by the client not providing access to systems information including computer systems is identified and added to the total billing cost of the audit.

**Staff holidays**

Most of the audit work will be carried out in July, which is also the month when many of Cal Co staff take their annual holiday. This means that there will be a shortage of computer audit staff, particularly as audit work for Tirrol Co is being booked with little notice.

The problem can be alleviated by booking staff as soon as possible and then identifying any shortages. Where necessary, staff may be borrowed from other offices or even different countries on a secondment basis where shortages are acute.

**Non-standard systems**

Tirrol Co's computer software is non-standard, having been written specifically for the organisation. This means that more time will be necessary to understand the system than if standard systems were used.

This problem can be alleviated either by obtaining documentation from the client or by approaching the software house (with Tirrol Co's permission) to see if they can assist with provision of information on data structures for the inventory systems. Provision of this information will decrease the time taken to tailor audit software for use in Tirrol Co.

### Issues of live testing

Cal Co has been informed that inventory systems must be tested on a live basis. This increases the risk of accidental amendment or deletion of client data systems compared to testing copy files.

To limit the possibility of damage to client systems, Cal Co can consider performing inventory testing on days when Tirrol Co is not operating e.g. weekends. At the worst, backups of data files taken from the previous day can be re-installed when Cal Co's testing is complete.

### Computer systems

The client has 25 locations, with each location maintaining its own computer system. It is possible that computer systems are not common across the client due to amendments made at the branch level.

This problem can be overcome to some extent by asking staff at each branch whether systems have been amended and focusing audit work on material branches.

### Usefulness of audit software

The use of audit software at Tirrol Co does appear to have significant problems this year. This means that even if the audit software is ready, there may still be some risk of incorrect conclusions being derived due to lack of testing, etc.

This problem can be alleviated by seriously considering the possibility of using a manual audit this year. The manager may need to investigate whether a manual audit is feasible and if so whether it could be completed within the necessary timescale with minimal audit risk.

## (b) Reliance on internal audit documentation

There are two issues to consider; the ability of internal audit to produce the documentation and the actual accuracy of the documentation itself.

The ability of the internal audit department to produce the documentation can be determined by:

- Ensuring that the department has staff who have appropriate qualifications. Provision of a relevant qualification e.g. membership of a computer related institute would be appropriate.
- Ensuring that this and similar documentation is produced using a recognised plan and that the documentation is tested prior to use. The use of different staff in the internal audit department to produce and test documentation will increase confidence in its accuracy.
- Ensuring that the documentation is actually used during internal audit work and that problems with documentation are noted and investigated as part of that work. Being given access to internal audit reports on the inventory software will provide appropriate evidence.

Regarding the actual documentation:

- Reviewing the documentation to ensure that it appears logical and that terms and symbols are used consistently throughout. This will provide evidence that the flowcharts, etc should be accurate.
- Comparing the documentation against the 'live' inventory system to ensure it correctly reflects the inventory system. This comparison will include tracing individual transactions through the inventory systems.
- Using part of the documentation to amend Cal Co's audit software, and then ensuring that the software processes inventory system data accurately. However, this stage may be limited due to the need to use live files at Tirrol Co.

## 4 (a) Role of internal and external auditors – differences

### Objectives

The main objective of internal audit is to improve a company's operations, primarily in terms of validating the efficiency and effectiveness of the internal control systems of a company.

The main objective of the external auditor is to express an opinion on the truth and fairness of the financial statements, and other jurisdiction specific requirements such as confirming that the financial statements comply with the reporting requirements included in legislation.

### Reporting

Internal audit reports are normally addressed to the board of directors, or other people charged with governance such as the audit committee. Those reports are not publicly available, being confidential between the internal auditor and the recipient.

External audit reports are provided to the shareholders of a company. The report is attached to the annual financial statements of the company and is therefore publicly available to any reader of the financial statements.

### Scope of work

The work of internal auditor normally relates to the operations of the organisation, including the transaction processing systems and the systems to produce the annual financial statements. The internal auditor may also provide other reports to management, such as value for money audits which external auditors rarely become involved with.

The work of the external auditor relates only to the financial statements of the organisation. However, the internal control systems of the organisation will be tested as these provide evidence on the completeness and accuracy of the financial statements.

#### **Relationship with company**

In most organisations, the internal auditor is an employee of the organisation, which may have an impact on the auditor's independence. However, in some organisations the internal audit function is outsourced.

The external auditor is appointed by the shareholders of an organisation, providing some degree of independence from the company and management.

### **(b) Benefits of audit committee in Conoy Co**

#### **Assistance with financial reporting (no finance expertise)**

The executive directors of Conoy Co do not appear to have any specific financial skills – as the financial director has recently left the company and has not yet been replaced. This may mean that financial reporting in Conoy Co is limited or that the other non-financial directors spend a significant amount of time keeping up to date on financial reporting issues.

An audit committee will assist Conoy Co by providing specialist knowledge of financial reporting on a temporary basis – at least one of the new appointees should have relevant and recent financial reporting experience under codes of corporate governance. This will allow the executive directors to focus on running Conoy Co.

#### **Enhance internal control systems**

The board of Conoy Co do not necessarily understand the work of the internal auditor, or the need for control systems. This means that internal control within Conoy Co may be inadequate or that employees may not recognise the importance of internal control systems within an organisation.

The audit committee can raise awareness of the need for good internal control systems simply by being present in Conoy Co and by educating the board on the need for sound controls. Improving the internal control 'climate' will ensure the need for internal controls is understood and reduce control errors.

#### **Reliance on external auditors**

Conoy Co's internal auditors currently report to the board of Conoy Co. As previously noted, the lack of financial and control expertise on the board will mean that external auditor reports and advice will not necessarily be understood – and the board may rely too much on external auditors

If Conoy Co report to an audit committee this will decrease the dependence of the board on the external auditors. The audit committee can take time to understand the external auditor's comments, and then via the non-executive director, ensure that the board take action on those comments.

#### **Appointment of external auditors**

At present, the board of Conoy Co appoint the external auditors. This raises issues of independence as the board may become too familiar with the external auditors and so appoint on this friendship rather than merit.

If an audit committee is established, then this committee can recommend the appointment of the external auditors. The committee will have the time and expertise to review the quality of service provided by the external auditors, removing the independence issue.

#### **Corporate governance requirements – best practice**

Conoy Co do not need to follow corporate governance requirements (the company is not listed). However, not following those requirements may start to have adverse effects on Conoy. For example, Conoy Co's bank is already concerned about the lack of transparency in reporting.

Establishing an audit committee will show that the board of Conoy Co are committed to maintaining appropriate internal systems in the company and providing the standard of reporting expected by large companies. Obtaining the new bank loan should also be easier as the bank will be satisfied with financial reporting standards.

#### **Given no non-executives – independent advice to board**

Currently Conoy Co does not have any non-executive directors. This means that the decisions of the executive directors are not being challenged by other directors independent of the company and with little or no financial interest in the company.

The appointment of an audit committee with one non-executive director on the board of Conoy Co will start to provide some non-executive input to board meetings. While not sufficient in terms of corporate governance requirements (about equal numbers of executive and non-executive directors are expected) it does show the board of Conoy Co are attempting to establish appropriate governance systems.

#### **Advice on risk management**

Finally, there are other general areas where Conoy Co would benefit from an audit committee. For example, lack of corporate governance structures probably means Conoy Co does not have a risk management committee. The audit committee can also provide advice on risk management, helping to decrease the risk exposure of the company.

## 5 (a) Valuation of aviation inventory

- Review GAAP to ensure that there are no exceptions for aviation fuel or inventory held for emergency purposes which would suggest a market valuation should be used.
- Calculate the difference in valuation. The error in inventory valuation is  $\$105 \times 6,000$  barrels or  $\$630k$ , which is a material amount compared to profit.
- Review prior year working papers to determine whether a similar situation occurred last year and ascertain the outcome at that stage.
- Discuss the matter with the directors to obtain reasons why they believe that market value should be used for the inventory this year.
- Warn the directors that in your opinion, aviation fuel should be valued at the lower of cost or net realisable value (that is  $\$15/\text{barrel}$ ) and that using market value will result in a modification to the audit report.
- If the directors now amend the financial statements to show inventory valued at cost, then consider mentioning the issue in the weakness letter and do not modify the audit report in respect of this matter.
- If the directors will not amend the financial statements, quantify the effect of the disagreement in the valuation method – the sum of  $\$630,000$  is material to the financial statements as Tye Co's income statement figure is decreased from a small loss to a loss of  $\$130,000$  although net assets decrease by only about 0.3%.
- Obtain a management representation letter from the directors of Tye Co confirming that market value is to be used for the emergency inventory of aviation fuel.
- If the directors will not amend the financial statements, draft the relevant sections of the audit report, showing a qualification on the grounds of disagreement with the accounting policy for valuation of inventory.

## (b) (i) External auditor responsibilities regarding detection of fraud

### Overall responsibility of auditor

The external auditor is primarily responsible for the audit opinion on the financial statements following the Hong Kong auditing standards (HKSA). HKSA 240 *The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements* is relevant to audit work regarding fraud.

The main focus of audit work is therefore to ensure that the financial statements show a true and fair view. The detection of fraud is therefore not the main focus of the external auditor's work. An auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

The auditor is responsible for maintaining an attitude of professional scepticism throughout the audit, considering the potential for management override of controls and recognising the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

### Materiality

HKSA 240 states that the auditor should reduce audit risk to an acceptably low level.

Therefore, in reaching the audit opinion and performing audit work, the external auditor takes into account the concept of materiality. In other words, the external auditor is not responsible for checking all transactions. Audit procedures are planned to have a reasonable likelihood of identifying material fraud.

### Discussion among the audit team

A discussion is required among the audit team placing particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur.

### Identification of fraud

In situations where the external auditor does detect fraud, then the auditor will need to consider the implications for the entire audit. In other words, the external auditor has a responsibility to extend testing into other areas because the risk of providing an incorrect audit opinion will have increased.

## (ii) Groups to report fraud to

### Report to audit committee

Disclose the situation to the audit committee as they are charged with maintaining a high standard of governance in the company.

The committee should be able to discuss the situation with the directors and recommend that they take appropriate action e.g. amend the financial statements.

### Report to government

As Tye Co is acting under a government contract, and the over-statement of stock will mean Tye Co breaches that contract (the reported profit becoming a loss), then the auditor may have to report the situation directly to the government. The auditor of Tye Co needs to review the contract to confirm the reporting required under that contract.

**Report to members**

If the financial statements do not show a true and fair view then the auditor needs to report this fact to the members of Tye Co. The audit report will be qualified with an except for or adverse opinion (depending on materiality) and information concerning the reason for the disagreement given. In this case the auditor is likely to state factually the problem of inventory quantities being incorrect, rather than stating or implying that the directors are involved in fraud.

**Report to professional body**

If the auditor is uncertain as to the correct course of action, may be obtained from the auditor's professional body. Depending on the advice received, the auditor may simply report to the members in the audit report, although resignation and the convening of a general meeting is another reporting option.

**(iii) Intimidation threat – safeguards**

In response to the implied threat of dismissal if the audit report is modified regarding the potential fraud/error, the following safeguards are available to the auditor.

**Discuss with audit committee**

The situation can be discussed with the audit committee. As the audit committee should comprise non-executive directors, they will be able to discuss the situation with the finance director and point out clearly the auditor's opinion. They can also remind the directors as a whole that the appointment of the auditor rests with the members on the recommendation of the audit committee. If the recommendation of the audit committee is rejected by the board, good corporate governance requires disclosure of the reason for rejection.

**Obtain second partner review**

The engagement partner can ask a second partner to review the working papers and other evidence relating to the issue of possible fraud. While this action does not resolve the issue, it does provide additional assurance that the findings and actions of the engagement partner are valid.

**Resignation**

If the matter is serious, then the auditor can consider resignation rather than not being re-appointed. Resignation has the additional safeguard that the auditor can normally require the directors to convene an extraordinary general meeting to consider the circumstances of the resignation.

**1 (a) Audit strategy document**

0·5 for each section of audit strategy document, 0·5 for explaining the purpose of that section, 1 for the relevant example from B-Star scenario.

Procedure

- Understand the entity’s environment
- Understand the accounting and control systems
- Risk and materiality
- Timing and extent of audit procedures
- Co-ordination, supervision and review of work
- Other relevant points

Maximum marks

8

**(b) (i) Risks re completeness of sales and cash receipts**

1 for each risk

Procedures

- The computer system does not record sales accurately
- Cash not recorded
- Tickets are issued but no payment is received – that is the sale is not recorded
- Cash is removed by the ticket office personnel, etc
- The account clerks miscount the amount of cash received from a ticket office
- Other relevant points

Maximum marks

4

**(ii) Use of tests of controls and substantive procedures**

Up to 1 for each valid response and up to 2 for showing whether the procedure is valid for B-Star case.

Weaknesses

- Tests of controls
- Substantive procedures

Maximum marks

6

**(c) Analytical procedures**

1 mark each for each valid procedure

**(i) Ticket sales for one day**

- Proof in total
- Compare sales day-by-day
- Compare sales to souvenirs sales
- Compare ticket offices day-by-day and staff rotation
- Compare cash receipts to ticket sales
- Other relevant points

Maximum marks

4

**(ii) Ticket sales for year**

- Prior year income \* 15%
- Adjust for rainy days
- Compare actual and budget
- Industry trends
- Other relevant points

Maximum marks

4

**(d) Year end receivables**

- Individual balances to list of receivables
- Cast list
- Cut-off
- Direct confirmation
- Alternative procedures to direct confirmation
- After date sales – debit notes
- Presentation in financial statements
- Other relevant points

Maximum marks

4  
**30**  
      

**2 (a)** 1 mark for each method. 0.5 for stating the method and 0.5 for brief explanation.

- Random
- Systematic
- Haphazard
- Sequence
- MUS
- Judgemental

Maximum marks

4

**(b)** 1 mark per assertion. 0.5 for stating the assertion and 0.5 for explaining the assertion.

- Occurrence
- Completeness
- Accuracy
- Cut-off
- Classification

Maximum marks

4

**(c)** Up to 2 marks for valid explanation of.

- Modified

Maximum marks

2  
**10**

**3 (a) (i) Benefits of audit software**

1 mark per benefit – 0.5 for identifying the benefit and 0.5 for explaining the benefit.

- Standard systems
- Use actual computer files
- Test more items
- Cost
- Other relevant points

Maximum marks

4

**(ii) Problems in the audit of Tirrol**

2 marks for each problem. 1 for explaining the problem and 1 for explaining how to alleviate the problem.

- Six week reporting deadline
- Timescale – software issues
- First year audit costs
- Staff holidays
- Non-standard systems
- Live testing
- Usefulness of audit software
- Other relevant points

Maximum marks

10

**(b) Reliance on internal audit documentation**

1 mark per point

- Appropriate qualifications
- Produced according to plan
- Problems with use noted
- Documentation logical
- Compare to live system
- Use documentation to amend audit software
- Other relevant points

Maximum marks

6

**20**

**4 (a) Difference – internal and external audit**

2 marks for each point. 1 for point in relation to internal audit and 1 for explaining the point in relation to external audit.

- Objectives
- Reporting
- Scope of work
- Relationship with company
- Other relevant points

Maximum marks

8

**(b) Benefits of audit committee**

Up to 2 marks for each point. 1 for the benefit and 1 for applying that benefit to Conoy Co.  
1 mark only where point stated in general terms.

- Assistance with financial reporting
- Enhance internal control systems
- Reliance on external auditors
- Appointment of external auditors
- Best practice – corporate governance
- Independent advice to board
- Advice on risk management
- Other valid points e.g. may be cost benefits over time.

Maximum marks

12

**20**

**5 (a) Aviation fuel inventory**

1 mark each for each valid procedure or action:

- Any alternative treatments in GAAP
- Material calculation
- Review prior year working papers
- Discuss with directors
- Warn directors possible qualification
- Quantify amount
- Management representation
- Draft audit report
- Other relevant points

Maximum marks

6

**(b) (i) Auditor and fraud**

1 mark each for each valid responsibility:

- Overall responsibility
- Materiality
- Approach to audit
- Identification of fraud
- Other relevant points

Maximum marks

4

**(ii) Reporting options regarding fraud**

Up to 2 marks each for each valid explained option. 0.5 for each body – then up to 2 if good reasons given for reporting to that body.

- Audit committee
- Government
- Members
- Professional body
- Other relevant points

Maximum marks

6

**(iii) Safeguards**

Up to 2 marks per valid point. 1 for explaining the safeguard and 1 for the effectiveness of the safeguard

- Audit committee
- Second partner review
- Resignation
- Other relevant points

Maximum marks

4

**20**